

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

Current report filing

Filing Date: **1995-06-13** | Period of Report: **1995-05-30**  
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### FILER

#### MARKEL CORP

CIK: **803509** | IRS No.: **540292420** | State of Incorporation: **VA** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **000-15458** | Film No.: **95546698**  
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

#### Mailing Address

*P O BOX 2009*  
*GLEN ALLEN VA 23058-2009*

#### Business Address

*4551 COX RD*  
*GLEN ALLEN VA 23060-3382*  
*8047470136*

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 30, 1995

MARKEL CORPORATION  
(Exact name of registrant as specified in its charter)

<TABLE>		
<S>	<C>	<C>
Virginia	0-15458	54-0292420
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. employer identification number)
</TABLE>		

4551 Cox Road, Glen Allen, Virginia 23060-3382  
(Address of principal executive offices)  
(Zip code)

(804) 747-0136  
(Registrant's telephone number, including area code)

NONE  
(Former name, former address and former fiscal year,  
if changed since last report)

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Item 2. Acquisition or Disposition of Assets

On May 30, 1995 Markel Corporation (the Registrant) acquired all of the issued and outstanding shares of common stock of Lincoln Insurance Company (Lincoln) from Lincoln Insurance Group, Inc. (LIGI) an operating unit of The Thomson Corporation. Total consideration for the stock of Lincoln and certain other agreements was approximately \$24.3 million. Markel funded the transaction with available cash on hand and borrowings of \$17.0 million under existing lines of credit with Crestar Bank, Chase Manhattan Bank (National Association) and First Union National Bank of North Carolina. LIGI also provided an Indemnification Agreement with respect to adverse development in reserves for loss and loss adjustment expenses and reserves for uncollectible reinsurance. The Indemnification Agreement is guaranteed by The Thomson Corporation.

Markel expects to significantly reorganize Lincoln and renew certain portions of Lincoln's business in Essex Insurance Company (Essex), an existing subsidiary of the Registrant. Lincoln is a Delaware domiciled excess and surplus lines insurance company. Lincoln's total assets, total liabilities and net worth at March 31, 1995, as adjusted to reflect certain preacquisition transactions, were approximately \$80.7 million, \$52.4 million and \$28.3 million, respectively.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

a) Financial Statements of Business Acquired

The following financial statements for Lincoln Insurance Company are included as part of this report:

Independent Auditor's Report  
Balance Sheets December 31, 1994 and 1993  
Statements of Income for the years ended December 31, 1994 and 1993  
Statements of Stockholder's Equity December 31, 1994 and 1993  
Statements of Cash Flows for the years ended December 31, 1994 and 1993  
Notes to Financial Statements

b) Pro Forma Financial Information (Unaudited)

The following pro forma financial information is included as part of this report:

Pro Forma Consolidated Balance Sheet March 31, 1995  
Pro Forma Consolidated Statement of Income for the three months ended March 31, 1995  
Pro Forma Consolidated Statement of Income for the year ended December 31, 1994

c) Exhibits

The Exhibits listed on the Exhibit Index are filed as part of this report.

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Item 7a. FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

Price Waterhouse LLP  
Thirty South Seventeenth Street  
Philadelphia, PA 19103-4094  
Telephone 215 575-5000

REPORT OF INDEPENDENT ACCOUNTANTS

March 29, 1995

To the Board of Directors of  
Lincoln Insurance Company

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Lincoln Insurance Company (the Company) at December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed more fully in Note A and Note E to the financial statements, in 1994 the Company's parent announced its intention to sell all the common stock of the Company. In addition, in 1994, the Company implemented a new accounting pronouncement for investments and, in 1993, implemented new accounting pronouncements related to accounting for income taxes and reinsurance.

Price Waterhouse LLP

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LINCOLN INSURANCE COMPANY  
(A wholly-owned subsidiary of the Lincoln Insurance Group, Inc.)

Balance Sheets

<TABLE>  
<CAPTION>

	December 31,	
	1994	1993
<S>	<C>	<C>
ASSETS		
Investments, available for sale:		
Bonds, at estimated fair value in 1994 (amortized cost \$80,612,043)		

and at amortized cost in 1993 (estimated fair value \$70,758,034)	\$ 77,862,188	\$ 70,018,605
Short-term investments, at estimated fair value, which approximates cost	1,000,000	--
-----		
Cash and cash equivalents	78,862,188	70,018,605
Accrued investment income	651,713	1,479,251
Notes receivable--affiliates	1,287,230	1,044,248
Agents' balances, less allowances (1994--\$245,000 and 1993--\$210,000)	44,660,000	44,660,000
Reinsurance recoverable on unpaid claims and claim adjustment expenses, less allowances (1994--\$625,000 and 1993--\$505,000)	4,615,721	4,313,208
Reinsurance and deductible recoverables on paid claims and claim adjustment expenses, less allowances (1994--\$247,947 and 1993--\$250,975)	7,663,082	5,489,032
Unearned reinsurance premiums	583,729	572,739
Deferred income taxes, net	274,308	390,281
Deferred acquisition costs	4,550,877	3,260,464
	2,869,190	2,522,465
-----		
TOTAL ASSETS	\$146,018,038	\$133,750,293
=====		
LIABILITIES AND STOCKHOLDER'S EQUITY		
Unpaid claims and claim adjustment expenses	\$ 36,651,246	\$ 29,511,005
Unearned premiums and deposit premium liabilities	11,422,987	10,070,085
Reinsurance balances payable	3,145,297	3,133,875
Federal income taxes payable	3,325,881	--
Dividends payable to stockholder	1,121,181	858,333
Payable to affiliates	480,921	568,609
Drafts outstanding	402,093	483,560
Accrued expenses and other liabilities	626,532	598,845
Redeemable preferred stock	50,000,000	50,000,000
-----		
TOTAL LIABILITIES	107,176,138	95,224,312
-----		
Commitments and contingencies--Note G		
Stockholder's equity:		
Common stock, \$100 par value; 35,000 shares authorized, issued, and outstanding	3,500,000	3,500,000
Additional paid-in capital	24,023,565	24,023,565
Retained earnings	13,105,741	11,002,416
Net unrealized loss on investments	(1,787,406)	--
-----		
TOTAL STOCKHOLDER'S EQUITY	38,841,900	38,525,981
-----		
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$146,018,038	\$133,750,293
=====		

</TABLE>

The notes are an integral part of these financial statements.

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LINCOLN INSURANCE COMPANY  
(A wholly-owned subsidiary of the Lincoln Insurance Group, Inc.)

STATEMENTS OF INCOME

<TABLE>

<CAPTION>

	Year Ended December 31,	
	1994	1993
-----		
<S>	<C>	<C>
Underwriting:		
Premiums earned	\$23,330,099	\$19,686,842
Claims and claim adjustment expenses incurred	13,860,215	12,795,498
Commissions and brokerage, net	5,054,783	4,274,026
Other underwriting expenses	3,444,266	2,949,775
-----		
	22,359,264	20,019,299
-----		
UNDERWRITING INCOME (LOSS)	970,835	(332,457)
-----		
Investment:		
Net investment income	7,563,564	6,818,605
Net realized gains on investments	30,615	616,562
-----		
INVESTMENT INCOME	7,594,179	7,435,167
-----		

Other income	465	234
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	8,565,479	7,102,944
Provision for federal income taxes	2,997,917	2,203,817
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	5,567,562	4,899,127
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES	--	5,277,177
NET INCOME	\$ 5,567,562	\$10,176,304

</TABLE>

The notes are an integral part of these financial statements.

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LINCOLN INSURANCE COMPANY  
(A wholly-owned subsidiary of the Lincoln Insurance Group, Inc.)

STATEMENTS OF STOCKHOLDER'S EQUITY

<TABLE>

<CAPTION>

	Common Stock	Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Investments	Total
Balance at January 1, 1993	\$ 3,500,000	\$ 24,023,565	\$ 3,867,779	\$ --	\$ 31,391,344
Net income	--	--	10,176,304	--	10,176,304
Dividends to stockholder	--	--	(3,041,667)	--	(3,041,667)
Balance at December 31, 1993	3,500,000	24,023,565	11,002,416	--	38,525,981
Net income	--	--	5,567,562	--	5,567,562
Dividends to stockholder	--	--	(3,464,237)	--	(3,464,237)
Cumulative effect of change in accounting for investments, net of income taxes	--	--	--	480,629	480,629
Net unrealized loss on investments, net of income taxes	--	--	--	(2,268,035)	(2,268,035)
Balance at December 31, 1994	\$ 3,500,000	\$ 24,023,565	\$ 13,105,741	\$ (1,787,406)	\$ 38,841,900

</TABLE>

The notes are an integral part of these financial statements.

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LINCOLN INSURANCE COMPANY  
(A wholly-owned subsidiary of the Lincoln Insurance Group, Inc.)

STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	Year Ended December 31,	
	1994	1993
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	\$ 5,567,562	\$ 10,176,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in:		
Agents' balances	(302,513)	(618,510)
Unearned premiums	1,352,902	1,244,082
Unpaid claims and claim adjustment expenses	7,140,241	2,040,821
Reinsurance and deductible recoverables	(2,069,067)	1,366,251
Federal income taxes payable	3,325,881	--
Accrued investment income	(242,982)	40,220
Reinsurance balances payable	11,422	685,814
Payable to affiliates	(87,688)	(265,304)
Accrued expenses and other liabilities	(53,780)	269,900
Deferred acquisition costs	(346,725)	(314,369)
Deferred income taxes-net	(327,964)	(3,073,360)
Net amortization of bond premiums	80,631	207,501
Net realized gains on investments	(30,615)	(616,562)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,017,305	11,142,788
INVESTING ACTIVITIES		
Purchase of investment securities	(163,842,868)	(71,860,714)
Sales and maturities of investment securities	152,199,414	63,654,613
NET CASH USED IN INVESTMENT ACTIVITIES	(11,643,454)	(8,206,101)
FINANCING ACTIVITIES		
Dividends paid	(3,201,389)	(2,616,967)
NET CASH USED IN FINANCING ACTIVITIES	(3,201,389)	(2,616,967)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(827,538)	319,720
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,479,251	1,159,531
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 651,713	\$ 1,479,251

</TABLE>

The notes are an integral part of these financial statements.

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LINCOLN INSURANCE COMPANY  
(A wholly-owned subsidiary of the Lincoln Insurance Group, Inc.)

NOTES TO FINANCIAL STATEMENTS

December 31, 1994

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Company is wholly-owned by the Lincoln Insurance Group, Inc. (LIGI), an insurance holding company domiciled in the State of Delaware. LIGI is wholly-owned by the Thomson Newspapers Holdings Inc. (TNHI). TNHI is ultimately wholly-owned by The Thomson Corporation, which is approximately 70% owned by members of, or companies controlled by members of, the family of the late Lord Thomson of Fleet.

In 1994, The Thomson Corporation announced its intention to cause LIGI to sell all of the common stock of the Company. Prior to the closing date of the anticipated sale, the preferred stock of the Company will be redeemed through an assignment by the Company of the notes receivable from affiliates in the amount of \$44,660,000 to the preferred stockholder and the payment of

\$5,340,000 of cash. Also prior to the anticipated sale, the Company intends to declare an extraordinary dividend of approximately \$11,500,000, subject to regulatory approval.

Revenue Recognition:

Premiums are recognized as revenue on a straight-line basis calculated monthly over the terms of the respective policies. Earned premiums are stated net of amounts ceded to reinsurers.

Deferred Policy Acquisition Costs:

Acquisition costs such as commissions, premium taxes, and certain other underwriting expenses, net of reinsurance commissions received, are deferred and amortized ratably over the terms of the related contracts. Anticipated claims and claim adjustment expenses and policy overhead expenses are considered in determining the recoverability of such acquisition costs.

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Investments:

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. All investments are considered available-for-sale and are recorded at estimated fair value, generally based on quoted market prices. The net unrealized gain or loss on investments, net of deferred income taxes, is included as a separate component of stockholders' equity.

Premiums and discounts are amortized or accreted over the life of the related bond as an adjustment to yield using the effective interest method. Interest income is recognized when earned. Gains or losses on the disposal of investments are determined on a specific identification basis and are included in operations.

Prior to January 1, 1994, bonds were carried at amortized cost.

Unpaid Claims and Claim Adjustment Expenses:

The ultimate cost of claims arising from insured events is subject to numerous uncertainties that are normal, recurring and inherent in the property and casualty business. The process of establishing the liability for unpaid claims and claim adjustment expenses is based upon:

1. Estimates of the cost of claims reported prior to the close of the accounting period in respect to direct and assumed business, together with an estimate of the costs of settlement of those claims, and are net of estimated salvage and subrogation;
2. Estimates, based on historical experience, augmented by relevant industry trends and other data, of the costs of claims not yet reported to the Company.

The Company employs actuarial techniques to estimate the ultimate cost of incurred claims and claim adjustment expenses. These actuarial estimates are updated at least annually and the projected ultimate costs are revised based upon the Company's most recent loss and premium development statistics. Changes in claims estimates are charged or credited to income in the period in which they become known. The liability for unpaid claims and allocated claim adjustment expenses has been certified as to its adequacy by an independent actuary as of December 31, 1994 and 1993.

Estimating liabilities for unpaid claims and reinsurance recoveries for asbestos-related illnesses and toxic waste cleanup claims is subject to significant uncertainties that are generally not present for other types of claims. The ultimate cost of these claims cannot be reasonably estimated using traditional loss estimating techniques. The Company establishes liabilities for reported asbestos-related and toxic waste clean-up claims, including costs of related litigation, as information permits. This information includes the status of current law and coverage litigation, whether an insurable event has occurred, which policies and policy years might be applicable and which insurers may be liable, if any. In addition, incurred but not reported liabilities have been established by management to cover potential additional exposure on both known and unasserted claims. Given the expansion of coverage and liability by the courts and the legislatures in the past and the possibilities of similar interpretations in the future, there is

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significant uncertainty regarding the extent of insurers' liability. Because of the significant uncertainties involved, as discussed above, and the likelihood that these uncertainties will not be resolved in the near future, management is unable to reasonably estimate the amount of additional liability that could develop, if any.

In management's judgment, information currently available has been adequately considered in estimating the Company's ultimate cost of insured events and future changes in these estimates are not likely to have a material adverse effect on the Company's financial condition.

#### Reinsurance:

In the normal course of business, the Company seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company's current property catastrophe reinsurance program provides for approximately \$3.42 million of coverage for aggregate losses in excess of \$400,000. The Company's current reinsurance program also provides for \$4.75 million of coverage for casualty losses in excess of \$250,000 and provides for \$400,000 of coverage for property losses in excess of \$100,000 on a per occurrence basis. These programs are renewed in October of each year. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. Charges for uncollectible reinsurance are included in other underwriting expenses. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Certain reinsurance agreements require cash deposits or letters of credit to be deposited with the Company as security for the reinsurer's obligations.

The Company has unsecured reinsurance recoverables that exceed 3% of the Company's capital and surplus as of December 31, 1994 from Continental Reinsurance Corporation in the amount of \$1,424,675.

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The effect of reinsurance on premiums written and earned is as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

1994	Written	Earned
<S>	<C>	<C>
Direct	\$ 28,431,599	\$ 27,078,697
Ceded	(3,632,625)	(3,748,598)
	\$ 24,798,974	\$ 23,330,099

&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

1993	Written	Earned
<S>	<C>	<C>
Direct	\$ 24,157,239	\$ 22,913,157
Ceded	(3,287,880)	(3,226,315)
	\$ 20,869,359	\$ 19,686,842

&lt;/TABLE&gt;

The Company in 1993 adopted the provisions of SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." Reinsurance balances previously netted against claim liabilities and unearned premiums are now classified as assets in the balance sheet.

#### Income Taxes:



The Company is a member of an affiliated group for federal income tax purposes, all members of which have elected to file a consolidated federal income tax return with their ultimate U.S. parent, Thomson U.S. Holdings Inc. (TUSHI). The consolidated federal income tax liability, if any, is allocated to the members in accordance with terms of a tax-sharing agreement adopted by the members of the affiliated group. Under the terms of the agreement, each profitable member accrues federal income tax based upon its taxable income determined on a separate company basis. Net operating losses carried forward from prior years can be used by the Company to offset current year taxable income to the extent the net operating losses incurred by the Company would otherwise be utilized if the Company were to file a separate tax return. Notwithstanding the tax-sharing agreement, the Company is jointly and severally liable for all federal income taxes of the consolidated group.

Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes". The adoption of SFAS No. 109, which was done prospectively, changes the Company's method of accounting for income taxes from the deferred method (Accounting Principles Board Opinion (APB) No. 11) to an asset and liability approach. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The net adjustment to the January 1, 1993 balance sheet to adopt SFAS No. 109 amounted to \$5,277,177. This amount is reflected in 1993 net income as the cumulative effect of a change in accounting. This cumulative effect primarily represents recognition of the benefit of net operating loss carryforwards and deductible temporary differences that could not be recognized under APB No. 11 (See Note E).

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#### Statutory Surplus and Dividend Restrictions

Under applicable Delaware insurance laws and regulations, the Company is required to maintain a minimum capital and surplus of \$750,000. The maximum amount of dividends which can be paid by Delaware insurance companies to shareholders without prior approval of the Insurance Commissioner is subject to restrictions relating to the insurance laws and statutory unassigned surplus. Statutory unassigned deficit at December 31, 1994, was \$39,898,671. Therefore, the Company cannot pay dividends in 1995 without prior approval by the Insurance Commissioner. Subject to this restriction, dividends are paid as determined by the Board of Directors.

#### Retirement Plans:

The Company participates in the Lincoln Insurance Group, Inc. Pension Plan which covers all employees of LIGI and its subsidiary companies. The annual liabilities and expenses for the plan are recorded in the accounts of an affiliated company which employs all eligible participants, and are paid to a pension trust established for the benefit of plan members. The annual liability is limited to the annual contribution required by the plan agreement, which is based upon 4.5% of qualified employee earnings up to the Social Security taxable wage base, plus 9% of employee earnings in excess of the Social Security taxable wage base.

The Company also participates in the Lincoln Insurance Group, Inc. Employee Savings Plan (the Savings Plan) which covers all employees of the companies. The annual liabilities for the Savings Plan are recorded in the accounts of an affiliated company employing eligible participants and are paid to a common trust established for the benefit of Savings Plan members. Participants may elect to make contributions in one percent increments of gross compensation, subject to established limits. The affiliated company matches 33 1/3% of the first 3% of compensation deferred by employees. Participants are immediately vested in all contributions.

As the Company participates in a management agreement among LIGI and its affiliates (Note F) and it employs no staff, the Company records no direct retirement plan expense or liability.

#### NOTE B--REDEEMABLE PREFERRED STOCK

The Company has authorized, issued, and outstanding 5,000 shares of \$.01 par value Adjustable Rate Cumulative Redeemable Preferred Stock with a total carrying value of \$50,000,000 at December 31, 1994 and 1993. The preferred stock is non-voting and has a liquidation and redemption value equal to its carrying value of \$10,000 per share. The preferred stock is redeemable at the Company's option any time after October 30, 1996 and must be redeemed by October 30, 2001. If LIGI enters into an agreement to sell the common stock of the Company, as described in Note A, the Company's articles of incorporation will be amended to permit immediate redemption of the preferred stock. Dividends, if and when declared, are payable at a rate of \$10,000 per share

times the prime rate at the beginning of a dividend period.

Dividends in the amount of \$3,201,389 and \$2,616,967 were paid during 1994 and 1993, respectively. Dividends in the amount of \$1,212,181 and \$858,333 were accrued as of December 31, 1994 and 1993, respectively.

NOTE C--INVESTMENTS

The amortized cost and fair values of debt securities as of December 31, 1994 and 1993 are as follows:

<TABLE>  
<CAPTION>

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
1994				
-----				
U.S. Treasury securities	\$ 46,450,115	\$ 324	\$ (2,028,387)	\$ 44,422,052
Corporate securities	28,741,695	4,015	(423,209)	28,322,501
Mortgage-backed securities	5,420,233	682	(303,280)	5,117,635
-----				
	\$ 80,612,043	\$ 5,021	\$ (2,754,876)	\$ 77,862,188
=====				
1993				
-----				
U.S. Treasury securities	\$ 39,127,795	\$ 249,250	\$ (134,359)	\$ 39,242,686
Corporate securities	25,718,728	556,302	(91,072)	26,183,958
Mortgage-backed securities	5,172,082	190,000	(30,692)	5,331,390
-----				
	\$ 70,018,605	\$ 995,552	\$ (256,123)	\$ 70,758,034
=====				

</TABLE>

The amortized cost and fair values of debt securities at December 31, 1994 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>  
<CAPTION>

	Amortized Cost	Fair Value
<S>	<C>	<C>
Due in one year or less	\$ 20,648,952	\$ 20,572,713
Due after one year through five years	57,391,187	54,803,772
Due after five years through ten years	780,353	760,493
Due after ten years	1,791,551	1,725,210
-----		
	\$ 80,612,043	\$ 77,862,188
=====		

</TABLE>

Mortgaged-backed securities not due at a single maturity with an amortized cost of \$1,420,232 are included in the above schedule at their ultimate maturity date.

Components of net investment income for the year ended December 31 were as follows:

<TABLE>  
<CAPTION>

	1994	1993
<S>	<C>	<C>
Debt securities	\$ 4,052,635	\$ 3,832,047
Notes receivable-affiliates	3,637,323	3,126,180
Cash and cash equivalents	64,172	37,551
Other	12,964	8,465
-----		
	7,767,094	7,004,243
Less investment expenses	203,530	185,638
-----		
Net investment income	\$ 7,563,564	\$ 6,818,605
=====		

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Proceeds from sales of debt securities were \$15,214,165 and \$45,111,155 in 1994 and 1993, respectively. Gross realized gains on such sales were \$45,048 and \$656,922 and gross realized losses were \$14,433 and \$40,360 for 1994 and 1993, respectively.

Securities with a book value of \$9,074,964 and \$7,391,740 at December 31, 1994 and 1993, respectively, were on deposit to meet various statutory insurance requirements.

## NOTE D--UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	1994	1993
<S>	<C>	<C>
Balance at January 1		
Direct liabilities	\$ 29,511,005	\$ 27,470,184
Less reinsurance recoverables	5,489,032	7,240,887
Net Balance at January 1	24,021,973	20,229,297
Incurred related to:		
Current year	14,609,785	13,581,764
Prior years	(749,570)	(786,266)
Total incurred	13,860,215	12,795,498
Paid related to:		
Current year	3,160,850	3,462,452
Prior years	5,853,174	5,515,370
Total paid	9,014,024	8,977,822
Change in allowance for uncollectible reinsurance recoverable on unpaid claims and claim adjustment expenses	120,000	(25,000)
Balance at December 31		
Net liabilities	28,988,164	24,021,973
Plus reinsurance recoverables	7,663,082	5,489,032
Direct liabilities at December 31	\$ 36,651,246	\$ 29,551,005

&lt;/TABLE&gt;

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## NOTE E--INCOME TAXES

The provision for income taxes for the year ended December 31 was as follows:

	1994	1993
<S>	<C>	<C>
Current Federal	\$ 3,688,854	\$ 3,176,507
Deferred	(327,964)	2,203,817
Benefit of net operating loss carryforward	(362,973)	(3,176,507)
	\$ 2,997,917	\$ 2,203,817

&lt;/TABLE&gt;

As a result of the Omnibus Budget Reconciliation Act of 1993, the federal corporate income tax rate increased by one percent retroactive to January 1, 1993. Deferred tax expense for 1993 includes a benefit of \$282,214 related to an increase in the Company's net deferred tax asset as of January 1, 1993 due to the effect of the tax rate increase.

A reconciliation of the Federal statutory income tax rate to the Company's effective income tax rate for the year ended December 31 was as follows:

	1994	1993
Federal statutory rate	35.0%	35.0%
Federal tax rate change	--	(4.0%)
Effective income tax rate	35.0%	31.0%

The components of the net deferred tax asset were as follows:

	1994	1993
Deferred tax assets:		
Loss reserve discount	\$ 2,158,510	\$ 1,859,680
Accrued reinsurance premiums	1,241,924	890,399
Unrealized loss on investments	962,449	--
Unearned premium reserve reduction	780,408	677,586
Uncollectible reinsurance	291,531	243,591
Operating loss carryforwards	--	362,973
Other	127,750	115,500
	5,562,572	4,149,729
Deferred tax liabilities:		
Deferred acquisition costs	1,004,217	882,863
Other	7,478	6,402
	1,011,695	889,265
Deferred income taxes, net	\$ 4,550,877	\$ 3,260,464

As of December 31, 1994, the Company has tax basis federal net operating loss carryforwards of \$22 million, which expire in various amounts from 1996 to 2000. Since these loss carryforwards relate to separate return years, they are subject to certain limitations with respect to utilization. Although not all of the Company's net operating losses have been utilized in the consolidated tax return of which the Company is a member, under the Company's tax sharing agreement, the Company reflected tax benefit for the utilization of these losses of approximately \$362,973 during 1994. Cumulatively, tax benefits of approximately \$7.7 million have been realized by the Company under the tax sharing agreement.

Should the Company be sold, as discussed in Note A, its tax basis net operating loss carryforwards will be reattributed to TUSHI in accordance with Internal Revenue Code Section 1.1502-20(g), and accordingly, will not be available to the purchaser of the Company. In addition if sold, realization of the Company's net deferred tax asset will be dependent upon the buyer's tax and organizational structure and future operating plans for the Company. Should the Company not be sold, management believes that based on recent earnings history and future earnings expectations, the Company will realize the net deferred tax asset.

NOTE F--RELATED PARTY TRANSACTIONS

Notes Receivable - Affiliates

On October 30, 1991 and December 22, 1992, the Company invested \$20,000,000 and \$24,660,000, respectively, in notes receivable from affiliated companies. The notes receivable are due on October 30, 1996, but may be prepaid at any time at the issuer's option without penalty. The notes bear a rate of interest of prime plus one percent, payable quarterly. Interest earned on the notes totaled \$3,637,323 and \$3,126,180 for 1994 and 1993, respectively. Interest accrued and unpaid at December 31, 1994 and 1993 was \$11,624 and \$8,563, respectively. The carrying value of these notes receivable approximates fair value.

#### Management Agreement

The Company has entered into an agreement with an affiliated company, Lincoln Management Company (Manager), whereby the Manager acts as the sole managing agent for the Company's operations. Under this agreement, the Manager receives a quarterly fee for services rendered equal to a contractually defined proration of actual expenses incurred. This management contract has been approved by the Delaware Insurance Department. Management fees for 1994 and 1993 were \$3,774,199 and \$3,398,704, respectively.

#### NOTE G--COMMITMENTS AND CONTINGENCIES

The Company at December 31, 1994 is contingently liable for annuities purchased under structured settlement arrangements in the amount of \$319,219.

#### NOTE H--EVENT (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT ACCOUNTANT'S REPORT

As discussed in Note A and E, on May 30, 1995, LIGI sold all of the common stock of the Company to Markel Corporation for approximately \$24,300,000 in cash. Prior to the closing date of the sale, the preferred stock of the Company was redeemed through an assignment by the Company of the notes receivable from affiliates in the amount of \$44,660,000 to the preferred stockholder and the payment of \$5,340,000 of cash. Also, the Company declared and paid an extraordinary dividend of approximately \$11,887,000 prior to the sale.

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#### Item 7b. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

On May 30, 1995 Markel Corporation acquired all of the issued and outstanding shares of common stock of Lincoln from LIGI, an operating unit of The Thomson Corporation. Total consideration for the stock of Lincoln and certain other agreements was approximately \$24.3 million.

The unaudited pro forma consolidated balance sheet set forth below reflects how the balance sheet of the Registrant might have appeared at March 31, 1995 if the acquisition of Lincoln had been consummated at that date. The unaudited pro forma consolidated statements of income for the three months ended March 31, 1995 and the year ended December 31, 1994 were prepared as if the acquisition of Lincoln were effective as of January 1, 1995 or January 1, 1994, as appropriate.

The Registrant expects to significantly reorganize Lincoln's business operations and renew certain portions of Lincoln's business in the Registrant's existing subsidiary, Essex. The unaudited pro forma consolidated financial statements do not purport to represent what the combined results of operations of the Registrant and Lincoln would have been if the acquisition had occurred on January 1, 1995 or 1994, nor do they represent what the combined operations of the companies may be in the future. The unaudited pro forma consolidated financial statements should be read in conjunction with the consolidated financial statements of the Registrant and related notes thereto as incorporated by reference into the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.

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#### MARKEL CORPORATION AND SUBSIDIARIES

Pro Forma Consolidated Balance Sheet  
March 31, 1995  
(dollars in thousands)  
(Unaudited)

<TABLE>

	Pro Forma Adjustments				
	Markel Consolidated (Historical)	Lincoln Insurance Co. (Historical)	Preacquisition Transactions (Note 2a)	Purchase Adjustments (Note 2)	Markel and Lincoln Pro Forma
<S>	<C>	<C>	<C>	<C>	<C>
<b>ASSETS</b>					
Investments, available-for-sale, at estimated fair value					
Fixed maturities	\$ 489,236	\$ 82,066	\$ (22,643)	\$ --	\$ 548,659
Equity securities	116,511	--	--	--	116,511
Short-term investments	83,741	--	--	(7,259) (2c)	76,482
<b>Total investments</b>	<b>689,488</b>	<b>82,066</b>	<b>(22,643)</b>	<b>(7,259)</b>	<b>741,652</b>
Cash and cash equivalents	2,493	1,726	--	--	4,219
Receivables	100,116	4,385	(12)	1,306 (2e)	105,795
Notes receivable-affiliates	--	44,660	(44,660)	--	--
Reinsurance recoverable on unpaid losses	188,067	7,688	--	--	195,755
Reinsurance recoverable on paid losses	39,289	554	--	--	39,843
Deferred policy acquisition costs	26,917	2,568	--	--	29,485
Prepaid reinsurance premiums	40,741	247	--	--	40,988
Property and equipment	42,343	--	--	--	42,343
Intangible assets	45,008	--	--	(827) (2b)	44,181
Deferred tax asset	4,392	4,157	--	--	8,549
Other assets	17,580	--	--	--	17,580
<b>Total assets</b>	<b>\$ 1,196,434</b>	<b>\$ 148,051</b>	<b>\$ (67,315)</b>	<b>\$ (6,780)</b>	<b>\$ 1,270,390</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Unpaid losses and loss adjustment expenses	\$ 655,471	\$ 37,785	--	\$ 3,512 (2e)	\$ 696,768
Unearned premiums	154,000	10,225	--	--	164,225
Payables to insurance companies	88,328	3,408	--	--	91,736
Long-term debt	100,699	--	--	17,000 (2c)	117,699
Other liabilities	39,661	6,453	(5,427)	1,000 (2d)	41,687
Redeemable preferred stock	--	50,000	(50,000)	--	--
<b>Total liabilities</b>	<b>1,038,159</b>	<b>107,871</b>	<b>(55,427)</b>	<b>21,512</b>	<b>1,112,115</b>
Stockholders' equity					
Common stock and paid-in capital	22,948	27,523	(6,523)	(21,000) (2f)	22,948
Retained earnings	128,398	13,410	(5,365)	(8,045) (2f)	128,398
Net unrealized gains (losses) on fixed maturities and equity securities, net of taxes	6,929	(753)	--	753 (2f)	6,929
<b>Total stockholders' equity</b>	<b>158,275</b>	<b>40,180</b>	<b>(11,888)</b>	<b>(28,292)</b>	<b>158,275</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,196,434</b>	<b>\$ 148,051</b>	<b>\$ (67,315)</b>	<b>\$ (6,780)</b>	<b>\$ 1,270,390</b>

</TABLE>

See accompanying Notes to Pro Forma Consolidated Financial Statements.

MARKEL CORPORATION AND SUBSIDIARIES

Pro Forma Consolidated Statement of Income  
Three Months Ended March 31, 1995  
(dollars in thousands, except per share data)  
(Unaudited)

<TABLE>  
<CAPTION>

Pro Forma Adjustments				
Markel	Lincoln	Preacquisition	Purchase	Markel and

	Consolidated (Historical)	Insurance Co. (Historical)	Transactions (Note 3a)	Adjustments (Note 3)	Lincoln Pro Forma
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING REVENUES					
Earned premiums	\$ 65,784	\$ 6,019	\$ --	\$ (369) (3c)	\$ 71,434
Net investment income	8,368	2,143	(1,422)	(109) (3b)	8,980
Net realized gains (losses) from investment sales	1,563	(7)	--	--	1,556
Other	810	--	--	--	810
-----					
TOTAL OPERATING REVENUES	76,525	8,155	(1,422)	(478)	82,780
-----					
OPERATING EXPENSES					
Losses and loss adjustment expenses	42,023	3,766	--	(208) (3c)	45,581
Underwriting, acquisition and insurance expenses	22,605	2,287	--	(197) (3c)	24,695
Other	417	--	--	--	417
Amortization of intangible assets	703	--	--	(30) (3d)	673
-----					
TOTAL OPERATING EXPENSES	65,748	6,053	--	(435)	71,366
-----					
OPERATING INCOME	10,777	2,102	(1,422)	(43)	11,414
Interest	1,939	--	--	340 (3e)	2,279
-----					
INCOME (LOSS) BEFORE INCOME TAXES	8,838	2,102	(1,422)	(383)	9,135
Income taxes	2,298	736	(498)	(135) (3f)	2,401
-----					
NET INCOME	\$ 6,540	\$ 1,366	\$ (924)	\$ (248)	\$ 6,734
=====					
Earnings per share					
Primary	\$ 1.17				\$ 1.21
-----					
Fully diluted	\$ 1.17				\$ 1.21
=====					
Average primary shares outstanding (in thousands)	5,570				5,570
=====					

</TABLE>

See accompanying Notes to Pro Forma Consolidated Financial Statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Pro Forma Consolidated Statement of Income  
Year Ended December 31, 1994  
(dollars in thousands, except per share data)  
(Unaudited)

	Markel Consolidated (Historical)	Lincoln Insurance Co. (Historical)	Preacquisition Transactions (Note 3a)	Pro Forma Adjustments Purchase Adjustments (Note 3)	Markel and Lincoln Pro Forma
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING REVENUES					
Earned premiums	\$ 243,067	\$ 23,330	\$ --	\$ (10,650) (3c)	\$ 255,747
Net investment income	29,110	7,564	(4,937)	(436) (3b)	31,301
Net realized gains from investment sales	3,870	30	--	--	3,900
Other	3,646	--	--	--	3,646
-----					
TOTAL OPERATING REVENUES	279,693	30,924	(4,937)	(11,086)	294,594
-----					
OPERATING EXPENSES					

Losses and loss adjustment expenses	156,169	13,860	--	(5,870) (3c)	164,159
Underwriting, acquisition and insurance expenses	80,681	8,499	--	(3,801) (3c)	85,379
Other	2,386	--	--	--	2,386
Amortization of intangible assets	7,051	--	--	(118) (3d)	6,933
-----					
TOTAL OPERATING EXPENSES	246,287	22,359	--	(9,789)	258,857
-----					
OPERATING INCOME	33,406	8,565	(4,937)	(1,297)	35,737
Interest	7,675	--	--	1,360 (3e)	9,035
-----					
INCOME (LOSS) BEFORE INCOME TAXES	25,731	8,565	(4,937)	(2,657)	26,702
Income taxes	7,142	2,998	(1,728)	(930) (3f)	7,482
-----					
NET INCOME	\$ 18,589	\$ 5,567	\$ (3,209)	\$ (1,727)	\$ 19,220
=====					
Earnings per share					
Primary	\$ 3.33				\$ 3.45
-----					
Fully diluted	\$ 3.33				\$ 3.45
=====					
Average primary shares outstanding (in thousands)	5,569				5,569
=====					

</TABLE>

See accompanying Notes to Pro Forma Consolidated Financial Statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Notes to Pro Forma Consolidated Financial Statements  
(Unaudited)

1. Basis of presentation

On May 30, 1995 the Registrant acquired 100% of the common stock of Lincoln. The purchase price for the net assets acquired and certain agreements was \$24.3 million. The purchase price was funded as follows:

<TABLE>	
<S>	<C>
Cash	\$ 7,259,000
Borrowings under existing lines of credit	17,000,000
	-----
	\$ 24,259,000
	=====

</TABLE>

The accompanying unaudited pro forma consolidated balance sheet and statements of income are provided to illustrate the effect of the purchase on the Registrant and have been prepared using the purchase method of accounting. The unaudited pro forma consolidated financial statements reflect how the balance sheet might have appeared at March 31, 1995 if the acquisition had been consummated at that date and how the statements of income for the three months ended March 31, 1995 and for the year ended December 31, 1994 might have appeared if the acquisition had been consummated on January 1, 1995 or 1994, respectively. Certain reclassifications of Lincoln's historical financial statements have been made to conform with the Registrant's presentation.

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2. Adjustments to unaudited pro forma consolidated balance sheet

The accompanying unaudited pro forma consolidated balance sheet as of March 31, 1995 reflects certain adjustments which are explained below. These adjustments are required to give effect to matters directly attributable to the acquisition. The explanations of these adjustments are as follows:



(a) To remove the assets and liabilities of Lincoln not purchased as part of the acquisition from the balance sheet, as follows:

- redemption of 5,000 shares of Adjustable Rate Cumulative Redeemable Preferred Stock, with accrued dividends
- retirement of notes receivable from affiliates, with accrued interest
- payment of an extraordinary dividend to Lincoln's former parent
- payment of income taxes due to Lincoln's former parent

(b) To record the allocation of net purchase price as follows:

<TABLE>

<S>	<C>
Fair value of net assets acquired	\$ 25,086,000
Excess of fair value over cost of net assets acquired	(827,000)
	-----
	\$ 24,259,000
	=====

</TABLE>

(c) To record the debt incurred to finance the acquisition and to record the cash paid at closing.

(d) To accrue severance and relocation costs for employees of Lincoln as agreed to by the Registrant and Lincoln's employees in the plan for Lincoln's reorganization.

(e) To strengthen unpaid losses and loss adjustment expenses reserves to bring Lincoln's reserves into compliance with the Registrant's reserving policies and to record an indemnity recoverable from the Seller.

(f) To record consolidating and eliminating entries.

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### 3. Adjustments to unaudited pro forma consolidated statements of income

The accompanying unaudited pro forma consolidated statements of income for the three months ended March 31, 1995 and for the year ended December 31, 1994 reflect certain adjustments which are explained below. These adjustments are required to give effect to matters directly attributable to the purchase and to eliminate non-recurring items in the historical combined financial statements. Explanations of these adjustments are as follows:

(a) To remove the impact of assets and liabilities not purchased as part of the acquisition from the results of operations; see Note 2(a).

To record pro forma adjustments related to the acquisition of Lincoln, the following assumptions were used:

(b) Reduction in investment income due to net cash used in funding the transaction; the rate of return is calculated at 6%.

(c) Lincoln will be reorganized and will cease writing new and renewal business as soon as practicable after the transaction. It is assumed, solely for purposes of these pro forma financial statements, that Essex, a wholly-owned subsidiary of the Registrant, will retain approximately \$6.0 million of Lincoln's former business each year (\$1.5 million quarterly). It is further assumed that the loss reserves associated with Lincoln's unearned premium reserves will be reserved at a 100% combined ratio and Essex will reserve any business that it retains at an initial combined ratio of 100%.

(d) Excess of fair value over cost of net assets acquired is amortized on a straight line basis over 7 years, the estimated time period necessary to run-off Lincoln's reserves for unpaid losses and loss adjustment expenses.

(e) Interest on borrowed funds is assumed to be 8%.

(f) Taxes are calculated at an assumed 35% statutory rate.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized, this 13th day of June, 1995.

## MARTEL CORPORATION

By Darrell D. Martin  
 -----  
 Darrell D. Martin  
 Executive Vice President and  
 Chief Financial Officer

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2(b)	Indemnification Agreement between Markel Corporation and Lincoln Insurance Group, Inc. dated May 30, 1995
2(c)	Guaranty provided by The Thomson Corporation in favor of Markel Corporation dated May 30, 1995
23	Consent of Price Waterhouse to incorporation by reference of their report included as part of this report on Form 8-K

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STOCK PURCHASE AGREEMENT

BY AND BETWEEN

LINCOLN INSURANCE GROUP, INC.

AND

MARKEL CORPORATION

ACQUISITION

OF

LINCOLN INSURANCE COMPANY

APRIL 5, 1995

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STOCK PURCHASE AGREEMENT

This AGREEMENT is made as of April 5, 1995, by and between LINCOLN INSURANCE GROUP, INC., a Delaware corporation (the "Seller") and MARKELE CORPORATION, a Virginia corporation (the "Buyer").

The Seller is the beneficial and record owner of all of the issued and outstanding shares of the common stock, \$100.00 par value per share (the "Shares"), of Lincoln Insurance Company, a Delaware domestic insurance corporation (the "Company"). The Seller wishes to sell, and the Buyer wishes to purchase, all of the Shares upon the terms and subject to the conditions of this Agreement.

Certain capitalized terms used herein are defined in Section

11.1.

Accordingly, the parties agree as follows:

1. SALE AND PURCHASE OF SHARES.

1.1 SALE AND PURCHASE OF SHARES. At the closing provided for in Section 2 (the "Closing") and upon the terms and subject to the conditions of this Agreement, the Seller shall sell to the Buyer, and the Buyer shall purchase from the Seller, all of the Shares. The Buyer shall pay to the Seller an aggregate purchase price for the Shares and as consideration for execution of the agreements contemplated herein twenty-four million two hundred fifty-nine thousand twenty-four Dollars (\$24,259,024) (the "Purchase Price"), payable as provided in Section 1.2.

1.2 PAYMENT OF PURCHASE PRICE. At the Closing, the Purchase Price shall be paid by the Buyer to the Seller in cash by wire transfer of immediately available funds to an account previously designated by the Seller.

1.3 DELIVERY OF SHARES. At the Closing, the Seller shall deliver to the Buyer stock certificates representing all of the Shares, duly endorsed in blank or accompanied by stock

7 powers duly executed in blank, in proper form for transfer, and with all appropriate stock transfer tax stamps affixed.

2. CLOSING. The Closing of the sale and purchase of the Shares contemplated hereby shall take place at the offices of McGuire, Woods, Battle & Boothe LLP in Richmond, Virginia at 10:00 a.m. local time, on the fifth full Business Day after satisfaction or waiver of all of the conditions set forth in Sections 6.2, 6.4, 7.2 and 7.4, or such other time or date as the Buyer and the Seller agree in writing. The time and date upon which the Closing occurs is herein called the "Closing Date."

3. REPRESENTATIONS AND WARRANTIES OF THE SELLER. The Seller represents and warrants to the Buyer as follows:

3.1 DUE INCORPORATION AND AUTHORITY. The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its Properties and to carry on its business as now and heretofore conducted.

3.2 SUBSIDIARIES AND OTHER AFFILIATES. The Company does not directly or indirectly own or have the power to vote shares of any capital stock or other ownership interests of any corporation or other Person such that it has voting power to elect a majority of the directors of such corporation or other Persons performing similar functions for such Person, as the case may be. Except for readily marketable securities held in its investment portfolio, the Company does not directly or indirectly own any interest in any other Person.

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3.3 OUTSTANDING CAPITAL STOCK AND TITLE TO THE SHARES.

(a) The Company is authorized to issue (i) thirty-five thousand (35,000) shares of common stock, par value \$100.00 per share, all of which shares are issued and outstanding, and (ii) five thousand (5,000) shares of adjustable rate cumulative preferred stock, par value \$0.01 per share (the "Preferred Stock"), all of which are issued and outstanding.

(b) All of the Shares are owned beneficially and of record by the Seller free and clear of any lien, pledge, mortgage, security interest, claim, lease, charge, option, right of first or last refusal or offer, easement, servitude, transfer restriction under any shareholder or similar agreement, encumbrance or any other restriction or limitation whatsoever, other than restrictions on transfer under federal and state securities laws and state insurance laws (collectively, "Liens"). Upon delivery of and payment for the Shares as herein provided, the Seller will convey to the Buyer good and valid title thereto, free and clear of any Lien, except for Liens arising through the Buyer or as a result of the Buyer's actions.

(c) All of the Shares are duly authorized and validly issued, fully paid and nonassessable.

(d) All of the outstanding shares of Preferred Stock are owned by the Seller. The Company shall, on or prior to the Closing Date, redeem all of the outstanding shares of Preferred Stock for an amount equal to fifty million dollars (\$50,000,000) plus accrued and unpaid dividends. As a result of such redemption, as of the Closing Date no shares of Preferred Stock will be outstanding.

3.4 AUTHORITY TO EXECUTE AND PERFORM AGREEMENT; ENFORCEABILITY. The Seller has the full legal right and power and all corporate authority and approvals required to execute and deliver this Agreement and to perform fully its obligations hereunder. This

Agreement has been duly executed and delivered by the Seller and is a valid and binding obligation of the Seller enforceable against it in accordance with its terms, except as enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (ii) general principles of equity.

3.5 OPTIONS OR OTHER RIGHTS. There is no outstanding right, subscription, warrant, call, unsatisfied preemptive right, option, commitment or other agreement of any kind to purchase or otherwise to receive from the Company or the Seller any of the outstanding or authorized but unissued shares of the capital stock or any other security of the Company.

3.6 CHARTER DOCUMENTS AND CORPORATE RECORDS. The Seller has heretofore delivered to the Buyer true and complete copies of the Certificate of Incorporation and Bylaws, or comparable instruments, of the Company as in effect on the date hereof.

3.7 STATUTORY FINANCIAL STATEMENTS. The Seller has heretofore delivered to the Buyer true and complete copies of the Annual Statements of the Company as filed with the Delaware Department of Insurance for the years ended December 31, 1993 and 1994, and will deliver before the Closing, a true and complete copy of the Quarterly Statement of the Company as filed with the Delaware Department of Insurance for the quarter ended March 31, 1995 (the "Quarterly Statement"). The balance sheet of the Company as of December 31, 1994, and the related statement of income and cash flow for the year then ended, included in the Annual Statement for the year ended December 31, 1994, were prepared in conformity with statutory accounting practices prescribed or permitted by the Delaware Department of Insurance ("Statutory Accounting Principles") consistently applied, except as otherwise noted therein, for the period covered thereby and fairly present the statutory financial position of the Company as at the date

thereof and the results of operations and cash flow of the Company for the period then ended; provided that this representation shall not be deemed to be breached by reason of the development of Reserves for Losses and Loss Adjustment Expenses and Reserves for Uncollectible Reinsurance after the date of such financial statement. The balance sheet of the Company as of March 31, 1995, and the related statement of income and cash flow for the period then ended, included in the Quarterly Statement were prepared in conformity with Statutory Accounting Principles applicable to interim financial statements consistently applied during the period involved, except as otherwise noted therein, subject to normal year-end adjustments, and fairly present the statutory financial position of the Company as at the date thereof and the results of operations and cash flow of the Company for the period then ended; provided that this representation shall not be deemed to be breached by reason of the development of Reserves for Losses and Loss Adjustment Expenses and Reserves for Uncollectible Reinsurance after the date of such financial statement.

3.8 GAAP FINANCIAL STATEMENTS.

(a) The balance sheet, statement of income and statement of cash flow of the Company as at December 31, 1994 (the "GAAP Financial Statements"), which previously have been delivered to the Buyer, fairly present the financial position of the Company as of such date and the results of its operations and cash flows for the year then ended in accordance with GAAP consistently applied; provided that this representation shall not be deemed to be breached by reason of the development of Reserves for Losses and Loss Adjustment Expenses and Reserves for Uncollectible Reinsurance after the date of such financial statements.

(b) The balance sheets, statements of income and statements of cash flows of the Company as at March 31, 1994 and 1995, will be delivered to the Buyer before the Closing and

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will fairly present the financial position of the Company as at the dates referred to therein and the results of its operations and cash flow for the quarters then ended in accordance with GAAP consistently applied, subject to normal year-end adjustments (except that footnote disclosures may not be included therewith); provided that this representation shall not be deemed to be breached by reason of the development of Reserves for Losses and Loss Adjustment Expenses and Reserves for Uncollectible Reinsurance after the respective dates of such financial statements. The Buyer acknowledges that the March 31, 1994 financial statements will be prepared without the benefit of the year-end 1994 actuarial review.

### 3.9 TAX MATTERS.

(a) The Company has timely filed (or has had filed on its behalf), or will cause to be timely filed, all Tax Returns required to be filed by it (or on its behalf).

(b) The Company has timely paid all Taxes owed with respect to the Company. No penalties or other charges are or will become due with respect to the late filing of any Tax Return of the Company required to be filed on or before the Closing Date. The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, or other third party.

(c) Schedule 3.9 sets forth the states in which the Company files Tax Returns, indicates the Tax Returns in such states that have been audited, and indicates those Tax Returns in such states that currently are the subject of audit. There are no waivers or extensions of any applicable statute of limitations, or agreements to any extension of time, for the assessment or collection of such taxes with respect to any such tax returns, which waivers, extensions or agreements currently are in effect. No claim has been made in writing since January 1, 1990, by

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an authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

(d) The Company has not received a Tax Ruling or entered into a Tax Closing Agreement with any taxing authority that would have a continuing effect after the Closing Date. For purposes of the preceding sentence, the term "Tax Ruling" shall mean written rulings of a taxing authority relating to Taxes, and the term "Tax Closing Agreement" shall mean a written and legally binding agreement with a taxing authority relating to Taxes.

(e) To the Knowledge of the Seller or the Company, no action, suit, proceeding, investigation, audit, claim or assessment is presently pending or proposed with regard to any Taxes that relate to the Company for which it would be liable.

(f) Except as set forth on Schedule 3.9, the Company is not required to make any adjustment pursuant to Section 481 of the Code by reason of a change in accounting method or otherwise.

(g) The Buyer will not be required to deduct and withhold any amount pursuant to Section 1445 of the Code, upon the consummation of the transactions contemplated hereby (the "Contemplated Transactions"), and the Seller will cause the necessary documents to be provided to the Buyer at the Closing to support such nondeduction and non-withholding, including appropriate affidavits referred to in Section 1445(b)(3) of the Code.

(h) There are no Liens for Taxes (other than for Taxes not yet due and payable) upon the assets of the Company.

(i) The Seller and the Company have been included in a consolidated return for Federal income tax purposes filed by Thomson U.S. Holdings Inc. ("TUSHI") (or its predecessors) on behalf of itself, the Company, the Seller and other subsidiaries of TUSHI (or its



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predecessors) since 1990 (with respect to a stub period from December 7 to December 31, 1990), as common parent corporation of an "affiliated group" (within the meaning of Section 1504(a) of the Code) of which the Seller and the Company are "includible corporations" (within the meaning of Section 1504(b) of the Code). Such affiliated group has filed all income Tax Returns that it was required to file for each taxable period during which the Company was a member of the group. All such income Tax Returns were correct and complete in all respects as they relate to the Company. All income Taxes owed by such affiliated groups have been paid for each taxable period during which the Company was a member of the group. The Company has no liability for the Taxes of any Person other than the Company: (a) under Treasury Regulation section 1.1502-6 (or any similar provision of state, local, or foreign law); (b) as a transferee or successor; or (c) by contract or otherwise.

(j) The Company has not filed a consent under Section 341(f) (1) of the Code or agreed under Section 341(f) (3) of the Code to have the provisions of Section 341(f) (2) of the Code applied to the sale of its capital stock. The Company has not made any payment, is not obligated to make any payment, and is not a party to any agreement that could obligate it to make any payments, that will not be deductible under Code section 280G.

### 3.10 COMPLIANCE WITH LAWS.

(a) The Company is not in violation, nor has there been a violation by the Company that has not been corrected, of any applicable Order, or any applicable Law, of any Governmental Body, which violation could have a material adverse effect on the financial condition, results of operations or business of the Company.

(b) The Seller has heretofore delivered to the Buyer true and complete copies of the triennial report for the Company covering the three (3) year period ended December 31,

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1990 prepared by the Delaware Insurance Department; no deficiencies material to the financial condition or operations of the Company were asserted in such report. The foregoing triennial report is the most recent report of examination of the Company by the Delaware Insurance Department that has been provided to the Company. The Delaware Insurance Department has conducted the triennial examination of the Company for the three year period ended December 31, 1993, but has not delivered its report thereon to the Company. To the Knowledge of the Company the Delaware Insurance Department has not notified the Company of any deficiencies material to the financial condition or operations of the Company that will be identified in the report for the three year period ended December 31, 1993.

3.11 LICENSES. The Company has obtained all licenses, certificates of authority, permits, authorizations, orders and approvals of, and has made all registrations or filings with, all Governmental Bodies as required in connection with the conduct of the business of the Company as currently conducted, and with respect to which a failure to so obtain would have a material adverse effect on the financial condition, results of operations or business of the Company (collectively, the "Licenses"). Schedule 3.11 lists the jurisdictions in which the Company possess licenses or other approvals to conduct an insurance business (an "Insurance License"). The Company has heretofore made available to the Buyer true and complete copies of all of such Insurance Licenses as are currently in effect. All Licenses and Insurance Licenses are valid and in full force and effect.

3.12 NO BREACH. The execution, delivery and performance of this Agreement by the Seller and the consummation of the Contemplated Transactions will not (i) violate any provision of the Articles of Incorporation or By-laws (or comparable instruments) of the Company or the Seller; (ii) require the Company or the Seller to obtain any consent, approval or action of,

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or make any filing with or give any notice to, any Governmental Body, except as set forth on Schedule 3.12 (the "Required Consents"); (iii) if the Required Consents are obtained, except as set forth on Schedule 3.12, violate, result with the passage of time or the giving of notice, or both, in the breach of any of the terms of, result in a modification of the effect of, otherwise cause the termination of or constitute a default under, any contract, agreement, understanding, indenture, note, bond, loan, instrument, lease, conditional sale contract, mortgage, license, franchise, commitment or other binding arrangement (collectively, the "Contracts") to which the Company or the Seller is a party or by or to which either of them or any of their Properties (including the Shares) may be bound or subject, or result in the creation of any Lien upon the Properties of the Company or the Seller (including the Shares) pursuant to the terms of any such Contract, other than Liens arising under this Agreement; (iv) if the Required Consents are obtained, violate any Order of any Governmental Body against, or binding upon, the Company or the Seller or upon any of their Properties (including the Shares) or upon their respective businesses; or (v) if the Required Consents are obtained, violate any Law; other than, in the case of clauses (iii) through (v) above, where such violation, conflict, breach, modification, termination or Lien arose as a result of actions taken by the Buyer, or would not have a material adverse effect on the financial condition, results of operations or business of the Company or the Seller, as the case may be.

3.13 CLAIMS AND PROCEEDINGS. Except as set forth on Schedule 3.13, there are no outstanding Orders of any Governmental Body against or involving, or to the knowledge of the Company threatened against, the Company. Other than as may arise in the ordinary course of the Company's business with respect to claims made under insurance policies written by the Company, there are no actions, suits, claims or legal, administrative or arbitral proceedings or

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investigations (collectively, "Claims") pending against or involving the Company or any of its Properties.

### 3.14 CONTRACTS.

(a) Schedule 3.14 sets forth all of the following Contracts to which the Company is a party on the date hereof: (i) partnership or joint venture agreements; (ii) Contracts containing covenants of the Company not to compete in any line of business or with any Person in any geographical area or covenants of any other Person not to compete with the Company in any line of business or in any geographical area; (iii) Contracts relating to the borrowing of money; (iv) management Contracts and other similar agreements with any Person; (v) Contracts with any other insurance company, managing general agent, underwriting manager or any other Person, pursuant to which the Company has delegated underwriting and/or claims settlement authority; (vi) agency, brokerage or other similar insurance sales or marketing Contracts which accounted for ten percent (10%) or more of the aggregate direct written premiums of the Company for the year ended December 31, 1994; (vii) any Contract, other than insurance contracts issued in the ordinary course of business, with The Thomson Corporation ("Thomson") or any subsidiary of Thomson or any officer, director or Affiliate of Thomson or a subsidiary of Thomson; and (viii) any other Contracts, other than Contracts entered into in the ordinary course of the Company's business which are terminable by the Company on notice of 30 days or less, pursuant to the terms of which there is either a current or future obligation or right of the Company to make payments in excess of \$50,000 or receive payments in excess of \$50,000. Schedule 3.14 also sets forth the Contracts to which Lincoln Management Company, a wholly-owned subsidiary of the Seller ("LMC"), is a party which are to be assigned to the Buyer as contemplated by Section 5.8.

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(b) There have been delivered or made available to the Buyer true and complete copies of all of the Contracts set forth on Schedule 3.14. Neither the Company, nor to the Knowledge of the Company, any other party, is in default in any material respect under any of such Contracts. No other party to any such Contract has given written, or to the Knowledge of the Company oral, notice of termination or cancellation of any such Contract or that it intends to terminate or cancel any such Contract as a result of the Contemplated Transactions.

3.15 REAL ESTATE. Schedule 3.15 sets forth, as of the date hereof, a list of (i) all real property owned by the Company and all buildings and other structures located on such real property, (ii) all leases or subleases under which the Company is the lessor or lessee of any real property which are not terminable by the Company on notice of 30 days or less and pursuant to the terms of which there is either a current or future obligation or right of the Company to make payments in excess of \$50,000 or receive payments in excess of \$50,000, (iii) all options held by the Company or contractual obligations on its part to purchase or acquire any material interest in real property, and (iv) all options granted the Company or contractual obligations on its part to sell or dispose of any material interest in real property. Such leases, subleases, options and other agreements are in full force and effect, and neither the Company nor to the Knowledge of the Company, any other party, is in material default thereunder.

3.16 REINSURANCE. Schedule 3.16 contains a complete and correct list of all Contracts entered into since 1976 regarding reinsurance, coinsurance, excess insurance, ceding of insurance, assumption of insurance or indemnification with respect to insurance (other than facultative reinsurance agreements and catastrophe reinsurance treaties relative to treaty years before October 1, 1994), to which the Company is a party (as either a ceding or assuming party) (individually a "Reinsurance Agreement" and collectively the "Reinsurance Agreements").

Except to the extent of a commutation of either an entire Reinsurance Agreement or the portion of such Reinsurance Agreement associated with a particular reinsurer, all such treaties or agreements are in full force and effect. Except as set forth on Schedule 3.16, neither the Company, nor to the Knowledge of the Company, any other party, is in default of any material provision of the Reinsurance Agreements. No other party to any such Reinsurance Agreement has given written, or to the Knowledge of the Company oral, notice of termination or cancellation of any such Reinsurance Agreement other than in accordance with the terms of such Reinsurance Agreement. No reinsurer in writing, or to the Knowledge of the Company orally, has asserted or threatened to assert a claim that the Company has breached any of its material obligations under any Reinsurance Agreement or, except as set forth on Schedule 3.16, that the reinsurer will not or does not intend to perform any of its material obligations under a Reinsurance Agreement.

3.17 POLICIES OF INSURANCE WRITTEN BY THE COMPANY. Except for any failures to comply or file which did not and will not result in the imposition of a material fine or penalty against the Company which has not been paid and which would not have a material adverse effect on the financial condition, results of operation or business of the Company, all policies and contracts of insurance or reinsurance issued by the Company within the five (5) years prior to the date hereof or which are being issued by the Company as of the date hereof are in compliance, and at their respective dates of issuance were in compliance, in all material respects with all applicable Laws and, to the extent required under applicable Law, are on forms approved by the appropriate Governmental Bodies in the jurisdictions where issued or have been filed with and not objected to by such Governmental Bodies within the period provided for objection. Any premium rates with respect to insurance policies or contracts currently issued by the Company which are required to be filed with or approved by any Governmental Body have been so filed or approved

in accordance with applicable Laws, and such premiums charged by the Company conform thereto, except where the failure to so file or receive approval or conform did not and will not result in the imposition of a material fine or penalty against the Company which has not been paid and would not have a material adverse effect on the financial condition, results of operations or business of the Company.

### 3.18 CERTAIN BUSINESS PRACTICES.

(a) All material insurance or reinsurance Claims that have become payable by the Company, and are not currently in the course of being settled in good faith by the Company, have been paid, or provided for, in accordance with the terms of the insurance or reinsurance policy or contract under which they arose.

(b) The Company offers insurance products through its general agents who have the authority to bind the Company with respect to certain risks and coverages pursuant to strict guidelines provided by the Company to such agents. A full and complete copy of such guidelines has previously been made available to the Buyer.

3.19 TITLE TO PROPERTIES. Except for security on statutory deposit with state insurance departments, the Company owns outright and has good and marketable title to all of its Properties (other than real property), including, without limitation, all of the assets reflected on the balance sheet of the Company contained in the GAAP Financial Statements free and clear of any Lien. LMC owns outright and has good and marketable title to all of the assets reflected on Schedule 3.19 free and clear of any Lien. As of the Closing Date, the Company will own outright and have good and marketable title to all of the assets reflected on Schedule 3.19 free and clear of any Lien.

3.20 EMPLOYEE BENEFITS. On the date hereof there are no employee benefit plans subject to section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder, under which the Company has any material liability with respect to any current or former employee of the Company.

3.21 EMPLOYEES. On the date hereof, the Company does not employ any employees. All Persons who work at the Company are employees of LMC and LMC provides their services to the Company pursuant to a management agreement entered into between the Company and LMC. Neither the Company nor LMC is a party to or bound by any collective bargaining agreement, and there are no labor unions or other organizations representing, or, to the Knowledge of the Company, purporting to represent or attempting to represent any such employees.

3.22 INSURANCE FOR THE BENEFIT OF THE COMPANY. Schedule 3.22 sets forth a list (specifying the insurer, describing each pending claim in respect of the Company thereunder of more than \$50,000 and setting forth the aggregate limit, if any, of the insurer's liability thereunder and any deductible or net retention of the Company thereunder) of all policies or binders of fire, liability, vehicular and other insurance held by or on behalf of the Company for its account to insure against its liability and property loss. Such policies and binders are valid and binding in accordance with their terms and are in full force and effect. The Company has not received any written, or to the Knowledge of the Company oral, notice of cancellation or non-renewal of any such policy or binder.

3.23 OPERATIONS OF THE COMPANY. Except as set forth on Schedule 3.23, since December 31, 1994 the Company has not:

(i) declared or paid any dividends or declared or made any other distributions of any kind to its shareholders, or made any direct or indirect redemption, retirement, purchase or other

acquisition of any shares of its capital stock or other securities or options, warrants or other rights to acquire capital stock;

(ii) incurred any indebtedness for borrowed money;

(iii) made, or agreed to make, any change in its accounting or reserving methods or practices or made any change in depreciation or amortization policies or rates adopted by it;

(iv) changed, or agreed to change, its investment, underwriting and claims adjustment policies and practices;

(v) amended its Certificates of Incorporation or By-laws (or comparable instruments) or merged with or into or consolidated with any other Person, subdivided or in any way reclassified any shares of its capital stock or changed or agreed to change in any manner the rights of its outstanding capital stock or the character of its business;

(vi) except as a result of actions taken at the request of the Buyer or otherwise pursuant to the terms of this Agreement, experienced any event, occurrence, fact, condition, change, development, or effect that, individually or in the aggregate, has resulted in, or could result in, a material adverse effect on the financial condition, results of operation or business of the Company;

(vii) issued or sold any shares of any class of its capital stock, or any securities convertible into or exchangeable for any such shares; or issued, sold, granted or entered into any subscriptions, options, warrants, conversion or other rights agreements to purchase or acquire any such securities;

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(viii) mortgaged or pledged any of its real property or other Properties or assets, tangible or intangible;

(ix) forgiven or cancelled any debts or claims, or waived any rights, except debts, claims or rights against Persons, other than the Seller and its Affiliates, forgiven, cancelled or waived in the ordinary course of business;

(x) adopted or amended any employment, collective bargaining, bonus, profit-sharing, compensation, pension, retirement, vacation, severance, deferred compensation or other plan, agreement, trust, fund or arrangement for the benefit of any officer, director, employee, agent or consultant;

(xi) other than insurance written in the ordinary course of business, entered into any Contract, or any other agreement, commitment or transaction, with or for the direct benefit of the Seller or any Affiliate thereof; or

(xii) taken any action or omitted to take any action that would result in the occurrence of any of the foregoing.

3.24 UNDISCLOSED LIABILITIES. The Company does not have any material liability or obligation of any nature, whether known or unknown, absolute, accrued, contingent or otherwise and whether due or to become due, except (i) as and to the extent disclosed or reserved against on the balance sheet included within the GAAP Financial Statements, (ii) for liabilities and obligations that are incurred after the date of such balance sheet in the ordinary course of business and are not prohibited by the terms of this Agreement and (iii) as set forth on Schedule 3.24 (it being acknowledged that disclosure on said Schedule shall not relieve the Seller of liability hereunder in respect thereof to the extent set forth in Section 9.1); provided that this representation shall not be deemed to be breached by reason of the development of Reserves for

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Losses and Loss Adjustment Expenses and Reserves for Uncollectible Reinsurance after the date hereof.

4. REPRESENTATIONS AND WARRANTIES OF THE BUYER. The Buyer represents and warrants to the Seller as follows:

4.1 DUE INCORPORATION AND AUTHORITY. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia.

4.2 AUTHORITY TO EXECUTE AND PERFORM AGREEMENT; ENFORCEABILITY. The Buyer has the full legal right and power and all corporate authority and approvals required to execute and deliver this Agreement and to perform fully its obligations hereunder. This Agreement has been duly executed and delivered by the Buyer and is a valid and binding obligation of the Buyer enforceable in accordance with its terms, except as enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (ii) general principles of equity.

4.3 NO BREACH. The execution, delivery and performance of this Agreement by the Buyer and the consummation of the Contemplated Transactions will not (i) violate any provision of the Articles of Incorporation or By-laws (or comparable instruments) of the Buyer; (ii) require the Buyer to obtain any consent, approval or action of, or make any filing with or give any notice to, any Governmental Body, except as set forth on Schedule 4.3 (the "Buyer's Consents"); (iii) if the Buyer's Consents are obtained, violate any Order of any Governmental Body against, or binding upon, the Buyer or upon any of its Properties or upon its business; or (iv) if the Buyer's Consents are obtained, violate any Law; other than, in the case of clauses (iii)

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and (iv), where such violation would not have a material adverse effect on the financial condition, results of operations or business of the Buyer.

4.4 CLAIMS AND PROCEEDINGS. There are no outstanding Orders of any Governmental Body against or involving, or to the knowledge of the Buyer threatened against, the Buyer. There are no Claims pending against or involving the Buyer which would have a material adverse effect on the ability of the Buyer to consummate the Contemplated Transactions.

4.5 FINANCING. The Buyer has on the date of execution of this Agreement and will have at the Closing sufficient immediately available funds, in cash or pursuant to credit agreements in effect on the date of this Agreement, to pay the Purchase Price.

4.6 PURCHASE FOR INVESTMENT. The Buyer is purchasing the Shares for its own account for investment and not for resale or distribution.

4.7 INVESTIGATION BY BUYER. The Buyer has conducted its own independent review and analysis of the business, operations, technology, assets, liabilities, results of operations, financial condition and prospects of the business of the Company and acknowledges that the Seller has provided the Buyer with access to the personnel, properties, premises and records of the Company for this purpose.

5. COVENANTS AND AGREEMENTS.

5.1 CONDUCT OF BUSINESS. From the date hereof through the Closing Date, the Seller agrees that it shall cause the Company (i) to conduct its business only in the ordinary course, (ii) regularly to consult with the Buyer with respect to the operations of the Company and (iii) without the prior written consent of the Buyer, except as otherwise specifically contemplated herein, not to undertake any of the actions specified in Section 3.23. The Seller shall give the Buyer prompt notice of any event, condition or circumstance occurring from the date hereof

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through the Closing Date that would constitute a violation or breach of any representation or warranty, or cause such representation or warranty to be untrue as of the Closing Date (assuming such event, condition or circumstance existed on the Closing Date), or that would constitute a violation or breach of any covenant of the Seller contained in this Agreement.

5.2 CORPORATE EXAMINATIONS AND INVESTIGATIONS. Prior to the Closing Date, the Seller agrees that the Buyer shall be entitled, through its employees and representatives, to make such investigation of the Properties, businesses and operations of the Company, and such examination of the books, records and financial condition of the Company, as it wishes. Any such investigation and examination shall be conducted at reasonable times and under reasonable circumstances, and the Seller shall, and shall cause the Company to, cooperate fully therein. In order that the Buyer may have full opportunity to make such physical, business, accounting and legal review, examination or investigation as it may wish of the affairs of the Company, the Seller shall make available and shall cause the Company to make available to the representatives of the Buyer during such period all such information and copies of such documents concerning the affairs of the Company as such representatives may reasonably request, permit the representatives of the Buyer access to the Properties of the Company and all parts thereof, and cause its officers, employees, consultants, agents, accountants and attorneys to cooperate fully with such representatives in connection with such review and examination. If this Agreement terminates, (i) the Buyer shall keep confidential and shall not use in any manner any information or documents obtained from the Company concerning its Properties, businesses and operations, unless readily ascertainable from public or published information, or trade sources, or already known or subsequently developed by the Buyer independently of any investigation of the Company, and (ii) any documents obtained from the Company and all copies thereof shall be returned.

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5.3 PUBLICITY. Except as required by law, regulation or stock exchange requirements, neither of the parties hereto shall, without the consent of the other, make any public announcement or issue any press release with respect to the Contemplated Transactions. Prior to making any such public announcement or issuing any such press release the parties hereto shall, to the extent possible, consult with the other party as to the content of such public announcement or press release.

5.4 INDEMNIFICATION FOR BROKER'S FEES. The Seller represents and warrants to the Buyer that, except for J.P. Morgan Securities Inc., who has acted as the Seller's financial advisor, no broker, finder, agent or similar intermediary (a "Broker") has acted on behalf of the Company or the Seller in connection with this Agreement or the Contemplated Transactions, and that, except for any fees and expenses payable to J.P. Morgan Securities Inc. (the "Seller's Fee"), there are no brokerage commissions, finders' fees or similar fees or commissions payable in connection therewith based on any agreement, arrangement or understanding with the Company or the Seller, or any action taken by the Company or the Seller. The Seller agrees to pay the Seller's Fee and agrees to indemnify and hold the Buyer harmless from any claim or demand for commission or other compensation by any Broker claiming to have been employed by or on behalf of the Company or the Seller, and to bear the cost of legal expenses incurred in defending against any such claim. The Buyer represents and warrants to the Seller that no Broker has acted on behalf of the Buyer in connection with this Agreement or the Contemplated Transactions, and that there are no brokerage commissions, finders' fees or similar fees or commissions payable in connection therewith based on any agreement, arrangement or understanding with the Buyer, or any action taken by the Buyer. The Buyer agrees to indemnify and hold the Seller and its Affiliates harmless from any claim or demand for commission or other compensation by any

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Broker claiming to have been employed by or on behalf of the Buyer, and to bear the cost of legal expenses incurred in defending against any such claim.

5.5 TAX MATTERS.

(a) Subject to the provisions of Section 5.5(h), TUSHI shall prepare and file, or cause to be prepared and filed, all Consolidated Returns required to be filed after the Closing Date and, without limiting the Buyer's obligations set forth in Section 5.5(c), shall pay, or cause to be paid, all Taxes shown as due on such Consolidated Returns. TUSHI shall include the income of the Company (including any deferred income triggered into income by Treasury Regulation section 1.1502-13 and 1.1502-14 and any excess loss accounts taken into income under Treasury Regulation section 1.1502-19) on the TUSHI Consolidated Returns for all periods through the Closing Date and pay any federal income Taxes attributable to such income. The Company will not elect to be excluded from the TUSHI consolidated group under Treasury Regulation section 1.1502-76(b)(5)(ii) for the TUSHI taxable year that includes the Closing Date.

(b) Subject to the provisions of Section 5.5(e), the Seller shall be liable to the Buyer for, and shall hold the Buyer and the Company harmless from and against, any and all Taxes due or payable by the Company for any taxable year or tax period ending on or before the Closing Date except, in accordance with Section 5.5(d), to the extent that such Taxes result from elections by the Buyer (express or deemed) under Section 338 of the Code (or comparable provision of state or local tax law). Taxes for which the Seller shall be liable and shall hold the Buyer and the Company harmless from and against under the preceding sentence shall include, without limitation, Taxes (i) the liability for which arises under Treasury Regulations Section 1.1502-6 and Section 1-1502.78 or comparable provisions of state or local law as a result of the Company being included in a group filing Consolidated Returns, (ii) the liability for which arises because the Company

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ceases on the Closing Date to be a member of a group filing Consolidated Returns, and (iii) that are due or payable by the Buyer or the Company and result from or arise out of the Contemplated Transactions (other than taxes arising from any election by the Buyer (express or deemed) under Section 338 of the Code (or comparable provision of state or local tax laws)).

(c) Subject to the provisions of Section 5.5(e), the Buyer and the Company shall be liable for, and shall hold the Seller harmless from and against, (i) any and all Taxes due or payable by the Company with respect to the Company for any taxable year or tax period beginning on or after the Closing Date and (ii) in accordance with Section 5.5(d), Taxes resulting from elections by the Buyer (express or deemed) under Section 338 of the Code (or comparable provision of state or local tax laws).

(d) Buyer and Seller agree that no elections (express or deemed) under Section 338 of the Code (or comparable provision of state or local tax laws) shall be made with respect to the acquisition of the Company. If Buyer or any of its affiliates makes an election (express or deemed) under Section 338 of the Code (or any comparable provision of state or local tax laws) with respect to the Company, any Taxes resulting from such election shall be paid by the Buyer and Buyer shall indemnify and hold Seller harmless from and against such Taxes.

(e) Any Taxes for a tax period beginning before the Closing Date and ending after the Closing Date shall be apportioned between the Seller and the Buyer, in the case of real and personal property taxes and franchise taxes not based on gross or net income, on a per diem basis and, in the case of other Taxes, shall be determined by (i) assuming that the Company's taxable year (including the taxable year of organizations in which it owns a partnership interest or other equity interest) ends as of the close of business on the Closing Date; (ii) closing on an actual basis the Company's books as of the close of business on such date (or if an actual closing is not

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feasible, on an equitable pro forma basis that has a comparable economic result to the result that would have been obtained had an actual closing occurred, taking into account extraordinary items); and (iii) preparing a Tax return based on the income, gain, deduction, losses and credits as so determined under



an accurate and appropriate accounting method and, to the extent permissible, on a basis consistent with the methodology and elections employed in prior years. Each such portion of such period shall be deemed to be a tax period subject to the provisions of Sections 5.5(b) and 5.5(c) above.

(f) The Buyer shall cause the Company to file any federal, state, local or foreign Tax Return (other than any Consolidated Return) required to be filed after the Closing Date with respect to the business, activities or assets of the Company (the "Post-Closing Returns") and, without limiting the Seller's obligations set forth in Section 5.5(b), the Company shall pay or cause its subsidiaries or Affiliates to pay all Taxes shown as due on any Post-closing Returns. Any Post-Closing Returns that relate (in whole or in part) to tax periods beginning before the Closing Date (the "Straddle Returns") shall be prepared as promptly as possible after the Closing Date, but in no event later than three weeks prior to the due dates thereof, as such dates may be extended. Immediately after preparation of the Straddle Returns, the Buyer shall provide the Seller with copies of the Straddle Returns. Not less than five days before the due dates of such returns the Seller shall forward to the Buyer or the Company any comments it may have relating to such returns.

(g) Any refunds of Taxes that were paid in respect of a taxable year or tax period (including a period deemed to be a tax period under Section 5.5(e)) of the Company ending on or before the Closing Date shall be for the account of the Seller if such refunded Tax was actually paid by the Seller, and any refund of Taxes that were paid in respect of a taxable year or tax

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period (including a period deemed to be a tax period under Section 5.5(e)) of the Company beginning on or after the Closing Date shall be for the account of the Buyer if such refunded Tax was actually paid by the Buyer. In all other events, the refunded Tax shall be paid to the Company. In the event the Company and the Buyer incur a consolidated net operating loss, capital loss or other Tax attribute ("Tax Attribute") in a year that includes the period after the Closing Date and the Buyer, for valid business reasons, elects to carryback the Tax Attributes allocable to the Company to TUSHI's Consolidated Return(s), and if the carryback of the Company's allocable Tax Attribute generates a Tax refund or reduction in Tax liability) from the Internal Revenue Service to TUSHI, the Seller will pay the Company the amount of such refund. In any event, the Seller shall cooperate with the Company in supplying the necessary information to prepare properly such amended Tax returns or refund claims to obtain such refunds or to document the fact that no such refund is possible. The Buyer or the Seller, as the case may be, shall pay the amount of any such refund to the other party within fifteen (15) days after receipt thereof.

(h) The Buyer shall, or shall cause the Company to, prepare all information required for inclusion in any Consolidated Return required to be filed after the Closing Date that includes the operations of the Company for any period ending on or prior to the Closing Date (the "Post-Closing Information") in accordance with the Company's past custom and practice. The Post-Closing Information shall be prepared and delivered to the Seller as promptly as possible after the Closing Date, but in no event later than forty-five (45) days prior to the due dates of the Consolidated Returns to which they relate, as such dates may be extended. In filing any Consolidated Return the Seller shall not, without the consent of the Buyer, permit any item to be reported in a manner different from the manner in which such item is treated in the information

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provided by the Buyer and the Company, unless (i) such treatment is inconsistent with the treatment of such item in prior Consolidated Returns or (ii) if the Seller shall object to the position taken with respect to any material item in the Post-Closing Information provided by the Buyer or the Company, the Buyer (a) fails to provide an opinion of counsel reasonably satisfactory to the Seller to the effect that based upon the preponderance of the law the proposed position will be sustained on its merits, and (b) does not agree to indemnify and hold harmless the Seller from and against any penalties

that may be imposed as a result of such proposed position being followed in filing the Consolidated Return.

(i) If the Buyer or the Company becomes aware of any assessment, official inquiry, examination or proceeding that could reasonably result in an official determination with respect to any Tax for which the Seller could be liable pursuant to Section 5.5(b), the Buyer shall promptly so notify the Seller in writing. If the Seller becomes aware of any official inquiry, examination or proceeding that could reasonably result in an official determination with respect to any Taxes related to the business, activities or assets of the Company (including, without limitation, any assessment, official inquiry, examination or proceeding with respect to any Consolidated Return), the Seller shall promptly so notify the Buyer in writing.

(j) The Seller shall have the right to exercise control over the contest and/or settlement of any issue raised in any official inquiry, examination or proceeding with respect to any Consolidated Return for federal income taxes or any inquiry, examination or proceeding that relates to Taxes for which the Seller is liable to the Buyer under Section 5.5(b), and the Seller shall pay any expenses incurred in connection therewith; provided that (i) the Seller shall keep the Buyer informed of all material developments with respect to such inquiry, examination or proceeding if it relates to any Tax for which the Buyer could be liable under Section 5.5(c) and

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(ii) the Seller shall not settle or compromise any such inquiry, examination or proceeding that relates to any Tax for which the Buyer could be liable under Section 5.5(c) without the consent of the Buyer, which consent shall not be unreasonably withheld. The Buyer shall cooperate with the Seller at Seller's expense, as the Seller may reasonably request, in any such inquiry, examination or proceeding.

(k) Except as provided in Section 5.5(j), the Buyer shall have the right to exercise control over the contest and/or settlement of any issue raised in any official inquiry, examination or proceeding with respect to Taxes related to the business, activities or assets of the Company that relates only to Taxes for which the Buyer is liable to the Seller under Section 5.5(c); provided that (i) the Buyer shall keep the Seller informed of all material developments with respect to such inquiry, examination or proceeding if it relates to any Tax for which the Seller could be liable under Section 5.5(b) and (ii) the Buyer shall not settle or compromise any such inquiry, examination or proceeding that relates to any Tax for which the Seller could be liable under Section 5.5(b) without the consent of the Seller, which consent shall not be unreasonably withheld. The Seller shall cooperate with the Buyer at the Buyer's expense, as the Buyer may reasonably request, in any such inquiry, examination or proceeding.

(l) The Buyer acknowledges that TUSHI shall make the election specified in Treasury Regulation Section 1.1502-20(g) (the "Reattribution Election") to reattribute to TUSHI all of the net operating loss carryovers and net capital loss carryovers attributable to the Company to the fullest extent that the loss realized by the Seller with respect to the disposition of the Shares is disallowed pursuant to Treasury Regulation Section 1.1502-20. In accordance with Treasury Regulation Section 1.1502-20(g) (5), the Buyer shall cause the Company to join in the filing of the Reattribution Election and, in connection therewith, to attach a copy of the Reattribution Election to its federal

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income tax return in accordance with the requirements of Treasury Regulation Section 1.1502-20(g) (5) (ii). The Buyer and the Company shall not take any position (in filings with respect to Taxes or otherwise) inconsistent with the Reattribution Election.

(m) As used in this Section 5.5 and in Section 3.9, the following terms shall have the following meanings:

(i) "Code" means the Internal Revenue Code of 1986,

as amended, and the applicable final Treasury Regulations promulgated thereunder, or corresponding provisions of future laws.

(ii) "Consolidated Returns" means any consolidated federal income tax return or similar return with respect to any other Tax on behalf of an affiliated group of corporations of which the Company was or is includible as a member for any portion of such taxable period of the Company beginning before the Closing Date.

(iii) "Taxes" (or "Tax" where the context requires) means all federal, state, county, local, foreign and other taxes (including, without limitation, income, profits, premium, estimated, excise, sales, use, occupancy, gross receipts, franchise, ad valorem, severance, capital levy, production, transfer, withholding, employment, unemployment compensation, payroll-related and property taxes, import duties and other governmental charges and assessments), whether or not measured in whole or in part by net income, and including deficiencies, interest, additions to tax or interest and penalties with respect thereto.

(iv) "Tax Returns" means all returns, declarations, reports, forms, estimates, information returns and statements required to be filed in respect of any Taxes to be supplied to a taxing authority in connection with any Taxes.

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(v) "Treasury Regulations" means the final Regulations promulgated under the Internal Revenue Code of 1986, as amended (or corresponding future law), or corresponding future final regulations.

5.6 REDEMPTION OF PREFERRED STOCK. Effective on or prior to the Closing Date, the Company shall redeem all of the issued and outstanding shares of Preferred Stock for an amount equal to fifty million dollars (\$50,000,000) plus accrued and unpaid dividends through the redemption date. As consideration for such redemption the Seller shall receive by way of distribution certain notes payable (including accrued interest thereon) to the Company by Affiliates of the Company, as referred to in Schedule 5.6, and cash in the amount of five million three hundred and forty thousand Dollars (\$5,340,000).

#### 5.7 EMPLOYEES AND PLANS.

(a) Immediately prior to the Closing, the Company shall offer employment to the employees of LMC listed on Schedule 5.7 which shall be determined by the Buyer in its sole discretion.

(b) The Seller shall cause LMC to pay within ten (10) days after the Closing Date to each employee of LMC on the date hereof who is an employee of the Company on the Closing Date, the "stay bonus" promised to each employee of LMC pursuant to letters dated July 11, 1994. The Buyer shall have no obligation with respect to the payment of the "stay bonuses."

(c) The Buyer shall have no obligation with respect to any severance payments of employees of the Seller or any of its Affiliates who either (i) do not become employees of the Company pursuant to offers made as contemplated by paragraph (a) of this Section 5.7 or (ii) who are identified on Schedule 5.7 as being offered temporary employment and who do not remain as employees of the Company six (6) months after the Closing Date. The Seller shall promptly

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reimburse the Buyer for any such severance payments paid by the Buyer if such payments are made in accordance with the Company's severance arrangements in effect on the date hereof. The Buyer's obligation, if any, with respect to severance payments for employees who become employees of the Company as contemplated by paragraph (a) of this Section 5.7, shall be limited to, and solely in accordance with, severance policies, if any, of the Company

applicable to such employees; provided, that for such purpose Buyer shall deem such employee to have been an employee of Buyer for such additional period as such employee was, or was deemed to have been, an employee of LMC.

5.8 LMC EQUIPMENT AND AGREEMENTS. Effective on or prior to the Closing Date the Seller shall cause LMC to transfer to the Company the assets listed on Schedule 3.19, and shall have assigned to the Company (and the Company shall assume the obligations of LMC under) the agreements listed on Schedule 5.8 for a total consideration equal to the net book value (net of liabilities, if any, assumed) as of March 31, 1995.

5.9 MANAGEMENT AGREEMENTS. Effective on or prior to the Closing Date, the Company shall terminate the Management Agreements between the Company and LMC.

5.10 FURTHER ASSURANCES.

(a) Each of the parties shall execute, at its expense, such documents and take such further actions as may be reasonably required or desirable to carry out the provisions hereof and the Contemplated Transactions (including, without limitation, the furnishing of all information as may be required by the Delaware Commissioner of Insurance or the Delaware Department of Insurance, any other state regulatory agency asserting jurisdiction or by the Federal Trade Commission and the Department of Justice of the United States under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and the rules and regulations promulgated thereunder (the

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"HSR Act") in order that the requisite approvals for the purchase and sale of the Shares and the Contemplated Transactions be obtained or to cause any applicable waiting periods to expire); provided that the Seller and the Buyer shall each pay one-half of any filing fee in connection with a filing pursuant to the HSR Act. In the event that, at any time prior to the Closing, any Claim shall have been instituted before any Governmental Body or by any Governmental Body to restrain, modify or prevent the carrying out of the Contemplated Transactions or to seek damages or a discovery order in connection with such transactions, the Buyer and the Seller shall make all reasonable efforts and take all reasonable steps to cause such termination, setting aside or dismissal of, such Claim or any injunction, order or decree resulting therefrom. Each such party shall use reasonable efforts to fulfill or obtain the fulfillment of the conditions to the Closing set forth in Articles 6 and 7, including any conditions that require the execution and delivery of additional agreements.

(b) Each party will use reasonable efforts to implement the provisions of this Agreement, and for such purpose, at the request of the other party will, at or after the Closing, without further consideration, promptly execute and deliver, or cause to be executed and delivered, such additional documents, instruments, conveyances and assurances and take such other actions as the other party may reasonably deem necessary or desirable to implement any provision of this Agreement and to render effective the consummation of the Contemplated Transactions, including, without limitation, the transfer to the Buyer of the ownership and intended related benefits of the business of the Company.

5.11 SUPPLEMENTAL DISCLOSURE. The Seller, on the one hand, and the Buyer, on the other hand, shall have the right from time to time prior to the Closing to supplement the disclosure schedules prepared by such party, with respect to any matter hereafter arising which, if

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existing or known as of the date of this Agreement, would have been required to be set forth or described in such schedule. Any such supplemental disclosure will be deemed to have cured any breach of any representation or warranty made in this Agreement, but will not be deemed to have been disclosed as of the date of this Agreement for purposes of determining whether or not the conditions set forth in Articles 6 and 7 hereof have been satisfied.

5.12 EFFORTS TO CONSUMMATE. Upon the terms and subject to

the conditions herein provided, each of the parties hereto agrees to use commercially reasonable efforts to take or cause to be taken all action, to do or cause to be done, and to assist and cooperate with the other parties hereto in doing, all things reasonably necessary, proper or advisable under applicable Law, to consummate and make effective, in the most expeditious manner practicable, the Contemplated Transactions, including, without limitation, (i) promptly after the date hereof preparing and filing a Form A Statement with the Delaware Insurance Department and any other Insurance Department where such filing is required, and any other filings required to be made to obtain the Required Consents; (ii) the defending of any lawsuits or other legal proceedings to which it is a party, whether judicial or administrative, challenging this Agreement or the consummation of the Contemplated Transactions and (iii) the execution and delivery of such instruments, and the taking of such other actions as the other parties hereto may reasonably require in order to carry out the intent of this Agreement.

5.13 LIMITATION OF SELLER'S LIABILITIES. From and after the Closing Date, except as expressly provided for in this Agreement, the Exhibits and Schedules hereto and any documents or instruments executed in connection with the Closing of the Contemplated Transactions, the Seller shall have no obligations or liabilities whatsoever relating to the business, properties or assets of the Company as the same may exist at the Closing Date or arise thereafter,

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38 including, without limitation, obligations or liabilities for any deductibles with respect to insurance and reinsurance policies and obligations or liabilities under guarantees by the Seller of the Company's obligations or liabilities. The Buyer shall cooperate with the Seller, both before and after the Closing Date, by taking, and after Closing, by causing the appropriate entity to take, in each case at the sole expense of Seller, all actions the Seller shall reasonably request to effect the termination of any such Seller guarantee, obligation or liability.

5.14 BOOKS AND RECORDS OF THE COMPANY.

(a) The Seller agrees to deliver to the Buyer or make available to the Buyer at the place of business of the Company at or as soon as practicable after the Closing, as requested by the Buyer, all books and records relating to the business of the Company to the extent such books and records relate solely to such business (including but not limited to, correspondence, memoranda, personnel and payroll records and the like) and do not contain any information pertaining to the Seller or the Seller's Affiliates (other than the Company).

(b) For a period of seven (7) years following the Closing, or for such longer periods as may be required to satisfy applicable Laws, (i) the Seller shall retain all books and records relating to the business of the Company that are integrated or non-separable from the books and records related to any of the businesses of the Seller other than the business of the Company, and (ii) the Buyer shall retain all other books and records of the business of the Company, including, without limitation, all other such books and records of such business (x) relating to Taxes, including, without limitation, accounting and tax records and information pertaining to events occurring prior to the Closing Date, and (y) required to be retained pursuant to obligations imposed by any Law (such books and records of the business of the Company collectively, the "Records").

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(c) For a period of seven (7) years following the Closing, or for such longer periods as may be required to satisfy applicable Laws, (i) each party shall provide to duly authorized representatives of the other party who wish to review any Records for bona fide business reasons reasonable access, during regular business hours, to (x) employees of such party who are familiar with such Records and who can assist such representatives of such other party, at such other party's own expense, in locating, explaining or otherwise reviewing such Records, and (y) use of such party's copying facilities, clerical services and telephone in a reasonable manner at such other party's

own expense and (ii) neither party shall dispose of or destroy any Records without written permission of the other.

(d) If original documents are required to respond to legal process in connection with the conduct by either party of any litigation, arbitration, audit, settlement proceedings or negotiations with third parties with respect to its conduct of the business of the Company ("Legal Proceedings"), such party, subject to applicable laws, regulations or agreements, shall be permitted to remove such Records temporarily from the other party's premises; provided that such party shall return such original documents to such other party as promptly as practicable after such time when such original documents are no longer required in connection with such Legal Proceedings.

(e) If, in connection with Legal Proceedings, the Buyer or the Seller shall require the assistance of the other party's employees, such party shall provide such employees to the requesting party as are reasonably required by such requesting party. The requesting party shall pay such other party's out-of-pocket costs incurred in connection with such use of such party's employees and shall reimburse such party for the number of whole business days spent by each such employee in providing such services at the rate equal to the average daily gross pay

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(excluding the value of employee benefits) of such employee during each calendar month in which such services are performed.

5.15 NEGOTIATIONS WITH OTHERS. From the date hereof until the Closing, the Seller will not, and shall cause the Company not to, directly or indirectly, without the written consent of the Buyer, (i) initiate discussions or engage in negotiations concerning any sale of the Shares or of any merger, sale of assets or similar transaction involving the Company with, or (ii) furnish or cause to be furnished any non-public information concerning the Company to, any Person other than the Buyer and its agents and representatives. The Seller agrees to disclose to the Buyer the existence and content of any inquiries by or discussions with a third party relating to an acquisition of the stock or assets of the Company as soon as practicable after they take place.

6. CONDITIONS PRECEDENT TO THE OBLIGATION OF THE BUYER TO CLOSE. The obligation of the Buyer to enter into and complete the Closing is subject, at the option of the Buyer to the fulfillment on or prior to the Closing Date of the following conditions, any one or more of which (other than Section 6.2, insofar as it relates to the Delaware Commissioner of Insurance or the Delaware Department of Insurance, and Section 6.4) may be waived by the Buyer in its sole discretion:

6.1 REPRESENTATIONS AND COVENANTS. The representations and warranties of the Seller contained in this Agreement shall be true and correct in all respects (in the case of any provision of a representation or warranty containing a materiality qualification) or in all material respects (in the case of any provision of a representation or warranty without a materiality qualification) on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date. The Seller shall have performed and complied in all material respects with

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all covenants and agreements required by this Agreement to be performed or complied with by the Seller on or prior to the Closing Date. The Seller shall have executed and delivered to the Buyer a certificate, dated the date of the Closing, to the foregoing effect and stating that all conditions to the Buyer's obligations hereunder have been satisfied.

6.2 CONSENTS AND APPROVALS. All consents or approvals required for the consummation of the sale of the Shares and the Contemplated Transactions from the Delaware Commissioner of Insurance or the Delaware Department of Insurance or any other Governmental Body having jurisdiction over the Company and the consummation of the Contemplated Transactions shall have

been obtained and be in full force and effect.

6.3 OPINION OF COUNSEL TO THE SELLER. The Buyer shall have received the opinion of Paul, Weiss, Rifkind, Wharton & Garrison and Morris, Nichols, Arsht & Tunnell, counsel to the Seller, each dated the Closing Date, in form and substance mutually agreed upon by the Seller and the Buyer.

6.4 HSR ACT FILING. Any Person required in connection with the Contemplated Transactions to file a notification and report form in compliance with the HSR Act shall have filed such form and the applicable waiting period with respect to each such form (including any extension thereof by reason of a request for additional information) shall have expired or been terminated.

6.5 LITIGATION. No Claim shall have been instituted before any Governmental Body, or instituted or threatened by any Governmental Body, to restrain, modify or prevent the carrying out of the Contemplated Transactions.

6.6 TENDER OF ALL SHARES. At the Closing, the Seller shall have tendered all of the Shares for purchase as provided in Section 1.1.

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6.7 PREFERRED STOCK REDEMPTION. All of the Preferred Stock shall have been redeemed as contemplated by Section 5.6.

6.8 DIVIDENDS. Other than dividends on the Preferred Stock in accordance with the terms provided therefor in the Company's Certificate of Incorporation, after December 31, 1994, the Company shall not have declared and the Seller shall not have received dividends from the Company aggregating in excess of eleven million eight hundred eighty-seven thousand four hundred twenty-nine Dollars (\$11,887,429).

6.9 INDEMNIFICATION AGREEMENT. The Seller and the Buyer shall have executed an Indemnification Agreement, in substantially the form of Exhibit A hereto (the "Indemnification Agreement"). The obligations of the Seller under the Indemnification Agreement shall be guaranteed by Thomson.

6.10 THOMSON GUARANTY. There shall have been delivered to the Buyer the unconditional and irrevocable guarantee of Thomson, in form and substance mutually agreed upon by the Seller and the Buyer, of the full and timely performance by the Seller of all obligations of the Seller under this Agreement (including any amendment hereto), including, without limitation, all obligations for the payment of all damages, costs and expenses which may become payable in accordance herewith.

6.11 ADMINISTRATIVE SERVICES AGREEMENT. The Company shall have entered into an Administrative Services Agreement with the Seller in form and substance mutually agreed upon by the Seller and the Buyer (the "Administrative Services Agreement").

6.12 CONFIDENTIALITY AND NONCOMPETITION AGREEMENT. The Seller, for itself and its Affiliates, shall have entered into a Confidentiality and Noncompetition Agreement with the Buyer in form and substance mutually agreed upon by the Seller and the Buyer.

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6.13 AFFILIATE TRANSACTIONS. The Seller shall have delivered to the Buyer evidence reasonably satisfactory to the Buyer that (i) except as set forth on Schedule 6.13, all agreements between the Company, on the one hand, and TUSHI and/or any Affiliate of TUSHI, on the other hand, shall have terminated without the requirement of any payment by the Company and (ii) all indebtedness owed by TUSHI and/or any Affiliate of TUSHI to the Company shall have been paid in full.

6.14 RESIGNATIONS OF DIRECTORS AND OFFICERS. Such directors and officers of the Company designated by Buyer shall have resigned or been removed from office effective as of the Closing Date.

6.15 FIRPTA CERTIFICATE. The Seller shall have delivered to the Buyer a certificate, as contemplated under and meeting the requirements of Section 1.1445-2(b)(2)(i) of the Treasury Regulations, to the effect that the Seller is not a foreign person within the meaning of the Code and the applicable Treasury Regulations.

7. CONDITIONS PRECEDENT TO THE OBLIGATION OF THE SELLER TO CLOSE. The obligation of the Seller to enter into and complete the Closing is subject, at the option of the Seller, to the fulfillment on or prior to the Closing Date of the following conditions, any one or more of which (other than Section 7.2, insofar as it relates to the Delaware Commissioner of Insurance or the Delaware Department of Insurance, and Section 7.4) may be waived by the Seller in its sole discretion:

7.1 REPRESENTATIONS AND COVENANTS. The representations and warranties of the Buyer contained in this Agreement shall be true and correct in all respects (in the case of any provision of a representation or warranty containing a materiality qualification) or in all material respects (in the case of any provision of a representation or warranty without a materiality

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44 qualification) on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date. The Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by the Buyer on or prior to the Closing Date. The Buyer shall have executed and delivered to the Seller a certificate, dated the date of the Closing, to the foregoing effect and stating that all conditions to the Seller's obligations hereunder have been satisfied.

7.2 CONSENTS AND APPROVALS. All consents or approvals required for the consummation of the sale of the Shares and the Contemplated Transactions from the Delaware Commissioner of Insurance or the Delaware Department of Insurance or any other Governmental Body having jurisdiction over the Company and the consummation of the Contemplated Transactions shall have been obtained and be in full force and effect.

7.3 OPINION OF COUNSEL TO THE BUYER. The Seller shall have received the opinion of McGuire Woods Battle & Boothe, counsel to the Buyer, dated the Closing Date, in form and substance mutually agreed upon by the Seller and the Buyer.

7.4 HSR ACT FILING. Any Person required in connection with the Contemplated Transactions to file a notification and report form in compliance with the HSR Act shall have filed such form and the applicable waiting period with respect to each such form (including any extension thereof by reason of a request for additional information) shall have expired or been terminated.

7.5 LITIGATION. No Claim shall have been instituted before any Governmental Body, or instituted or threatened by any Governmental Body, to restrain, modify or prevent the carrying out of the Contemplated Transactions.

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45 7.6 PREFERRED STOCK REDEMPTION. All of the Preferred Stock shall have been redeemed.

7.7 DIVIDEND. The Seller shall have received an extraordinary dividend from the Company in the amount of eleven million eight hundred eighty-seven thousand four hundred twenty-nine Dollars (\$11,887,429).

7.8 ADMINISTRATIVE SERVICES AGREEMENT. The Company shall have entered into the Administrative Services Agreement.

8. SURVIVAL OF REPRESENTATIONS AND WARRANTIES AFTER CLOSING. The representations and warranties shall survive the execution and delivery of this



Agreement and the Closing hereunder for a period of twenty-one (21) months after the Closing Date; provided that (i) the representations and warranties set forth in Sections 3.3(b) and (c), 3.4 and 4.2 of this Agreement shall survive until the expiration of the statute of limitations period applicable to contracts and (ii) the representations and warranties set forth in Section 3.9 of this Agreement shall survive until the expiration of the last of the limitation periods contained in the Code during which an assessment or reassessment can be made (including any extensions thereof).

9. GENERAL INDEMNIFICATION.

9.1 OBLIGATION OF THE SELLER TO INDEMNIFY. Subject to the limitations contained in Article 8 and Section 9.4, the Seller agrees to indemnify, defend and hold harmless the Buyer (and its directors, officers, employees, Affiliates, successors and assigns) from and against all losses, liabilities, damages, deficiencies, demands, claims, actions, judgments or causes of action, assessments, costs or expenses (including, without limitation, interest, penalties and reasonable attorneys' fees, disbursements and other charges) (collectively, "Losses") based upon, arising out of or otherwise in respect of:

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(i) any inaccuracy in or any breach of any representation or warranty made by the Seller in this Agreement, the Exhibits and Schedules hereto or in any documents executed in connection with the Closing of the Contemplated Transactions; or

(ii) any breach of any covenant or agreement of the Seller contained in this Agreement.

9.2 OBLIGATION OF THE BUYER TO INDEMNIFY. Subject to the limitations contained in Article 8 and Section 9.4, the Buyer agrees to indemnify, defend and hold harmless the Seller (and its directors, officers, employees, Affiliates, successors and assigns) from and against all Losses based upon, arising out of or otherwise in respect of:

(i) any inaccuracy in or any breach of any representation or warranty made by the Buyer in this Agreement, the Exhibits and Schedules hereto or in any documents executed in connection with the Closing of the Contemplated Transactions; or

(ii) any breach of any covenant or agreement of the Buyer contained in this Agreement.

9.3 NOTICE TO INDEMNIFYING PARTY. If any party hereto (the "Indemnitee") receives written notice of any third party claim or potential claim or the commencement of any action or proceeding that could give rise to an obligation on the part of any other party hereto to provide indemnification (the "Indemnifying Party) pursuant to Section 9.1 or 9.2, the Indemnitee shall promptly give the Indemnifying Party notice thereof (the "Indemnification Notice"); provided that the failure to give the Indemnification Notice promptly shall not impair the Indemnitee's right to indemnification in respect of such claim, action or proceeding unless, the lack of prompt notice adversely affects the ability of the Indemnifying Party to defend against or diminish the Losses arising out of such claim, action or proceeding. The Indemnification Notice

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shall contain factual information (to the extent known to the Indemnitee) describing the asserted claim in reasonable detail and shall include copies of any notice or other document received from any third party in respect of any such asserted claim. The Indemnifying Party may at its option undertake the defense of a third party claim or suit described in this Section 9.3 at its own cost and expense and with counsel of its own choosing; provided that the Indemnifying Party acknowledges in writing (at the time it elects to assume the defense of such claim or suit, which shall be not later than thirty (30) days after the date of the Indemnification Notice) of its obligation under this Section 9.3 to indemnify the Indemnitee with respect to such claim or suit. In

the event that the Indemnifying Party fails to assume the defense of such claim or suit, the Indemnitee shall have the right (upon notice to the Indemnifying Party), without impairing any of its rights to indemnification as provided herein, to assume and control the defense of such claim or suit and to settle such claim or suit subject to the right of the Indemnifying Party to assume the defense of such claim or suit at any time prior to settlement, compromise or final determination thereof. Notwithstanding this Section 9.3 no settlement of any such third party claim or suit shall be made by the Indemnifying Party without the prior written consent of the Indemnitee (which shall not be unreasonably withheld or delayed). No settlement of any such third party claim or suit shall be made by the Indemnitee if the Indemnifying Party shall have assumed the defense thereof and shall be in compliance with its obligations with respect thereto as set forth above in this Section 9.3. If the Indemnifying Party chooses to defend any claim, the Indemnitee shall make available to the Indemnifying Party any books, records or other documents within its control that are necessary or appropriate for such defense.

9.4 LIMITATIONS ON INDEMNIFICATION. The indemnification provided for in Sections 9.1 and 9.2 shall be subject to the following limitations:

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(i) The Indemnifying Party shall not be obligated to pay any amounts for indemnification (other than with respect to Losses relating to Taxes and Sections 3.3(b) and (c), 3.4, 4.2 and 5.4) under this Agreement, unless and only to the extent that the aggregate amounts of Losses for which the Indemnifying Party is obligated to indemnify exceeds one hundred thousand Dollars (\$100,000) (the "Basket Amount"), whereupon the Indemnifying Party shall be obligated to pay in full all such amounts for indemnification above the Basket Amount; provided that with respect to any provision of a representation or warranty set forth in this Agreement, which contains a reference to materiality, the breach of which may give rise to indemnification under Section 9.1 or 9.2, the breach of such representation or warranty shall be deemed material and, subject to the Basket Amount, shall be included in the amount of the Indemnifying Party's indemnification obligation only if the Loss incurred with respect to a breach of such representation or warranty exceeds fifty thousand Dollars (\$50,000); provided further, that if such Loss exceeds fifty thousand Dollars (\$50,000), the entire amount of such Loss (including the portion not exceeding fifty thousand Dollars (\$50,000)) shall be included as part of the Indemnifying Party's indemnification obligation;

(ii) the Seller shall not be obligated to pay any amounts for indemnification under this Agreement for Losses arising as a result of the inadequacy of loss reserves; any such indemnification shall be paid under and pursuant to the terms of the Indemnification Agreement;

(iii) the Seller shall not be obligated to pay any amounts for indemnification under this Agreement and under the Indemnification Agreement in excess of an aggregate under both Agreements of an amount equal to the Purchase Price;

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(iv) the amount of any indemnification required to be paid by the Indemnifying Party shall be reduced by (A) any amount received by the Indemnitee with respect thereto under any insurance coverage (net of any costs, including reasonable legal fees, of such coverage incurred by such Indemnitee) or from any other party alleged to be responsible therefor, and (B) the amount of any Tax benefit realized by the Indemnitee relating thereto. The Indemnitee shall use commercially reasonable efforts to collect any amounts available under such insurance coverage and from such other party alleged to have responsibility. If an Indemnitee receives an amount under insurance coverage or from such other party with respect to any Losses at any time subsequent to any indemnification provided by the Indemnifying

Party pursuant to this Article 9, then such Indemnitee shall promptly reimburse the Indemnifying Party, as the case may be, for any payment made or expense incurred by the Indemnifying Party in connection with providing such indemnification up to such amount received by the Indemnitee (net of any costs of such coverage or of obtaining such amount incurred by such Indemnitee); and

(v) the Indemnifying Party shall be obligated to indemnify any Indemnitees only for such Losses as to which the Indemnitees have given the indemnifying party written notice thereof on or prior to twenty-one (21) months after the Closing Date. Any written notice delivered by an Indemnitee to the Indemnifying Party with respect to Losses shall set forth with as much specificity as is reasonably practicable the basis of the claim for indemnification and, to the extent reasonably practicable, a reasonable estimate of the amount thereof.

9.5 EXCLUSIVE REMEDY. The Buyer and the Seller agree, to the fullest extent permitted by law, that neither of them or any of their directors, officers, employees, Affiliates,

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controlling persons, agents or representatives shall have any liability or responsibility whatsoever to the other or such other's directors, officers, employees, Affiliates, controlling persons, agents or representatives on any basis (including, without limitation, in contract or tort, under federal or state securities laws or otherwise) based upon any information provided or made available, or statements made, to the Buyer or the Seller or their respective directors, officers, employees, Affiliates, controlling persons, agents or representatives (or any omissions therefrom), including, without limitation, information provided or statements made in the specific representations and warranties set forth in this Agreement, except as and only to the extent expressly set forth herein with respect to such representations and warranties and rights to indemnification and subject to the limitations and restrictions contained herein.

9.6 PURCHASE PRICE ADJUSTMENT. All payments made pursuant to this Article 9 shall be deemed to be adjustments of the Purchase Price.

#### 10. TERMINATION OF AGREEMENT.

10.1 TERMINATION. This Agreement may be terminated prior to the Closing as follows:

(i) at the election of the Seller if the Buyer has committed a material breach of this Agreement, which breach cannot be or is not cured by the Closing Date;

(ii) at the election of the Buyer, if the Seller has committed a material breach of this Agreement, which breach cannot be or is not cured by the Closing Date;

(iii) at any time on or prior to the Closing Date, by mutual written consent of the Seller and the Buyer; or

(iv) on July 1, 1995, if the Closing has not occurred prior to such date.

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If this Agreement so terminates, it shall become null and void and have no further force or effect, except as provided in Section 10.2.

10.2 SURVIVAL AFTER TERMINATION. If this Agreement is terminated in accordance with Section 10.1 and the Contemplated Transactions are not consummated, this Agreement shall become void and of no further force and effect, except for the provisions of Sections 5.3, 5.4 and 11.6; provided that none of the parties shall have any liability in respect of a termination

of this Agreement, except to the extent that failure to satisfy the conditions of Article 6 or Article 7, as the case may be, results from the violation of, or misstatement contained in, the representations, warranties, covenants or agreements of such party contained in this Agreement or any documents delivered pursuant to this Agreement.

11. MISCELLANEOUS.

11.1 CERTAIN DEFINITIONS. (a) As used in this Agreement, the following terms have the following meanings:

(i) "Affiliate" means, with respect to any Person, any other Person controlling, controlled by or under common control with, or the parents, spouse, lineal descendants or beneficiaries of, such Person. The term "control" (including the terms "controlling," "controlled by" and "under common control with" ) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(ii) "Business Day" means any day other than a Saturday or Sunday or upon which banks in New York, New York or Richmond, Virginia are authorized or required by law to close.

(iii) "Dollars" means U.S. Dollars.

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(iv) "GAAP" means generally accepted accounting principles in the United States of America.

(v) "Governmental Body" means any government or political subdivision thereof, whether federal, state, local or foreign, or any agency or instrumentality thereof.

(vi) "Knowledge of the Company" means matters that William C. Wren, James R. Schurr, Thomas D. Sykes, James M. Crotwell, Stephan H. Brodzinski or Robert W. Hartje knew or reasonably should have known after reasonable inquiry.

(vii) "Law" means any law, statute, code, ordinance, regulation, rule or other requirement.

(viii) "Order" means any order, judgment, injunction, award, decree or writ.

(ix) "Person" means any individual, corporation, limited liability corporation, partnership, limited liability partnership, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Body or other entity.

(x) "Property" or "Properties" means real, personal or mixed property, tangible or intangible.

(xi) "Reserves for Losses and Loss Adjustment Expenses" means an amount equal to the allowance, determined in accordance with GAAP, with respect to the financial statements of the Company for (a) case reserve estimates for reported losses and loss adjustment expenses plus (b) incurred but not reported losses and loss adjustment expenses less (c) amounts representing estimated net realizable salvage, subrogation and deductibles, and in the case of clauses (a), (b) and (c), net of applicable reinsurance recoverables.

(xii) "Reserves for Uncollectible Reinsurance" means an amount, determined in accordance with GAAP, equal to the total of reinsurance recoverables owed to the Company,

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that have been determined to be uncollectible (including collection expenses

and any amount determined to be uncollectible in accordance with GAAP resulting from a commutation with a reinsurer).

(b) The following capitalized terms are defined in the following Sections of this Agreement:

<TABLE> <CAPTION> Term - - - - -	Section -----
<S>	<C>
Administrative Services Agreement	6.11
Affiliate	11.1(a)(i)
Agent	11.2
Basket Amount	9.4(i)
Broker	5.4
Business Day	11.1(a)(ii)
Buyer	Preamble
Buyer's Consents	4.3
Claims	3.13
Closing	1.1
Closing Date	2
Code	5.5(m)(i)
Company	Preamble
Consolidated Returns	5.5(m)(ii)
Contemplated Transactions	3.9(g)
Contracts	3.12(iii)
control	11.1(a)(i)

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Dollars	11.1(a)(iii)
GAAP	11.1(a)(iv)
GAAP Financial Statements	3.8(a)
Governmental Body	11.1(a)(v)
HSR Act	5.10
Indemnification Agreement	6.9
Indemnification Notice	9.3
Indemnifying Party	9.3
Indemnitee	9.3
Insurance License	3.11
Knowledge of the Company	11.1(a)(vi)
Law	11.1(a)(vii)
Legal Proceedings	5.14(d)
Licenses	3.11
Liens	3.3(b)
LMC	3.14(a)
Losses	9.1
Order	11.1(a)(viii)
Person	11.1(a)(ix)
Post-Closing Information	5.5(h)
Post-Closing Returns	5.5(f)
Preferred Stock	3.3(a)
Property	11.1(a)(x)

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55 <TABLE> <S>	<C>
Purchase Price	1.1
Quarterly Statement	3.7
Reattribution Election	5.5(l)
Records	5.14(b)
Reinsurance Agreement	3.16
Required Consents	3.12(ii)
Reserves for Losses and Loss Adjustment Expenses	11.1(a)(xi)

Reserves for Uncollectible Reinsurance	11.1 (a) (xii)
Seller	Preamble
Seller's Fee	5.4
Shares	Preamble
Statutory Accounting Principles	3.7
Straddle Returns	5.5 (f)
Taxes	5.5 (m) (iii)
Tax Attribute	5.5 (g)
Tax Closing Agreement	3.9 (d)
Tax Returns	5.5 (m) (iv)
Tax Ruling	3.9 (d)
Thomson	3.14 (a)
Treasury Regulations	5.5 (m) (v)
TUSHI	3.9 (i)

</TABLE>

11.2 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. Any legal action, suit or proceeding arising out of or relating to this Agreement or the Contemplated Transactions may be

instituted in any federal court of the District of Delaware or any state court located in New Castle County, State of Delaware, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that the action, suit or proceeding is brought in an inconvenient forum, that the venue of the action, suit or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such action, suit or proceeding. Each of the Buyer and the Seller hereby appoints Prentice-Hall Corporate System, Inc. (the "Agent"), at 32 Loockerman, Suite L-100, Dover, Delaware 19904, or its office at such other address in Wilmington, Delaware, as it hereafter furnishes to the parties, as their authorized agent to accept and acknowledge on their behalf service of any and all process that may be served in any such action, suit or proceeding. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided, or by personal service on the Agent with a copy of such process mailed to such party by first class mail or registered or certified mail, return receipt requested, postage prepaid. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

11.3 NOTICES. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally or by express courier or delivery service, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail,

postage prepaid. Any such notice shall be deemed given when so delivered personally or by express courier or delivery service, telegraphed, telexed or sent by facsimile transmission or, if mailed, five (5) days after the date of deposit in the United States mails, as follows:

(i) if to the Buyer, to:

Markel Corporation  
4551 Cox Road  
Glen Allen, Virginia 23060  
Attention: Steven A. Markel  
Facsimile: (804) 527-3810

with a copy to:

McGuire Woods Battle & Boothe LLP

One James Center  
Richmond, Virginia 23219  
Attention: Leslie A. Grandis  
Facsimile: (804) 775-1061

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(ii) if to the Seller to:

Lincoln Insurance Group, Inc.  
c/o The Thomson Corporation  
Metro Center  
One Station Place  
Stamford, Connecticut 06902  
Attention: General Counsel  
Facsimile: (203) 969-8733

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison  
1285 Avenue of the Americas  
New York, New York 10019-6064  
Attention: Peter J. Rothenberg, Esq.  
Facsimile: (212) 757-3990

Any party may by notice given in accordance with this Section to the other parties designate another address or Person for receipt of notices hereunder.

11.4 ENTIRE AGREEMENT. This Agreement (including the Exhibits and Schedules) and any collateral agreements executed in connection with the consummation of the Contemplated Transactions contain the entire agreement among the parties with respect to the purchase of the Shares and supersede all prior agreements, written or oral, with respect thereto; provided that any confidentiality agreements entered into between the parties hereto shall survive in full force and effect until the consummation of the Closing.

11.5 WAIVERS AND AMENDMENTS: NON-CONTRACTUAL REMEDIES; PRESERVATION OF REMEDIES. This Agreement may be amended, superseded, cancelled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the Buyer and the Seller or, in the case of a waiver, by the party waiving compliance.

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11.6 EXPENSES. Regardless of whether any or all of the transactions contemplated by this Agreement are consummated, the expenses incurred by the Seller in connection with the authorization, preparation and execution of, and the performance of its obligations under, this Agreement shall be paid by the Seller, and the expenses incurred by the Buyer in connection with the authorization, preparation and execution of, and the performance of its obligations under, this Agreement shall be the responsibility of the Buyer.

11.7 GOVERNING LAW. This Agreement shall be governed and construed in accordance with the laws of the State of Delaware applicable to agreements made and to be performed entirely within such State.

11.8 BINDING EFFECT; NO ASSIGNMENT; NO THIRD PARTY BENEFICIARY. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, legal representatives and permitted assigns. This Agreement is not assignable except by operation of law; provided that following the Closing the Buyer may sell the Company to, or merge the Company with, any subsidiary of the Buyer, an insurance company rated "A-" or better by A. M. Best Company, or such other entity as shall be approved by the Seller, which approval shall not be unreasonably withheld or delayed; provided, further, that any such assignment shall not increase the liability of the Seller hereunder. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give any Person other than the

Seller or the Buyer any rights or remedies under or by reason of this Agreement or any of the Contemplated Transactions.

11.9 VARIATIONS IN PRONOUNS. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

11.10 COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such

60 counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

11.11 EXHIBITS AND SCHEDULES. The Exhibits and Schedules are a part of this Agreement as if fully set forth herein; provided that the information contained in any Schedule which is referred to in a representation and warranty shall be deemed to have been disclosed in connection with, and be a part of, that particular representation and warranty only and shall not be deemed a part of any other representation and warranty. All references herein to Sections, Exhibits and Schedules shall be deemed references to such parts of this Agreement, unless the context shall otherwise require.

11.12 HEADINGS. The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

11.13 INTERPRETATION. The parties acknowledge and agree that: (i) each party and its counsel reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision; (ii) the rule of construction to the effect that any ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement; and (iii) the terms and provisions of this Agreement shall be construed fairly as to all parties hereto, regardless of which party was generally responsible for the preparation of this Agreement.

11.14 SEVERABILITY OF PROVISIONS. If any provision or any portion of any provision of this Agreement, or the application of any such provision or any portion thereof to any Person or circumstance, shall be held invalid or unenforceable, the remaining portion of such provision and the remaining provisions of this Agreement, and the application of such provision or portion of such provision as is held invalid or unenforceable to Persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby.

61 IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

SELLER:  
LINCOLN INSURANCE GROUP, INC.

By \_\_\_\_\_  
Name:  
Title:

BUYER:  
MARKEL CORPORATION

By \_\_\_\_\_  
Name:  
Title:



AMENDMENT  
to  
STOCK PURCHASE AGREEMENT

THIS AMENDMENT to the Stock Purchase Agreement (as hereinafter defined) is made as of the 30th day of May, 1995 between Lincoln Insurance Group, Inc., a Delaware corporation (the "Seller"), and Markel Corporation, a Virginia corporation (the "Buyer").

RECITALS

The Seller and the Buyer are parties to the Stock Purchase Agreement dated as of April 5, 1995 (the "Stock Purchase Agreement"). The parties to the Stock Purchase Agreement wish to amend the Stock Purchase Agreement as set forth herein. All defined terms used herein shall have the meanings ascribed to them in the Stock Purchase Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises made herein and the mutual benefits to be derived therefrom, the parties hereto hereby agree as follows:

1. The second sentence of Section 3.13 of the Stock Purchase Agreement is hereby amended by adding at the beginning thereof the words "Except as set forth on Schedule 3.13,".

2. In accordance with Section 5.11 of the Stock Purchase Agreement, Schedules 3.13, 3.14, 3.15, 3.19, 3.23, 5.7, 5.8, and 6.13 to the Stock Purchase Agreement are hereby replaced in their entirety, respectively, by Schedules 3.13 (Amended), 3.14 (Amended), 3.15 (Amended), 3.19 (Amended), 3.23 (Amended), 5.7 (Amended), 5.8 (Amended), and 6.13 (Amended), attached hereto; provided however that the disclosure contained in paragraph 2 of Schedule 3.13 (Amended) shall not be considered in determining the Seller's liability for indemnification under Article 9 of the Stock Purchase Agreement.

3. Section 3.21 of the Stock Purchase Agreement is hereby amended by adding the following sentence at the end thereof: "As of the Closing Date, the Company will employ those employees of LMC listed on Schedule 5.7 hereto who will have accepted the employment offered by the Company pursuant to Section 5.7 hereof."

4. Section 3.22 of the Stock Purchase Agreement is hereby amended by adding the following sentence at the end thereof: "Pursuant to the Buyer's request, all of the

insurance policies set forth on Schedule 3.22 will be terminated with respect to the Company as of the Closing Date."

5. The second line of Section 6.9 of the Stock Purchase Agreement is hereby amended by inserting after the words "Exhibit A", the words "(Amended and Restated)" and Exhibit A is hereby amended and restated as set forth in Exhibit A (Amended and Restated) attached hereto.

6. The notices to the Department of Insurance of all states where the Company is listed as an approved surplus/excess lines carrier, as referred to in Paragraph (ii)2 of Schedules 3.12 and 4.3 to the Stock Purchase Agreement, of the change of control of the Company as the result of the Contemplated Transactions, shall be provided by the Company after the Closing. Such notices shall not constitute consents or approvals required for the consummation of the sale of the Shares and the Contemplated Transactions from a Governmental Body having jurisdiction over the Company and the consummation of the Contemplated Transactions pursuant to Section 6.2 and Section 7.2 of the Stock Purchase Agreement, and to the extent such notices constitute such consents or approvals, the requirement pursuant to Sections 6.2 and 7.2 that they be obtained on or prior to Closing is hereby waived.

7. The parties confirm all of the other substantive terms of the Stock Purchase Agreement as amended by this Amendment.

IN WITNESS WHEREOF, the parties have duly executed this Amendment as of the date first above written.

SELLER:

LINCOLN INSURANCE GROUP, INC.

By

-----

Name:

Title:

BUYER:

MARKEL CORPORATION

By

-----

Name:

Title:

## INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is made and entered into as of May 30, 1995 by and between Lincoln Insurance Group, Inc., a Delaware corporation ("Seller") and Markel Corporation, a Virginia corporation ("Buyer").

Seller and Buyer have entered into a Stock Purchase Agreement dated as of April 5, 1995 (the "Stock Purchase Agreement") pursuant to which Seller will sell to Buyer all of the issued and outstanding shares of common stock of Lincoln Insurance Company, a Delaware domestic insurance corporation (the "Company").

In connection with the Stock Purchase Agreement, Seller has agreed to indemnify and hold harmless Buyer with respect to the adequacy of certain of the loss reserves and reserves for uncollectible reinsurance maintained by the Company. This Agreement is intended to provide Buyer, subject to the Deductible and other limitations set forth herein, with collateral security for adverse development in certain of the Company's loss reserves and reserves for uncollectible reinsurance. This Agreement is also intended to provide, again subject to the Deductible and the other limitations set forth herein, a mechanism for reimbursing Buyer as and when cash losses are suffered with respect to such adverse development.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein and in the Stock Purchase Agreement, the parties agree as follows:

1. DEFINITIONS.

1.1 STOCK PURCHASE AGREEMENT DEFINITIONS.

Capitalized terms used herein that are defined in the Stock Purchase Agreement are used herein as therein defined.

1.2 ADDITIONAL DEFINITIONS. As used in this Agreement, the following terms shall have the following respective meanings:

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1.2.1 "Actual Net Aggregate Loss" means, with respect to each Insurance Book, (a) the sum of (i) the Reserves for Losses and Loss Adjustment Expenses applicable to such Insurance Book as recorded on the balance sheet of the Company at the relevant Determination Date, and (ii) the Net Loss Payments applicable to such Insurance Book through and including the relevant Determination Date,

minus (b) (i) in the case only of each Determination Date other than the Final Settlement Date, Current Recoverables on Paid Losses, or (ii) in the case only of the Final Settlement Date, Final Recoverables on Paid Losses; provided that the calculation of Reserves for Losses and Loss Adjustment Expenses as of each Determination Date shall be determined to be the amount that is one standard deviation above the Company's actuarially determined point estimate of such reserves.

1.2.2 "Adjustment Amount" means

(a) the amount equal to the positive or negative difference obtained by subtracting the Closing Loss Reserves in respect of the Pre-1984 Book from the Actual Net Aggregate Loss in respect of the Pre-1984 Book; plus (whether positive or negative)

(b) ninety-five percent (95%) of the amount equal to the positive or negative difference obtained by subtracting the Closing Loss Reserves in respect of the Post-1983 Book from the Actual Net Aggregate Loss in respect of the Post-1983 Book; minus

(c) the Deductible; minus

(d) the aggregate of all Indemnity Payments previously paid to or received by Buyer;

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provided, that (i) the change in Reserves for Uncollectible Reinsurance applicable to either Insurance Book, plus all amounts written off with respect to reinsurance determined to be uncollectible, in each case, between March 31, 1995 and the relevant Determination Date and (ii) all Recovery Costs shall be deemed to be applicable, for purposes of the calculation of the Adjustment Amount, to the Pre-1984 Book.

Notwithstanding the foregoing, if the Adjustment Amount, as calculated above, is greater than the Maximum Adjustment Amount, then the Adjustment Amount shall mean the Maximum Adjustment Amount at the time of calculation.

1.2.3 "Annual Statements" means, with respect to any calendar year, the annual convention statement filed by the Company or its successors with the applicable Department of Insurance for the relevant fiscal year ended December 31, and the

audited statutory financial statements of the Company or its successors with respect to such year.

1.2.4 "Buyer's Auditors" means KPMG Peat Marwick LLP or such other firm of nationally recognized auditors as shall be selected by Buyer.

1.2.5 "Closing Loss Reserves" means the following amounts for Reserves for Losses and Loss Adjustment Expenses (i) with respect to the Pre-1984 Book, one million six hundred twenty-one thousand six hundred thirteen Dollars (\$1,621,613) (1/)

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(1/) Calculated consistently with the proviso to Section 1.2.2 as \$1,265,964 for Reserves for Losses and Loss Adjustment Expenses, plus \$832,949 for Reserves For Uncollectible Reinsurance. In addition, subtracts \$477,300 for Current Recoverables on Paid Losses in respect of the Pre-1984 Book, in order to avoid having to determine for purposes of this Agreement whether Recoveries received after the date hereof relate to losses paid on, before or after March 31, 1995.

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and (ii) with respect to the Post-1983 Book, twenty-seven million nine hundred fifty-two thousand four hundred seventy-nine Dollars (\$27,952,479) (2/).

1.2.6 "Current Recoverables on Paid Losses" means, with respect to each Insurance Book, the amount of recoverables owed to the Company by a reinsurer or from salvage or subrogation with respect to losses and loss adjustment expenses paid by the Company on or before the relevant Determination Date, which recoverables are not past due, in dispute or determined by the Company in accordance with GAAP to be uncollectible.

1.2.7 "Date of Loss" means the earliest or first date of occurrence, claim, loss or other event giving rise to a claim under an insurance policy; provided that with respect to environmental claims, toxic claims or bodily injury or property claims arising from continuous or repeated exposure to conditions, where it is not possible to determine a specific date of loss, Date of Loss shall mean the policy inception date; provided, further, that with respect to claims made prior to April 1, 1995, the Date of Loss shall be the Date of Loss as determined by the Company prior to such date.

1.2.8 "Deductible" means one million twenty-six thousand four hundred ninety-two Dollars (\$1,026,492).

1.2.9 "Determination Date" means the date as of which a determination of the Adjustment Amount is made, which day shall be, as the case may be, September 30 of each year prior to the Final Settlement Date, or the Final Settlement Date;

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(2/) Calculated consistently with the proviso to Section 1.2.2 as \$28,130,963 for Reserves for Losses and Loss Adjustment Expenses, plus zero for Reserves For Uncollectible Reinsurance. In addition, subtracts \$178,484 for Current Recoverables on Paid Losses in respect of the Post-1983 Book, in order to avoid having to determine for purposes of this Agreement whether Recoveries received after the date hereof relate to losses paidon, before or after March 31, 1995.

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provided, that if at any time the condition set forth in the proviso contained in Section 2.2 occurs, from and after such date, the Determination Date shall be the last day of any fiscal quarter of the Company.

1.2.10 "Final Recoverables on Paid Losses" means, with respect to each Insurance Book, the amount, determined as of the Final Settlement Date in accordance with GAAP, equal to the recoverables owed to the Company by a reinsurer or from salvage or subrogation with respect to losses and loss adjustment expenses paid by the Company on or before the Final Settlement Date.

1.2.11 "Final Settlement Amount" means the Adjustment Amount as finally determined as of the Final Settlement Date.

1.2.12 "Final Settlement Date" means December 31, 2004.

1.2.13 "Indemnification Statement" means the statement and accompanying schedule delivered pursuant to Section 2.2.

1.2.14 "Indemnity Payments" means the sum of (i) the aggregate amount of all cash and the fair market value of all assets distributed to Buyer from the Trust or otherwise provided to Buyer by Seller at any time, and (ii) the amount of cash received by

Buyer as a draw against a Letter of Credit; provided that there shall be excluded from Indemnity Payments the amount of any sums paid to Seller pursuant to Section 2.4(f).

1.2.15 "Insurance Book" means the Pre-1984 Book or the Post-1983 Book, as the case may be.

1.2.16 "Letter of Credit" means a letter of credit with payment terms substantially in the form of Exhibit A hereto, issued by a bank organized and existing under the laws of a state of the United States of America or a member of the Federal

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Reserve System of the United States of America, meeting such qualifications and containing such terms, in each case, notified in writing by Buyer or the Company to Seller to enable the Company, to the extent permissible under the applicable insurance laws, to record Seller's indemnification obligations hereunder as an admitted asset under applicable statutory accounting principles.

1.2.17 "Maximum Adjustment Amount" means (i) the Purchase Price, minus (ii) the aggregate of all amounts paid by Seller as indemnity payments under Article 9 of the Stock Purchase Agreement, minus (iii) the aggregate of all Indemnity Payments.

1.2.18 "Net Loss Payments" means losses and loss adjustment expenses paid by the Company after March 31, 1995 and on or before the relevant Determination Date in respect of each Insurance Book, plus Recovery Costs, minus Recoveries.

1.2.19 "Post-1983 Book" means all policies of insurance issued by the Company on or before March 31, 1995 with a claim with a Date of Loss on or before March 31, 1995, other than the Pre-1984 Book.

1.2.20 "Pre-1984 Book" means all policies of insurance issued by the Company with a claim with a Date of Loss prior to January 1, 1984.

1.2.21 "Recoveries" means, with respect to each Insurance Book, all cash recoveries actually received after March 31, 1995 and on or before the relevant Determination Date by Buyer or the Company from reinsurers, salvage or subrogation.

1.2.22 "Recovery Costs" means, with respect

to each Insurance Book, all costs actually incurred by the Company after March 31, 1995 and on or before the relevant Determination Date in connection with recoveries or attempted recoveries from

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reinsurers, salvage or subrogation in respect of losses and loss adjustment expenses paid by the Company on or before the relevant Determination Date.

1.2.23 "Seller's Auditors" means Price Waterhouse LLP or such other firm of nationally recognized auditors as shall be selected by Seller.

1.2.24 "Superfund Reduction" has the meaning given to such term in Section 7.

1.2.25 "Trust" means the Trust created pursuant to the Trust Agreement.

1.2.26 "Trust Agreement" means a Trust Agreement in form and substance satisfactory to Seller and Buyer.

1.2.27 "Trustee" means the Trustee under the Trust Agreement.

## 2. INDEMNIFICATION.

2.1 INDEMNIFICATION. Seller agrees to indemnify and hold harmless Buyer for the Adjustment Amount, as determined as of each Determination Date, by funding, or providing collateral security for, the Adjustment Amount as provided in Section 2.4. Seller shall continue to fulfill its indemnity obligations under this Agreement in respect of each Insurance Book until the final determination of the Final Settlement Amount.

2.2 INDEMNIFICATION STATEMENTS. Until the final determination of the Final Settlement Amount, Buyer shall deliver annually to Seller an Indemnification Statement setting forth its determination of the Adjustment Amount as of the Determination Date immediately preceding the date of such Indemnification Statement, accompanied by a schedule showing the calculation of such Adjustment Amount, which shall be substantially in the form attached hereto as Exhibit B, and stating that such determination has been made pursuant to this Agreement; provided, that if at any time the amount of Net Loss Payments less Current Recoverables on Paid Losses



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exceeds, in the aggregate for both Insurance Books, thirty million six hundred thousand five hundred eighty-four Dollars (\$30,600,584), from and after such time Buyer shall deliver Indemnification Statements pursuant to this Section 2.2 on a quarterly basis. An Indemnification Statement shall be delivered within sixty (60) days after each Determination Date which is not December 31, and within one hundred twenty (120) days after each Determination Date which is December 31.

2.3 FINAL SETTLEMENT. (a) A settlement of the indemnification obligations of Seller hereunder shall be calculated as of the Final Settlement Date. As soon as practicable after the Final Settlement Date, Buyer shall deliver to Seller its determination of the Final Settlement Amount, accompanied by a schedule showing the calculation of the Final Settlement Amount, which shall be substantially in the form attached hereto as Exhibit B, together with an opinion of Buyer's Auditors that such schedule fairly presents in all material respects as of the Final Settlement Date the calculation of the Final Settlement Amount and the balances included therein in accordance with this Agreement.

(b) A determination of Buyer delivered pursuant to paragraph (a) of this Section 2.3 shall be final and binding upon the parties unless, within forty-five (45) days after delivery thereof, Seller notifies Buyer that it disagrees with the amount or the matters reflected therein, in which case it shall, at its own expense, cause Seller's Auditors to perform an additional determination of the Final Settlement Amount within sixty (60) days after the delivery of its notice concerning such disagreement. Seller's Auditors shall deliver to Buyer and Buyer's Auditors within such sixty (60)-day period a schedule showing its determination of the Final Settlement Amount, which shall be substantially in the form attached hereto as Exhibit B, together with an opinion of Seller's Auditors that such schedule fairly presents in all material respects as of the Final Settlement Date the calculation of the Final Settlement Amount and the balances included

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therein in accordance with this Agreement. Buyer's Auditors and Seller's Auditors shall each provide to the other access to its work papers related to its calculation of the Final Settlement Amount. If Seller's Auditors and Buyer's Auditors cannot agree on a single determination of the Final Settlement Amount within twenty (20) days after delivery to Buyer of the determination of

Seller's Auditors, then Seller's Auditors and Buyer's Auditors shall, within ten (10) days thereafter, mutually select an independent third auditor whose determination of the Final Settlement Amount, which shall be not more than the determination by Buyer's Auditors nor less than the determination by Seller's Auditors and shall be made within sixty (60) days after such auditor's selection and shall be delivered to Buyer and Seller, shall be final and binding.

(c) The determination of the Final Settlement Amount shall be deemed to be final upon the earliest to occur of (i) Buyer's receipt of Seller's written concurrence with the determination made by Buyer, (ii) Seller's failure to notify Buyer of its objection to Buyer's determination within forty-five (45) days after Seller's receipt thereof, (iii) Seller's failure to deliver Seller's Auditors' determination to Buyer within sixty (60) days after delivery to Buyer of the notice referred to in clause (ii) of this Section 2.3(c), (iv) the receipt by Buyer and Seller of the written agreement by Seller's Auditors and Buyer's Auditors on a single determination, and (v) the receipt by Buyer and Seller of the determination made by the independent auditor selected by Buyer's Auditors and Seller's Auditors. If any objection or dispute exists at any time with respect only to a portion of the Final Settlement Amount, the portion of the Final Settlement Amount not objected to or disputed shall be deemed to be final upon receipt of notice by Buyer from Seller, or by Seller from Buyer, that such portion is not objected to or in dispute.

2.4 FUNDING AND REFUNDING OF INDEMNITY. (a) Seller agrees to provide for establishment and maintenance of security for the Adjustment Amount and for the funding of Seller's indemnification obligations hereunder by entering into and funding the Trust Agreement

and/or delivering to Buyer of one or more Letters of Credit. Until final determination of the Final Settlement Amount, within five (5) Business Days after receipt of an Indemnification Statement, Seller shall (i) deliver to the Trustee under the Trust Agreement funds and/or securities which satisfy the relevant provisions thereof, or (ii) deliver to the Buyer, for the benefit of the Buyer and the Company, one or more Letters of Credit, or (iii) make any combination of deliveries satisfying clauses (i) and (ii), in any such case having an aggregate value or principal amount, as the case may be, sufficient to cause the aggregate value of the total assets held under the Trust Agreement, plus the aggregate undrawn principal amount of the Letters of Credit held by Buyer, to equal the Adjustment Amount; provided, that if the Adjustment Amount is less than (x) the aggregate value of the assets held under the Trust Agreement determined as of the relevant Determination Date plus (y) the aggregate undrawn principal amount of the Letters of Credit delivered to Buyer

pursuant to this Section 2.4, Buyer shall return to Seller Letters of Credit, or the Trustee shall deliver to Seller funds and/or securities, and/or any combination of the foregoing, so that the aggregate value of the assets held under the Trust Agreement and/or the aggregate undrawn principal amount of the Letters of Credit held by Buyer is equal to the Adjustment Amount.

(b) From and after the time that the amount of Net Loss Payments less Current Recoverables on Paid Losses less Indemnity Payments exceeds, in the aggregate for both Insurance Books, thirty million six hundred thousand five hundred eighty-four Dollars (\$30,600,584), Buyer shall be entitled to draw upon the Letters of Credit and/or withdraw assets from the Trust up to an aggregate amount equal to the lesser of (i) such excess, and (ii) the Maximum Adjustment Amount as of the date of draw or withdrawal, as the case may be.

(c) Buyer shall deliver to Seller the following: (i) simultaneously with delivery to a bank that has issued a Letter of Credit, a copy of each sight draft and (ii) simultaneously with delivery to the Trustee under the Trust Agreement, a copy of each withdrawal

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notice, in each case accompanied by a certificate of an officer of Buyer stating that such amounts have been drawn or withdrawn, as the case may be, pursuant to and in accordance with this Agreement.

(d) If Seller believes that amounts drawn under the Letters of Credit or assets withdrawn from the Trust pursuant to this Section 2.4 are in excess of the amount to be drawn or withdrawn hereunder, the resolution thereof shall be part of the determination of the Final Settlement Amount pursuant to Section 2.3.

(e) If at any time prior to the final determination of the Final Settlement Amount, Buyer receives notification of termination of the Trust Agreement and the aggregate undrawn principal amount of the Letters of Credit is less than the Adjustment Amount, determined as of the most recent Determination Date, Buyer shall be entitled to withdraw assets from the Trust in the amount of such insufficiency and deposit such amounts in a separate account in the name of Buyer or the Company in any bank meeting the qualifications for serving as Trustee under the Trust Agreement, apart from its general assets, in trust as security for and to provide funding of Seller's indemnity obligations hereunder under the same terms and conditions as if such assets had remained in the Trust.

(f) If the Adjustment Amount (other than the Final Settlement Amount) is less than zero, within five (5) Business Days after

determination of such Adjustment Amount, Buyer shall pay to Seller by wire transfer an amount equal to the lesser of (i) the amount by which such Adjustment Amount is less than zero or (ii) the aggregate of all Indemnity Payments previously paid to or received by Buyer.

2.5 FUNDING OF INDEMNITY AND DISPOSITION OF COLLATERAL UPON FINAL SETTLEMENT. (a) If the Final Settlement Amount is greater than zero, within five (5) Business Days after final determination of the Final Settlement Amount, Seller shall pay to Buyer an amount equal

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to the Final Settlement Amount. Such amount shall be paid by Seller, in its discretion, by wire transfer, through liquidation of assets held in the Trust, or by requiring Buyer to draw against the Letters of Credit held by Buyer. Upon receipt of the Final Settlement Amount all assets remaining in the Trust and all remaining Letters of Credit held by Buyer shall be delivered to Seller, and the Trust Agreement shall terminate.

(b) If the Final Settlement Amount is less than zero, within five (5) Business Days after final determination of the Final Settlement Amount, Buyer shall pay to Seller by wire transfer an amount equal to the lesser of (i) the amount by which the Final Settlement Amount is less than zero or (ii) the aggregate of all Indemnity Payments previously paid to or received by Buyer.

2.6 PAYMENT TERMS. Payments due pursuant to the terms of this Agreement shall be made by wire transfer in immediately available funds within five (5) Business Days following the date that the payment amount becomes final. The party to receive payment shall provide the payor with appropriate wire transfer information. Any payments not paid within such five (5) Business Day period shall bear interest at a per annum rate equal to two percent (2%) in excess of the prime lending rate announced from time to time by Chase Manhattan Bank, N.A.

2.7 REDUNDANCIES; NEGATIVE ADJUSTMENT AMOUNT. A redundancy in the Reserves for Losses and Loss Adjustment Expenses in one Insurance Book shall be applied to offset deficiencies in the Reserves for Losses and Loss Adjustment Expenses in the other Insurance Book, but in no event shall a redundancy (or a negative Adjustment Amount or Final Settlement Amount resulting from a redundancy) create any obligation on the part of Buyer to make any payment to Seller, except for the purpose of repaying to Seller all or part of the Indemnity Payments previously paid to Buyer to which it is later determined Buyer was not entitled.

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2.8 MAXIMUM INDEMNITY. Seller shall not be obligated to pay any amounts for indemnification under Article 9 of the Stock Purchase Agreement, or fund or pay any amounts under this Agreement in excess in the aggregate under both Agreements of an amount equal to the Purchase Price.

2.9 PURCHASE PRICE ADJUSTMENT. All payments made by Seller pursuant to this Agreement shall be deemed to be adjustments of the Purchase Price under the Stock Purchase Agreement.

3. REPORTS; INSPECTION; PROCEDURES.

3.1 ANNUAL STATEMENTS, QUARTERLY STATEMENTS AND INVESTIGATION. Buyer shall deliver to Seller by March 15 in each of the years 1996-2004 (inclusive) a copy of the Annual Statement. In addition, from and after such time as Buyer shall be entitled to deliver Indemnification Statements on a quarterly basis through the Final Settlement Date, within sixty (60) days after the end of each fiscal quarter of the Company, Buyer shall deliver to Seller a copy of the Quarterly Statement filed by the Company or its successors with the applicable Department of Insurance for the relevant fiscal quarter. Buyer shall permit Seller (through its employees or representatives) at all reasonable times during normal business hours to investigate any of the Company's documents or records, including without limitation, to audit the payments made by the Company for losses and loss adjustment expenses related to the Insurance Books, that may, in the reasonable opinion of Seller, be relevant to the determination of payment obligations pursuant to the terms of this Agreement.

3.2 CONFIDENTIALITY AND CONFLICT. Seller agrees that it, and its employees and representatives, will hold in confidence and not disclose to any third party any of the information provided by Buyer to Seller pursuant to this Agreement. Before Buyer shall be required to provide information to, or permit investigation by, Seller or its employees or

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representatives, Buyer shall be provided certification in form and substance reasonably satisfactory to it that such representative does not have any interest, including, without limitation, serving as counsel to insureds on policies of insurance written by the Company or as counsel to reinsurers of

insurance policies in an Insurance Book, that is or could be in conflict with the interests of the Company or Buyer.

3.3 LOSS SETTLEMENT PROCEDURES. Buyer agrees that, for the period from the Closing Date until the Final Settlement Date, each of Buyer and the Company will, in relation to claims subject to indemnity hereunder:

3.3.1 Not settle claims except in the ordinary course of business and in accordance with current practices of other insurance subsidiaries of Buyer or otherwise in accordance with practices no less stringent than standard insurance industry practices;

3.3.2 Use commercially reasonable efforts to obtain reimbursement of claims from reinsurers; and

3.3.3 Permit Seller (through its employees or representatives) at all reasonable times during normal business hours to make such investigation of, or audit, any claims, actual or prospective (or any other matter which may in the reasonable opinion of Seller be relevant to the Adjustment Amount) and furnish Seller with copies of such documents as Seller may reasonably request, it being understood that Seller's right to investigate and audit the claims settlement procedure shall be no less in scope than rights afforded to the Company's reinsurers.

4. EXTRAORDINARY LOSSES. (a) Reserves for Losses and Loss Adjustment Expenses in respect of an Insurance Book shall include a provision with respect to specific claims or series of similar claims for all losses, liabilities and expenses incurred by the Company in

connection with any action, suit or proceeding arising out of or relating to the actual or alleged bad faith, fraud, error or omission by the Company in connection with the handling of such claims under insurance policies in such Insurance Book either (i) on or before the date hereof or (ii) if Seller has consented to the manner in which the relevant claim or series of similar claims is being handled, after the date hereof, and (b) Reserves for Uncollectible Reinsurance in respect of the Pre-1984 Book shall include a provision with respect to specific claims or series of similar claims for all losses, liabilities and expenses (including, without limitation, expenses for declaratory judgment actions) incurred by the Company in respect of either Insurance Book in connection with any action, suit or proceeding arising out of or relating to the actual or alleged error or omission by the Company in

connection with the handling prior to April 1, 1995 of such claims with reinsurers.

5. COMMUTATION OF UNCOLLECTIBLE REINSURANCE. Buyer shall be entitled to settle and commute any reinsurance recoverable; and any losses, including, without limitation, expenses of collection, settlement or commutation, resulting therefrom, shall be reflected in the Adjustment Amount if Seller consents to such settlement or commutation, which consent shall not be unreasonably withheld or delayed.

6. ASSIGNMENT OF UNCOLLECTIBLE REINSURANCE. Buyer shall cause the Company to assign to Seller any reinsurance recoverable that would be reflected in the Adjustment Amount promptly after such reinsurance recoverable is written off or reserved against in its entirety by the Company; provided that Seller shall use commercially reasonable efforts to avoid damage to the relationship between the Company and the person owing such recoverable.

7. SUPERFUND TAXATION. If at any time on or prior to the termination of this Agreement any Tax is assessed against the Company in connection with the Comprehensive Environmental, Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et. seq., or any amendment thereto, which results directly in a limitation of the Company's liability with respect to

the Pre-1984 Book, the direct result of which is a reduction in the Reserves for Losses and Loss Adjustment Expenses with respect to the Pre-1984 Book (the "Superfund Reduction"), the parties agree that such Tax assessment, up to the amount of the Superfund Reduction, will be taken into account in calculating the Adjustment Amount, and Buyer will not have a claim for indemnification with respect to such amount under the Stock Purchase Agreement; provided, that Buyer shall be entitled to seek indemnification under the Stock Purchase Agreement for the amount of any such Tax assessment in excess of the Superfund Reduction.

8. CONSENT NOT TO BE UNREASONABLY WITHHELD. Whenever pursuant to this Agreement an action of one party is subject to the consent of the other party that is not to be unreasonably withheld or delayed, the party whose consent is required shall respond within a reasonable period of time, based upon the facts and circumstances relating to the subject matter of the action requiring consent, and shall, if it does not provide its consent, set forth in writing and in reasonable detail the basis and reasons for denying consent. The party whose consent is required shall not be entitled to refuse to respond to the request for consent or to respond that it is neither consenting or denying consent.

9. TERM AND GOVERNING LAW. This Agreement shall become effective concurrently with Closing under the Stock Purchase Agreement and shall remain in full force and effect until the obligations of the parties hereunder shall have been finally discharged in connection with settlement of the Final Settlement Amount. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

10. ASSIGNMENT. In the event Buyer sells the Company to, or merges the Company with, any subsidiary of Buyer, an insurance company rated "A-" or better by A. M. Best Company or to such other entity as shall be approved by Seller, which approval shall not be unreasonably withheld or delayed, such entity to whom Buyer sells the Company, or with which

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the Company merges, shall have all of the rights of Buyer under this Agreement; provided, that any such assignment shall not increase Seller's liability hereunder. Except as provided in the immediately preceding sentence, neither party may assign its rights or obligations under this Agreement without the prior written consent of the other party.

11. INCORPORATION BY REFERENCE. The provisions of Sections 11.2, 11.3, 11.4, 11.5, 11.6, 11.9, 11.10, 11.12, 11.13 and 11.14 of the Stock Purchase Agreement are hereby incorporated by reference herein and shall be fully applicable hereto, with the term "Agreement" as used therein being deemed references to this Agreement.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

LINCOLN INSURANCE GROUP, INC.

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

MARKEL CORPORATION

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





GUARANTY

DATED AS OF MAY 30, 1995

BY

THE THOMSON CORPORATION

IN FAVOR OF

MARKEL CORPORATION

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#### GUARANTY

This GUARANTY (this "Guaranty") is dated as of May 30, 1995 and is made by The Thomson Corporation, an Ontario corporation (the "Guarantor") for the benefit of Markel Corporation, a Virginia corporation ("Markel"), Lincoln Insurance Company, a Delaware domestic insurance corporation ("LIC"), and their permitted successors, transferees and assigns (Markel, LIC and such successors, transferees and assigns, individually and collectively, the "Beneficiary")

Lincoln Insurance Group, Inc., a Delaware corporation ("LIGI"), is the Seller pursuant to a Stock Purchase Agreement dated as of April 5, 1995, as amended by the Amendment thereto dated the date hereof (the "Purchase Agreement") between LIGI and Markel, pursuant to which LIGI is selling to Markel all of the outstanding shares of Common Stock (the "Shares") of LIC. LIGI is the indirect, wholly-owned subsidiary of the Guarantor. Under the Purchase Agreement, LIGI has agreed, subject to certain limitations, to indemnify and hold harmless Markel with respect to certain representations, warranties, covenants and agreements of LIGI set forth therein. In connection with the closing of the purchase of the Shares, LIGI is entering into an Indemnification Agreement dated the date hereof pursuant to which it has agreed, subject to certain limitations, to indemnify and hold harmless Markel with respect to the adequacy of certain of the loss reserves and reserves for uncollectible reinsurance maintained by LIC. The execution and delivery of this Guaranty is a condition for the closing under the Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, the parties agree as follows:

#### ARTICLE I DEFINITIONS

SECTION 1.1. DEFINITIONS. Terms used herein and not otherwise defined herein which are defined in the Purchase Agreement shall have for the purposes hereof the meanings provided therein.

#### ARTICLE II GUARANTY

SECTION 2.1. THE GUARANTY. The Guarantor hereby unconditionally guarantees to the Beneficiary the full and punctual payment and performance of all amounts, liabilities or other obligations now or hereafter payable by LIGI to Markel under the Purchase Agreement and any other agreements executed pursuant or incidental to the Purchase Agreement, including, without limitation, the Indemnification Agreement and any other agreements executed pursuant or incidental to the Indemnification Agreement (all such amounts, liabilities and obligations being herein called the "Obligations"). If LIGI shall fail to pay any Obligation when due in accordance with its terms, the Guarantor shall forthwith on written demand of the Beneficiary pay the Beneficiary the amount of such Obligation at the address specified in this Guaranty in immediately available funds.

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SECTION 2.2. GUARANTY UNCONDITIONAL AND IRREVOCABLE. This is an irrevocable, continuing and unconditional guaranty of payment and not of collection, and the obligations of the Guarantor hereunder are unconditional and absolute and independent and separate from any obligation of LIGI. Without limiting the generality of the foregoing, the obligations of the Guarantor hereunder shall not be released, discharged or otherwise affected by:

(i) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of LIGI under the Purchase Agreement or the Indemnification Agreement or other document evidencing such Obligation, by operation of law or otherwise;

(ii) any modification or amendment or supplement to the Purchase Agreement or the Indemnification Agreement or other document evidencing such Obligation;

(iii) any furnishing or acceptance of additional security or any release, substitution, non-perfection or invalidity of any direct or indirect security for any Obligation or any release of any other guarantor or guarantors of the Obligations;

(iv) any change in the existence, structure or ownership of LIGI, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting LIGI or its assets or any resulting disallowance, release or discharge of all or any portion of any Obligation;

(v) the existence of any claim, set-off or other right which the Guarantor may have at any time against LIGI, the Beneficiary or any other corporation or person, whether in connection herewith or any unrelated transaction; provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(vi) any failure by the Beneficiary (a) to file or enforce a claim against LIGI or its estate (in a bankruptcy or other proceeding), (b) to give notice to the Guarantor of a breach or default by LIGI under the Purchase Agreement or the Indemnification Agreement, (c) to commence any action against LIGI, (d) to disclose to the Guarantor any facts which Markel may now or hereafter know with regard to LIGI or (e) to proceed with due diligence in the collection, protection or realization upon any collateral securing the Obligations; or

(vii) any other act or omission to act or delay of any kind by LIGI or the Beneficiary or any other corporation or person or any other circumstance whatsoever which might, but for the provisions of this clause, constitute a legal or equitable discharge of the Guarantor's obligations hereunder.

This Guaranty is and shall remain fully enforceable irrespective of any defenses that LIGI may have or assert in respect of the Obligations, including but not limited to failure of

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consideration, breach of warranty, payment, statute of frauds, statute of limitations and accord and satisfaction; provided that the Guarantor does not waive its right to assert any such defenses it may have in respect of the Obligations.

SECTION 2.3. REINSTATEMENT IN CERTAIN CIRCUMSTANCES. If at any time any payment by LIGI of any Obligation is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of LIGI or upon or as a result of the appointment of a receiver, intervener or conservator of, or trustee or similar officer for, LIGI or any substantial part of its property or otherwise, the Guarantor's obligations hereunder with respect to such payment shall be reinstated as though such payment had been due but not made at such time. The Guarantor agrees that payment or performance of any of the Obligations or other acts which toll any statute of limitations applicable to the Obligations shall also toll the statute of limitations applicable to the Guarantor's liability hereunder.

SECTION 2.4. WAIVERS. The Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Beneficiary upon this Guaranty or acceptance of this Guaranty, and the Obligations shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guaranty, and all dealings between LIGI or the Guarantor and the Beneficiary shall likewise be conclusively presumed to have taken place or been consummated in reliance upon this Guaranty. The Guarantor unconditionally waives (i) acceptance hereof, diligence, presentment, demand, protest and any notice not provided for herein, including, without limitation, any notice when the Beneficiary exercises rights against LIGI to hold, sell, lease or otherwise dispose of security for any of the Obligations, (ii) any requirement that at any time any action be taken by any corporation or person against LIGI or any other corporation or person or that resort be had to any security for, or other guaranty of, any Obligation, (iii) any defense that may arise by reason of lack of authority of the Guarantor or the lack of authority, death or disability of any other person or entity, (iv) any right that the Guarantor may now or hereafter have under Section 3-606 of the Uniform Commercial Code or otherwise

to unimpaired collateral, (v) the defense of commercial unreasonableness with respect to the Beneficiary's exercise of any rights or remedies against any direct or indirect security for the Obligations or (vi) any defense based upon any fact or condition set forth in clauses (i) through (vii) of Section 2.2.

Without limiting the generality of the foregoing, the Guarantor acknowledges and agrees that the Beneficiary is not required to enforce any remedies against LIGI or any other party now or hereafter liable or contingently liable to the Beneficiary on account of the Obligations as a condition to payment or performance by the Guarantor hereunder. Nor is the Beneficiary required to seek to enforce, or resort to any remedies with respect to, any security interest, lien or encumbrance now or hereafter granted to the Beneficiary by LIGI or any other Person.

SECTION 2.5. SUBROGATION. Upon making any payment hereunder, the Guarantor shall be subrogated to the rights of the payee against LIGI with respect to such payment; provided that the Guarantor shall not enforce any payment by way of subrogation until all amounts payable with respect to the Obligations have been paid in full.

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SECTION 2.6. NO SET-OFF. No act or omission of any kind or at any time on the part of the Beneficiary in respect of any matter whatsoever shall in any way affect or impair the rights of the Beneficiary to enforce any right, power or benefit under this Guaranty, and no set-off, claim, reduction or diminution of any obligation or any defense of any kind or nature which the Guarantor has or may have against the Beneficiary shall be available against the Beneficiary in any suit or action brought by the Beneficiary to enforce any right, power or benefit provided for by this Guaranty; provided that nothing herein shall prevent the assertion by the Guarantor of any such claim by separate suit or compulsory counterclaim. Nothing in this Guaranty shall be construed as a waiver by the Guarantor of any rights or claims which it may have against the Beneficiary hereunder or otherwise, but any recovery upon such rights and claims shall be had from the Beneficiary separately, it being the intent of this Guaranty that the Guarantor shall be unconditionally and absolutely obligated to perform fully all its obligations, covenants and agreements hereunder for the benefit of the Beneficiary.

### ARTICLE III REPRESENTATIONS AND WARRANTIES

The Guarantor represents and warrants that:

SECTION 3.1. CORPORATE STATUS. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the Province of Ontario, and has the corporate power and authority to execute and deliver this Guaranty. The Guarantor is the ultimate parent corporation of LIGI.

SECTION 3.2. ANNUAL SHAREHOLDERS REPORT. The Guarantor has delivered to the Beneficiary a true and complete copy of its annual report to shareholders for the year ended December 31, 1994, which contains a true and complete copy of the audited consolidated financial statements for the Guarantor and its subsidiaries for the year ended December 31, 1994.

SECTION 3.3. NON-CONTRAVENTION. The execution, delivery and performance by the Guarantor of this Guaranty require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute (with or without the giving of notice or lapse of time or both) a default under, any provision of applicable law or of any agreement, judgment, injunction, order, decree or other instrument binding upon or affecting the Guarantor.

SECTION 3.4. BINDING EFFECT. This Guaranty constitutes a legal, valid and binding agreement of the Guarantor, enforceable against it in accordance with its terms, except as enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (ii) general principles of equity.

ARTICLE IV  
MISCELLANEOUS

SECTION 4.1. GOVERNING LAW. This Guaranty shall be governed and construed in accordance with the laws of the State of Delaware applicable to agreements to be performed entirely within such State.

SECTION 4.2. ENFORCEMENT. The Beneficiary may enforce this Guaranty either by action at law, suit in equity or other proceeding, and it shall not be necessary to make LIGI a party to any such action, suit or proceeding. The Guarantor will pay all reasonable fees (including, without limitation, reasonable attorney's fees), costs and expenses incurred by the Beneficiary in connection with enforcing this Guaranty or in collecting any or all of the Obligations.

SECTION 4.3. ASSIGNMENT. In the event that Markel sells LIC to, or merges LIC with, any subsidiary of Markel, an insurance company rated "A-" or better by A. M. Best Company or to such other entity as shall be approved by LIGI, which approval shall not be unreasonably withheld or delayed, such entity to whom Markel sells LIC, or with which LIC merges, shall have all of the rights of Markel under this Agreement; provided, that any such assignment shall not increase the Guarantor's liability hereunder. Except as provided in the immediately preceding sentence, neither party may assign its rights or obligations under this Guaranty without the prior written consent of the other party.

SECTION 4.4. ACTION BY BENEFICIARY. Any action pursuant to this Guaranty may be taken by any Beneficiary acting alone; provided, that any action taken by any Beneficiary shall be binding upon all of the other Persons included in the Beneficiary.

SECTION 4.5. ENTIRE AGREEMENT. This Agreement contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

SECTION 4.6. INCORPORATION BY REFERENCE. The provisions of Sections 11.2, 11.3, 11.6, 11.9, 11.12, 11.13 and 11.14 of the Purchase Agreement are hereby incorporated by reference herein and shall be fully applicable hereto, with the term "Agreement" as used therein being deemed references to this Guaranty, the term "Buyer" as used therein to be deemed references to the Beneficiary and the term "Seller" as used therein to be deemed references to the Guarantor.

IN WITNESS WHEREOF, the Guarantor has executed this Guaranty as of the day and year first above written.

THE THOMSON CORPORATION

By \_\_\_\_\_ (SEAL)  
Title:

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements No. 33-28921, No. 33-46706 and No. 33-61598 on Form S-8 of Markel Corporation of our report dated March 29, 1995, on our audits of the financial statements of Lincoln Insurance Company as of and for the years ended December 31, 1994 and 1993, included in Markel Corporation's report on Form 8-K dated June 13, 1995.

/s/ PRICE WATERHOUSE LLP

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Price Waterhouse LLP  
Philadelphia, PA  
June 13, 1995