

## **SHAREHOLDER AGREEMENT**

**THIS SHAREHOLDER AGREEMENT** (the “Agreement”) is made and is effective as of \_\_\_\_\_, 2011, by and among Lancet Indemnity Risk Retention Group, Inc., a Nevada corporation (the “Corporation”), and the persons and/or entities listed on the signature page to this Agreement (the “Shareholders”).

### **W I T N E S S E T H**

**WHEREAS**, the Corporation is a Nevada corporation, organized for the purpose of writing liability insurance as a risk retention group;

**WHEREAS**, the Shareholders are the holders of all of the outstanding shares of the Corporation; and

**WHEREAS**, the Corporation and the Shareholders desire to set forth in this Agreement their mutual covenants and agreements regarding the redemption of the Corporation’s shares and certain other matters.

**NOW, THEREFORE**, the parties hereby agree as follows:

### **ARTICLE I DEFINITIONS AND CONSTRUCTION**

**1.1 Definitions.** The following capitalized terms shall have the following meanings:

- (a) “Division” means the Nevada Division of Insurance.
- (b) “Letter of Credit” means the evergreen letter or letters of credit issued for the benefit of the Nevada Commissioner of Insurance.
- (c) “Member” means a member or owner of a Shareholder.
- (d) “Share” means any share of common stock of the Corporation.
- (e) “Shareholder” means the holder of common stock in the Corporation who are provided insurance coverage by the Corporation either as a subscriber to the Lancet Indemnity Select Quota Share Insurance Program or as a subscriber to other insurance programs provided by the Corporation other than the Lancet Indemnity Select Quota Share Insurance Program.
- (f) “Termination Date” means the date on which a Shareholder and its Members cease to be covered under policies of insurance issued by the Corporation, determined in accordance with Article III.

**1.2 Construction.** Whenever in this Agreement the plural is used, the same shall include the singular and vice versa, as the context shall require. References herein to any gender and the neuter also shall include any other gender and the neuter. The word “may” shall be construed as permissive and the word “shall” shall be construed as imperative. The article and section headings contained in this Agreement are for convenience and reference purposes only and shall in no way limit, define or describe the scope or intent of this Agreement.

**1.3 Compliance with Agreements; Conflicting Terms.** Each Shareholder hereby agrees to comply with the provisions of this Agreement, the Articles of Incorporation and Bylaws of the Corporation, and all duly adopted policies and procedures of the Shareholders and the Board of Directors of the Corporation. In the event of any conflict between the provisions of this Agreement and of any of the aforesaid other agreements or documents, the terms of this Agreement shall control and be binding on the Corporation and the Shareholders.

## **ARTICLE II OPERATIONAL MATTERS**

**2.1 Obligations of the Shareholders.** Each Shareholder agrees that it will (i) accept as Members only persons or entities who are eligible under the Corporation’s bylaws to be insured by the Corporation and who agree to be insured by the Corporation, (ii) follow the underwriting guidelines and other standards and procedures established from time to time by the Corporation, and (iii) collect from its Members any funds due to the Corporation in connection with the insurance provided by the Corporation and promptly remit such funds to the Corporation.

**2.2 Dividends.** The Shareholders acknowledge that (i) the payment of any dividends is subject to and conditional upon the approval of the Board of Directors and the Division. It is not expected that dividends will be paid in the foreseeable future.

**2.3 Insurance Provided to Shareholders.** The Corporation shall issue and the Shareholders shall purchase a policy or policies of insurance from the Corporation with such limits and upon such terms and conditions as are acceptable to the Corporation

## **ARTICLE III TRANSFERS; REDEMPTION OF SHARES**

**3.1 Restrictions on Transfer of Stock.** Except as provided in this Article III, and Section 5.10 of the Corporation’s Bylaws, no Shares of the Corporation may be sold, exchanged, assigned, transferred, gifted, pledged, encumbered, hypothecated or otherwise disposed of in any manner, whether voluntarily or by operation of law. Any transfer made in violation of this Agreement shall be void and of no force and effect. All certificates issued by the Corporation representing the Corporation’s Shares shall be endorsed with a legend referencing this restriction, in such form as determined by the Board of Directors of the Corporation from time to time.

**3.2 Mandatory Redemption of Shares.** Upon the occurrence of an event described in this Section 3.2 (a “Triggering Event”), the Shares held by a Shareholder shall be repurchased or redeemed by the Corporation as described in this Article III. A Shareholder whose Shares are redeemed as a result of a Triggering Event is referred to herein as a “Withdrawing Shareholder.”

(a) Notice from Shareholder. Upon the provision by a Shareholder to the Corporation of notice that the Shareholder desires to terminate or non-renew coverage under all policies of insurance providing current and ongoing coverage to the Shareholder or its Members, effective as of the expiration of the policy period which occurs not less than one (1) year following the date of such notice

(b) Cancellation, Non Renewal, or Termination of Insurance Coverage by Corporation. Upon termination, cancellation, and non-renewal of insurance provided to the Shareholder by the Corporation, except if such cancellation, non-renewal or termination resulted from (c), (d), and (e) below.

(c) Nonpayment of Premium. Upon the failure of a Shareholder to pay any premium, premium installment or premium assessment due under any policy of insurance issued by the Corporation to the Shareholder or its Members, effective as of the tenth (10th) day following notice from the Corporation to the Shareholder specifying the amount due; provided, however, that if the entire amount outstanding is received by the Corporation within such ten (10) day period, such nonpayment shall not constitute a Triggering Event under this Section 3.2.

(d) False Statements or Information. Upon a determination by the Board of Directors that information contained on the application for coverage completed by the Shareholder under the policies of insurance issued by the Corporation, including amendments and supplements thereto and information provided by the Shareholder or its Members in connection therewith, was false or misleading to the detriment of the Corporation or the other Shareholders, as determined by the Corporation, effective as of the tenth (10th) day following notice from the Corporation to the Shareholder.

(e) Breach of Agreements. Upon a determination by the Board of Directors that the Shareholder has breached the terms of any agreement or contract between the Corporation and the Shareholder, including without limitation, this Agreement and any policy of insurance issued by the Corporation to the Shareholder or its Members, effective as of the thirtieth (30<sup>th</sup>) day following notice from the Corporation to the Shareholder describing the nature of the breach and the actions necessary to cure such breach; provided, however, that if such breach is cured within such thirty (30) day period, the breach shall not constitute a Triggering Event under this Section 3.2.

### **3.3 Determination of Redemption Price.**

(a) Determination of Redemption Price. For Shareholders participating in the Corporation's Lancet Indemnity Select Quota Share Insurance Program the price paid to the Withdrawing Shareholder ("Redemption Price") for the Withdrawing Shareholder's Shares shall be equal to the purchase price paid by the withdrawing shareholder for its shares for price or the Book Value per share of the Company, whichever is lesser. For Shareholders not participating in the "Lancet Indemnity Select Quota Share Insurance Program", the redemption price shall equal \$100.00 (One Hundred) dollars.

### **3.5 Payment of Redemption Price.**

(a) Period of Payment. Subject to the approval of the Nevada Division of Insurance, the Redemption Price shall be paid within one year after the Stock has been redeemed by the Corporation.

(b) Limitation. Notwithstanding any provision of this Agreement to the contrary, no payment may be made by the Corporation pursuant to this Article III if such payment would (i) render the Corporation insolvent or materially impair or threaten the financial stability of the Corporation, as determined by the Board of Directors of the Corporation; (ii) reduce the Corporation's capital below the amount needed to provide adequate surplus or reserves; (iii) jeopardize the Corporation's licensure by the Division; (iv) be opposed or otherwise not approved by the Division; or (v) otherwise be prohibited by law.

(c) Subordination of Obligation. The amount owed to a Withdrawing Shareholder shall be subordinated to all legal debts, obligations and liabilities of the Company.

(d) Further Assurances. As a condition of payment of the Redemption Price, (i) the Withdrawing Shareholder shall deliver to the Corporation its Share certificate or certificates for its Shares (or such other evidence of share ownership if Shares are uncertificated and execute and deliver to the Corporation such other documents and instruments as may be reasonably required by the Corporation to evidence redemption of the Withdrawing Shareholder's Shares.

**3.6 Effect of Redemption.** As of the Termination Date (i) the ongoing coverage of the Shareholder and its members or owners under policies of insurance issued by the Corporation shall cease; (ii) the Withdrawing Shareholder shall cease to be a shareholder of the Corporation; (and (iii) the Withdrawing Shareholder shall have no further rights or obligations as a shareholder of the Corporation, regardless of whether or not the Withdrawing Shareholder has received payment of the Redemption Price as of such date. Notwithstanding the foregoing, a Withdrawing Shareholder shall continue to be liable for unpaid premiums and any other obligations owed to the Corporation as of the Termination Date.

**ARTICLE IV  
REPRESENTATIONS AND WARRANTIES**

**4.1 Representations and Warranties of the Corporation.** The Corporation hereby represents and warrants to each of the Shareholders as follows:

(a) Organization and Good Standing. The Corporation is a corporation, duly incorporated, validly existing and in good standing under the laws of Nevada and will register to do business as a risk retention group in all states where such registration is required as a result of the conduct of the Corporation's business.

(b) Licensure. The Corporation holds a valid Certificate of Authority from the Department to operate as a risk retention group pursuant to the federal Liability Risk Retention Act, 15 USC §§ 3901 *et seq.*, and Title 20, Chapter 4, Article 14 of Arizona Revised Statutes.

**4.2 Representations and Warranties of Each Party.** Each party hereby represents and warrants to the other parties as follows:

(a) Authority. All actions required to adopt and approve the execution and performance of this Agreement have been taken by it and this Agreement constitutes a binding obligation of such party upon its execution of the Agreement.

(b) No Misrepresentation. None of the representations or warranties made by it in this Article IV contains any untrue statement of a material fact or omits to state a material fact necessary in order to make such representation and warranty not misleading.

**ARTICLE V  
MISCELLANEOUS**

**5.1 Notices.** Any notice required or permitted to be given under this Agreement will be sufficient if in writing and delivered in person or sent by certified mail, postage prepaid, return receipt requested, and addressed as follows:

If to the Corporation:                    [Insert desired address and recipient]

If to the Shareholder:                To the Shareholder's address as set forth on the signature page to this Agreement, or such other address as the Shareholder may inform the Corporation in writing.

**5.2 Entire Agreement.** Except as expressly provided in this Agreement to the contrary, this Agreement and any Schedules and Exhibits attached hereto constitute the entire agreement of the parties with respect to the subject matter hereof.

**5.3 Remedies; Offset.** The rights and remedies of the parties shall not be mutually exclusive and the exercise by any party of any right to which it is entitled shall not preclude the exercise of any other right it may have. The Corporation may, in addition to all remedies provided by law, offset any amounts otherwise due to it from the Shareholder, whether due under this Agreement or under a policy of insurance issued by the Corporation to the Shareholder, against any amounts due to the Shareholder hereunder, whether as dividends, distributions or in redemption for Stock and the Shareholder shall lose all voting rights in its Shares during the period when such amounts remain outstanding.

**5.4 Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of Nevada, without regard to any choice or conflict of law provisions thereof.

**5.5 Validity.** The invalidity or unenforceability of any provision in this Agreement shall in no way affect the validity or enforceability of any other provision. Moreover, if any provision of this Agreement is deemed to be invalid or unenforceable or prohibited by applicable law, such provision shall be deemed severable from the balance of this Agreement and the validity of the remaining provisions shall be enforced to the fullest extent allowed by law in the manner best calculated to fulfill the intentions of the parties as expressed herein.

**5.6 Counterparts.** This Agreement may be executed in counterpart, each of which shall be an original but which together shall constitute one and the same instrument.

**5.7 No Third Party Benefits.** This Agreement shall not be construed to create in any person or entity not a party hereto any right, claim, benefit or defense with respect to the parties hereto or in any party claiming by, through or under any of them, with respect to any loss, cost, damage, claim or cause of action arising under or pursuant to the terms of this Agreement or the insurance policies issued by the Corporation.

**5.8 Assignment.** This Agreement may not be assigned by one party to any other person or entity without the consent of the other parties.

**5.9 Binding Effect.** This Agreement shall bind and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and permitted assigns of the Shareholder and the Corporation.

**5.10 Further Assurances.** Each party shall do all acts and things and make, execute and deliver such written instruments as shall from time to time be reasonably required to carry out the provisions of this Agreement.

**5.11 Waiver.** No right or remedy herein conferred upon or reserved to a party hereto is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder. The failure of any party to insist at any time upon the strict observance or performance of any of the provisions of this Agreement or to exercise any right or

remedy shall not impair any such right or remedy or be construed as a waiver or relinquishment thereof with respect to a subsequent breach(es).

***[Signature page follows]***

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives, as of the date first written above.

**LANCET INDEMNITY RISK  
RETENTION GROUP, INC.**

By: J. Dennis Watts. Sr.

Its: Executive Vice President

**SHAREHOLDER**

\_\_\_\_\_  
a \_\_\_\_\_ corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_

\_\_\_\_\_  
Street

\_\_\_\_\_  
City State Zip