

SEC FILE NO 2-39709 12--09

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GOVERNMENT EMPLOYEES INSURANCE CO

10-K

OTHER

CARD 1

DISCLOSURE INC BETHESDA MARYLAND 20014

FOR 12/31/77

Government Employees Insurance Co. [D.C.]

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Co: G624750000

5260 Western Avenue, N.W.

Chevy Chase, Md. 20076

SEC File No: 2-39709 Exch: Other

IRS No: 53-0075853 CUSIP: 3837127

Fiscal Year Ends: 12/31 SIC No: 633

Auditor: Ernst & Ernst

10-K	For:	12/31/76
10-Q	For:	03/31/77
10-Q	For:	06/30/77
10-Q	For:	09/30/77

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1977 Commission File No. 2-39708

GOVERNMENT EMPLOYEES INSURANCE COMPANY

District of Columbia 53-0075853
(Jurisdiction of Incorporation) (IRS Employer Identification No.)

5260 Western Avenue, Chevy Chase, Md. 20076

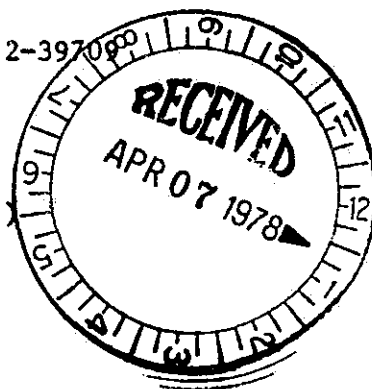
Registrant's telephone number (301) 986-3000

Securities registered pursuant to Section 12(b) of the Act:

None*

Securities registered pursuant to Section 12(g) of the Act:

None*



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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

As of December 31, 1977

Capital shares outstanding -

Common Stock, \$1.00 par value 17,743,892

* Common Stock, Warrants to purchase Common Stock and Cumulative Convertible Preferred Stock registered pursuant to the Securities Act of 1933.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

("GEICO" or the "Company")

Form 10-K Annual Report

PART I

Item 1. Business

GEICO is a multiple line property and casualty insurer engaged principally in writing all lines of private passenger automobile insurance. To a much more limited degree, the Company also writes homeowners, fire and extended coverage, comprehensive personal liability and boatowners insurance.

The Company writes fire, casualty and inland marine insurance in the District of Columbia and in all states of the United States, with the exception of New Jersey. It is subject to varying legal requirements in each of the jurisdictions where it does business. The Company is not authorized to write new business in New Hampshire and is not licensed to write automobile insurance in Massachusetts.

In the past GEICO's rates were generally lower than those of many other companies writing similar types of insurance because its underwriting expenses (the total cost of producing and processing insurance policies) were, and still are, substantially below the average for other stock companies in the property and casualty insurance industry, primarily as a result of GEICO's direct marketing methods. Originally GEICO dealt directly with its applicants and obtained substantially all its new business exclusively by mail. In the early 1960's, while GEICO continued to solicit new business primarily through a direct mail advertising program, it also began to utilize sales offices and General Field Representatives (commission agents) throughout the United States. All renewals of existing policies have always been and continue to be effected by mail directly with the policyholders. In mid-1975, GEICO terminated all advertising expenditures and, in January 1976, undertook a program to reduce significantly the number of voluntary automobile policies in force and to keep in balance the risk quality of the remaining policies in force by maintaining the relationship between preferred risk and other policyholders. This program involved very stringent limitations on any new policies and the selective review, to the extent permitted by insurance regulations, of all policies subject to renewal. In addition, of the 44 GEICO sales offices and 91 General Field Representatives existing on January 1, 1976, GEICO had closed all but 21 such offices and terminated 81 agents as of December 31, 1976. GEICO's Western Regional Office in San Francisco was closed in September 1976. However, during 1977 GEICO increased its sales offices to 31 and made increased use of a limited number of General Field Representatives.

In 1977 GEICO concentrated on refining the Company's rate structure to assure underwriting profitability while attempting to keep its rates competitive in each market and, as a result, premium rates in some areas went up while they went down in others.

In 1975 and 1976 the cost of claims settlements rose rapidly in response to increased costs of automobile repair and medical services and the social inflation of unprecedented jury awards. GEICO, as did other members of the property and casualty insurance industry in general, substantially increased its premium rates in all lines to offset these costs. Voluntary automobile policy premiums were raised the equivalent of 18% in 1975, 38% in 1976 and approximately 5% in 1977. Involuntary automobile rates were increased the equivalent of 24% in 1975, 21% in 1976 and almost 20% in 1977. Homeowners policy rates went up 6% in 1975 and 21% in 1976 and decreased about 11% in 1977. The 1975 and 1976 premium rate increases were essential to the improved financial results achieved in 1977.

GEICO has specialized in writing private passenger automobile insurance since the Company's founding in 1936. Consequently, this line has traditionally accounted for over 90% of written premium volume. In 1977 automobile written premiums (prior to the effect of quota share reinsurance), exclusive of service charges, totaled \$507.4 million or a decrease of 13.6% from the \$587.6 million written in 1976. Voluntarily selected and underwritten automobile insurance business decreased in volume by \$99.9 million or 19.1% during the year while involuntary business increased by \$19.7 million or 31.1% over the prior year. Total written premiums including service charges on all lines amounted to \$548.5 million in 1977 and \$636.3 million in 1976. After the effect of quota share reinsurance these amounts were \$454.3 million and \$463.4 million, respectively.

Active policies in force on all lines of insurance were 1,535,562 at December 31, 1977. This represents a decline of 21.9% from the 1,967,395 policies in force at year-end 1976. Policyholders attrition slowed markedly, declining 9.4% and 7.3% in the first and second quarters of 1977 moderating to 4.5% and 2.7% in the third and fourth quarters. Active automobile policies in force decreased by 21.5% to 1,265,240 at year-end 1977 compared to 1,612,746 at the end of 1976 and voluntary policies decreased by 23.4% from the end of 1976 to December 31, 1977. While involuntary policies decreased by less than 1% during 1977, they accounted for 10.2% of GEICO's total at December 31, 1977 as compared to 8.1% on December 31, 1976.

In 1977 GEICO realized, before the effect of quota share reinsurance, a statutory underwriting gain of \$7.3 million on the automobile line compared with a loss of \$65.6 million in 1976. In 1976 GEICO lost \$38.4 million from involuntary automobile policies, which contrasted with a \$28.9 million loss in 1977 for the involuntary portion of the Company's business. This growing and invariably unprofitable portion of the Company's business accounted for 10.6% and 7.9% of total automobile insurance premiums in 1976 and 1975 respectively and 16.0% in 1977. Underwriting losses from involuntary business totaled \$29.9 million in 1975.

Net investment income totaled \$40.9 million in 1977 representing a \$2.8 million or 7.2% increase over the \$38.1 million recorded in 1976. The 1977 figure includes interest credit of 3% for six months on approximately \$100 million of assets held by reinsurers and excludes GEICO's proportionate share in the earnings (distributed and undistributed) in the other companies.

Loss reserves are estimates of the eventual costs of claims incurred but not finally settled. They are based not only on historical experience but also on a judgment of the effect on such claim costs of future economic and social forces, as well as on GEICO's experience with the type of risk involved, knowledge of the circumstances surrounding individual claims and experience with respect to the probable number and nature of claims arising from losses not yet reported. Consequently, they are inherently subject to a number of highly variable circumstances. In 1974 and 1975, escalating inflation of double-digit magnitude on the costs for hospital and medical care and auto crash parts combined with "social" inflation of jury awards, changes in tort law and the widespread introduction of "no-fault" automobile insurance made accurate assessment of loss reserve estimates particularly difficult. GEICO underestimated the impact of such factors on its loss reserves during 1974 and in 1975 prior to year-end adjustments. In 1976 and 1977 claim settlement costs continued to rise but at a more moderate pace than 1975. Automobile repair and hospital and medical costs are among the most rapidly increasing costs in the country; unfortunately for automobile insurers, these costs account for the greatest portion of claim settlement costs and loss reserves. GEICO is continuously monitoring its actual losses as compared with past reserve estimates and makes revisions of the reserves as indicated.

GEICO currently sets loss reserves from case evaluations, average claim costs and other estimated components. GEICO's Office of the Actuary tests the aggregate reserves derived from these components against other statistical indicators of ultimate claim losses. GEICO's reserves for losses and loss adjustment expenses, before the effect of quota share reinsurance, have been as shown in the following table:

<u>Year-end</u>	<u>Reserves (millions)</u>	<u>Ratio of Reserves to Last 12 Months Earned Premiums</u>
1973	\$247.8	49.9%
1974	263.0	49.4
1975	368.4	61.9
1976	430.5	66.7
1977	444.3	76.9

During 1977 GEICO continued to refine its estimating procedures employed in arriving at its reserves which resulted in increases in reserve components.

GEICO believes that its provisions for loss and loss adjustment expenses at December 31, 1977 are reasonable and adequate to cover the ultimate net cost of losses on reported and unreported claims arising from accidents which had occurred by that date, but such provisions are necessarily based on estimates and the ultimate net cost may vary from such estimates.

In September 1975 GEICO retained a major independent consulting actuarial firm to conduct quarterly evaluations of the adequacy of GEICO's reserves. The firm has prepared written quarterly reports of its evaluation of reserves for loss and allocated loss adjustment expenses before consideration of reinsurance for GEICO's major lines of business. In its study of GEICO's reserves, the firm relied upon information supplied by GEICO's Office of the Actuary. The analysis by the firm of GEICO's loss reserves at December 31, 1977, indicated that it was essentially in agreement with GEICO's own estimate. During 1978 the Company plans to have such firm conduct semiannual evaluations.

Loss reserves are further discussed in the Notes to Consolidated Financial Statements.

On March 30, 1977, the shareholders approved an increase in the par value of GEICO's common stock from \$.10 to \$1.00 per share, which resulted in a transfer of \$15,968,664 from the paid-in surplus account to the capital account. GEICO's Board of Directors proposed this change in order to remove any disability to GEICO's writing insurance because of the \$.10 par value of the Common Stock.

Having 94% of the Company's premium volume generated by automobile insurance with the bulk of the automobile volume in six states was not to the Company's advantage during the past three years. With the continuing uncertainty surrounding the adequacy of automobile insurance rates, increasing regulatory pressures on underwriting prerogatives in the automobile line and persistent residual market problems, it will be to GEICO's advantage to increase its concentrations of business in the homeowners and other miscellaneous lines. These lines have traditionally been profitable for GEICO and are logical directions for the Company to move in at this time. Therefore, an important part of GEICO's marketing strategy is to reduce the proportion of the Company's total business in the automobile line, as well as to achieve a more balanced geographical distribution of automobile insurance business.

On December 2, 1976 pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, GEICO executed reinsurance agreements with 27 property and casualty insurance companies obligating them to provide quota share reinsurance on 25.36% of GEICO's business. These agreements were signed on December 2, 1976, effective June 30, 1976. Quota share reinsurance is a form of reinsurance under which each company providing reinsurance assumes a predetermined share of the book of business being reinsured. Reinsurance agreements do not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO accounts for the business covered by these agreements as if it were no longer liable with respect thereto.

By mutual agreement with the companies participating in the Quota Share Reinsurance Agreement, GEICO reduced its reinsurance by one fourth at the end of the second quarter of 1977. This action reduced the quota share from 25.36% to 19.02% of GEICO's business at the start of the third quarter of 1977 and reduced the number of reinsurers from 27 to 17. Also, pursuant to the reinsurance agreements, commissions paid to GEICO were reduced from 15% to 12% on July 1, 1977. In 1977 GEICO ceded \$127,090,362 in earned premiums to the reinsurers as compared to \$80,639,360 in 1976 and received \$18,818,805 in commissions in 1977 and \$9,583,279 (net of interest expenses of \$2,512,625) in 1976. The effect of the treaty on GAAP underwriting earnings was a decrease of \$11,576,811 for 1977 and an increase of \$3,149,345 in 1976. Based upon statutory accounting practices, the treaty accounted for a decrease in underwriting income of \$17,615,782 in 1977 and an increase of \$16,989,998 in 1976.

GEICO or the reinsurers have the right to terminate the reinsurance agreements at any time the reinsurers' combined loss and expense ratio on an inception-to-date basis is 98% or less. During the fourth quarter of 1977, the 98% combined ratio was achieved and GEICO has given notice to the participants that it intends to terminate the treaty in 1978, provided no objection is raised by the Superintendent of Insurance of the District of Columbia. The Superintendent has advised that he has no objection to such termination.

The A. M. Best Company, an insurance industry rating service, in 1976 assigned the Company a "deferred" policyholders' rating. This change caused a number of mortgage lending institutions to advise their mortgagors that GEICO fire and homeowner's policies are unacceptable. Premiums written in the homeowners line decreased from \$33.3 million in 1976 to \$23.8 million in 1977 (excluding service charges and before quota share reinsurance). This decline was attributable to GEICO's financial difficulties, substantially higher premium rates and the "deferred" rating. The Company is currently pursuing with the A. M. Best Company the obtainment of a rating which GEICO believes to be commensurate with its current financial condition.

The insurance industry is highly competitive. GEICO currently competes most directly with the other companies, including mutual companies, that concentrate on preferred risk insurance. Although most insurance companies are stock companies like GEICO, in 1976 mutual companies wrote an estimated 23.5% of all property and liability insurance in the United States. Mutual companies may have a competitive advantage in that certain earnings inure to the benefit of policyholders rather than to shareholders.

The price advantage historically held by GEICO over major competitors was diminished in 1976 because of the very substantial rate increases implemented by the Company in a large number of states. To assure that GEICO is able to maintain a reasonably favorable competitive pricing position, the Company introduced in late 1976 a new safe driver rating plan intended to provide a premium advantage to customers with good driving records. By year-end 1977 the plan or a variation thereof had become operational in all but one state in which the Company writes insurance. The plan has improved GEICO's ability to retain current preferred risk policyholders as well as to attract and select new clientele of exceptionally low risk potential.

The latest available statistics as published in the National Underwriter reveal that GEICO was, based upon 1976 earned premiums, the 26th largest property and casualty insurer and the 19th largest stock property and casualty insurer in the United States. However, based upon the decrease in GEICO's earned premiums in 1977, it is expected that GEICO's position in these ratings will be diminished.

The Company's active staff totaled 5,339 employees at year-end 1977, a 12.1% reduction from the 6,073 active employees at December 31, 1976 and a 27.2% reduction from the 7,336 active employees at December 31, 1975. The staff reductions in 1977 were made in conjunction with the projected and actual reduction in policies in force.

A number of benefits are provided or made available for full-time employees, including a savings plan, pension plan and various insurance programs. In July of 1977 GEICO resumed contributions to the employee savings plan, which payments had been suspended since February 1, 1976.

GEICO is the largest and oldest of the Government Employees Companies which presently consist of GEICO and the following three corporations (the "Companies"):

Criterion Insurance Company (CRICO), which is principally engaged in the writing of physical damage and liability insurance on private passenger automobiles primarily for standard and substandard risks;

Government Employees Life Insurance Company (GELICO), which writes life, accident, and health insurance and annuities; and

Government Employees Financial Corporation (GEFCO), which is engaged with its subsidiaries in the consumer finance business, the brokerage of overseas automobile insurance and industrial banking.

The Companies have always had a substantial majority of directors and certain executive officers in common. Prior to 1977 none of the Companies owned any stock in any of the other Companies. However, in November, 1977 and February, 1978, GEICO made substantial purchases of outstanding voting shares of each of the other Companies. As of February 22, 1978 GEICO owned 869,616 shares of CRICO's common stock (59.5% of the outstanding); 2,513,153 shares of GELICO's common stock (56.1% of the outstanding); and 660,306 shares of GEFCO's common and 6,600 shares of GEFCO's preferred stock (57.9% and 2.1%, respectively, of the outstanding).

ITEM 2: SUMMARY OF OPERATIONS

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CONSOLIDATED SUMMARY OF OPERATIONS (1)

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Revenue					
Premiums earned	\$463,599,856	\$575,402,261	\$ 603,320,611	\$536,689,776	\$499,536,612
Net investment income	40,870,466	38,125,335	33,559,751	32,328,347	27,867,975
Equity in earnings of affiliates	<u>696,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	505,166,593	613,527,596	636,880,362	569,018,023	527,404,587
Losses and expenses, other than income taxes	444,449,131	639,898,088	797,189,751	544,297,111	487,945,027
Income taxes (credits)	<u>22,953,337</u>	<u>-</u>	<u>(36,135,836)</u>	<u>(1,403,753)</u>	<u>7,664,088</u>
Operating income	37,764,125	(26,370,492)	(124,173,553)	26,124,665	31,795,472
Realized investment gain net of taxes	<u>120,169</u>	<u>60,107</u>	<u>(2,283,441)</u>	<u>(1,035,286)</u>	<u>6,962</u>
Income before extraordinary item	37,884,294	(26,310,385)	(126,456,994)	25,089,379	31,802,434
Utilization of tax loss carryforward	<u>20,697,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	\$ 58,581,475	\$(26,310,385)	\$(126,456,994)	\$ 25,089,379	\$ 31,802,434
Preferred dividends	6,083,117	489,205	-	-	-
Earnings applicable to common stock	\$ 52,498,358	\$(26,799,590)	\$(126,456,994)	\$ 25,089,379	\$ 31,802,434
<u>Per Share Results(3)</u>					
Primary: Income before extraordinary item	\$ 1.79	\$ (1.51)	\$ (7.13)	\$ 1.42	\$ 1.80
Net income	\$ 2.96	\$ (1.51)	\$ (7.13)	\$ 1.42	\$ 1.80
Weighted-average common shares outstanding	17,743,504	17,736,760	17,731,891	17,719,081	17,704,756
Fully diluted: Income before extraordinary item	\$ 1.10	-	-	-	-
Net income	\$ 1.70	-	-	-	-
Common stock dividends per share(2)	\$.03	-	\$.20	\$.80	\$.71
Preferred dividends per share	\$.736	\$.0593	-	-	-
Senior preferred dividends per share	\$.0555	-	-	-	-

(1) TO BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS

(2) In 1973, a 4% stock dividend was distributed

(3) See Note 0 to the consolidated financial statements

Unrealized investment gains included separately in shareholders' equity for 1977 back through 1973 were \$(9,747), \$19,096,656, \$22,936,834, \$(33,011,963), \$(18,275,151).

Items in parentheses signify loss

Management's Discussion and Analysis of the Summary of Operations

Premiums

Premiums of \$463.6 million were derived from written premiums and service charges, adjusted for reinsurance ceded and changes in the unearned premium reserve.

Net Premiums Earned
(Millions)

	1977	1976
Premiums written including service charges	\$548.5	\$636.3
Quota share reinsurance ceded	<u>94.2</u>	<u>172.9</u>
Net premiums written	454.3	463.4
Decrease in unearned premium reserve	<u>9.3</u>	<u>112.0</u>
Premiums (net premiums earned)	<u>\$463.6</u>	<u>\$575.4</u>

Written premiums on a "natural" basis (which excludes the effect of quota share reinsurance) and service charges totaled \$548.5 million for the year compared with \$636.3 million in 1976, a decrease of 13.8%. This decrease resulted from the implementation of more selective underwriting standards, a higher than desired rate of termination by policyholders and the phasing out of insurance operations in New Jersey and Guam. The discontinuation of automobile insurance operations in Massachusetts and temporary cessation of writing new, renewal, or both types of business in ten states during the early part of the year also accounted for a portion of the attrition. In those ten states we have subsequently resumed insurance operations.

The apportionment of net premiums written by line of business and percent of change from 1976 to 1977 is shown in the following table:

Net Premiums Written
(Millions)

	1977	1976	% Increase (Decrease)
Automobile			
Voluntary	\$424.2	\$524.1	(19.1)
Involuntary	<u>83.2</u>	<u>63.5</u>	31.1
Total Auto	507.4	587.6	(13.6)
Homeowners	23.8	33.3	(28.5)
Fire & Extended Coverage	3.0	3.3	(8.6)
Comprehensive Personal Liability	.1	.1	(5.0)
Boatowners	<u>1.0</u>	<u>1.2</u>	(21.1)
	535.3	625.5	(14.4)
Service Charges	13.2	10.8	22.2
Less Quota Share Reinsurance	<u>94.2</u>	<u>172.9</u>	(45.5)
Total Premiums Including Service Charges	<u>\$454.3</u>	<u>\$463.4</u>	(2.0)

Net Investment Income

Net investment income totaled \$40.9 million in 1977 representing a \$2.8 million or 7.2% increase over the 1976 investment income of \$38.1 million. In

comparison, GEICO's 1976 net investment income increased \$4.5 million or 13.6% over 1975 investment income of \$33.6 million.

Investment income in 1977 includes interest credit of 3% for six months on approximately \$100 million of assets held by reinsurers, but excludes our proportionate share in the distributed and undistributed earnings of the affiliated Companies.

Of the investment income realized in 1977, approximately one-third was exempt from Federal income taxes with the remaining two-thirds produced by fully taxable securities.

Net Investment Income
(Millions)

	1977	1976	1975
Taxable Interest	\$25.3	\$20.3	\$ 3.6
Tax-exempt Interest	12.7	15.9	21.6
Dividend Income	1.8	2.6	8.9
Other	1.6	-	.2
Total Investment Income	41.4	38.8	34.3
Less Investment Expenses	.5	.7	.7
Net Investment Income	<u>\$40.9</u>	<u>\$38.1</u>	<u>\$33.6</u>
Equity in the Earnings of Affiliates	\$.7	-	-
Realized Gains (Losses) net of taxes	\$.1	\$.1	\$(2.3)

Equity in Net Income of Affiliates

GEICO's equity in the net income of the affiliates amounted to \$.7 million in 1977. The equity position was established in November 1977 and relates to the last two months of the year. Please see Note I to the Financial Statements.

Losses and Expenses

Losses and expenses include losses incurred, loss adjustment expenses incurred and operating expenses net of reinsurance commissions earned and amortization of deferred acquisition costs. Such losses and expenses, other than income taxes incurred in 1977, totaled \$444.4 million representing a decrease of \$195.5 million or 30.5% from 1976. In comparison, the 1976 losses and expenses decreased by \$157.3 million or 19.7% from 1975.

The decline in losses and expenses from 1976 was a result of GEICO's smaller book of business, reduced accident frequency and improved control of loss costs. The application of stringent underwriting standards was instrumental in achieving this improvement. However, during the same period accident severity continued to increase, reflecting the sustained effect of both social and economic inflation on claim settlement costs. In addition to those items described above, the quota share reinsurance treaty had a significant bearing on the reduction of losses and expenses from 1975 to 1976.

The costs associated with obtaining and processing new and renewal business decreased in 1977 by \$.9 million or 1.0% from the prior year. In comparison, these expenses decreased \$7.2 million or 7.7% in 1976 from 1975. Dramatic increases related to the involuntary market, and substantial non-recurring lease abandonment payments resulting from our several office consolidations and termination of operations in New Jersey had an unfavorable effect on 1977 expenses.

Income Taxes

Federal income taxes totaled \$23 million in 1977 (before benefit of net operating loss carryforwards) compared with no such taxes in 1976 and a tax

credit of \$36.1 million in 1975. The change from a tax credit in 1975 to the charge for taxes in 1977 reflects GEICO's return to profitability.

Operating Income

GEICO's operating income improved steadily during 1977. A comparison with the operating results of 1976 shows that substantial strides have been made in this area. Operating income, before extraordinary item, for the full year 1977 amounted to \$37.8 million compared with a loss of \$26.4 million in 1976.

These improved results stemmed from careful risk selection, refined premiums rate levels, improved accident frequency and better loss control. Operating losses sustained in 1975 and 1976 were primarily attributable to inflationary pressures causing rapid increases in the cost of auto repair and hospital and medical services, as well as unprecedented jury awards. Rate adjustments and refinements implemented since 1975 have tended to offset the continued rise in claim costs.

Utilization of Tax Loss Carryforward

GEICO has a loss carryforward for financial statement purposes of approximately \$146 million at year-end 1976. Approximately \$43 million of this carryforward was used during 1977, resulting in a benefit of approximately \$21 million, leaving a balance of approximately \$103 million at year-end. Please see Note F to the Financial Statements for additional information on the utilization of the tax loss carryforward.

Net Income

Total net income in 1977 amounted to \$58.6 million which compares with a net loss of \$26.3 million in 1976.

Preferred Dividends

GEICO's Board declared quarterly cash dividends payable during 1977 on the Cumulative Convertible Preferred Stock. The initial dividend of \$.0593 per share, representing a pro rata payment for the 29 day period from the date of issuance to December 31, 1976 was paid on January 1, 1977. The regular quarterly dividends of \$.184 per share were paid on April 1, July 1 and October 1. On November 9 the Board declared the regular quarterly cash dividend of \$.184 payable January 1, 1978.

Additionally, GEICO declared a pro rata dividend of \$.0555 per share on the Cumulative Senior Preferred Stock covering the two day period ending December 30, 1977, payable on January 1, 1978.

Common Stock Dividends Per Share

On November 9, 1977 the Board of Directors resumed dividend payments with the declaration of a quarterly cash dividend of \$.03 per share on the outstanding shares of \$1 par value Common Stock, payable December 30, 1977 to shareholders of record on December 6, 1977. The dividend totaled \$532,317.

On February 22, 1978 the Board of Directors declared a quarterly cash dividend on the Common Stock of \$.05 per share payable March 30, 1978 to shareholders of record on March 10, 1978.

Earnings Applicable to Common Stock

Earnings applicable to Common Stock totaled \$52.5 million in 1977 compared with a loss of \$26.8 million in 1976.

Per Share Results

GEICO's primary income per share (before extraordinary item) was \$1.79 in 1977 compared with a loss in 1976 of \$1.51 per share. Fully diluted income (before extraordinary item) totaled \$1.10 per share in 1977.

Primary and fully diluted net income per share amounted to \$2.96 and \$1.70 respectively in 1977 compared with a net loss per share of \$1.51 in 1976.

Unrealized Investment Gains

Because of the composition of GEICO's investment portfolio, the Company had no unrealized gain or loss on equity securities in 1977, in spite of the significant decline in the securities market. By comparison the Company had unrealized gains of \$19.1 million and \$22.9 million on such securities in 1976 and 1975 respectively. These gains may be largely attributed to improved security markets and the restructuring of GEICO's investment portfolio.

Item 3. Properties

GEICO's total real estate investment, which was on a consolidated basis \$33,965,941 (depreciated cost) as of December 31, 1977, is represented principally by (a) its Operations Office Building in Chevy Chase, Maryland, which was carried at \$11,788,552; (b) \$11,925,933 in its Northeastern Regional Office Building in Woodbury, Long Island, New York; and (c) \$8,064,070 in its Southeastern Regional Office Building in Macon, Georgia.

GEICO's Operations Office Building - GEICO Plaza - is a modern multi-level structure. The greater part of the four-story portion was completed in 1959 and an additional four-story portion and an eight-story tower were completed in 1964. Of a total of approximately 428,398 square feet, GEICO currently occupies approximately 399,000 square feet, and certain of the Companies occupy the remainder under agreements with GEICO.

In December 1973, GEICO's Northeastern Regional Office Building and one of its Fairfax County, Virginia claims facilities were acquired by GEICO Properties, Inc. (GPI), a wholly-owned subsidiary of GEICO (see Item 4 below). The purchase was financed by 8-1/4% notes due June 15, 2004 sold to institutional investors. The notes were secured by a Deed of Trust and Indenture of Mortgage on the properties, by the assignment to the trustees of a 30-year lease, coincident with the term of the notes, between GEICO and GPI, and by the undertaking of GEICO to make sufficient funds available to GPI to meet its obligations under the Indenture.

GEICO's Southeastern Regional Office Building was purchased by GPI in May 1974 and occupied by GEICO in August 1974. This purchase was financed by an 8-1/2% note due May 1, 2004 which was sold to an institutional investor and secured by an assignment to the trustee of a 30-year lease and the undertaking between GEICO and GPI, which documents were similar in terms to those used in financing GEICO's Northeastern Regional Office Building. Both buildings are similar in design and capacity, each being a modern four-story structure containing approximately 250,000 square feet. With respect to both financings, the outstanding balance of the long-term debt of GPI on December 31, 1977 was \$22,777,542.

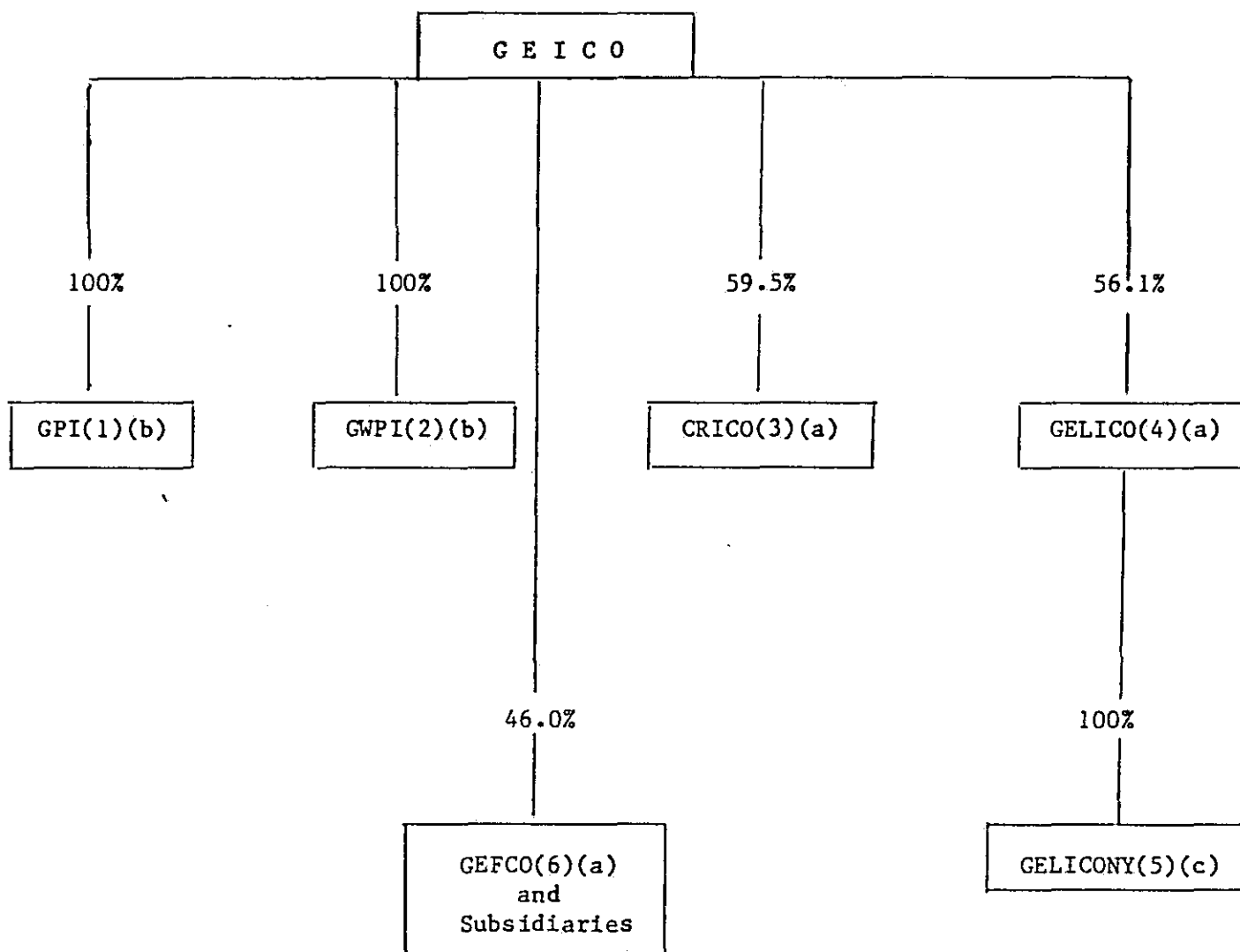
On July 24, 1975, the Company transferred its Operations Building and certain adjacent property as well as its Fairfax County, Virginia and Clinton, Maryland, and GPI sold its Smithtown, New York, sales/drive-in facilities to GEICO Washington Properties, Inc. (GWPI), a wholly-owned subsidiary of GEICO (see Item 4 below). This transfer was financed by a 9-3/8% note due July 1, 2010 which was sold to an institutional investor and secured by an Indenture of Mortgage and Deed of Trust on the properties and by the assignment to the noteholder of a 7-year lease for the Operations Building property, automatically renewable for 4 successive 7-year terms, between GEICO and GWPI. The outstanding balance of the long-term debt of GWPI on December 31, 1977 was \$24,746,823.

GEICO also leases office space and "drive-in" claims facilities in various cities in the United States. These leases expire at various times between 1978 and 1992 with renewal options in a number of cases. In addition, GEICO maintains electronic data processing equipment with a depreciated cost as of December 31, 1977 of \$8,449,152 located principally at its Chevy Chase, Maryland

Operations Building.

Item 4. Parents and Subsidiaries

In November of 1977, GEICO purchased in private transactions 1,082,274 shares of GELICO common stock (24.2% of the outstanding); 488,839 shares of CRICO common stock (33.4% of the outstanding); 223,000 shares of GEFCO common and 6,600 shares of GEFCO preferred stock (20.5% and 1.9%, respectively, of each outstanding issue at December 31, 1977). On February 22, 1978, pursuant to a tender offer which expired on February 21, 1978, GEICO purchased an additional 1,430,879 shares of GELICO common stock, 380,777 shares of CRICO common stock and 437,306 shares of GEFCO common stock. As a result of these purchases GEICO now owns 56.1% (2,513,153 shares) of GELICO's outstanding voting stock, 59.5% (869,616 shares) of CRICO's outstanding voting stock and 46.0% of GEFCO's outstanding voting stock (660,306 shares of common stock and 6,600 shares of preferred stock representing 57.9% and 2.1%, respectively, of each outstanding issue). Additionally, GEICO, CRICO, GELICO and GEFCO have substantially more than a majority of their Boards of Directors in common.



- (1) GEICO Properties, Inc. is a wholly-owned Delaware real estate holding company.
 - (2) GEICO Washington Properties, Inc. is a wholly-owned Delaware real estate holding company.
 - (3) Criterion Insurance Company is a District of Columbia property and casualty insurer.
 - (4) Government Employees Life Insurance Company is a District of Columbia life and health insurer.
 - (5) Government Employees Life Insurance Company of New York is a New York life and health insurer.
 - (6) Government Employees Financial Corporation is a Colorado corporation primarily engaged in the business of consumer finance. GEFCO itself has a number of subsidiaries engaged in various aspects of the finance, industrial banking and insurance brokerage businesses which are incorporated in various states and the Federal Republic of Germany.
- (a) CRICO, GELICO, and GEFCO file forms 10-K with the Securities and Exchange Commission and their separate financial statements are included therein. Summarized financial information concerning CRICO, GELICO, and GEFCO is included in Note I (Investment in Affiliates) of the Notes to Consolidated Financial Statements filed herewith.
 - (b) Subsidiaries included in consolidated financial statements of GEICO.
 - (c) Subsidiary included in consolidated financial statements of GELICO.

Item 5. Legal Proceedings

(a) The case of Workman, et al. v. Government Employees Insurance Company, et al., last reported by GEICO in its Form 10-Q for the nine months ended September 30, 1977, the description thereof being incorporated herein by reference, has been reviewed by outside counsel. Although there have been no material changes in the litigation since it was last reported, it is the opinion of counsel that, based upon the current status of the matter, the litigation is no longer material.

(b) In January and February 1976 two purported security holder class actions, alleging violations of the Securities Act of 1933, the Securities Exchange Act of 1934 (the "Exchange Act") and the common law, and naming as defendants GEICO, certain of its Directors and officers, certain former Directors and its independent accountants and the partners thereof, were filed, one in the United States District Court for the Southern District of New York (Scheiber against Government Employees Insurance Company, et al.) and the other in the United States District Court for the District of Columbia (Kulchock against Government Employees Insurance Company, et al.). The cases have been consolidated, for pretrial purposes, in the United States District Court for the District of Columbia (the "District Court"). Certain of the original Director defendants have been previously dismissed and only one member of GEICO's current Board of Directors is now named. Both complaints allege various disclosure violations involving, among other things, failure to establish sufficient reserves for losses, overstatement of the value of certain assets and breaches of common law duties. These actions seek judgment declaring defendants actions illegal, awarding plaintiffs and class members damages for the wrongs alleged and the injuries sustained and awarding plaintiffs the expenses of the litigation. The District Court by Order entered March 31, 1977 granted defendant's Motions to Dismiss. The United States Court of Appeals for the District of Columbia Circuit (the "Court of Appeals") granted plaintiff's Petition for Permission to Appeal. The cases have been briefed in the Court of Appeals and await oral argument. Active settlement negotiations are going forward in these cases and agreement in principle has been reached, but a final agreement has not yet been formalized. Management has provided an accrual in 1977 which, in its opinion, although not material in amount, is sufficient to cover any liability which may arise as a result of a final settlement.

(c) In June 1977 a purported warrant holder class action, alleging violations of the Exchange Act and the common law and naming as defendants GEICO and certain former directors was filed in the United States District Court for the Central District of California (Paul J. Bershin, Ronald H. Davis, and Estate of David S. Westheim, on behalf of themselves and all others similarly situated v. Government Employees Insurance Company, et al.). The substantive allegations of the complaint are comparable to those made in the cases summarized in (b) of this Item 5. The relief sought by the purported class includes, among other things, damages in excess of eight million dollars, interest, exemplary and punitive damages or alternative relief in the nature of a reduction of the exercise price of the warrants and an extension of their expiration date. This case has been transferred to the District Court. Active settlement negotiations are going forward in this case. On the basis thereof, management believes that the Company will not incur any material liability as a result of a final settlement.

If settlement of the cases summarized in (b) and (c) of this Item 5 is not concluded, however, it is not possible to evaluate the likelihood of an unfavorable outcome of such actions or estimate the amount or range of liability, if any. In that event, GEICO will contest such cases vigorously and will continue to assert that the plaintiffs have no valid cause of action.

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness

(a) Increases and decreases in outstanding equity securities in 1977 were as follows:

	<u>Cumulative Senior Preferred Stock</u>	<u>Cumulative Convertible Preferred Stock</u>	<u>Common Stock</u>	<u>Warrants to Purchase Common Stock</u>
Shares or Warrants Outstanding December 31, 1976	-	8,249,656	17,736,760	648,552
Conversion to Common Stock	-	3,566	7,132	-
Exercise of Stock Options	-	-	-	-
Issuance of Shares for cash on December 29, 1977	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Shares Outstanding December 31, 1977	250,000	8,246,090	17,743,892	648,552

For information regarding the issuance of options pursuant to the Company's Stock Option Plan, see the Notes to the Consolidated Financial Statements filed herewith.

On December 29, 1977, GEICO issued in a private placement 250,000 shares of its Cumulative Senior Preferred Stock, \$10 par value, to nine institutional investors for \$25,000,000 in cash.

Item 7. Changes in Securities and Changes in Security for Registered Securities

(a) Information regarding the change in the par value of GEICO's Common Stock from \$.10 to \$1.00 was reported on GEICO's Form 10-Q for the three months ended March 31, 1977 and is incorporated herein by reference thereto.

(b) On December 29, 1977, GEICO issued, in a private placement, 250,000 shares of Cumulative Senior Preferred Stock, par value \$10 per share for \$25,000,000 in cash, pursuant to the Preferred Stock Purchase Agreement dated December 27, 1977 (the "Senior Preferred Stock Purchase Agreement") which is filed herewith as an Exhibit.

This Cumulative Senior Preferred Stock ("Senior Preferred Stock") is senior to the Cumulative Convertible Preferred Stock ("Preferred Stock") and the Common Stock with respect to both dividends and distribution of assets upon liquidation. So long as any shares of Senior Preferred Stock are outstanding, GEICO may not (i) pay any cash dividend on the Common Stock or redeem, purchase or otherwise acquire, whether by sinking fund or otherwise, any shares of Preferred Stock or Common Stock (this provision has been waived by each of the Senior Preferred Stockholders so long as the terms of the Senior Preferred Stock Purchase Agreement are met) or (ii) pay any cash dividend on the Preferred Stock if the dividend and sinking fund payments on the Senior Preferred Stock have not been met.

Additionally, pursuant to the Senior Preferred Stock Purchase Agreement, GEICO will not pay dividends on its Common Stock if, after giving effect to the proposed dividend together with all dividends paid in respect of all its capital stock after December 31, 1976, the sum thereof would exceed 50% of GEICO's statutory net income accumulated after December 31, 1976.

The holders of shares of the Senior Preferred Stock shall be entitled to receive cash dividends, when and as declared by the Board of Directors, at the rate of \$10 per share per annum. Such dividends shall be payable in cash semiannually on January 1 and July 1 in each year to holders of Senior Preferred Stock on the record dates.

The stock is redeemable at \$100 per share plus an amount equal to all accrued and unpaid dividends, 50% on December 1, 1981 and the remainder on December 1, 1982.

Item 8. Defaults Upon Senior Securities

GEICO has not defaulted as to payment of dividends or otherwise on any class of securities senior to its common stock.

Item 9. Approximate Number of Equity Security Holders

<u>Title of Class</u>	<u>Number of Record Holders as of December 31, 1977</u>
Common Stock - \$1.00 par value	12,151
Cumulative Convertible Preferred Stock - \$1.00 par value	3,863
Cumulative Senior Preferred Stock - \$10.00 Par Value	9
Warrant - to purchase 2.08 shares of Common Stock at \$31.22 per share, exercisable from August 1, 1971 until August 1, 1978	1,883

Item 10. Submission of Matters to a Vote of Security Holders

Information required by this Item was disclosed in GEICO's Form 10-Q for the three months ended March 31, 1977.

Item 11. Executive Officers of the Registrant

John J. Byrne, 45, has been Chairman of the Board, President and Chief Executive Officer of GEICO since May 1976. Prior to his employment by GEICO, he served with The Travelers Insurance Companies, from 1968 to 1970 as Vice President; from 1970 to 1973 as Senior Vice President; and from 1973 to 1976 as Executive Vice President, responsible for casualty-property personal lines and individual life, health and financial services.

Arthur T. Y. Loh, 54, has been Senior Vice President and Chief Financial Officer since April 1976. He had served as Vice President, Finance, since 1975 and Assistant Vice President, Investments, since 1974. Prior to his employment by GEICO, he served as Vice President, New York Securities Company, Inc. from 1971 to 1974.

Edward S. Ring, 51, has been Senior Vice President and Chief Operating Officer since April 1977. He had served as Senior Vice President and Acting Chief Operating Officer since April, 1976, as Senior Vice President, Marketing, since July 1974, as Senior Vice President, Administration, since March 1974, as Vice President, Middle Atlantic Region, since 1973 and as Vice President, Claims, since 1964.

Donald K. Smith, 45, was elected Senior Vice President and General Counsel in March 1977. He had served as Vice President and General Counsel since 1972 and Assistant Vice President and Assistant General Counsel since 1969.

William B. Snyder, 48, was elected Senior Vice President, Control, effective April 1, 1977. Prior to his employment by GEICO, he served with The Travelers Insurance Companies, from 1973 to 1977 as Vice President and from 1955 to 1973 in various other positions in The Travelers Companies.

Martin Adler, 43, has been Vice President and Actuary since 1975, having served as Assistant Vice President and Associate Actuary since 1974. Prior to his employment by GEICO, he served as Assistant Vice President and Associate Actuary, Crum & Forster Insurance Companies from 1969 to 1974.

Ralph L. Belford, 44, has been Vice President, Policyholder Service, since 1974, had served as Assistant Vice President, Policyholder Service, since 1973, and has been an employee since 1961.

Harry I. Bond, Jr., 53, has been Vice President, Underwriting and Policyholder Service Departments since May 1976. He had served as Assistant Vice President, Administration, and has been an employee since 1949.

Henry J. Collins, 50, was elected Vice President and Comptroller in March 1977, having served as Treasurer and Comptroller since 1972. He was elected Treasurer of GEICO in 1965.

Theodore F. Culp, 56, has been Vice President, Region I, since 1973. He had served as Assistant Vice President, Claims since 1962.

DeWayne C. Cuthbertson, 46, was elected Vice President, Employee Relations, in March 1977. He had served as Assistant Vice President, Personnel, and has been an employee since 1964.

Thomas N. Exarhakis, 55, has been Vice President, Marketing, since 1974. He had served as Assistant Vice President, Marketing since 1964.

Merrill D. Knight, III, 47, has been Vice President, Claims, since March 1977. He had served as Regional Vice President since 1974, Vice President Claims Research & Control since 1973 and Assistant Vice President, Claims Staff Services since 1970.

Ernest M. Lucas, 52, has been Vice President and Legislative Counsel since 1972. He had served as Vice President and General Counsel from 1969 to 1972.

Richard C. Lucas, 51, was elected Vice President, Internal Audit, effective May 16, 1977. Prior to his employment by GEICO, Mr. Lucas was self-employed as a Consultant at various times from 1973 to 1976. He also served as Vice President, Massachusetts Company, 1975-1976; Senior Vice President and Chief Financial Officer, Financial Services Corporation, 1974-1975; Vice President, Administration, Bradford Trust Company, 1973; and Senior Vice President, Operations, Capital Spectrum Corporation, 1970-1972.

Albert M. McKenney, 56, was elected Treasurer in March 1977, having served as Assistant Treasurer since 1965 and in various other positions in GEICO's Accounting Department since 1954.

Elaine W. Murphy, M.D., 61, has been Medical Director since 1974. She has served as Medical Director of GELICO since 1963.

John M. O'Connor, 48, has been Secretary of GEICO since 1970.

Ross D. Pierce, 54, has been Vice President, Region III, since 1973. He was elected Vice President, Operations, in 1970.

James E. Reagan, 53, has been Vice President, Region II, since 1974. He had served as Assistant Vice President, Region II, since 1972 and Assistant Vice President, Office Services, since 1964.

Walter R. Tinsley, 59, has been Vice President, Real Estate, since 1959.

Edward H. Utley, 48, has been Vice President, Systems and Data Processing, since 1974. He had served as Assistant Vice President, Data Processing, since 1973. Prior to his employment by GEICO, he was Data Processing Manager for Group Hospitalization, Inc. from 1971 to 1973.

All executive officers hold office at the pleasure of the Board of Directors. There is no family relationship between the above-named executive officers of the registrant.

Item 12. Indemnification of Directors and Officers

On November 28, 1973, the Board of Directors amended the By-laws of GEICO, which amendment was ratified by the shareholders at the Annual Meeting held on March 27, 1974, to include a Section XVI regarding indemnification of Directors and Officers. The indemnification provision of the By-laws applies to civil and criminal actions and requires GEICO to indemnify its Directors and Officers or former Directors and Officers against all costs and legal or other expenses, including costs or amount of settlement. The right of indemnification does not apply, however, in relation to matters as to which the person is finally adjudged to be liable for negligence or misconduct in the performance of his duties; provided, however, that an entry of judgment by consent as part of a settlement is not deemed to be a final adjudication of liability for negligence or misconduct in the performance of duty. In the case of settlement, if the Board of Directors makes a determination that the claim, action or proceeding did not arise out of negligence or misconduct, such a determination will be sufficient and necessary to justify indemnification. This right of indemnification is in addition to and is not deemed to be exclusive of any other rights to indemnity to which an indemnified person may legally be entitled.

In addition, GEICO and its directors and officers have a Directors and Officers liability insurance policy. Subject to the limits and retentions set forth in the policy, it covers (a) losses that may be incurred by GEICO's directors and officers as a result of any wrongful acts while acting in their individual or collective capacities as directors and officers, and (b) any payment on behalf of the Company of amounts which GEICO may be required or permitted to pay as indemnification to its directors and officers. The term "wrongful act" is defined, with certain exclusions, as any actual or alleged error or misstatement or misleading statement or act of omission or neglect or breach of duty by the insureds while acting in the discharge of their duties. The maximum combined coverage under the policy is \$10 million and payment of the premium was allocated between GEICO (95%) and its directors and officers (5%).

Item 13. Financial Statements, Exhibits Filed and Reports on Form 8-K

(a) Financial Statements.

The response to this item is submitted as a separate section to this report.

Exhibits.

Exhibit 1 Certificate of Incorporation, as amended, is hereby incorporated by reference to Exhibit 3-a of Registration Statement No. 2-39709 on Form S-1, Exhibit 3-b of Registration Statement No. 2-43455 on Form S-1, Exhibit 1 of GEICO's Current Report on Form 8-K for March, 1976, as amended, Exhibit 2 of GEICO's Current Report on Form 8-K for July, 1976 and Exhibit 1 of GEICO's Form 10-Q for the three months ended March 31, 1977.

- Exhibit 2 By-laws, as amended, are hereby incorporated by reference to Exhibit 2 of GEICO's Form 10-Q for the three months ended March 31, 1977.
- Exhibit 3-a Specimen certificate representing the common stock, \$1.00 par value.*
- Exhibit 3-b Specimen certificate representing the Cumulative Convertible Preferred Stock \$1.00 par value, is hereby incorporated by reference to Exhibit 4-b of Registration Statement No. 2-57242 on Form S-1.
- Exhibit 3-c Specimen certificate representing the Cumulative Senior Preferred Stock, \$10.00 par value.*
- Exhibit 4-a Specimen Warrant certificate evidencing right to purchase shares of common stock is hereby incorporated by reference to Exhibit 5-c of Registration Statement No. 2-57242 on Form S-1.
- Exhibit 4-b Warrant Agreement dated May 5, 1971, between GEICO and American Security and Trust Company is hereby incorporated by reference to exhibit 5-c of Registration Statement No. 2-39709 of Form S-1.
- Exhibit 4-c 1973 Stock Option Plan, as amended, is hereby incorporated by reference to Exhibit 5-g of Registration Statement No. 2-57242 on Form S-1.
- Exhibit 4-d Form of Option Agreement under 1973 Stock Option Plan, as amended, together with form of Notice of Intent to Exercise, are hereby incorporated by reference to Exhibit 9-b and 9-d of GEICO's Annual Report Form 10-K for the fiscal year ended December 31, 1973.
- Exhibit 5-a Pension Plan, as amended, together with booklet summarizing the terms thereof.*
- Exhibit 5-b Profit Sharing Plan, as amended.*
- Exhibit 5-c Statement of Incentive Bonus Program for Executive Staff Group is hereby incorporated by reference to Exhibit 13-c of Registration Statement No. 2-43455 on Form S-1.

- Exhibit 5-d Statement of 1977 Incentive Bonus Program.*
- Exhibit 5-e Statement of 1978 Incentive Bonus Program.*
- Exhibit 5-f Employment Agreement effective May 5, 1976, between GEICO and John J. Byrne, together with Nonqualified Stock Option Agreement executed in connection therewith, is hereby incorporated by reference to Exhibit 13-f of Registration Statement No. 2-57242 on Form S-1.
- Exhibit 5-g Consultant Contract effective April 1, 1977, between GEICO and Alvin E. Kraus.*
- Exhibit 6-a Form of Reinsurance Agreement is hereby incorporated by reference to Exhibit 13-b of Registration Statement No. 2-57242 on Form S-1.
- Exhibit 6-b Form of Endorsement to Reinsurance Agreement.*
- Exhibit 7 Proxy Agreement between Berkshire Hathaway Inc. and Suburban Trust Company.*
- Exhibit 8 Form of Cumulative Senior Preferred Stock Purchase Agreement.*

(b) Reports on Form 8-K

GEICO did not file any report on Form 8-K during the three months ended December 31, 1977.

*Filed herewith.

PART II

Item 14. Principal Security Holders and Security Holdings of Management

(a) The following table sets forth as of February 28, 1978 information concerning the ownership of the voting securities (Common Stock and Cumulative Convertible Preferred Stock) of GEICO by all persons known by management to hold of record or beneficially, more than 10% of such securities.

<u>Name and Address</u>	<u>Title of Class</u>	<u>Type of Ownership</u>	<u>Amount Owned</u>	<u>Percent of Class</u>
Berkshire Hathaway, Inc. 97 Cove Street New Bedford, Mass.	Common Stock	Beneficial	1,294,308	7.29
	Cumulative Convertible Preferred Stock	Beneficial	1,986,953	24.09
Cede & Company New York, New York	Cumulative Convertible Preferred Stock	Record	1,068,692	12.9
American Financial Corporation Cincinnati, Ohio	Cumulative Convertible Preferred Stock	Beneficial	912,500	10.97
Salkeld & Company c/o Bankers Trust Company P. O. Box 70 Church Street Station New York, New York 10008	Common Stock	Record	8,000	0.05
	Cumulative Convertible Preferred Stock (1)	Record	912,500	10.97
NIFCO Box 3959 Omaha, Nebraska	Common Stock (2)	Record	1,294,308	7.29
	Cumulative Convertible Preferred Stock (2)	Record	1,986,953	24.09

(1) GEICO is advised that these are the same shares beneficially owned by American Financial Corporation (through its subsidiary Great American Insurance Company) as noted above.

(2) GEICO is advised that these are the same shares beneficially owned by Berkshire Hathaway, Inc. (through its insurance subsidiaries) as noted above.

Pursuant to an Order of the Superintendent of Insurance for the District of Columbia exempting Berkshire Hathaway, Inc. ("Berkshire") from certain requirements of the District of Columbia Holding Company System Regulatory Act, Berkshire has authorized the Suburban Trust Company ("Suburban"), 2601 University Boulevard West, Wheaton, Maryland 20902 to vote all of the Common and Preferred Stock of GEICO beneficially owned by Berkshire. The agreement calls for Suburban to vote the shares according to Suburban's "... best judgment as to which decision will be in the best interest of Berkshire as an investor."

(b) Number of shares and percentage of class of each class of equity securities of each of GEICO, GELICO, CRICO and GEFCO beneficially owned by all directors and officers of GEICO as of December 31, 1977.

<u>Title of Class</u>	<u>Amount Beneficially Owned</u>	<u>Percentage of Class</u>
GEICO Common Stock	1,022,786 (2)	5.7 (2)
GEICO Cumulative Convertible Preferred Stock	192,641	2.3
GEICO Warrants	3,404	.5
GELICO Common Stock	424,080 (1)(3)	9.5 (1)(3)
CRICO Common Stock	112,219 (1)	7.7 (1)
GEFCO Common Stock	63,054 (1)(4)	5.5 (1)(4)
GEFCO Preferred Stock, \$.84 Convertible Series of 1973	3,603	1.2

(1) The figures in the above table include 96,000 shares of GELICO Common Stock, 16,000 Shares of CRICO Common Stock and 35,000 shares of GEFCO Common Stock tendered to GEICO by Mr. David Kreeger pursuant to GEICO's Offers to Purchase, dated February 1, 1978.

(2) Includes options to purchase 341,572 shares.

(3) Includes options to purchase 240 shares.

(4) Includes options to purchase 1,685 shares.

In certain cases the securities of GEICO are owned jointly with another person, are owned in the name of a corporation or are held in an estate or trust in which the director or officer has an interest and/or of which he is a trustee. The figures are exclusive of 301,852 shares of GEICO Common Stock, 36,894 shares of GEICO Preferred Stock, 1,391 GEICO Warrants, 1,925 shares of GELICO Common Stock, 16,454 shares of CRICO Common Stock and 41 shares of GEFCO Preferred Stock owned by spouses (individually or as trustee), minor children or relatives sharing the homes of directors or officers or held by "associates" of directors or officers or in estates or trusts of which a director or officer is a trustee, with respect to which securities the concerned director or officer disclaims beneficial ownership.

Item 15. Directors of the Registrant

(a) The present term of office of all directors expires on April 12, 1978.

(b) There is no family relationship between any of the directors or between any of the directors and the executive officers of the registrant.

<u>Name and Year He First Became a Director</u>	<u>Age</u>	<u>Offices and Positions Presently Held with GEICO and Business Experience</u>
Thomas E. Bolger 1973	50	Executive Vice President, American Telephone & Telegraph Company, Basking Ridge, New Jersey. (1)(3)(5)
Samuel C. Butler 1972	48	Chairman of the Executive Committee. Partner, Cravath, Swaine & Moore, attorneys, New York, N.Y. (2)(3)(6)
John J. Byrne 1976	45	Chairman of the Board, Presi- dent and Chief Executive Officer. Employed by The Travelers Insurance Companies as Vice President from 1968 to 1970, as Senior Vice President from 1970 to 1973 and as Executive Vice President from 1973 to 1976. (2)(4) (7)
John M. Christie 1967	67	Chairman of the Executive Committee and a Director of The Riggs National Bank of Washington, D. C. (1)(4)(5)(6)
Lorimer A. Davidson 1952	75	Consultant. Retired Chairman of the Board and Chief Execu- tive Officer of the Government Employees Companies. (2) (4) (6)
Shelby Cullom Davis 1973	68	Chairman of the Investment Committee. Chairman, Shelby Cullom Davis & Co., investment bankers, New York, N.Y. (4)(5) (6)
Paul J. Hanna 1967	62	Chairman of the Human Resources Committee. Executive Vice Presi- dent, Manufacturers Hanover Corp- oration, a bank holding company, New York, N.Y. (1)(2)(3)(6)

<u>Name and Year He First Became a Director</u>	<u>Age</u>	<u>Offices and Positions Presently Held with GEICO and Business Experience</u>
William K. Jacobs, Jr. 1948	69	Chairman of the Audit Committee. Private financial consultant. (1)(4)(6)
Alvin E. Kraus 1976	65	Consultant to GEICO. Chairman of the Board of Criterion. President of Criterion, 1966 to 1974. Head of GEICO Underwriting Department, 1950 to 1970. (3)(6)
David Lloyd Kreeger 1948	69	Chairman of the Social Responsibility Committee. Retired Chairman of the Board and Chief Executive Officer of the Government Employees Companies. (2)(4)(5)(6)
Melvin M. Payne 1971	66	Chairman of the Board, National Geographic Society, a scientific and educational organization, Washington, D. C. (3)(5)(6)
Joseph J. Sisco 1977	58	President, American University, Washington, D. C. U.S. Assistant Secretary of State for Near Eastern and South Asian Affairs, 1969 to 1974 and Under Secretary of State for Political Affairs, 1974 to 1976. (1)(5)
Clarence C. Walton nominee	62	President, The Catholic University of America, Washington, D. C., since 1968.
H. Edward Wrapp 1977	61	Consultant to GEICO; Professor of Business Policy, Graduate School of Business, University of Chicago, Chicago, Illinois. (3)

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- (1) Member of the Audit Committee
 - (2) Member of the Executive Committee
 - (3) Member of the Human Resources Committee
 - (4) Member of the Investment Committee
 - (5) Member of the Social Responsibility Committee
 - (6) Also a Director of each of the other Companies.
 - (7) Mr. Byrne is a nominee for director of GELICO and CRICO.

Item 16. Remuneration of Directors and Officers

During 1977, the aggregate remuneration paid by GEICO and the other Companies directly or indirectly to (a) each GEICO Director and each of the three highest paid officers of GEICO whose aggregate direct remuneration exceeded \$40,000 and (b) all officers and Directors of GEICO as a group, was as follows:

Name and Capacity in Which Remuneration Was Received	Aggregate Direct Remuneration (1)	Profit Sharing Plan		Estimated Annual Benefits Upon Retirement Under Pension Plan (4)
		Company Contributions During 1977 (2)	Vested Interest in Plan at December 31, 1977 (3)	
John J. Byrne Chairman of the Board, President and Chief Executive Officer	\$ 162,118(5)	\$2,250	\$ 7,481	\$ 73,338
William B. Snyder Senior Vice President, Control	72,506	-	-	20,804
Edward S. Ring Senior Vice President and Chief Operating Officer	70,228	1,675	52,655	34,807
Lorimer A. Davidson Vice Chairman of Investment and member of Executive Committees of GEICO; Chairman of Investment and member of Executive Committees of GELICO and CRICO; member of Executive Committee of GEFCO; Consultant to and Director of GEICO, GELICO, CRICO, And GEFCO	61,975(a)	-	-	-
Shelby C. Davis Director of GEICO, GELICO, CRICO and GEFCO; Chairman of the Board of GELICO and GEFCO; Chairman of the Investment and member of the Social Responsibility Committees of GEICO; member of the Executive Committees of GELICO and GEFCO and Investment Committees of GELICO and CRICO.	49,687(b)	-	-	-
Alvin E. Kraus Consultant to GEICO and CRICO; Member of Human Resources Committees of GELICO and CRICO and of Executive and Investment Committees of CRICO; Director of GEICO and Chairman of the Board of CRICO	105,507(c)	-	-	-
David Lloyd Kreeger Consultant to GEICO; Chairman of Social Responsibility Committee of GEICO and of Executive Committees of GELICO, CRICO and GEFCO; Vice Chairman of Executive Committee of GEICO, Member of Investment Committees of GEICO, GELICO, and CRICO; and Director of GEICO, GELICO, CRICO and GEFCO	49,650(d)	-	-	-
Officers and Directors as a Group (62 in number)	2,304,099(e)	24,789(f)	767,825	745,496

(1) Includes salaries, fees and other taxable income, other than retirement benefits, and the value of certain personal benefits received from GEICO. The figures exclude \$53,250 received by Cravath, Swaine & Moore, a law firm of which Mr. Butler, a Director, is a partner, for legal services performed during 1977 for GEICO.

(2) Figures reflect payments by GEICO from June 1, 1977, at which time GEICO resumed its contributions to the Plan, to December 31, 1977. Under the Plan, an employee may contribute, on a voluntary basis, from 1% to 10% of his base salary. Pursuant to a prescribed formula, based on length of time in the Plan, GEICO may match from 50% to 100% of the employee's contribution, up to a maximum of 6% of base salary. GEICO's contributions may be invested in securities of GEICO and the other Companies. A participant's contribution may be invested, at his option, in (1) a portfolio of common and preferred stocks, (2) a group annuity contract or (3) a combination of both. A participant may also direct at any time after his 60th birthday (or after his 50th and before his 60th birthday if he intends to retire within one year) that the value of his account and all future contributions be transferred to savings accounts in Federally insured savings institutions of his own selection. The benefits accrued to participants at the time of retirement depend on the value of the securities, interest accumulation account or savings accounts at that time. No contributions are made on behalf of retired employees and no vested interest is shown for retired employees who have withdrawn their benefits as indicated above.

(3) Includes amounts contributed by the employee and accruals thereon.

(4) Estimated annual benefits from the Pension Plan are the annual amounts which it is estimated will become payable when the respective employees reach the retirement age of 65. The Plan provides that normal retirement benefits must be a specified percentage of final average earnings less 50% of the employee's primary Social Security benefits. For employees under 65, such amounts are based on the assumption that each individual will continue to receive salaried compensation until age 65 at the respective rates in effect on December 31, 1977, and that the Pension Plan will continue in its present form. The cost of accrued pension benefits is computed on an actuarial basis.

(5) Mr. Byrne has served since May 5, 1976, as Chairman of the Board, President and Chief Executive Officer of GEICO pursuant to an Employment Agreement with GEICO (the "Agreement") at a base salary of \$150,000 per year. The Agreement covers the period to January 31, 1986, but may be terminated, on six months' notice, by GEICO on January 31, 1980, and by Mr. Byrne on January 31, 1981, and in each case on any January 31 thereafter. The Agreement provides that for each calendar year from 1976 through 1981 GEICO will pay Mr. Byrne a bonus in an amount equal to 1% of the first \$12.5 million, and 2% of any excess, of GEICO's after-tax consolidated net income, as such income is defined in the Agreement. The Agreement specifies the amount of bonus payable in the event of termination of the Agreement or the merger or consolidation of GEICO and establishes limits on the bonus payable in any year which range from \$200,000 in 1977 to \$600,000 in 1979 through 1981. The figures exclude \$200,000 paid to Mr. Byrne in 1978 as a bonus for the year 1977 pursuant to the terms of the Agreement.

- (a) Includes \$27,649 paid to Mr. Davidson by GELICO, CRICO and GEFCO
- (b) Includes \$34,537 paid to Mr. Davis by GELICO, CRICO and GEFCO
- (c) Includes \$38,649 paid to Mr. Kraus by CRICO
- (d) Includes \$19,110 paid to Mr. Kreeger by GELICO, CRICO and GEFCO
- (e) Includes \$207,447 paid to all Officers and Directors by GELICO, CRICO and GEFCO
- (f) Excludes \$525 contributed on behalf of certain officers by GEFCO, CRICO, or GELICO.

Item 17. Options Granted to Management to Purchase Securities

The following table sets forth information concerning options to purchase GEICO Common Stock granted to the following persons since January 1, 1977, and as to all options held by such persons as of December 31, 1977 (the names of Messrs. Davidson, Davis, Kraus and Kreeger have been omitted in that none is eligible to receive stock options).

<u>Options Granted</u>	<u>J. J. Byrne</u>	<u>E. S. Ring</u>	<u>W. B. Snyder</u>	<u>Officers & Directors as a Group</u>
Number of Shares	-0-	22,000	22,000	105,675
Average option price per share	-0-	\$6.563	\$6.563	\$6.653
<u>Options Exercised</u>	-0-	-0-	-0-	-0-
<u>Unexercised Options Held at December 31, 1977</u>				
Number of Shares	209,741	23,995	22,000	341,572
Average option price per share	\$4.589	\$8.101	\$6.563	\$6.837

Additionally, three current GEICO officers whose names are not listed above hold options to purchase common stock of the other Companies. Such options are for a total of 240 shares of GELICO stock at an average per share price of \$12.281 and 1,685 shares of GEFCO stock at an average per share price of \$11.514. One of these Officers was granted an option to purchase 150 shares of GELICO at \$12.375 per share in 1977. No other GEICO officers or directors were granted or hold option in any of the other Companies.

Item 18. Interest of Management and Others in Certain Transactions

GEICO subleases space in some of its facilities to certain of the other Companies and also provides or provided certain corporate, personnel, payroll, data processing, investment, sales, claim and staff related services and other services for certain of the Companies. GEICO is reimbursed for such services monthly at an agreed charge on the basis of actual units processed or time involved, computed periodically in accordance with accepted accounting practices based upon a fair allocation of time and expenses. In 1977, GEICO received \$4,355,668 from the Companies for such space and services. In 1977, GEICO paid a total of \$40,511 for administrative, clerical and other services provided to it by the Companies.

Companies writing automobile liability insurance are required to participate in automobile insurance ("assigned risk") plans in each state in which a plan is in effect. The provisions of such plans generally allow the auto business of GEICO and CRICO to be grouped for purposes of such participation. Consequently, in every state having such a plan in which both GEICO and CRICO do business, GEICO and CRICO utilize these grouping provisions and GEICO bears the policywriting and claims responsibilities for both companies for assigned risk purposes. Credits available to CRICO under such plans as the result of risks insured by CRICO on a voluntary basis are used by GEICO to reduce its required participation in the plans.

When GEICO writes casualty insurance in connection with GEFCO finance contracts, GEFCO or one of its subsidiaries undertakes the inspection of risks. GEFCO's field offices are also utilized in the sale of GEICO's policies. GEICO compensates GEFCO for expenses incurred in providing these services in accordance with a fixed dollar amount per policy or a percentage of premiums written which is recomputed periodically in accordance with accepted accounting practices based on a fair allocation of time and expenses. The amount received by GEFCO and its subsidiaries from GEICO for the foregoing services in 1977 was \$70,048.

For the year 1977, GEICO and one of its subsidiaries received \$2,462,637 in premiums, \$1,635,281 of which was contributed by GEICO and the balance by its employees, for providing group life, accident and health insurance pursuant to GEICO's employee benefit plans. In addition, GEICO administers GEICO's pension plan account for fees based in part on the amount of funds under its control. For the year 1977, GEICO received \$2,976,258 as contributions to GEICO's pension plan account pursuant to this arrangement.

On December 2, 1976, CRICO assumed the reinsurance of 0.8% of GEICO's unearned premium reserve as of June 30, 1976 and new and renewal business written thereafter, excluding new voluntary business. At GEICO's request, the reinsurance treaty was modified at the end of the second quarter of 1977, reducing the amount ceded to participating reinsurers by an aggregate of 25%. CRICO's participation was reduced by 20.5%. For the year ended December 31, 1977, the agreement resulted in an underwriting profit to CRICO of \$473,393.

Additionally, on December 2, 1976, Great American Insurance Company (GAIC) a subsidiary of American Financial Corporation and National Indemnity Company (National) a subsidiary of Berkshire Hathaway, Inc., assumed the reinsurance of 1.0% and 0.8% respectively, of GEICO's unearned premium reserve as of June 30, 1976 and new and renewal business written thereafter, excluding new voluntary business. As noted above, the reinsurance treaty was modified as of June 30, 1977 at which time GAIC's participation ended. During 1977, the treaty resulted in an underwriting profit of \$503,249 to National and GAIC earned an underwriting profit from June 30, 1976 to June 30, 1977 of \$122,188.

The General Field Representative Program, which is utilized by GEICO, is administered by CRICO. For such service GEICO reimburses CRICO on the basis of actual units processed computed periodically in accordance with accepted accounting practices based upon a fair allocation of time and expenses. During 1977, GEICO paid \$26,227 to CRICO for such services.

GEFCO has outstanding ten-year 9% Senior Subordinated Notes which were sold to GEICO in 1970 in the aggregate amount of \$800,000. At December 31, 1977, \$560,000 in principal amounts of such Notes were held by GEICO. GEFCO also has outstanding \$20,000,000 of 9 1/2% Senior Subordinated Notes due 1992 which were sold in 1977 and of which GEICO purchased \$3,000,000.

GEICO and GEFCO have made use of GEICO's policyholder and inquirer lists for marketing purposes without making any payment for such use other than reimbursement for reproduction and other processing costs. In addition to the foregoing arrangements, in the normal course of business, GEICO enters into various transactions with the other Companies, all of which Companies have certain shareholders and substantially more than a majority of Directors in common with GEICO. In the opinion of GEICO's Management, each such transaction, as well as those detailed above, was on terms as favorable to GEICO as could have been obtained from other persons.

During the year ended December 31, 1977, GEFCO was indebted in varying amounts to The Riggs National Bank of Washington, D.C., of which Messrs. John M. Christie, Lorimer A. Davidson and Melvin M. Payne, Directors of GEFCO and GEICO, are either Directors or Advisory Directors; to Manufacturers Hanover Trust Company, a subsidiary of Manufacturers Hanover Corporation, of which Mr. Paul J. Hanna, a Director of GEFCO, and GEICO is Executive Vice President; and to National Savings & Trust Company, of which Mr. David Lloyd Kreeger, a Director of GEFCO, and GEICO is a Director. Such indebtedness was created in the ordinary course of business under unsecured lines of credit of \$4 million, \$8 million and \$1 million, respectively. As of year-end, 1977, the outstanding balance of such indebtedness with The Riggs National Bank and Manufacturers Hanover Trust Company were \$3,000,000 and \$485,000, respectively; no indebtedness was outstanding with National Savings & Trust Company. The interest on any such indebtedness was charged at the prime rate of those banks. Additionally, in May 1977, GEFCO borrowed \$5 million from Manufacturers Hanover Trust Company pursuant to a five-year term loan agreement, the interest on which is computed at 126% of said bank's prime rate. Further, Cravath, Swaine & Moore, a law firm of which Mr. Samuel C. Butler, a Director of GEFCO, and GEICO is a partner, performed legal services during 1977 for GEFCO for which such firm received payments of \$54,750.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOVERNMENT EMPLOYEES INSURANCE COMPANY

By: /s/ H. J. Collins

H. J. Collins, III
Vice President and Comptroller

Date: March 31, 1978

ITEM 13(a) (1): FINANCIAL STATEMENTS

GOVERNMENT EMPLOYEES INSURANCE COMPANY
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All other Schedules pursuant to Rule 7-06 (Nos. I, II, III, IV, VI, VIII, IX, X and XI) for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted as they either are not required under the related instructions, are inapplicable, or the information required thereby is set forth in the financial statements or the notes thereto. With respect to Schedule VIII (Rule 7-06), the information applicable to the consolidated subsidiaries has been omitted as they are wholly-owned and the answer to Column G would be "none".

Individual financial statements of the registrant have been omitted as the registrant's total assets, exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its most recent year-end balance sheet if it were filed, constitute 75 percent or more of the total assets as shown by the most recent year-end consolidated balance sheet; and the registrant's total sales and revenues, exclusive of interest and dividends received from or its equity in the income of the consolidated subsidiaries, as would be shown by its income statement, for the most recent fiscal year if it were filed, constitute 75 percent or more of the total sales and revenues shown by the most recent annual consolidated income statements.

Report of Ernst & Ernst, Independent Auditors

To the Shareholders
Government Employees Insurance Company

We have examined the consolidated balance sheet of Government Employees Insurance Company and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended and the schedules listed in the index on the preceding page. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note Q, there is certain litigation pending against the company for which settlement negotiations are currently in progress. Management cannot presently evaluate the effect, if any, on the accompanying financial statements if the settlement negotiations are not consummated.

In our opinion, subject to the effect, if any, on the financial statements of the ultimate resolution of the litigation referred to in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Government Employees Insurance Company and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion, which is qualified as explained above, that the schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulations of the Securities and Exchange Commission.

Ernst & Ernst

Washington, D. C.
March 2, 1978

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CONSOLIDATED BALANCE SHEET

	December 31,	
	1977	1976
<u>Assets</u>		
Investments - other than investments in affiliates		
Bonds and notes, at amortized cost (market value of \$589,768,895 and \$569,581,318 respectively) (See Note H)	\$600,745,694	\$562,057,278
Preferred stocks, at market (cost of \$22,817,299 and \$20,669,095 respectively) (See Note H)	22,423,222	20,288,943
Total Investments	623,168,916	582,346,221
Cash	19,159,947	18,883,406
Investment in affiliates (See Note I)	35,370,817	-
Accrued investment income	9,798,150	9,138,018
Premiums receivable, less allowance for cancellation of \$1,600,000 and \$3,000,000 respectively	170,910,345	202,839,644
Unpaid losses due from reinsurers	54,751,762	42,332,941
Property and equipment, less accumulated depreciation of \$20,626,445 and \$17,644,792 respectively (See Note C)	47,422,961	49,020,551
Deferred policy acquisition costs (See Notes A & D)	14,156,983	-
Other assets	15,253,653	7,267,825
<u>Total Assets</u>	<u>\$989,993,534</u>	<u>\$911,828,606</u>
<u>Liabilities</u>		
Loss reserves	\$386,813,980	\$376,991,204
Loss adjustment expense reserves	57,503,390	53,508,796
Unearned premiums	263,561,908	272,871,883
Unearned reinsurance commissions	8,990,843	15,052,671
Accounts payable and accrued expenses	10,776,067	11,528,554
Deferred income taxes (See Note F)	4,227,572	1,827,765
Long-term debt (See Note G)	47,524,365	47,864,212
Other liabilities	30,020,342	28,360,466
Total Liabilities	<u>809,418,467</u>	<u>808,005,551</u>
<u>Shareholders' Equity</u>		
Cumulative Senior Preferred Stock - \$10 par value, redemption value of \$100 per share, 300,000 shares authorized, 250,000 shares issued and outstanding	2,500,000	-
Excess of redemption value over par value	22,500,000	-
Cumulative Convertible Preferred Stock - \$1 par value, redemption value of \$9.20 per share, 10,000,000 shares authorized, 8,246,090 shares issued and outstanding, aggregate liquidation preference value \$82,460,900	8,246,090	8,249,656
Excess of redemption value over par value	67,617,938	67,647,179
Common Stock - \$1 par value (\$.10 in 1976), 45,000,000 shares authorized, 17,743,892 shares issued and outstanding	17,743,892	1,773,676
Paid-in surplus	97,101,443	113,038,852
Unrealized depreciation of investments	(275,853)	(266,106)
Retained earnings (deficit)	(34,858,443)	(86,620,202)
Total Shareholders' Equity	<u>180,575,067</u>	<u>103,823,055</u>
<u>Total Liabilities and Shareholders' Equity</u>	<u>\$989,993,534</u>	<u>\$911,828,606</u>

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CONSOLIDATED STATEMENT OF INCOME

	<u>For the Year Ended December 31.</u>	
	<u>1977</u>	<u>1976</u>
<u>Revenue</u>		
Premiums written	\$454,289,882	\$463,410,475
Change in unearned premiums	<u>9,309,974</u>	<u>111,991,786</u>
Premiums Earned	463,599,856	575,402,261
Investment income net of expenses of \$498,582 and \$662,437 (See Note H)	40,870,466	38,125,335
Equity in earnings of affiliates (See Note I) (includes dividends of \$193,031)	<u>696,271</u>	<u>-</u>
Total Revenue	<u>505,166,593</u>	<u>613,527,596</u>
<u>Losses and Expenses</u>		
Losses incurred	313,546,216	466,414,604
Loss adjustment expenses incurred	72,969,311	91,279,644
Policy acquisition costs net of reinsurance commissions earned (See Notes A & D)	45,807,405	67,923,439
Interest expense	4,235,898	4,264,060
Other operating costs and expenses	<u>7,890,301</u>	<u>10,016,341</u>
Total Losses & Expenses	<u>444,449,131</u>	<u>639,898,088</u>
Income Before Income Tax Expense	60,717,462	(26,370,492)
Income taxes (See Note F)	<u>22,953,337</u>	<u>-</u>
Income Before Realized Gains on Investments	37,764,125	(26,370,492)
Realized gains on sale of investments net of taxes	<u>120,169</u>	<u>60,107</u>
(Net unrealized appreciation (depreciation) on investments in stocks credited directly to shareholders' equity was \$(9,747) in 1977 and \$19,096,656 in 1976)		
Income Before Extraordinary Item	37,884,294	(26,310,385)
Utilization of tax loss carryforward	<u>20,697,181</u>	<u>-</u>
Net Income	<u>\$ 58,581,475</u>	<u>\$(26,310,385)</u>
<u>Per Share Results</u>		
Primary: Income before extraordinary item	\$ 1.79	\$ (1.51)
Net Income	\$ 2.96	\$ (1.51)
Fully/		
Diluted: Income before extraordinary item	\$ 1.10	-
Net Income	\$ 1.70	-

Items in parentheses signify loss
See notes to Consolidated Financial Statements

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Two Years Ending December 31, 1977

	Cumulative Senior Preferred Stock	Cumulative Convertible Preferred Stock	Common Stock	Paid-in Surplus	Unrealized Depreciation on Investments in Stocks	Retained Earnings (Deficit)	Total
Balance at January 1, 1976	-	-	\$ 70,947,040	\$43,725,049	\$(19,362,762)	\$(58,394,642)	\$ 36,914,685
Reduction in par value of Common Stock To \$1.00 per share			(53,210,280)	53,210,280			-
To \$.10 per share			(15,963,084)	15,963,084			-
Sale of Preferred Stock - 8,249,656 shares		\$75,896,835				(1,425,970)	74,470,865
Net loss for 1976						(26,310,385)	(26,310,385)
Dividend on Preferred Stock - \$.0593 a share						(489,205)	(489,205)
Unrealized appreciation on investments in stocks					19,096,656		19,096,656
Capital contribution by share- holder				140,439			140,439
Balance at December 31, 1976	-	75,896,835	1,773,676	113,038,852	(266,106)	(86,620,202)	103,823,055
Increase in par value of Common Stock to \$1.00 per share			15,968,664	(15,968,664)			-
Sale of Senior Preferred Stock	\$25,000,000					(165,000)	24,835,000
Conversion of Preferred Stock to Common Stock		(32,807)	1,552	31,255			-
Additional cost of sale of Convertible Preferred Stock						(39,282)	(39,282)
Net Income for 1977						58,581,475	58,581,475
Dividend on Convertible Preferred Stock - \$.736 a share						(6,069,228)	(6,069,228)
Dividend on Senior Preferred Stock						(13,889)	(13,889)
Dividend on Common Stock						(532,317)	(532,317)
Unrealized depreciation of investments in stocks					(9,747)		(9,747)
Balance at December 31, 1977	<u>\$25,000,000</u>	<u>\$75,864,028</u>	<u>\$17,743,892</u>	<u>\$97,101,443</u>	<u>\$(275,853)</u>	<u>\$(34,858,443)</u>	<u>\$180,575,067</u>

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Year Ended December 31,	
	<u>1977</u>	<u>1976</u>
<u>Funds provided:</u>		
Income before extraordinary item	\$ 37,884,294	\$ (26,310,385)
Change in items not requiring or providing funds:		
Equity in net income of affiliates	(723,680)	-
Net premiums receivable	31,929,298	5,508,116
Income tax recoverable	2,500	12,654,977
Unpaid losses due from reinsurers	(12,418,822)	(42,332,941)
Deferred policy acquisition costs	(14,156,983)	-
Deferred income tax	2,403,984	-
Accrual of discount and amortization of premiums on bonds	(2,137,413)	(3,224,435)
Provision for depreciation	3,311,599	3,410,723
Loss reserves and loss adjustment reserves	13,817,370	62,061,222
Unearned premiums	(9,309,975)	(111,991,786)
Unearned reinsurance commissions	(6,061,828)	15,052,671
Other	239,710	(10,728,082)
Cash provided from operations exclusive of extraordinary item	44,780,054	(95,899,920)
Utilization of tax loss carryforward	<u>20,697,181</u>	<u>-</u>
Cash provided from operations	65,477,235	(95,899,920)
Dividends from affiliates	193,031	-
Proceeds from sale of Senior Preferred Stock	24,795,718	-
Proceeds from sale of Convertible Preferred Stock	-	74,470,865
Sale of investments	172,946,190	926,550,909
Other	<u>-</u>	<u>3,285,317</u>
<u>Total funds provided</u>	<u>263,412,174</u>	<u>908,407,171</u>
<u>Funds applied:</u>		
Investment in affiliates	34,867,577	-
Purchase of investments	211,645,397	906,562,997
Increase in receivable on security sales	7,786,461	1,514,285
Cash dividends paid to shareholders	5,573,469	-
Other	<u>3,262,729</u>	<u>295,512</u>
<u>Total funds applied</u>	<u>263,135,633</u>	<u>908,372,794</u>
Change in cash	276,541	34,377
Cash, January 1	<u>18,883,406</u>	<u>18,849,029</u>
Cash, December 31	<u>\$ 19,159,947</u>	<u>\$ 18,883,406</u>

Certain 1976 amounts have been reclassified for comparative purposes

See notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A: Significant Accounting Policies

Consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries, GEICO Properties, Inc. and GEICO Washington Properties, Inc., which were formed principally to own property and real estate for the Company's use. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Reporting

The accompanying financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP). These principles differ from statutory accounting practices prescribed or permitted by the Department of Insurance of the District of Columbia in several material respects. The more significant variances between GAAP and statutory accounting practices are: in GAAP accounting, costs attributable to obtaining business are deferred and charged to income in proportion to the recognition of the related premium revenues rather than being charged to operations as incurred; the equity in the undistributed net income of the affiliates is included in the determination of net income rather than reflected as a change in policyholders' surplus; deferred income taxes are provided on the timing differences between pretax accounting income and taxable income; certain assets, principally premiums receivable over 90 days past due and furniture and equipment, are reported as assets rather than being charged directly to statutory surplus; unpaid losses due from reinsurance transactions are set forth separately as an asset rather than being netted against the reserve for losses; reinsurance commissions are earned over the term of the business ceded rather than when received; and certain statutory reserves are provided in excess of reserves considered adequate. In addition, intercompany gains on real estate transfers, which are eliminated in consolidation for GAAP purposes, are generally permitted in the calculation of statutory net income and surplus. The Company operates in a single business segment, that of providing property and casualty insurance coverage.

Investments

Investments in bonds and notes are reported at amortized cost and investments in stocks (other than those of affiliates) are reported at their market value. Such market values are as prescribed by the National Association of Insurance Commissioners and are generally determined from market quotations. Realized gains and losses on sales of investment securities, as determined on a specific identification basis, are included in the statement of operations. Unrealized appreciation (depreciation) on common and preferred stocks, after deferred income tax effects, is reported directly in shareholders' equity. Investment in affiliates is carried at cost plus equity in undistributed earnings since the date of acquisition adjusted for the amortization of goodwill (excess of original cost over underlying book value).

Reserves for Losses, Loss Adjustment Expenses and Unearned Premiums

The reserve for losses is provided based upon averages for automobile claims reported within the most recent six months, case basis estimates for other reported claims and calculated estimates of unreported losses. The reserve for loss adjustment expenses is provided based upon estimates of future expenses to be incurred in settlement of the claims provided in the reserve for losses. The reserve for losses further includes additional amounts which are presently anticipated to compensate for possible deficiencies caused by future changes in economic and social conditions. In 1976 and 1977 the determination of these additional amounts was based upon Company studies of its reserve levels using various projection techniques and included consideration of studies performed by a firm of independent consulting actuaries.

The Company believes that its aggregate provision for loss and loss adjustment expenses at December 31, 1977 is reasonable and adequate to cover the ultimate net cost of losses on reported and unreported claims arising from accidents which had occurred by that date, but such provision is necessarily based on estimates and the ultimate net cost may vary from such estimates. As adjustments to these estimates become necessary, such adjustments are reflected in current operations. The methods used to develop these reserves are subject to continuing review and refinement. The analysis of GEICO's loss reserves by an independent consulting actuarial firm remains essentially in agreement with the Company's estimate.

Unearned premiums are determined by prorating policy premiums over the terms of the policies and are reported net of reinsurance.

Deferred Policy Acquisition Costs

Policy acquisition costs, which vary with and are primarily related to the production of business, are deferred on a quarterly basis and amortized over the approximate terms of the policies written. The amount of policy acquisition costs that can be deferred cannot exceed the amount recoverable from the related reserve for unearned premiums in excess of anticipated losses. During 1976 no policy acquisition costs were considered recoverable. In estimating anticipated losses, the Company utilizes the loss ratio for the most recent twelve-month period and includes a provision for possible adverse development. The percentages of unearned premium in excess of these anticipated losses for the four quarters of 1977 were 2.54%, 7.73%, 12.13%, and 15.71% respectively. However, the Company has determined that until a sufficient experience of stable underwriting profit exists, it would be prudent to limit its deferral to premium taxes and certain commissions. The effect of this limitation reduced the amounts which would have been deferred using the same basis as used in 1975 and prior by \$3.8, \$7.9 and \$9.4 million in the second, third and fourth quarters of 1977 respectively.

NOTE B: Reconciliation to Statutory Accounts

A reconciliation of net income and shareholders' equity as determined under statutory accounting practices prescribed or permitted by the Department of Insurance of the District of Columbia for GEICO unconsolidated to that reported in the accompanying consolidated financial statements is as follows:

Net Income	Year Ended December 31,	
	1977	1976
Statutory accounting practices	\$35,227,053	\$ (9,942,162)
Equity in undistributed net income of affiliates	503,240	-
Deferred policy acquisition costs	14,156,983	-
Allowance for amounts uncollectible on cancelled policies	1,400,000	-
Deferred income taxes	(2,403,984)	-
Additional statutory reserves	2,500,000	-
Change in unearned reinsurance commissions	6,061,828	(15,052,671)
Other	<u>1,136,355</u>	<u>(1,315,552)</u>
In accordance with generally accepted accounting principles	<u>\$58,581,475</u>	<u>\$(26,310,385)</u>

Shareholders' Equity	December 31,	
	1977	1976
Statutory accounting practices	\$178,629,949	\$136,665,427
Additional statutory reserves	2,500,000	-
Allowance for amounts uncollectible on cancelled policies	(1,600,000)	(3,000,000)
Deferred policy acquisition costs	14,156,983	-
Deferred income taxes	(3,859,665)	(1,459,858)
Effects of consolidated subsidiaries	(20,476,418)	(20,826,953)
Unearned reinsurance commissions	(8,990,843)	(15,052,671)
Revaluation of GWPI intercompany note	2,053,796	-
Non-admitted assets	8,494,402	9,070,870
Affiliates valuation	10,418,634	-
Other	(751,771)	(1,573,760)
In accordance with generally accepted accounting principles	<u>\$180,575,067</u>	<u>\$103,823,055</u>

Under the Holding Company System Regulatory Act applicable to District of Columbia domestic insurers, the maximum amount of dividends and other distributions to its shareholders (including redemptions of outstanding stock) that may be paid by GEICO (without prior approval of the District of Columbia Department of Insurance) in any 12-month period is the greater of (i) investment income (as defined) for the preceding calendar year or (ii) 10% of statutory policyholders' surplus at the end of the preceding year.

NOTE C: Property & Equipment

The annual provisions for depreciation and amortization have been computed in accordance with the approximate following estimated useful lives:

	Years
Buildings	45
Equipment	10
Leasehold Improvements	Lesser of life of lease or economic useful life

Depreciation expense for 1977 and 1976 is \$3,311,599 and \$3,410,723 respectively.

When properties are retired or otherwise disposed of, the asset account is relieved of the cost of the particular item and the allowance for depreciation and amortization is charged with the actual or estimated accumulated depreciation which is applicable thereto. Any gain or loss resulting from disposition is credited or charged to operations. Expenditures for repairs, maintenance and minor improvements are charged to operations as incurred.

NOTE D: Policy Acquisition Costs

Policy acquisition costs deferred and amortized are summarized as follows:

	Year Ended December 31,	
	1977	1976
Policy acquisition costs incurred:		
Commission and brokerage	\$ 9,891,449	\$ 5,378,934
Premium taxes	14,077,614	19,507,477
Direct mail selling net of reinsurance commissions earned	<u>35,995,325</u>	<u>43,037,028</u>
	59,964,388	67,923,439
Policy acquisition costs expensed	<u>45,807,405</u>	<u>67,923,439</u>
Increase in deferred policy acquisition costs	<u>\$ 14,156,983</u>	<u>\$ -</u>

NOTE E: Quota Share Reinsurance Agreements

Pursuant to a program carried out under the supervision of the District of Columbia Superintendent of Insurance, GEICO executed reinsurance agreements with 27 property and casualty insurance companies obligating them to provide quota share reinsurance on 25.36% of GEICO's business. These agreements were signed on December 2, 1976, effective June 30, 1976. Quota share reinsurance is a form of reinsurance under which each company providing reinsurance assumes a predetermined share of the book of business being reinsured. Reinsurance agreements do not discharge GEICO from its primary legal liability on the covered policies but, under industry practice as permitted by existing regulations, GEICO accounts for the business covered by these agreements as if it were no longer liable with respect thereto.

By mutual agreement with the companies participating in the Quota Share Reinsurance Agreement, GEICO reduced its reinsurance by one fourth at the end of the second quarter of 1977. This action reduced the quota share from 25.36% to 19.02% of GEICO's business at the start of the third quarter of 1977 and reduced the number of reinsurers from 27 to 17. Also, pursuant to the reinsurance agreements, commissions were reduced from 15% to 12% on July 1, 1977.

GEICO or the reinsurers may terminate the reinsurance agreements at any time the reinsurers' combined loss and expense ratio on an inception-to-date basis is 98% or less. During the fourth quarter, the 98% combined ratio was achieved and GEICO has given notice to the participants that it intends to terminate the treaty in 1978, provided no objection is raised by the Superintendent of Insurance of the District of Columbia.

The direct effect of these reinsurance agreements on the operations for 1977 and 1976 was as follows:

	GAAP		Statutory	
	1977	1976	1977	1976
Premiums ceded to reinsurers	\$(127,090,362)	\$(80,639,360)	\$(127,090,362)	\$(80,639,360)
Loss and loss adjustment expenses ceded	96,694,746	74,205,426	96,694,746	74,205,426
Commissions earned (net of interest expenses of \$2,512,625 in 1976)	<u>18,818,805*</u>	<u>9,583,279</u>	<u>12,779,334*</u>	<u>23,423,932</u>
Effect on GEICO underwriting income	<u>\$ (11,576,811)</u>	<u>\$ 3,149,345</u>	<u>\$ (17,615,782)</u>	<u>\$ 16,989,998</u>

*In 1977 commissions earned exclude interest earned of \$1,545,327 at 3% per annum on funds held by the reinsurers during the second half of 1977, which was included in investment income.

In addition to the quota share reinsurance the Company maintains certain reinsurance agreements for the purpose of insuring excess risks. The Company remains liable for any amounts to the extent that the reinsuring companies are unable to meet their obligations.

Amounts deducted from liability, income and expense accounts in connection with reinsurance placed with other companies excluding the effects of the Quota Share Reinsurance are as follows:

	1977	1976
Reserve for losses and loss expenses	\$10,307,301	\$ 7,227,727
Reserve for unearned premiums	5,144,919	5,714,165
Premiums written	9,796,694	13,335,930
Losses incurred	7,365,067	7,919,646
Loss adjustment expenses incurred	714,085	666,971

Amounts deducted from liability and expenses accounts in connections with the Quota Share Reinsurance Treaty are as follows:

	<u>1977</u>	<u>1976</u>
Reserve for unearned premiums	\$59,437,421	\$92,271,019
Losses incurred	83,313,028	64,014,713
Loss adjustment expenses incurred	13,381,718	10,190,713

NOTE F: Income Taxes

Tax expense for 1977 has been computed upon pre-tax financial reporting income before utilization of the net operating loss carryforward and is attributable to:

Tax basis income before loss carryforward	\$ 9,982,171
Timing differences	<u>12,971,167</u>
Income tax provision	<u>\$22,953,338</u>

A reconciliation of the effective tax rates in the statement of operations and the prevailing Federal income tax rate (48%) is as follows:

	<u>Year Ended</u> <u>December 31,</u>	
	<u>1977</u>	<u>1976</u>
Income tax provision at 48% of pre-tax income (loss)	\$29,144,382	\$(12,657,836)
Effect of:		
Tax-exempt interest income	(4,636,088)	(5,906,999)
Dividends received deduction	(824,550)	(1,283,659)
Amounts taxed as capital gains	(469,837)	-
Equity in affiliates earnings	(162,524)	-
Unused net operating loss carryforward	-	20,023,943
Other items	<u>(98,045)</u>	<u>(175,449)</u>
Income tax provision	<u>\$22,953,338</u>	<u>\$ -</u>

The deferred tax provision in 1977 resulted from the timing differences in the recognition of revenue and expenses for tax and financial statement purposes as follows:

	<u>December 31,</u> <u>1977</u>
Deferral of policy acquisition costs	\$ 6,795,352
Commission on reinsurance treaties	2,909,677
Accrued investment income	783,063
Additional statutory reserves	1,200,000
Allowance for uncollectible amounts	672,000
Other	<u>611,075</u>
Deferred tax provision	<u>\$12,971,167</u>

The 1977 benefit of the net operating loss carryforward of \$20,697,181 consists of the benefits from reduction in the tax basis income of \$9,982,171, reduction in deferred taxes of \$10,604,083 and reduction in tax on realized gain of \$110,927.

At December 31, 1977 the Company had a net operating loss carryforward for tax purposes of approximately \$115.6 million, of which \$96.0 million will expire in 1980 and \$19.6 million will expire in 1983. The unused investment tax credit carryforward is approximately \$2.0 million and is accounted for by the flow-through method. Because of timing differences, principally policy acquisition costs and commissions on reinsurance treaties, the net operating loss carryforward for financial statement purposes is approximately \$102.7 million. Utilization of the tax loss carryforward in excess of this amount will result in restoration of deferred taxes.

NOTE G: Long-Term Debt

The long-term debt owed by the Company's wholly owned subsidiaries matures for the succeeding five years as follows:

	<u>8-1/4% Notes of GEICO Properties, Inc.</u>	<u>8-1/2% Note of GEICO Properties, Inc.</u>	<u>9-3/8% Note of GEICO Washington Properties, Inc.</u>	<u>Total</u>
1978	\$ 160,450	\$ 87,289	\$ 122,667	\$ 370,406
1979	174,103	94,949	134,675	403,727
1980	188,917	103,280	147,857	440,054
1981	204,991	112,343	162,330	479,664
1982	<u>222,434</u>	<u>122,201</u>	<u>178,220</u>	<u>522,855</u>
	950,895	520,062	745,749	2,216,706
1983 to 2010	<u>13,580,324</u>	<u>7,726,261</u>	<u>24,001,074</u>	<u>45,307,659</u>
Total December 31, 1977	<u>14,531,219</u>	<u>8,246,323</u>	<u>24,746,823</u>	<u>47,524,365</u>
Total December 31, 1976	<u>\$14,679,053</u>	<u>\$8,326,571</u>	<u>\$24,858,553</u>	<u>\$47,864,212</u>

Interest expense of \$4,235,898 and \$4,264,060 was incurred for the years 1977 and 1976 respectively.

All the real estate has been pledged as security for the notes and the Company has made assignments of long-term leases as additional collateral. All the note agreements provide that the entire unpaid principal and interest become due and payable in the event of default.

The GEICO Properties, Inc. 8-1/4% notes are due in equal quarterly installments of \$338,599, including interest, until June 15, 2004. The GEICO Properties, Inc. 8-1/2% note is due in equal quarterly installments of \$196,373, including interest, until May 1, 2004. The GEICO Washington Properties, Inc. 9-3/8% note is due in equal monthly installments of \$203,125, including interest, until June 1, 2010.

NOTE H: Investment Operations

Investment income is summarized as follows:

	<u>Year Ended December 31,</u>	
	1977	1976
Interest on bonds and notes	\$37,962,179	\$36,202,619
Dividends on preferred stocks	1,827,925	2,120,614
Dividends on common stocks	-	433,792
Other	<u>1,578,944</u>	<u>30,747</u>
	41,369,048	38,787,772
Investment expenses	<u>498,582</u>	<u>662,437</u>
Net investment income	<u>\$40,870,466</u>	<u>\$38,125,335</u>

Investment in bonds and notes are carried at amortized cost. Investments in common and preferred stocks are reported at market value. Such market value is as prescribed by the National Association of Insurance Commissioners and is generally determined from market quotations.

<u>Type of Investments</u>	<u>December 31, 1977</u>		
	<u>Cost(1)</u>	<u>Value</u>	<u>Amount at Which Shown in the Balance Sheet</u>
Bonds and Notes:			
United States government and governmental agencies and authorities	\$252,865,058	\$246,244,176	\$252,865,058
State, municipalities and political subdivisions	239,128,464	233,882,069	239,128,464
Foreign governments	31,339,777	30,800,000	31,339,777
Public utilities	68,727,039	70,181,500	68,727,039
Industrial & miscellaneous	5,144,953	5,256,750	5,144,953
Affiliate	<u>3,540,403</u>	<u>3,404,400</u>	<u>3,540,403</u>
Total bonds and notes	600,745,694	589,768,895	600,745,694
Stocks:			
Preferred stocks	22,651,021	22,348,972 ⁽²⁾	22,348,972
Affiliate preferred stock	<u>166,278</u>	<u>74,250⁽²⁾</u>	<u>74,250</u>
Total stocks	<u>22,817,299</u>	<u>22,423,222</u>	<u>22,423,222</u>
Total investments	<u>\$623,562,993</u>	<u>\$612,192,117</u>	<u>\$623,168,916</u>

- (1) On the basis of original cost for stocks, cost for bonds adjusted for amortization of premiums and accrual of discounts.
- (2) Market value as prescribed by the National Association of Insurance Commissioners.

<u>December 31, 1977</u>	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Market Value</u>
		<u>Appreciation</u>	<u>Depreciation</u>	
United States government bonds	\$252,865,058	\$ 5,032	\$ 6,625,964	\$246,244,176
State, municipal and corporate bonds	347,880,636	3,678,908	8,034,325	343,524,719
Preferred stocks	<u>22,817,299</u>	<u>267,332</u>	<u>662,009</u>	<u>22,423,222</u>
	<u>\$623,562,993</u>	<u>\$3,951,322</u>	<u>\$15,322,798</u>	<u>\$612,192,117</u>

The aggregate cost of stocks at December 31, 1976 amounted to \$20,669,095 which exceeded market value by \$360,768.

NOTE H: Investment Operations (cont'd)

Realized gains (losses) on investments, as determined on a specific identification basis, and unrealized appreciation (depreciation) on investments are summarized below:

<u>Year Ended December 31, 1977</u>	<u>Realized</u>	<u>Unrealized</u>	<u>Combined</u>
Bonds and notes	\$ 731,149	\$(18,500,839)	\$(17,769,690)
Preferred stocks	(500,053)	78,104	421,949
Affiliate preferred stocks	-	(92,028)	(92,028)
	<u>231,096</u>	<u>(18,514,763)</u>	<u>(18,283,667)</u>
Applicable income taxes (credit)	<u>110,927</u>	<u>(4,177)</u>	<u>106,750</u>
Net Gains (Losses) on Investments	<u>\$ 120,169</u>	<u>\$(18,510,586)</u>	<u>\$(18,390,417)</u>

Year Ended December 31, 1976

Bonds and notes	\$10,807,696	\$41,255,017	\$ 52,062,713
Preferred stocks	(6,262,446)	11,440,460	5,178,014
Common stocks	<u>(4,485,143)</u>	<u>9,116,053</u>	<u>4,630,910</u>
	60,107	61,811,530	61,871,637
Applicable income taxes	<u>-</u>	<u>1,459,858</u>	<u>1,459,858</u>
Net Gains on Investments	<u>\$ 60,107</u>	<u>\$60,351,672</u>	<u>\$60,411,779</u>

There were no bonds and notes nor preferred stocks which were non-income producing for the six month periods ending December 31, 1977 and December 31, 1976.

No investments in any person or its affiliates (other than bonds of the United States government) exceeded two percent of total investments at December 31, 1977 or December 31, 1976 except for foreign government bonds as noted on the previous page.

NOTE I: Investment in Affiliates

On November 1, 1977, GEICO paid to unrelated corporate investors a purchase price of \$30,856,686 to obtain 24.2% (1,082,274 shares) of GELICO's outstanding Common Stock; 20.0% (292,800 shares) of CRICO's outstanding Common Stock; 20.5% (223,000 shares) of GEFCO's then outstanding Common Stock; and 1.9% (6,600 shares) of GEFCO's then outstanding Preferred Stock. In a separate transaction on November 4, 1977 GEICO purchased an additional 13.4% (196,039 shares) of CRICO Common Stock from another shareholder at a cost of \$4,116,319. The investments are accounted for by the equity method. The excess cost over underlying book value amounting to \$6,578,116 is being amortized over 40 years.

	<u>GELICO</u>	<u>CRICO</u>	<u>GEFCO</u>
Purchase Price (Common Stock)	\$18,289,874	\$11,661,553	\$4,916,150
Equity in net income (2 months)	327,613	313,120	82,947
Cash dividends received	(97,405)	(73,326)	(22,300)
Amortization of excess cost	<u>(24,382)</u>	<u>(3,027)</u>	<u>-</u>
Carrying value at December 31, 1977	<u>\$18,495,700</u>	<u>\$11,898,320</u>	<u>\$4,976,797</u>
Aggregate Market Value at December 31, 1977	<u>\$13,257,857</u>	<u>\$ 8,676,892</u>	<u>\$2,341,500</u>

On February 1, 1978 the Company commenced tender offers for 300,000 shares of common stock of each of Government Employees Life Insurance Company (GELICO), Criterion Insurance Company (CRICO) and Government Employees Financial Corporation (GEFCO) which expired on February 21, 1978. The Company offered to purchase the GELICO stock at \$14 per share, the CRICO stock at \$21.50 per share and the GEFCO stock at \$12.25 per share. During the period of the offer, GEICO was tendered 1,430,879 shares of GELICO stock, 380,777 shares of CRICO stock and 437,306 shares of GEFCO stock. On February 22, 1978 GEICO's Board of Directors determined that the company will purchase all of the tendered shares of each of those companies.

As a result GEICO owns 56.1% (2,513,153 shares) of GELICO outstanding common stock; 59.5% (869,616 shares) of CRICO outstanding common stock; 57.9% (660,306 shares) of GEFCO outstanding common stock.

Summary financial information for affiliated companies, GELICO, GEFCO, and CRICO, combined as a group, for 1977 is as follows:

Investments	\$205,823,564
Total Assets	500,481,739
Reserves	143,981,742
Long-Term Debt	65,611,869
Shareholders' Equity	116,076,666
Revenue	145,883,747
Net Income	19,513,469

NOTE J: Employee Benefits

The Company has a pension plan covering most full-time employees. The Company's policy is to fund pension costs as accrued including amortization of prior service costs over thirty years. Fund assets at December 31, 1976 (latest actuarial valuation) exceeded vested benefits as of that date. During 1976 and 1977 the Company amended this plan to comply with the Employee Retirement Income Security Act of 1974 and to make changes recommended by the Administrative Committee of the Plan. In addition, the actuary revised several of the actuarial assumptions used in the valuation. The effect of these changes was not material. The unfunded actuarial liability as of the latest valuation on December 31, 1976 was \$9,080,044.

The Company has an employee savings plan with matching Company contributions determined by length of participation. The Company's contributions to such savings plan were suspended on January 31, 1976 and were resumed again on June 5, 1977. The expenses of these plans were as follows:

	Pension Plan	Savings Plan
Year ended December 31:		
1976	\$2,259,000	\$ 33,327
1977	\$2,976,258	\$184,560

GEICO provides an incentive bonus program for key employees other than the Chairman of the Board to reward specific eligible personnel for outstanding performance. The Chairman of the Board, under the terms of his employment contract, is eligible for a bonus provided profits exceed specified levels. The expense for both plans amounted to \$676,968 and \$0 for 1977 and 1976 respectively.

NOTE K: Stock Options and Warrants

During 1973 the Company adopted a Stock Option Plan under which both qualified and non-qualified options may be granted to officers and key employees for the purchase of capital stock at 100% or more of fair market value at date of grant. The options are exercisable in installments beginning one year from date of grant and expire not more than 10 years thereafter (five years in the case of qualified options).

Options and Warrant information has been restated to give effect to stock dividends, stock distributions and issuance of Preferred Stock.

The following tabulations show the options granted, the options which became exercisable, the options which were exercised, and the shares under option at December 31, 1977 and 1976.

OPTIONS GRANTED			
Year Ended December 31:	Number of Shares	Option Price	
		Per Share	Total
1977	106,525	\$ 6.32 to \$ 6.75	\$ 699,068
1976	209,741	4.59	\$ 962,502

OPTIONS WHICH HAVE BECOME EXERCISABLE

Year Ended December 31:	Number of Shares	Option Price		Market Price on Date Options Became Exercisable	
		Per Share	Total	Per Share	Total
1977	77,456	\$ 4.59 to \$36.06	\$ 858,095	\$5.81 to \$ 7.06	\$525,312
1976	40,876	\$16.90 to \$46.33	\$1,333,171	\$2.97 to \$10.01	\$176,935

THERE WERE NO OPTIONS EXERCISED DURING 1977 OR 1976

SHARES UNDER OPTION

Period During Which Options Were Granted	Under Option	Option Price	
		Per Share	Total
<u>December 31, 1977</u>			
1973	31,967	\$36.06	\$1,152,730
1974	32,103	20.75	666,266
1975	24,708	16.90	417,442
1976	206,195	4.59	946,229
1977	104,525	6.56	685,997
1977	1,000	6.75	6,750
1977	1,000	6.32	6,320
	<u>401,498</u>		<u>\$3,881,734</u>
<u>December 31, 1976</u>			
1972	10,948	\$46.33	\$ 507,232
1973	36,050	36.06	1,299,963
1974	36,759	20.75	762,896
1975	29,026	16.90	490,394
1976	<u>209,741</u>	4.59	<u>962,502</u>
	<u>322,524</u>		<u>\$4,022,987</u>

Upon sale of shares of capital stock under the option plan (the full amount therefore must be paid in cash prior to issuance of the shares), the difference between the option price and the par value of the shares issued is credited to capital surplus. There are no charges to income with respect to the above arrangements.

At December 31, 1977 the Company had outstanding warrants, exercisable at anytime to August 1, 1978, to purchase 1,348,999 shares of its Common Stock at \$31.22 a share. A total of 1,750,497 shares have been reserved for stock options and warrants.

NOTE L: Commitments

Rental expense for all leases was approximately \$8,100,000 in 1977 and \$8,300,000 in 1976.

The Company has entered into noncancellable leases expiring at various dates through 1992 for both real estate and equipment. Real estate lease commitments are shown net of any income from signed subleasing agreements. The future minimum rental commitments as of December 31, 1977 for all non-cancellable leases are as follows:

	Total	Building Space	Equipment
1978	\$ 2,734,102	\$ 1,651,855	\$1,082,247
1979	2,195,940	1,445,938	750,002
1980	1,717,195	1,363,795	353,400
1981	1,236,449	1,209,127	27,322
1982	1,202,052	1,202,052	-
1983-1992	4,658,495	4,658,495	-
Totals	<u>\$13,744,233</u>	<u>\$11,531,262</u>	<u>\$2,212,971</u>

Certain of the building space leases contain renewal options, for periods ranging from 1 to 10 years. No options extend beyond the periods indicated.

NOTE M: Cumulative Senior Preferred Stock

On December 29, 1977 GEICO issued 250,000 shares of Cumulative Senior Preferred Stock par value \$10 per share.

This "Senior Preferred Stock" is senior to the Cumulative Convertible Preferred Stock ("Preferred Stock") and the Common Stock with respect to both dividends and distribution of assets upon liquidation. So long as any shares of Senior Preferred Stock are outstanding, GEICO may not (i) pay any cash dividend on the Common Stock or redeem, purchase or otherwise acquire, whether by sinking fund or otherwise, any shares of Preferred Stock or Common Stock (this provision has been waived so long as the terms of the Senior Preferred Stock purchase agreement are met) or (ii) pay any cash dividend on the Preferred Stock if the dividend and sinking fund payments on the Senior Preferred Stock have not been met.

The holders of shares of the Senior Preferred Stock shall be entitled to receive cash dividends, when and as declared by the Board of Directors, at the rate of \$10 per share per annum. Such dividends shall be payable in cash semi-annually on January 1 and July 1 in each year to holders of Senior Preferred Stock on the record dates.

The stock is redeemable at \$100 per share, 50% on December 1, 1981 and the remainder on December 1, 1982.

NOTE N: Cumulative Convertible Preferred Stock

GEICO has authorized 10 million shares of Cumulative Convertible Preferred Stock, par value \$1 per share ("Preferred Stock"). The Preferred Stock is junior to the Senior Preferred Stock, but senior to the Common Stock, with respect to both dividends and distribution of assets upon liquidation. So long as any shares of Preferred Stock are outstanding, GEICO may not pay any cash dividend on the Common Stock or redeem, purchase or otherwise acquire any shares of Common Stock if the dividend and sinking fund payments on the Preferred Stock have not been met.

After payment in full of all accrued and unpaid dividends on the Senior Preferred Stock, holders of Preferred Stock are entitled to receive quarterly cash dividends, when and as declared by the Board of Directors, at an annual rate of \$.736, before any dividends (other than dividends payable in Common Stock) are paid on the Common Stock. Dividends are cumulative from the date on which shares of Preferred Stock are first issued.

Shares of Preferred Stock are convertible at any time at the option of the holder into fully paid and nonassessable shares of Common Stock at the rate of two shares of Common Stock for each share of Preferred Stock surrendered for conversion.

From and after January 1, 1981 (but only if no shares of Senior Preferred Stock are then outstanding) shares of Preferred Stock may be redeemed at prices ranging downward from \$9.752 during 1981 to \$9.20 during 1987 and thereafter, plus in each case an amount equal to all accrued and unpaid dividends. GEICO has determined that, notwithstanding the foregoing, it will not exercise its right to redeem shares of Preferred Stock until the earlier of (i) 24 months following the termination of the Reinsurance Agreements referred to elsewhere in these Notes (but in no event earlier than January 1, 1981) and (ii) January 1, 1983.

The Preferred Stock is entitled to the benefit of a sinking fund pursuant to which, on or before January 1, 1992 and on or before each January 1 thereafter, to and including January 1, 2001, GEICO will pay to the transfer agent for the Preferred Stock an amount sufficient to redeem 10% of the number of shares of Preferred Stock outstanding on January 1, 1991, at \$9.20 plus an amount equal to accrued and unpaid dividends. After the Senior Preferred Stock has been paid in full, holders of Preferred Stock will be entitled, upon any voluntary or involuntary dissolution, liquidation or winding up of GEICO, to receive \$10 per share, plus an amount equal to accrued and unpaid dividends, before any distribution is made on the Common Stock.

NOTE .0: EARNINGS PER SHARE

Primary earnings per share were computed by dividing the weighted average number of common shares outstanding during the year into earnings after providing for Preferred dividend requirements. Earnings in 1977 have been adjusted to reflect GEICO's equity interest in the earnings per share of its affiliates.

Fully diluted earnings per share in 1977 were determined on the assumption that the Convertible Preferred Stock and dilutive stock options have been converted into Common Stock. Earnings are adjusted for Senior Preferred Stock dividend requirements and GEICO's equity interest in the earnings per share of its affiliates accounted for by the equity method.

	<u>Year Ended December 31,</u>	
	<u>1977</u>	<u>1976</u>
<u>Primary:</u>		
Earnings		
Income before extraordinary items	\$37,884,294	\$(26,310,385)
Less: Equity in income of affiliates	(696,271)	-
Plus: Equity in the affiliates primary earnings per share	671,550	-
Less: Dividends on preferred stock	<u>(6,083,117)</u>	<u>(489,205)</u>
Income applicable to common shares before extraordinary item	31,776,456	(26,799,590)
Extraordinary item	<u>20,697,181</u>	-
Income applicable to common shares	<u>\$52,473,637</u>	<u>\$(26,799,590)</u>
Shares		
Weighted-average number of common shares outstanding	17,743,504	17,736,760
Primary earnings per share		
Income before extraordinary item	\$1.79	\$(1.51)
Net income	\$2.96	\$(1.51)
<u>Fully Diluted:</u>		
Earnings		
Income before extraordinary item	\$37,884,293	-
Less: Equity in income of affiliates	(696,271)	-
Plus: Equity in the affiliates fully diluted earnings per share	660,792	-
Less: Dividends on senior preferred stock	<u>(13,889)</u>	-
Income applicable to common shares before extraordinary item	37,834,925	-
Extraordinary item	<u>20,697,181</u>	-
Income applicable to common shares	<u>\$58,532,106</u>	-
Shares		
Weighted-average number of common shares outstanding	17,743,504	-
Conversion of convertible preferred stock	16,492,572	-
Net effect of dilutive stock options (based on the treasury stock method using the year-end market price, if higher than average market price)	<u>108,911</u>	-
Total	<u>34,344,987</u>	-
Fully diluted earnings per share		
Income before extraordinary item	\$1.10	-
Net Income	\$1.70	-

NOTE P: Related Parties Transactions

GEICO is the principal company of the Government Employees Companies which are comprised of four capital stock companies engaged in the casualty, fire, life insurance and consumer finance businesses. The other companies comprising the group are Criterion Insurance Company, Government Employees Life Insurance Company and Government Employees Financial Corporation. A majority of the members on GEICO's Board of Directors are also directors of the other three companies.

In the normal course of business, GEICO enters into various transactions with the other Government Employees Companies. Each of such transactions with the companies or their subsidiaries was on terms as favorable to GEICO as could have been obtained from other persons. GEICO also provides its customer lists, without charge, to GELICO and GEFCO.

NOTE Q: Litigation

In January and February 1976 two purported security holder class actions, alleging violations of the Securities Act of 1933, the Securities Exchange Act of 1934 (the "Exchange Act") and the common law, were filed against GEICO and certain other defendants. The cases have been consolidated, for pretrial purposes, in the United States District Court for the District of Columbia (the "District Court"). Both complaints allege various disclosure violations involving, among other things, failure to establish sufficient reserves for losses, overstatement of the value of certain assets and breaches of common law duties. These actions seek judgment declaring defendants' actions illegal, awarding plaintiffs and class members damages for the wrongs alleged and the injuries sustained and awarding plaintiffs the expenses of the litigation. The District Court by Order entered March 31, 1977, granted defendants' Motions to Dismiss. The United States Court of Appeals for the District of Columbia Circuit (the "Court of Appeals") granted plaintiffs' Petition for Permission to Appeal. The cases have been briefed in the Court of Appeals and await oral argument. Active settlement negotiations are going forward in these cases and agreement in principle has been reached, but a final agreement has not yet been formalized. Management has provided an accrual in 1977 which, in its opinion, although not material in amount, is sufficient to cover any liability which may arise as a result of a final settlement.

In June 1977 a purported warrant holder class action, alleging violations of the Exchange Act and the common law, was filed against GEICO and certain other defendants. This case has been transferred to the District Court. The substantive allegations of the complaint are comparable to those made in the cases summarized above. Active settlement negotiations are going forward in this case. On the basis thereof, management believes that the Company will not incur any material liability as a result of a final settlement.

If settlement in the foregoing cases is not concluded, however, it is not possible to evaluate the likelihood of an unfavorable outcome of these actions or estimate the amount or range of liability, if any. In that event, GEICO will contest these cases vigorously and will continue to assert that the plaintiffs have no valid cause of action.

NOTE R: Quarterly Highlights of Operating Results (Unaudited)
(In millions, except per share data)

	<u>First Quarter</u>		<u>Second Quarter</u>		<u>Third Quarter</u>		<u>Fourth Quarter</u>	
	1977	1976	1977	1976	1977	1976	1977	1976
Revenues								
Premiums earned	\$114.7	\$164.2	\$112.0	\$167.6	\$120.7	\$165.4	\$116.2	\$78.2
Net investment income	9.4	8.8	9.5	9.4	10.9	10.1	11.1	9.9
Equity in net income of affiliates	-	-	-	-	-	-	.7	-
Total revenues	<u>124.1</u>	<u>173.0</u>	<u>121.5</u>	<u>177.0</u>	<u>131.6</u>	<u>175.5</u>	<u>128.0</u>	<u>88.1</u>
Losses and expenses								
Losses incurred	81.8	143.5	77.9	141.3	78.0	126.9	75.8	54.7
Loss adjustment expenses	19.6	25.3	18.0	25.3	18.0	25.8	17.4	14.9
Operating expenses, net of reinsurance commissions earned and deferred acquisition costs	11.9	24.3	12.4	23.5	16.8	21.0	16.9	13.4
Income taxes	3.7	-	5.1	-	7.0	.1	7.2	(.1)
Total losses and expenses	<u>117.0</u>	<u>193.1</u>	<u>113.4</u>	<u>190.1</u>	<u>119.8</u>	<u>173.8</u>	<u>117.3</u>	<u>82.9</u>
Operating income	7.1	(20.1)	8.1	(13.1)	11.8	1.7	10.7	5.2
Realized investment gains, net of taxes	.1	(6.3)	.9	(.6)	-	4.1	(.9)	2.8
Income before extraordinary item	7.2	(26.4)	9.0	(13.7)	11.8	5.8	9.8	8.0
Utilization of tax loss carry-forward	2.1	-	5.0	-	6.7	-	6.9	-
Net Income	<u>\$ 9.3</u>	<u>\$(26.4)</u>	<u>\$ 14.0</u>	<u>\$(13.7)</u>	<u>\$ 18.5</u>	<u>\$ 5.8</u>	<u>\$ 16.7</u>	<u>\$ 8.0</u>
Per Share Results								
Primary:	Income before extraordinary item							
	\$.32	\$(1.49)	\$.43	\$(.77)	\$.58	\$.33	\$.47	\$.42
	Net income							
	\$.44	\$(1.49)	\$.71	\$(.77)	\$.96	\$.33	\$.85	\$.42
Fully/ Diluted:	Income before extraordinary item							
	\$.21	-	\$.27	-	\$.34	-	\$.28	-
	Net income							
	\$.27	-	\$.41	-	\$.54	-	\$.48	-

SCHEDULE V - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Government Employees Insurance Company and Subsidiaries

December 31, 1977 and December 31, 1976

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>A D D I T I O N S</u>		<u>Deductions - Describe Note 1</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Amounts-Describe</u>		
<u>Year Ended December 31, 1977:</u>					
Allowance for amounts uncollectible on cancelled policies	<u>\$3,000,000</u>	<u>\$ (490,330)</u>	<u>-</u>	<u>\$ 909,670</u>	<u>\$1,600,000</u>
<u>Year Ended December 31, 1976:</u>					
Allowance for amounts uncollectible on cancelled policies	<u>\$3,000,000</u>	<u>\$1,519,518</u>	<u>-</u>	<u>\$1,519,518</u>	<u>\$3,000,000</u>

Note 1: The deductions to the allowance for each of the two years ended December 31, 1977 represent the net write-off of amounts not collected on cancelled policies.

SCHEDULE VII - PREMIUMS, LOSSES AND CLAIMS AND POLICY ACQUISITION COSTS

Government Employees Insurance Company and Subsidiaries

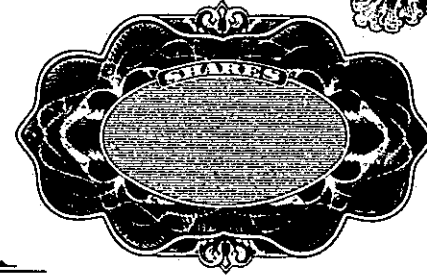
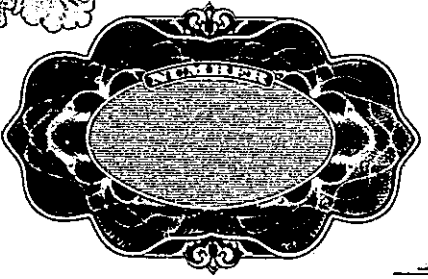
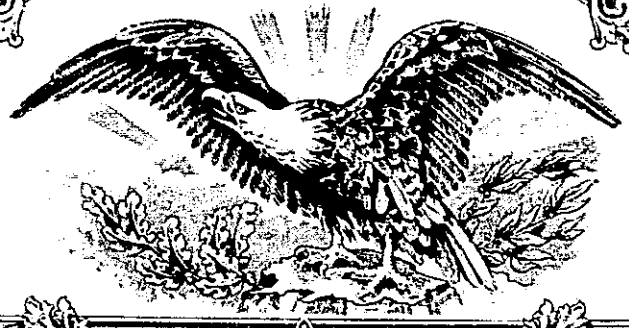
Two Years Ended December 31, 1977

PART 1 - PREMIUMS

PART 2 - LOSSES

Line of Business	PART 1 - PREMIUMS			PART 2 - LOSSES			
	Unearned Premiums Beginning of Period	Premiums Written	Reinsurance Ceded	Unearned Premiums End of Period	Premiums Earned During Period	Loss & Claims Incurred During Period	Adjustment Expenses Incurred During Period
Year Ended December 31, 1977:							
Homeowners multiple peril	\$ 21,272,181	\$ 23,858,095	\$ 3,168,815	\$ 18,020,400	\$ 23,590,483	\$ 11,717,976	\$ 3,217,554
Auto liability	163,459,184	341,033,824	60,892,900	164,203,654	279,396,454	226,948,368	48,053,013
Auto physical damage	85,040,210	166,408,407	29,609,131	78,284,036	143,555,450	72,872,161	21,132,323
All other	3,100,308	4,046,005	585,919	3,053,818	3,857,154	2,007,711	566,421
Service charges	-	13,200,315	-	-	13,200,315	-	-
	<u>\$272,871,883</u>	<u>\$548,546,646</u>	<u>\$ 94,256,765</u>	<u>\$263,561,908</u>	<u>\$463,599,856</u>	<u>\$313,546,216</u>	<u>\$72,969,311</u>
Year Ended December 31, 1976:							
Homeowners multiple peril	\$ 31,420,852	\$ 33,347,014	\$ 11,428,107	\$ 21,272,181	\$ 31,610,454	\$ 19,713,173	\$ 4,486,965
Auto liability	226,392,891	380,009,677	104,113,375	163,459,184	338,830,009	284,412,957	56,855,702
Auto physical damage	122,762,738	207,570,509	55,757,117	85,040,210	189,535,920	159,954,337	29,030,155
All other	4,287,188	4,592,279	1,611,780	3,100,308	4,624,503	2,334,137	906,822
Service charges	-	10,801,375	-	-	10,801,375	-	-
	<u>\$384,863,669</u>	<u>\$636,320,854</u>	<u>\$172,910,379</u>	<u>\$272,871,883</u>	<u>\$575,402,261</u>	<u>\$466,414,604</u>	<u>\$91,279,644</u>

PART III HAS BEEN OMITTED SINCE DEFERRED POLICY ACQUISITION COSTS AT BOTH THE BEGINNING AND THE END OF THE PERIOD DID NOT EXCEED 5% OF TOTAL ASSETS.



INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA
GOVERNMENT EMPLOYEES INSURANCE COMPANY
WASHINGTON, D. C.
COMMON STOCK, \$1 PAR VALUE

SEE REVERSE FOR CERTAIN DEFINITIONS

This is to Certify that

is the owner of

CUSIP 383712 10 6

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK OF
GOVERNMENT EMPLOYEES INSURANCE COMPANY

transferable only on the books of the Corporation in person or by duly authorized attorney, upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned by the Transfer Agent.

A statement of the restrictions, limitations and preferences, as to the voting powers, dividends and share of the assets upon dissolution, of the shares of Common Stock is printed on the reverse hereof and made a part hereof with the same force and effect as if herein fully set forth.

This certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the Corporation and of the resolutions of the Board of Directors and of the shareholders adopted pursuant thereto, to all of which the holder by acceptance hereof assents.

IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed with the facsimile signatures of its duly authorized officers and its facsimile Corporate Seal to be hereunto affixed.

Dated:

John M. O'Connor
SECRETARY.



James J. Bayne
CHAIRMAN OF THE BOARD AND PRESIDENT.

COUNTERSIGNED
BY AMERICAN SECURITY BANK, N. A.
WASHINGTON, D. C. TRANSFER AGENT

AUTHORIZED SIGNATURE

NUMBER

The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be offered, sold or transferred in violation of the registration requirements of such Act.

SHARES

Incorporated Under the Laws of the District of Columbia

GOVERNMENT EMPLOYEES INSURANCE COMPANY

Washington, D. C.

ANNUAL DIVIDEND:
\$10.00 PER SHARE

Cumulative Senior Preferred Stock, \$10 Par Value

SEE REVERSE FOR
CERTAIN ABBREVIATIONS

THIS CERTIFICATE IS TRANSFERABLE IN WASHINGTON, D. C.

This is to Certify that

is the owner of

FULLY PAID AND NONASSESSABLE SHARES OF THE CUMULATIVE SENIOR PREFERRED STOCK OF
GOVERNMENT EMPLOYEES INSURANCE COMPANY

transferable only on the books of the Corporation in person or by duly authorized attorney, upon surrender of this certificate properly endorsed.

A statement of the restrictions, limitations and preferences, as to the voting powers, dividends and share of the assets upon dissolution, of the shares of Cumulative Senior Preferred Stock is printed on the reverse hereof and made a part hereof with the same force and effect as if herein fully set forth.

This certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the Corporation and of the resolutions of the Board of Directors and of the shareholders adopted pursuant thereto, to all of which the holder by acceptance hereof assents.

IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed with the signatures of its duly authorized officers and its facsimile Corporate Seal to be hereunto affixed.

Dated:



Specimen

SPECIMEN

SECRETARY

SENIOR VICE PRESIDENT

Pension Plan Summary



Government Employees Companies

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Pension Plan Summary

WHAT IS IT?

The Pension Plan is a retirement fund which provides income for salaried employees of GEICO, GELICO, GEFCO, CRICO, and GELICONY (the Companies) after they retire. The Plan is paid for by the Companies.

WHO IS ELIGIBLE TO JOIN?

You join the Pension Plan as soon as:

- a) you are age 25 or older, and
- b) you have been employed by any of the Companies for one year or longer. (See "HOW DO YOU COUNT SERVICE" on page 2.)

(NOTE: Employees who joined the Plan under old rules will remain in the Plan regardless of age and receive credit for all the years they were enrolled. For more information on this point, ask the Manager of Benefits about the Grandfather Clause.)

HOW DO YOU JOIN?

As soon as you are eligible, you will be enrolled in the Plan WHEN you have signed your Enrollment Card. The card will be sent to you for your signature at the proper time. Participation is not optional.

WHO RECEIVES BENEFITS UNDER THE PLAN?

To receive money under the Plan:

- a) you must be a member of the Plan for at least 10 years*, or have been hired prior to age 60 and worked to normal retirement at age 65, and
- b) you must complete at least 6 months of work during each of those years.

*(Under the Plan, your first year of employment will be counted as a full year if you arrive before July 1. And your last year will be counted as a full year if you leave after working through June 1 of that year.)

HOW DO YOU COUNT SERVICE?

Vesting Service—Your years of vesting service are taken into account in determining your right to receive benefits under the Plan upon termination of employment other than upon Normal Retirement. You will be credited with a year of vesting service for every calendar year after 1975 in which you complete at least six months of vesting service. No credit is given for less than six months of service or for calendar years prior to the year in which you attain age 22.

A month of vesting service will be credited for every month during which you complete at least one hour of compensated service for any of the Companies. Vesting credit will also be given for unpaid absences of up to two years if you return to employment with a Company at the expiration of the period of absence. Note that you will receive vesting credit for *all* service with a Company, regardless of whether performed as a salaried (full-time) or hourly (part-time) employee, even though you may only participate in the Plan if you are a salaried employee. However, years of vesting service prior to January 1, 1976, are computed under the terms of the Plan as in existence prior to that date.

Generally, all of your years of vesting service will be added in determining your right to benefits under the Plan. However, if you incur a break in service, you may lose credit for your vesting service performed prior to the break. You will incur a break in service in any calendar year in which you are not credited with at least three months of service.

Even if you do incur a break in service, you will still retain your previously earned vesting service if you have completed at least 10 years of vesting service at that time, or if the continuous calendar years during which you incur breaks in service are less than your previous years of vesting service.

For example, assume you had completed six years of vesting service and then terminated employment, incurring a break in service in three consecutive years before being reemployed by one of the Companies. Three months after reemployment, you would retain credit for your prior six years of vesting service.

However, if your break in service had continued for three more years (six years total) upon reemployment you would be treated as a new employee with no vesting service.

Benefit Service—Your years of benefit service are taken into account in determining the amount of your benefits under the Plan. Benefit service is generally credited on the same basis as vesting service, except that benefit service may only accrue while you are actually participating in the Plan. Furthermore, in order to obtain a full year of benefit service, you must be credited with 12 months of service during the calendar year; in the event you complete less than 12 months of benefit service in a calendar year, you will be credited with $\frac{1}{12}$ of a year of benefit service for each month of benefit service completed during the year.

WHEN IS THE MONEY PAID?

The money is paid when you retire, in monthly installments. But there are rules about when you may begin to collect. That depends on when you leave the Company and how many vesting years you have in the Plan.

- If you leave the Company before you have 15 years of vesting and before you are age 65, you cannot begin to collect until you are age 65.
- If you leave the Company after you have 15 years of vesting but before you are age 50, you cannot begin to collect until you are age 50. Anytime after that you may ask for payments to begin, but your payments are reduced considerably.
- If you leave the Company between the ages of 50 and 65, with at least 15 years of vesting, your payments can begin immediately.
- If you are hired before your 60th birthday and remain with the Company until you are 65, your payments will begin as soon as you retire.

TYPES OF RETIREMENT

There are two types of retirement: Normal Retirement and Early Retirement.

1. **Normal Retirement:** You retire on the first day of the month after you turn 65, or on your birthday, if it falls on the first day of the month.
2. **Early Retirement:** You may take early retirement any time after you reach age 50 IF you have at least 15 years of vesting in the Plan.

HOW MUCH ARE YOU PAID?

The amount you are paid depends on the following:

1. How many benefit years of service you have in the Plan;
2. Whether you take early or normal retirement;
3. Your salary during the 60 consecutive months when you earned the most money;
4. Whether an option is selected.

Here is the way it works in the case of normal retirement with no spouse or other beneficiary:

We divide by 5 the amount of money you earned during the 60 consecutive months when your salary was highest, to get your final average earnings (FAE). We multiply that figure by your years of benefit service (but not more than 25). We multiply the product by two percent (.02), to determine your gross annual retirement benefit. We then add $\frac{1}{4}$ percent (.0025) of your final average earnings for every year you worked over 25.

We then compute your annual Primary Social Security benefit, based on the year of retirement. We divide the Primary Social Security benefit in half, and subtract that figure from your gross annual retirement benefit. The result is divided by 12 to get the amount of your monthly pension checks.

Here is the formula in brief:

PENSION BENEFIT FORMULA

$$\begin{aligned} & [(FAE) \times (Yrs Srv, Max 25) \times (2\%)] + \\ & [(FAE) \times (Yrs Srv over 25) \times (\frac{1}{4}\%)] \\ & \text{less} \\ & 50\% \text{ Primary Social Security} \end{aligned}$$

To give an example, let's say you are a male approaching 65, soon to take normal retirement:

You worked for the Company for 20 years and you earned \$80,000 over the 60-consecutive-month-period when your salary was highest. To

break that number down to an annual figure, we divide by 5 and get \$16,000 for the final average earnings. Your normal retirement will begin in 1978, which means that you were born in 1913. A look at the Social Security table shows that under the current schedule, your annual Social Security income would be \$6,056.40. (The number would be based on your income for the final 19 years of employment.) Fifty percent, or half, of that figure is \$3,028.20. Now the formula would look like this:

$\$16,000 \times 20 \text{ yrs.} \times 2\% = \$6,400.00$ less $\$3,028.20 = \$3,371.80$.
Your annual pension from the Company would be \$3,371.80. Your annual Social Security check would be \$6,056.40. So your total annual income would be \$9,428.20.

In both the Normal and Early Retirement Benefit, there is (a) a minimum monthly Plan benefit of \$9 a month for each year of service (maximum 25 years) and (b) a maximum benefit (including Primary Social Security) of 80 percent of your FAE.

This is an example of how the minimum monthly benefit works:

You are 65 in 1978 and have worked full-time for the Company for 16 years. The formula would look like this: $\$9 \times 12 \text{ months} \times 16 \text{ years} = \$1,728.00$ or \$144.00 a month.

If you took early retirement after working 16 years, at age 60 the \$144.00 would be reduced like this: $65-60 = 5$ years early. At a 3 percent reduction for each year you retire before age 65, the pension would now be reduced $3 \times 5 = 15\%$ or \$21.60. The pension at early retirement is now $\$144.00 - \$21.60 = \$122.40$.

However, this minimum benefit would not be applicable if it were less than your benefit under the basic formula.

The Pension Benefit Formula, applied to your own case, shows you the greatest amount of money you would receive under the Pension Plan. The amount would be lower IF:

1. You take early retirement between age 50 and 65. Benefits would be reduced 3 percent for each year you were under 65.
2. You leave before reaching 50, with 15 years of credit, and began collecting at age 50 or later. Your total benefits would be reduced by an actuarial factor that would depend on your age at the time you wish to collect.
3. You have a *Joint and Survivor Annuity Plan*. This feature of the Plan assumes that, if you are married, your spouse will be included in the Pension. That is, your husband or wife would continue to

receive the Pension Payments (reduced by 50 percent) after your death. Your retirement benefits would be reduced to take into account the chance that your spouse might outlive you. If you do not want this option of a Joint and Survivor Annuity, you **MUST ASK** not to have it.

4. You choose any one of the beneficiary options, under either early or normal retirement. The beneficiary options allow you to name anyone to receive all or part of your retirement payments after your death, for the life of the beneficiary. But your payments would be reduced accordingly. These options are much like the 50% Joint and Survivor Annuity except that the 50% J&SA is for your spouse only and is automatic. You **MUST ASK NOT** to have J&SA; you **MUST ASK TO** have the beneficiary options.

NOTES: (a) If you died before your retirement date, your beneficiary would not receive any benefits unless you had reached age 50 and had 15 or more years of vesting in the Plan.

(b) If your beneficiary died before you actually retired, the option would not be effective and you would receive normal retirement monthly payments.

(c) If you retired and your beneficiary died before you did, you would continue to receive the reduced retirement income.

(d) No beneficiary option may result in a participant receiving an annuity less than 50 percent of the present value of the total retirement benefit.

5. You leave before you are 50 with 10 or more years but less than 15 years of credit in the Plan. Your benefits will be based on years of service $\times 2\% \times$ FAE minus Primary Social Security factor (OR the minimum benefit, whichever is greater), as in the previous formula. This amount will be paid to you monthly beginning at age 65.
6. You take one of the Social Security Adjustment Options. If you choose to retire before age 62 or 65, you may elect one of these options. It provides for a *greater* amount of your pension income to be paid to you before you reach the age when you usually begin to receive Social Security benefits. Then, when you become eligible for Social Security checks, your income from the Pension

Plan will be reduced to reflect your additional income. This option lets you draw about the same total amount of retirement income before and after your Social Security benefits begin.

SOME SPECIAL FEATURES

Spouse's Benefit Under Early Retirement

If you are eligible for early retirement under the Plan, your spouse would be eligible for benefits in the event of your death. The monthly benefit to your spouse would be the greater of (1) 20 percent of your final average earnings, plus ½ percent of those earnings for each year you worked after reaching age 50 with at least 15 years of vesting service, or (2) an amount equal to the benefit you would have received if you had retired and selected a 50% survivor spouse option.

7 However, if you were hired prior to December 31, 1975, the surviving spouse benefit could be a monthly annuity equal to a 100% survivor option. The surviving spouse would receive this annuity if it were greater than the options explained above.

If you were on Long-Term Disability at the time of your death and were eligible for early retirement under the Pension Plan, your spouse would still receive this benefit.

For example, suppose you died at the age of 55, and your final average earnings were \$15,000. You had worked for the Company for 20 years, so you had the necessary 15 years of service when you reached age 50 to qualify for early retirement. First, we would multiply the \$15,000 by 20% to get \$3,000. Then, we would add ½% (.005) of \$3,000 or \$15 for each of the five years you worked beyond age 50. The total annual benefit would be \$3,075 (the monthly benefits, \$256.16). This is the amount (if greater than the other calculations) your spouse would receive.

Total Disability

If you work for the Company longer than five years and become totally disabled, you will be eligible at age 65 for Normal Retirement Benefits based on:

1. Your salary being frozen at the time you became disabled;
2. Your years of service, counted as though you had continued working until you were 65, even though you may have received disability benefits for many years.

If you recovered from the disability, but did not return to active employment with the Company, the Plan Administrator would consider your employment ended at the time you became disabled.

SUBMITTING CLAIMS

1. Claims for benefits under the Pension Plan should be addressed to: Pension Plan Administrative Committee, GEICO Plaza, Washington, D.C. 20076. A participant, or beneficiary, whose claim is denied will receive a written statement explaining why. The explanation will specify which parts of the Plan were involved in denying the claim. It will also tell you of any material or information you, your spouse, or your beneficiary must use in pursuing the claim.
2. To appeal a claim, you or your beneficiary should write to Chairman, Pension Plan Administrative Committee, c/o DeWayne Cuthbertson, GEICO Plaza, Washington, D.C. 20076. A committee will review the appeal and give you a decision within a reasonable time.

LEGAL PROCESS

The person designated for serving of legal process is Donald K. Smith, Senior Vice President and General Counsel, GEICO, 5260 Western Avenue, Chevy Chase, MD 20076. The Plan Administrator and the Trustee may also be served.

ADMINISTRATION OF THE PLAN

The Plan is administered by an Administrative Committee. All are officers or directors of the Companies. The present Committee members are:

DeWayne Cuthbertson (Chairman), Vice President, Employee Relations, GEICO

Bruce K. Bridgman, Vice President, Products and Compliance, GEICO
Charles R. Davies, Assistant Vice President and Assistant General Counsel, GEICO

David C. Drake, Vice President and Actuary, GEICO

Eberhard J. Gabriel, Senior Vice President, Corporate Finance and General Counsel, GEICO

Robert L. Green, Treasurer, CRICO

Albert M. McKenney, Treasurer, GEICO

The address of the Committee Members is GEICO Plaza, Washington, D.C. 20076.

THE POLICY UNDERLYING THE PLAN

The Pension Plan is a corporate trustee plan. Government Employees Life Insurance Company underwrites it, on behalf of the Government Employees Companies, by means of a Group Immediate Participation Guarantee Policy.

SOURCES AND AMOUNTS OF CONTRIBUTIONS

The Companies pay all costs of the Plan. You pay nothing.

AMENDMENT OR TERMINATION OF THE PLAN

9 We expect to continue the Plan indefinitely. But we reserve the right to amend, modify, suspend, or terminate it. No change in the Plan will be made unless it is for the exclusive benefit of members and their beneficiaries, and does not deprive the member of any benefits without his/her consent.

If the plan were terminated, all benefits would become fully vested.

PENSION BENEFIT GUARANTY CORPORATION

Benefits under this Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, PBGC does not guarantee all types of benefits under covered plans, and the amount of benefits protection is subject to certain limitations.

The PBGC guarantees vested benefits at the level in effect on the date of the plan termination. However, if a plan has been in effect less than five years before it terminates, or if benefits have been increased within the five years before plan termination, the whole amount of the plan's vested benefits or the benefit increase may not be guaranteed. In addition, there is a ceiling on the amount of monthly benefit that PBGC guarantees, which is adjusted periodically.

For more information on the PBGC insurance protection and its limitations, ask the Plan Administrator or the PBGC. Inquiries to the PBGC should be addressed to the Office of Communications, PBGC 2020 K Street N.W., Washington, D.C. 20006. The PBGC Office of Communications can also be reached by calling 202-254-4817.

BENEFITS UNDER PREVIOUS PLANS

If you were a member of a prior Pension Plan, your annual benefit or annuity will be calculated under both Plans, and you will receive the larger amount. Information about the prior Plan is available from Employee Benefits.

DETAILS OF THE PLAN

Officially known as "Amended Pension Plan for the Employees of Government Employees Companies," this retirement plan is for the salaried (full-time) employees of Government Employees Insurance Company, Criterion Insurance Company, Government Employees Financial Corporation, Government Employees Life Insurance Company, and Government Employees Life Insurance Company of New York. The address for all Companies is 1705 L Street, N.W. Washington, D.C. 20076.

The Companies' Employer Identification Numbers are: GEICO—53-0075853; CRICO—52-0794134; GEFCO—84-0534395; GELICO—53-0238667; and GELICONY—52-0815851. The Plan number is 002. The Labor Department number is 29859. The Plan year runs from January 1 to December 31.

The preceding description of the Pension Plan is a summary of what it is, who receives the benefits, when, and how. The Plan has been amended to comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

ERISA

As a participant in the Pension Plan, you are guaranteed certain rights under ERISA. Basically, ERISA provides that all Plan members shall be entitled to:

- Examine, without charge, at the Plan Administrator's office, or in your office location, all Plan documents and copies of all documents filed by the Plan with the U.S. Department of Labor, such as detailed annual reports and Plan descriptions.
- Obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrators. A reasonable charge may be made for the copies.

- Receive a summary of the Plan's annual financial report. The Plan Administrator, as required by law, will furnish each participant with a copy of this summary annual report.
- Obtain, once a year, a statement of your total benefits accrued and the nonforfeitable (vested) benefits (if any) or the earliest date on which benefits will become nonforfeitable (vested). The Plan Administrator may require a written request for this statement, but it must provide the statement free of charge.

In addition to creating rights for Plan members, ERISA imposes obligations upon the persons who are responsible for the operation of the Plan. These persons are referred to as "fiduciaries" in the law. Fiduciaries must act solely in the interest of the Plan members and they must exercise prudence in the performance of their Plan duties. Fiduciaries who violate ERISA may be removed and required to make good any losses they have caused the Plan.

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Your employer may not fire you or discriminate against you to prevent you from obtaining a benefit under the Plan or exercising your rights under ERISA.

If you are improperly denied a benefit under the Plan, in full or in part, or if any materials requested and which must be provided (as described above) are not received within 30 days of the request, unless the materials were not sent because of matters beyond the control of the Plan Administrator, or if Plan fiduciaries are misusing the Plan's money, you have a right to access to a federal court or to request assistance from the U.S. Department of Labor. The court may, if it so decides, require either party to pay legal costs, including attorney's fees, or require the Committee to pay up to \$100 for each day's delay with respect to the provision of requested materials.

If you have any questions about this statement or your rights under ERISA, you should contact the Plan Administrator or the nearest Area Office of the U.S. Labor-Management Service Administration, Department of Labor.

PENSION PLAN FOR THE EMPLOYEES
OF GOVERNMENT EMPLOYEES COMPANIES

6/29/76
Rev. 9-15-76
Rev. 8-10-77
Rev. 11-9-77

Exhibit 5-a

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PENSION PLAN FOR THE EMPLOYEES
OF GOVERNMENT EMPLOYEES COMPANIES

WHEREAS the Pension Plan for the Employees of Government Employees Companies was established effective as of December 1, 1952; and

WHEREAS the Companies currently participating in such Plan are

Government Employees Insurance Company

Government Employees Life Insurance Company

Government Employees Life Insurance Company of New York

Criterion Insurance Company

Government Employees Financial Corporation

hereinafter called the Companies; and

WHEREAS the Companies, pursuant to the rights reserved in Article XIV of said Plan, wish to further amend and restate said Plan in order to conform its provisions to the requirements of the Employee Retirement Income Security Act of 1974.

NOW, THEREFORE, the Companies, as authorized by their Boards of Directors, have caused this document to be executed, effective as of January 1, 1976, for the purpose of so revising and restating the Pension Plan for the Employees of Government Employees Companies. The rights to benefits of all Employees whose employment with a Company terminated prior to January 1, 1976, shall be determined solely under

the provisions of the Plan as in effect at the time of such termination of employment, except as otherwise provided herein.

ARTICLE I

Definitions

1.1 "Actuary" will mean an individual actuary or firm of actuaries selected from time to time by the Committee who meets or whose actuaries meet the standards and qualifications established by the Secretary of the Treasury for the preparation and certification of actuarial reports.

1.2 "Affiliate" will mean a member with a Company of a controlled group of organizations within the meaning of Section 1563(a) of the Internal Revenue Code, determined without regard to Section 1563(a)(4) and (e)(3)(C) of the Code, or a member with a Company of a group of trades or businesses (whether or not incorporated) under common control as determined by the Secretary of the Treasury in regulations adopted under Section 414(c) of the Code.

1.3 "Annuity Starting Date" will mean the first day of the first period with respect to which an amount is received as an annuity.

1.4 "Board" will mean the Board of Directors of Government Employees Insurance Company.

1.5 "Break in Service" will have the meaning set forth in Paragraph 3.4.

1.6 "Committee" will mean the Administrative Committee appointed by the Board for the purpose of administering this Plan.

1.7 "Companies" will mean Government Employees Insurance Company, Government Employees Life Insurance Company, Government Employees Life Insurance Company of New York, Criterion Insurance Company, Government Employees Financial Corporation, and any other corporation which, with the approval of the Board, adopts the Plan, or any successor or successors of said Companies. A Company will mean one of the Companies.

1.8 "Earnings" will mean, on or after the Effective Date, the regular or basic pay of a Participant, exclusive of bonuses, overtime pay, and other extra compensation, while earnings prior to the Effective Date will be subject to the definition thereof in the prior provisions of the Plan or the Predecessor Plan, as the case may be, in effect prior to the Effective Date. Earnings of a Participant who at anytime is simultaneously in the employ of two or more of the Companies included herein, shall be the total Earnings received by the Employee.

1.9 "Effective Date" will mean January 1, 1976.

1.10 "Employee" will mean any person employed by a Company on a salaried basis. Employee will include officers, but will exclude both directors who are not employees, and persons paid on an hourly basis.

1.11 "Fiduciary" will mean any person or entity who exercises discretionary authority or control over the

management of the Plan, assets held under the Plan or disposition of Plan assets; who renders investment advice for direct or indirect compensation as to assets held under the Plan or has any authority or responsibility in the administration of the Plan.

1.12 "Final Average Annual Earnings" will mean the annual average of the Earnings paid to a Participant during the 60 consecutive calendar months of the Participant's employment when such Participant's Earnings are the highest.

1.13 "Fund" will mean the retirement fund established and maintained pursuant to Article XII.

1.14 "Insurance Company" will mean any insurance company selected by the Board to receive, hold, and invest the contributions of the Companies, and to provide the designated benefits to Participants under the provisions of this Plan.

1.15 "Month of Service" will have the meaning set forth in Paragraph 3.3.

1.16 "Participant" will mean an Employee who meets the eligibility requirements set forth in Article II or a former Employee entitled to receive or receiving benefits under this Plan.

1.17 "Plan" will mean the Pension Plan for the Employees of Government Employees Companies as set forth in this document and as it may be amended from time to time; provided, however, that for purposes of Paragraph 14.4, as well as for the purposes of the funding and payment of benefits, the Plan, as adopted by each Company, shall be deemed to be a separate single plan as to each such Company.

1.18 "Plan Year" will mean the calendar year.

1.19 "Predecessor Plan" will mean the Pension Plan for the Employees of Government Employees Companies as it existed on November 30, 1971.

1.20 "Primary Social Security Benefit" will mean 12 times the amount of monthly benefit that is or would be payable only to a Participant at his normal retirement date under the terms of the Federal Social Security Act in effect on such normal retirement date. If a Participant retires on an early retirement date or ceases to be an Employee and remains entitled to benefits under this Plan, as provided for in Article VII, his Primary Social Security Benefit, for the purpose of determining the amount of his plan benefit under either such contingency, will be the product of (a) multiplied by (b) where: (a) is the amount that is or would be payable to the Participant at his normal retirement date, but determined under the provisions of the Federal Social Security Act in effect on his early retirement date or termination of employment status, as the case may be, assuming that the Participant's annual earnings rate at the time of his early retirement or termination of employment status remains at the same level until the Participant's 65th

birthday, and (b) is a fraction, the numerator of which is the number of Years of Benefit Service which the Participant has completed prior to his early retirement date or termination of employment status, as the case may be, and the denominator of which is the number of Years of Benefit Service that he could have completed on his normal retirement date, had he remained employed until that time.

1.21 "Surviving Spouse" will mean the surviving wife or husband of a Participant provided that such wife or husband was legally married to the Participant immediately prior to the Participant's death.

1.22 "Year of Benefit Service" will have the meaning set forth in Paragraph 3.2.

1.23 "Year of Qualifying Service" will have the meaning set forth in Paragraph 2.2.

1.24 "Year of Vesting Service" will have the meaning set forth in Paragraph 3.1.

ARTICLE II

Participation

2.1 Employees Employed Prior to Effective Date. Each Employee on January 1, 1976, who was a member of the Plan on December 31, 1975, will remain a Participant hereunder as of the Effective Date. Each other Employee on December 31, 1975, who was employed prior to his 60th birthday will become a Participant hereunder as of the Effective Date.

2.2 Employees Hired on or After Effective Date. Each Employee hired on or after the Effective Date and prior to his 60th birthday will become a Participant on the January 1 of the Plan Year in which he first satisfies the following requirements:

(a) He has attained age 25;

(b) He has completed a Year of Qualifying Service.

The term "Year of Qualifying Service" means the 12 consecutive month period, beginning on the Employee's first date of employment or the anniversary thereof, during which the Employee completes at least six (6) Months of Service.

2.3 Participation Following a Break in Service. An Employee who has had a Break in Service and, following such Break, returns to the employment of a Company will become a Participant on the January 1 of the Plan Year in which he first satisfies the requirements of Paragraph 2.2 following such Break.

ARTICLE III

Service

3.1 Year of Vesting Service. An Employee shall be credited with a Year of Vesting Service for each Plan Year during which he completes at least six (6) Months of Service; provided, however, that with respect to Plan Years commencing after December 31, 1975, an Employee who does not complete at least six (6) Months of Service in the Plan Year in which he becomes a Participant or in the preceding Plan Year shall nevertheless be credited with a Year of Vesting Service for the Plan Year in which he becomes a Participant in the Plan.

3.2 Year of Benefit Service. For Plan Years commencing prior to the Effective Date, an Employee shall be credited with Benefit Service as computed under the terms of the Plan as in existence on the applicable date. An Employee shall be credited with a full Year of Benefit Service for each Plan Year commencing after December 31, 1975, during which he completes twelve Months of Service; provided, however, that if in any Plan Year an Employee completes less than the twelve Months of Service, he shall be credited with a fractional Year of Benefit Service for such period, equal to the number of Months of Service for which he is credited divided by twelve.

3.3 Months of Service. An Employee shall be credited with a Month of Service for each month during which he is either directly or indirectly compensated by a Company for at least one hour during such month, including months for which back pay, irrespective of mitigation of damages has been awarded or agreed to by the Company. Months of Service also shall be credited for periods of

- (a) paid leave such as vacation, personal, holidays, health, work injury, bereavement, jury duty/court;
- (b) layoff;
- (c) approved leave without pay or leaves of absence not exceeding two years authorized in writing by a Company;
and
- (d) military leave or furlough

provided, that in the case of an unpaid leave or period of absence, the Employee returns to active employment with a Company at the expiration of such leave or period of absence and, in the case of a military leave or furlough, within the period the Employee's re-employment rights are protected by law.

Solely for purposes of determining Years of Qualifying Service and Years of Vesting Service, Months of Service also shall include, to the extent that credit for such periods is required under regulations prescribed by the Secretary of the Treasury and to the extent

that credit would be given under this Paragraph 3.3 were the Employee then in the employ of a Company, months during which an Employee is employed by:

(a) an Affiliate; or

(b) any corporation which is a predecessor corporation of a Company, or corporation merged, consolidated or liquidated into a Company or a predecessor of a Company, or a corporation, substantially all of the assets of which have been acquired by a Company if

(1) such corporation maintained the Plan or a predecessor plan; or

(2) such corporation did not maintain the Plan or a predecessor plan but credit is required to be given for service with such a corporation under regulations prescribed by the Secretary of the Treasury.

3.4 Break in Service. Effective January 1, 1976, an Employee shall incur a Break in Service in any Plan Year in which he completes less than three (3) Months of Service. The determination of the occurrence of a Break in Service prior to such date shall be made under the rules of the Plan as in effect prior to such date.

3.5 Service Which is Disregarded. In computing an Employee's aggregate number of Years of Vesting Service and all such Years of Service shall be aggregated, except that Years of Benefit Service, the following periods shall be disregarded, provided that the number of Years of Vesting

Service and Years of Benefit Service credited to an Employee on January 1, 1976, shall not be less than he would have had under the terms of the Plan on December 31, 1975:

(a) For purposes of Years of Vesting Service, periods prior to the Plan Year in which the Employee attains age 22;

(b) For purposes of Years of Benefit Service, periods prior to the Employee's 22nd birthday;

(c) In the case of an Employee who at the time of a Break in Service does not have any rights to nonforfeitable benefits under Article VII, periods prior to a Break in Service if the Employee's Years of Vesting Service are less than or equal to the number of consecutive years during which the Employee has incurred a Break in Service;

(d) Periods prior to January 1, 1976, which were disregarded under the rules of the Plan with respect to Breaks in Service as in effect prior to such date.

ARTICLE IV

or Normal Retirement Date and Normal Retirement Income

4.1 Normal Retirement Date. The normal retirement date of a Participant will be the first day of the month coincident with or next following his 65th birthday.

4.2 Amount of Normal Retirement Income. A Participant will be entitled to receive an annual amount of retirement income commencing as of normal retirement date equal to the greater of (a), (b) or (c) where:

- (a) Is an amount equal to 2% of the Participant's Final Average Annual Earnings multiplied by his Years of Benefit Service, to a maximum of 25 years, plus 1/4% of the Participant's Final Average Annual Earnings multiplied by his Years of Benefit Service in excess of 25 years, less 50% of his Primary Social Security Benefit;
- (b) Is an amount equal to \$108 multiplied by the Participant's Years of Benefit Service, to a maximum of 25 years; and
- (c) Is the amount which would have been payable to the Participant on his normal retirement date under the Predecessor Plan, assuming in the case of any Employee who has not attained his 60th birthday on December 1, 1971, that his "Base Earnings" as therein defined, remain unchanged from December 1, 1971, until his normal retirement date. Paragraphs 5.2, 5.3, and 7.3 notwithstanding,

that part of any early retirement benefit under Paragraph 4.2 of the Predecessor Plan or termination benefit under Paragraph 6.2 of the Predecessor Plan that is based on $1\frac{1}{4}\%$ of the monthly rate of Average Base Earnings in excess of \$400 under the Predecessor Plan, shall not exceed such part of the benefit that would have been payable to the Participant upon retirement at his normal retirement date, multiplied by a fraction, the numerator of which is the number of the Participant's Years of Benefit Service at retirement or termination, and the denominator of which is the number of Years of Benefit Service he would have at normal retirement date. In the case of early retirement, such benefit shall be reduced by $\frac{1}{15}$ th for each of the first five years, and $\frac{1}{30}$ th for each of the next five years, by which the commencement of payments precedes normal retirement date, and shall be reduced actuarially for each year thereafter. Any disability benefit under Paragraph 8.2 that is based on such part of the benefit under the Predecessor Plan, shall be paid only if the Participant is eligible for and receives disability benefits under the Federal Social Security Act from the date of disability (after the required waiting period) continuously until normal retirement date;

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provided, however, that in no event shall the amount of retirement income plus the Participant's Primary Social Security Benefit exceed an amount equal to 80% of the Participant's Final Average Annual Earnings.

4.3 Maximum Amount of Normal Retirement Income. In no event shall a Participant's normal retirement income under the Plan exceed an amount determined under the following provisions:

(a) Subject to the adjustments hereinafter set forth, the maximum annual amount of normal retirement income payable in the form of a life annuity to a Participant under this Plan shall not exceed the lesser of:

(1) \$75,000, or

(2) 100% of the eligible Employee's average compensation for the 3 consecutive calendar years during which he participated in the Plan and had the greatest aggregate compensation from the Company.

(b) The limitation on the maximum amount of retirement income required by Paragraph (a) shall be adjusted as follows:

(1) Cost of Living: The limitations prescribed by Subparagraph (a) shall be adjusted annually for increases in the cost of living subsequent to 1974, in accordance with Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(d) of the Internal Revenue Code.

(2) Payment Prior to Age 55: In the event a Participant's retirement income becomes payable before age 55, the \$75,000 limitation prescribed by Subparagraph (a)(1) shall be reduced in accordance

with Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(b) of the Internal Revenue Code.

(3) Ancillary Benefits: In the event the Participant's retirement income is payable in any form other than a life annuity, the limitation prescribed in Subparagraph (a) shall be actuarially adjusted in accordance with Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(b) of the Internal Revenue Code; provided, however, that for purposes of this Paragraph, the portion of any joint and survivor annuity which constitutes a qualified joint and survivor annuity, and any ancillary benefits not directly related to retirement income benefits, shall not be taken into account.

(c) The limitation of Subparagraph (a) hereof shall not apply to any Participant who has not at any time participated in any defined contribution plan maintained by a Company if the total annual retirement income computed in accordance with Paragraph 4.2 is not in excess of \$10,000 in any year.

(d) The maximum annual retirement income payable to any Participant who has completed less than 10 Years of Vesting Service with the Company shall be the amount

determined under Subparagraph (a) or Subparagraph (c), as the case may be, multiplied by a fraction, the numerator of which is the number of the Participant's Years of Vesting Service and the denominator of which is 10. For purposes of this Paragraph, a Participant's Years of Vesting Service shall be determined without regard to Paragraph 3.5; provided, however, that Years of Vesting Service not required to be taken into account under Paragraph 3.5(c) by reason of a Break in Service shall be disregarded.

(e) The maximum retirement income limitation prescribed by the foregoing provisions of this Paragraph shall not apply with respect to any Participant who was a Participant in the Plan prior to October 3, 1973, provided the following conditions are met:

(1) The annual amount of retirement income payable to such Participant does not exceed 100% of his annual rate of compensation on the earlier of October 2, 1973, or the date on which he separated from the service of the Company; and

(2) Such benefit does not exceed the annual benefit which would have been payable based on the Participant's rate of compensation on October 2, 1973, had all the terms and conditions of the Plan on such date remained in effect until such Participant's retirement.

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In the case of a Participant who separated from the service of the Company prior to October 2, 1973, the annual amount of retirement income payable hereunder shall be no greater than such Participant's vested, accrued benefit as of the date he separated from the service.

(f) The limitations of this Paragraph with respect to any Participant who at any time has participated in any other defined benefit plan maintained by a Company or by an Affiliate (as defined in Section 1.2 and modified by Section 415(h) of the Internal Revenue Code) of which a Company is a member shall apply as if the total benefits payable under all defined benefit plans in which the Participant has been a member were payable from one plan.

(g) Notwithstanding the foregoing, in no event shall the annual amount of normal retirement income payable to a Participant who is employed exclusively by Government Employees Life Insurance Company of New York exceed \$50,000.

(h) Notwithstanding the foregoing, in the case of a Participant who participates in this Plan and a qualified defined contribution plan maintained by the Company or an Affiliate, the sum of the defined benefit plan fraction and the defined contribution plan fraction for any year shall not exceed 1.4. In the event the sum of such fractions exceeds 1.4, the Committee, in cooperation with the Committee responsible for the administration of the defined contribution plan, shall prescribe the manner in which the benefit provided under this Plan or the annual additions to the defined contribution plan shall be

reduced in order that neither plan shall be disqualified under the Internal Revenue Code. For purposes of applying the limitations of this Section, the following rules shall apply:

(1) The term "defined benefit plan fraction" shall mean the annual benefit payable under this Plan, determined without regard to subparagraphs (a) through (d), over the maximum benefit payable under such subparagraphs; provided, however, that the defined benefit plan fraction with respect to a Participant whose benefit is described in subparagraph (e) shall never be deemed to exceed 1.0.

(2) The term "defined contribution plan fraction" shall mean the actual aggregate annual additions, as hereinafter defined, to the defined contribution plan determined as of the close of the year, over the aggregate of the maximum annual additions which could have been made for each year of the Participant's service had such annual additions been limited each such year to the lesser of \$25,000 (or such greater amount prescribed under Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(d) of the Internal Revenue Code to take into account increases in the cost of living) or 25% of the Participant's annual compensation; provided, however, that the defined contribution plan fraction shall never be deemed to exceed 1.0 with respect to years prior to January 1, 1976.

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(3) The term "annual addition" shall mean for any year the sum of the Company contributions, forfeitures and the lesser of Employee contributions in excess of 6% of the Employee's compensation or 1/2 of the Employee's total contributions allocated to the Employee's account in the defined contribution plan; provided, however, that in computing such annual addition for any year prior to January 1, 1976, the amount of an Employee's contributions taken into account for such year shall be deemed to be an amount equal to the excess of the aggregate of the Employee's contributions to the Plan prior to January 1, 1976 (without regard to contributions prescribed under the terms of the Plan as of such date) over 10% of his aggregate compensation for each year of his participation in the defined contribution plan prior to such date, multiplied by a fraction, the numerator of which is 1.0 and the denominator of which is the number of the Participant's years of participation prior to January 1, 1976.

ARTICLE V

Early Retirement Date and Early Retirement Income

5.1 Early Retirement Date. A Participant or former Employee who is entitled to benefits under this Plan may retire on the first of any month between his 50th and 65th birthdays, provided he has then completed at least 15 Years of Vesting Service, any such date being his early retirement date. Any such Participant may elect to receive an early retirement income reduced in accordance with Paragraph 5.2, commencing on his early retirement date or, with the consent of the Committee, on the first day of any month between his early retirement date and his normal retirement date or, to receive an unreduced early retirement income commencing on his normal retirement date.

5.2 Early Retirement Income for Participants and Certain Former Employees. Subject to Paragraph 5.1, in the case of a Participant who elects to receive an early retirement income commencing prior to his normal retirement date or in the case of a former Employee who is entitled to benefits under this Plan, who ceased to be an Employee at or after attaining his 50th birthday and who elects to receive an early retirement income payable on or after his early retirement date, upon so notifying the Committee, each such Participant will receive an early retirement income of an

annual amount equal to that which would otherwise be payable to the Participant in accordance with Paragraph 4.2 but based only upon the Years of Benefit Service he has completed at his early retirement date, reduced by 1/4 of 1% for each full month by which the Participant's Annuity Starting Date precedes his normal retirement date.

5.3 Early Retirement Income for Other Former Employees. Subject to Paragraph 5.1, in the case of a former Employee who is entitled to benefits under this Plan, who ceased to be an Employee prior to his 50th birthday and who elects to receive an early retirement income payable on or after his early retirement date, upon so notifying the Committee, such Participant will receive an early retirement income of an annual amount equal to the actuarial equivalent of that which would otherwise be payable to such Participant in accordance with Paragraph 4.2 but based only upon the Years of Benefit Service he has completed at his early retirement date.

ARTICLE VI

Postponed Retirement Date

6.1 Postponed Retirement Date. A Participant may not continue in the employment of any of the Companies as an Employee beyond his normal retirement date.

ARTICLE VII

Termination of Employment or Status as Employee

7.1 Before 10 Years of Vesting Service. Any Participant who ceases to be an Employee prior to having completed at least 10 Years of Vesting Service and prior to normal retirement date will not be entitled to any benefits under the Plan.

7.2 After 10 Years of Vesting Service. Any Participant who ceases to be an Employee after the completion of at least 10 Years of Vesting Service will be entitled to receive an annual benefit equal to that which would otherwise be payable to the Participant in accordance with Paragraph 4.2, but based only upon the Years of Benefit Service he has completed at the time he ceases to be an Employee. The benefit will be paid in the manner described in Article IX commencing on the Participant's normal retirement date.

7.3 After 15 Years of Vesting Service. In lieu of the benefit described in Paragraph 7.2, any Participant who ceases to be an Employee after the completion of at least 15 Years of Vesting Service will be entitled to receive an early retirement income, based only upon the Years of Benefit Service he has completed at the time he ceased to be an Employee. The benefit will be paid in the manner described

in Article IX: A Participant may elect to receive his early retirement income reduced in accordance with Article V commencing on the first day of the month coincident with or next following his attainment of age 50 or the date he ceases to be an Employee, whichever is later or with the consent of the Committee, or the first day of any month between such date and his normal retirement date, or he may elect to receive an unreduced early retirement income commencing on his normal retirement date.

ARTICLE VIII

Total Disability

8.1 Definition of Disability. A Participant will be considered as totally disabled for the purposes of this Plan if, by reason of accidental bodily injury or sickness, he is completely unable to perform any and every duty pertaining to his employment with a Company during the first 24 months of such disability, while such Participant is not engaged in any occupation or employment for wage or profit and, thereafter, is completely unable to engage in any occupation or employment for wage or profit; provided, however, that a Participant will not be considered as totally disabled within the meaning of this Plan if such disability is the result of intentionally self-inflicted injury, participating in a riot, committing a felony or any type of assault, or engaging in an illegal occupation.

8.2 Disability Benefit. If a Participant becomes totally disabled, as defined in Paragraph 8.1, after the completion of at least 5 Years of Vesting Service, and remains so disabled until his normal retirement date, he will be entitled to receive, commencing on his normal retirement date, a basic annual amount of retirement income determined in accordance with Paragraph 4.2 assuming that he continued in employment until his normal retirement date

at the same annual rate of Earnings he was receiving immediately prior to becoming totally disabled.

8.3 Cessation of Disability. If a Participant ceases to be totally disabled, as defined in Paragraph 8.1, prior to his normal retirement date and fails to return to active employment with a Company, he will be considered, for the purposes of this Plan, as having terminated employment at the time he became totally disabled.

ARTICLE IX

Payment of Retirement Benefits9.1 Normal Method of Payment.

(a) If a Participant has a spouse on his Annuity Starting Date, the method of payment will be in the form of a 50% joint and survivor annuity, unless, as provided in this Paragraph, he elects otherwise. Such a Participant will receive a reduced amount which will be the actuarial equivalent of the retirement benefit to which he would otherwise be entitled under Paragraph 4.2; and said spouse, if surviving at the Participant's death, will be entitled to receive a lifetime benefit equal to 50% of the reduced amount which had been payable to the Participant and ending with the payment immediately preceding the death of said spouse. The Committee shall provide to each Participant, nine months prior to his early retirement date, as set forth in Paragraph 5.1, a written explanation in nontechnical terms of the availability of the above referred to election and of his right within 30 days after a request is filed with the Committee, to a further written explanation of the terms and conditions of the joint and survivor annuity and the effect of an election not to receive his benefits in such form, given in the terms of dollars per payment. If a request for additional information is made by a Participant within 60 days of the date benefits would otherwise commence, the commencement of such benefits may be delayed until

60 days following receipt of such information by the Participant.

An election to receive his benefits in the form of a life annuity under Subparagraph (b) or to receive an optional form of retirement income under Paragraph 9.2, 9.3, or 9.4, and any revocation and change of an election previously made, may be made at any time thereafter and prior to the Participant's Annuity Starting Date, by giving written notice to the Committee.

(b) If a Participant does not have a spouse on his Annuity Starting Date, the method of payment to him of his retirement income will be in the form of a life annuity, providing equal monthly installments for the lifetime of the Participant with the last payment to be made on the first day of the month in which the Participant's death occurs. A Participant normally entitled to retirement income in the form of a life annuity may, within a reasonable time prior to his Annuity Starting Date, elect to receive an optional form of retirement income under Paragraph 9.2, 9.3, or 9.4 and may revoke and change an election previously made by giving written notice to the Committee.

9.2 Contingent Annuitant Option.

(a) A Participant may elect to convert his retirement income to a reduced retirement income (on an actuarially equivalent basis) payable during his life, with the provision that after his death such reduced retirement income will be payable to his specified contingent annuitant during the life of such contingent annuitant in the same or a lesser percentage as specified by the Participant in such election.

(b) If a Participant elects this option and his contingent annuitant dies before such Participant's Annuity Starting Date, his election will not be effective and the Participant will receive the retirement income otherwise payable to him in accordance with the provisions of this Plan.

(c) If a Participant elects this option and dies before his Annuity Starting Date, his election will not become effective, and the contingent annuitant designated by the Participant will not be entitled to any rights or benefits under this Plan except in the case of a Surviving Spouse in accordance with Paragraphs 10.1(a) and 10.1(b).

(d) If a Participant elects this option and his contingent annuitant dies before the death, but after the Annuity Starting Date of such Participant, such Participant will continue to receive the reduced retirement income payable to him in accordance with such option.

9.3 Social Security Adjustment Option. A Participant whose Annuity Starting Date precedes his normal retirement date may elect to convert his retirement income to an actuarially equivalent benefit which provides an increased retirement income, payable during his lifetime until his normal retirement date, decreased after such normal retirement

date by the amount of his annual Primary Social Security Benefit, estimated as of the time of his Annuity Starting Date, and payable at such reduced rate during the remainder of his life, so as to produce, as nearly as possible, a level retirement income.

9.4 Other Options. A Participant may elect to convert his retirement income to any other form of equivalent actuarial value as may be approved by the Committee and subject to such conditions as it may prescribe.

9.5 General Limitation. Anything in the foregoing to the contrary notwithstanding, no method of distribution of retirement income may be made under this Article which would result in the present value of a beneficiary's interest exceeding the greater of (a) 50% of the present value of the Participant's full retirement benefit or (b) an amount which would be payable under an annuity providing equal periodic installments for the joint lives of the Participant and his spouse.

ARTICLE X

Death Benefits

10.1 Prior to Retirement Date.

(a) In the event a Participant who on December 31, 1975, was in active employment, had attained his 50th birthday, and had completed at least 15 Years of Vesting Service with the Companies dies either while in active employment or after the cessation of employment but prior to his Annuity Starting Date, his Surviving Spouse will receive a monthly benefit equal to the greater of: (1) the actuarial equivalent of the monthly retirement benefit which the Participant would have been entitled to receive under the Plan as of the date of his death if payment of such retirement benefit were made under the contingent annuitant option in accordance with Paragraph 9.2 with 100% of such benefit continued to the Surviving Spouse; or (2) the benefit payable under Paragraph 10.1(b).

(b) In the event any other Participant dies on or after January 1, 1976, after his 50th birthday and the completion of 15 years of Vesting Service either while in active employment or after the cessation of employment but prior to his Annuity Starting Date, his Surviving Spouse will receive an annual benefit, payable in monthly installments, equal to 20% of such Participant's Final Average Earnings at the time of his

death, plus 1/2 of 1% of said Final Average Earnings for each Year of Vesting Service subsequent to such Participant's 50th birthday and completion of 15 Years of Vesting Service, but in no event less than 50% of the amount which would have been payable to the Participant had he retired on the date of his death and commenced receiving payments under a joint and survivor annuity in accordance with Paragraph 9.1.

(c) Under either (a) or (b) above, monthly payments to the Surviving Spouse will commence as of the first day of the month coincident with or immediately following the Participant's death and continue thereafter for the lifetime of the Surviving Spouse with the last payment to be made on the first day of the month in which the death of such Surviving Spouse occurs.

10.2 Subsequent to Retirement. In the event of the death of a Participant after his Annuity Starting Date, any death benefits payable will be determined by the form of payment effective, as described in Article IX.

ARTICLE XI

Administrative Committee

11.1 Administrative Committee. The Plan will be administered by an Administrative Committee, the members of which shall be appointed by and serve at the pleasure of the Board. All of the members of the Committee shall be officers, directors, or employees of one of the Companies. The Committee shall be the named fiduciary under the Plan.

11.2 Agents of the Committee. The members of the Committee will elect a chairman from among the Committee membership, and a secretary who may, but need not be, one of the members of the Committee, and may appoint such committees with such powers as they shall determine; may authorize one or more of their number, or any agent, to execute or deliver any instrument or to make any payment in their behalf; and may employ counsel, agents, and such clerical, accounting and actuarial services as they might require in carrying out the provisions of the Plan.

11.3 Meetings of the Committee. The members of the Committee will meet at least annually with minutes of these meetings provided to the Boards of the Companies. The majority of the members of the Committee at the time in office will constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee will be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by a majority of the members of the Committee.

11.4 Administrative Powers of the Committee. The Committee may from time to time establish rules for the administration of the Plan. Except as otherwise herein expressly provided, the Committee will have the exclusive right to interpret the Plan and decide any matters arising hereunder in the administration and operation of the Plan, and any interpretations or decisions so made will be conclusive and binding on all persons having an interest in the Plan; provided, however, that all such interpretations and decisions will be applied in a uniform manner to all Employees similarly situated.

11.5 Compensation of Committee. No member of the Committee will receive any compensation for his services as such.

11.6 Certification of Benefits. Subject to the provisions of this Plan, it will be the duty of the Committee to compute and certify to the Insurance Company the amount of benefit payable hereunder to any retiring or terminating Participant, Surviving Spouse, or contingent annuitant.

11.7 Application and Forms for Benefits. The Committee may require a Participant to complete and file with the Committee an application for benefits and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information so furnished it, including the Participant's current mailing address.

11.8 Benefit Claims Procedures. In the event of a claim by a Participant, Surviving Spouse, or contingent annuitant as to the amount of any distribution and/or method of payment under the Plan, within 90 days of the filing of such claim, unless special circumstances require an extension of such period, such person will be given notice in writing of any denial, which notice will set forth the reason for the denial. The Participant, Surviving Spouse, or contingent annuitant may request a review of such denial within 60 days of the date of receipt of such denial by filing notice in writing with the Committee or its designated representative. The Committee or such representative, at their discretion, may request a meeting to clarify any matters they deem appropriate. All interpretations, determinations, and decisions of the Committee or its designated representative in respect of any matter hereunder will be final, conclusive, and binding upon all interested parties.

11.9 Member's Own Participation. No member of the Committee may act, vote, or otherwise influence a decision of the Committee specifically relating to his own participation under the Plan.

11.10 Expenses of the Committee. The Companies will pay any reasonable expenses incurred by the Committee in carrying out the provisions of this Plan.

11.11 Funding Policy. The Committee, in consultation with the Actuary, will establish and carry out a funding policy consistent with the objectives of the Plan and with applicable law.

11.12 Records and Reports. The Committee will exercise such authority and responsibility as it deems appropriate in order to comply with the Employee Retirement Income Security Act of 1974 and governmental regulations issued thereunder relating to records of Participants' Service, normal retirement income, and the percentage of other benefits which are nonforfeitable under the Plan; notifications to Participants; reports ^{to} with the Internal Revenue Service; reports to the Department of Labor; and reports to the Pension Benefit Guaranty Corporation.

11.13 Indemnification of Committee Members. The Companies will indemnify each member of the Committee, to the maximum extent permitted by law, for all liability incurred while administering the Plan.

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ARTICLE XII

Method of Funding

12.1 Insurance Contract. The Companies will enter into an insurance contract with an Insurance Company whereby contributions will be held, invested, and applied to the payment of benefits hereunder. The insurance contract may provide that the contributions made by the Companies may be deposited in the general investment account of the Insurance Company, with or without interest guarantees on such funds, and in one or more separate investment accounts of the Insurance Company, without any guarantees as to principal or interest.

12.2 Company Contributions. Each Company will make periodic payments to the Insurance Company in such amounts and such times as it determines on the basis of actuarial estimates furnished by the Insurance Company or by an actuary selected by the Committee. Forfeitures arising from termination of service will be used to reduce Company contributions.

12.3 Nondiversion of Funds. No part of the funds held by the Insurance Company with respect to this Plan shall be used or diverted to purposes other than for the exclusive benefit of Participants, Surviving Spouses, and contingent annuitants included in the Plan prior to the satisfaction of

all liabilities with respect to them hereunder. Notwithstanding the foregoing, any contribution which is made by a Company by a mistake of fact, or is conditioned upon deduction of the contribution under Section 404 of the Internal Revenue Code of 1954 and such deduction is disallowed, or is conditioned upon initial qualification of the Plan under Section 401(a) of the Internal Revenue Code of 1954 and the Plan does not so qualify, may be returned to the Company within 1 year after the payment to the Insurance Company of the contribution, the disallowance of the deduction (to the extent disallowed), or the date of denial of the qualification of the Plan, whichever is applicable.

12.4 Change in Funding Method. The Companies expressly reserve the right to change the method of funding at any time, subject to the provisions of the insurance contract, and without the consent of any other person or organization of any kind.

12.5 Employee Contributions. No Employee will be required or permitted to make any contributions under this Plan. All accumulated Employee contributions made under the Predecessor Plan and increments thereon will be refunded as of January 1, 1976.

ARTICLE XIII

Fiduciary Responsibilities

13.1 Delegation of Fiduciary Responsibilities. Any Fiduciary may designate other individuals, corporations, or other entities who are not Fiduciaries to carry out such Fiduciary's responsibilities under the Plan, except to the extent that the Employee Retirement Income Security Act of 1974 prohibits the delegation of trustee responsibilities. Any Fiduciary or other person designated to carry out fiduciary responsibilities who is not charged with a specific responsibility under the provisions of the Plan or insurance contract shall be under no duty to question any act or omission of another fiduciary with respect to such responsibility, and shall not be liable for a breach of fiduciary responsibility by another fiduciary unless he participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary knowing such act or omission is a breach, or if he has knowledge of a breach by such fiduciary, he fails to make reasonable efforts under the circumstances to remedy the breach.

13.2 Employment of Experts. Any fiduciary may retain the services of and delegate administrative duties to an accountant, trustee, insurance company, counsel, or other expert as may be necessary or beneficial to the administration

of the Plan. Upon an expert's acceptance of delegated administrative duties, no fiduciary shall be liable for the acts and omissions of such expert but shall be fully protected in any action taken or suffered in good faith in reliance upon the advice or opinion of such expert.

13.3 Manner of Acting. A fiduciary shall discharge his duties with respect to the Plan with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and in accordance with the Plan.

ARTICLE XIV

Amendment and Termination

14.1 Right to Amend or Terminate. The Companies hope and expect to continue the Plan indefinitely, but nevertheless reserve the right to amend, modify, suspend, or terminate the Plan in whole or in part and to suspend or discontinue contributions thereto at any time. No amendment will be effective unless the Plan as so amended is for the exclusive benefit of Participants, their contingent annuitants and beneficiaries, and no amendment will deprive any Participant without his consent of any benefit theretofore vested in him, provided that any and all amendments may be made which are necessary to qualify or maintain the qualification of the Plan under the Internal Revenue Code.

14.2 Distribution of Funds Upon Termination. Upon complete termination of the Plan, the assets in the Fund will be allocated in accordance with Section 4044 of the Employee Retirement Income Security Act of 1974; provided, however, that any Plan assets remaining after the satisfaction of all liabilities of the Plan to Participants and their beneficiaries, shall be returned to the Companies.

14.3 Withdrawal of a Company From the Plan. If at any time any Company or any unit or division thereof included in this Plan shall cease to participate in the Plan by reason of voluntary withdrawal or acquisition by or merger into another company, the Board of Directors shall provide for the withdrawal or segregation of that Company's, division's,

Additionally, the Companies reserve the right to increase benefits at any time, including increases to reflect changes in the cost of living.

or unit's pro rata share of the assets held by the Insurance Company. The amount of such pro rata share shall be determined as of the effective date of such withdrawal on the basis of the value of the accrued benefit credits of the Participants, retired Participants and beneficiaries of that Company, division, or unit. Such determination shall be made by the Committee on the recommendation of an actuary selected by it. The Insurance Company shall select the assets to be withdrawn or segregated in the amount of the pro rata share so determined, and its valuation of said assets for that purpose shall be conclusive.

If the withdrawal of such Company, division, or unit from this Plan has the effect of a termination of the Plan so far as that Company, division, or unit and its Participants are concerned, then the rights of such Participants, retired Participants and beneficiaries shall be governed by the provisions of Paragraphs 14.2 and 14.5 hereof. If the Company, division, or unit which ceases to participate in the Plan, and which withdraws the pro rata share of the assets from the Insurance Company, or the successor company, continues the Plan or adopts a substantially similar plan for the benefit of its Participants, the withdrawal from this Plan by that Company, ~~unit~~ or division, ^{OR UNIT} shall not be regarded as a termination of the Plan so far as that Company, ~~unit~~ ^{OR UNIT} or division, and its Participants are

concerned; the pro rata share of the assets shall be transferred to the withdrawing Company, or successor company, subject to the provisions of Paragraph 14.4, the provisions of Paragraphs 14.2 and 14.5 shall be deemed inapplicable, and the rights of that Company's, ~~unit's, or~~ division's, OR UNIT'S Participants, retired Participants and beneficiaries shall be governed in accordance with the provisions of the Plan so continued, or substantially similar plan so adopted, by that Company, or the successor company, for their benefit as if no withdrawal from this Plan had taken place.

14.4 Merger or Consolidation of Plan. In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Fund to a trust fund held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) each Participant would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if this Plan had then terminated);

(b) resolutions of the Boards of Directors of the Companies under this Plan, and of any successor or successors of the Companies, shall authorize such transfer of assets; and, in the case of such successor or successors, the resolutions will include an assumption of liabilities with respect to the Participants' inclusion in such other plan; and

(c) such other plan and trust are qualified under Section 401(a) and 501(a) of the Internal Revenue Code.

14.5 Benefits Nonforfeitable. Subject to all other provisions of this Article XIV, upon complete or partial termination of the Plan, the rights of all Participants to benefits accrued to the date of such termination, to the extent then funded, shall be nonforfeitable.

ARTICLE XV

General Provisions

15.1 Plan Voluntary. Nothing contained herein will be deemed to give any Employee the right to be retained in the service of a Company or to interfere with the rights of a Company to discharge any Employee at anytime.

15.2 Payments to Minors and Incompetents. If a Participant, contingent annuitant, or Surviving Spouse entitled to receive any benefits hereunder is a minor or is deemed by the Company or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, they will be paid to such persons as the Committee might designate or to the duly appointed guardian.

15.3 Non-Alienation of Benefits. To the extent permitted by law, no benefit payable under the Plan will be subject in any manner to anticipation, assignment, garnishment, or pledge; and any attempt to anticipate, assign, garnishee, or pledge the same will be void; and no such benefits will be in any manner liable for or subject to the debts, liabilities, engagements, or torts of any Participant; and if any Participant is adjudicated bankrupt or attempts to anticipate, assign, or pledge any benefits, then such benefits will, in the discretion of the Committee, cease, and in this event the Committee will have the

authority to cause the same or any part thereof to be held or applied to or for the benefit of such Participant, his spouse, his children or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.

15.4 Provisions in the Event of Early Termination.

Anything in the Plan to the contrary notwithstanding, the following provisions will apply with respect to any benefits payable under this Plan to the extent such benefits exceed the benefits that would have been payable to or with respect to a Participant under the Predecessor Plan if such Predecessor Plan had been continued in effect. If the Plan is terminated by the Companies or the full current costs have not been funded during the period ending on November 30, 1981, the benefits which become payable during the Restricted Period (as defined below) to any Restricted Employee (as defined below) of a Company will be limited to such Employee's Unrestricted Benefits (as defined below) at that time. For the purpose of the preceding sentence:

(a) Restricted Employee will mean each of the 25 highest paid Employees of each Company on December 1, 1971, whose anticipated annual basic normal income under the Plan exceeds \$1,500.

(b) Restricted Period will mean the Period from December 1, 1971, to the later of November 30, 1981, or

the date on which the full current costs of the Plan have been funded for the first time.

(c) Unrestricted Benefits of any Employee will mean the annual retirement income of such Employee provided by his Company's contributions which do not exceed the greater of:

(i) \$20,000; or

(ii) The amount computed by multiplying 20% of the first \$50,000 of the Employee's annual compensation by the number of years from December 1, 1971 to the earliest of the date of termination of the Plan, the date the Employee's benefit becomes payable, or the date as of which the full current costs of the Plan were not funded.

This provision will not restrict the current payment of full retirement income to the extent such income would have been payable to or with respect to the Participant had the Predecessor Plan continued in effect, nor will it restrict the current payment of any excess retirement income called for by the Plan to any retired Participant, contingent annuitant, or beneficiary while the plan is in full effect and its full current costs have been met, nor will it restrict the payment of any retirement income benefit withheld for prior years (under the foregoing provisions) after all deficits for all prior years and full current costs have

been met. In accordance with Regulations issued by the Secretary of the Treasury, if the Plan is amended so as to increase substantially the extent of possible discrimination as to contributions and as to benefits actually payable in the event of the subsequent termination of the Plan, the provisions of this Paragraph shall be applied to the Plan as so amended as if it were a new plan established on the date of such amendment.

15.5 Use of Masculine and Feminine; Singular and Plural. Wherever used in this Plan, the masculine gender will include the feminine gender and the singular will include the plural, unless the context indicates otherwise.

15.6 Governing Law. The provisions of the Plan will be construed according to the laws of the District of Columbia and the Employee Retirement Income Security Act of 1974.

15.7 Small Payments. If the monthly installments payable to any Participant, Surviving Spouse, or contingent annuitant would be less than \$10 each, the Committee, in its discretion, may make a lump sum payment to such Participant, beneficiary or contingent annuitant in an amount equal to the present value of such monthly installments, computed on the basis of actuarial factors adopted by the Committee. Payment of such amount will be in full discharge of all obligations under this Plan with respect to such Participant, Surviving Spouse, or contingent annuitant.

AMENDED PROFIT SHARING PLAN FOR
THE EMPLOYEES OF THE GOVERNMENT
EMPLOYEES COMPANIES

LT&K DRAFT
6-19-76
Rev. 9-15-76
Rev. 8-10-77
Rev. 11-9-77

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AMENDED PROFIT SHARING PLAN FOR
THE EMPLOYEES OF THE GOVERNMENT
EMPLOYEES COMPANIES

This Plan shall be known as the "Amended Profit Sharing Plan for the Employees of the Government Employees Companies". The Plan is designed to encourage employee savings and to provide out of the profits of the Government Employees Companies benefits for its eligible Employees upon their retirement, disability, or termination of service and for their beneficiaries in the event of their death. This Plan, as amended and restated herein, shall entirely supersede the Amended Profit Sharing Plan for the Employees of the Government Employees Companies as in effect prior to January 1, 1976, with respect to all Employees on that date. The rights to benefits of all Employees whose employment with a Company terminated prior to January 1, 1976 shall be determined solely under the provisions of the Plan as in effect at the time of such termination of employment, except as otherwise provided herein.

ARTICLE I

Definitions

1.1 "Affiliate" will mean a member with a Company of a controlled group of organizations within the meaning of Section 1563(a) of the Internal Revenue Code, determined without regard to Section 1563(a)(4) and (e)(3)(C) of the Code, or a member with a Company of a group of trades or businesses (whether or not incorporated) under common control as determined by the Secretary of the Treasury in regulations adopted under Section 414(c) of the Code.

1.2 "Board" will mean the Board of Directors of Government Employees Insurance Company.

1.3 "Break in Service" will have the meaning set forth in Paragraph 3.3.

1.4 "Committee" will mean the Administrative Committee appointed by the Board for the purpose of administering this Plan.

1.5 "Companies" will mean Government Employees Insurance Company, Government Employees Life Insurance Company, Government Employees Life Insurance Company of New York, Criterion Insurance Company, Government Employees Financial Corporation, and any other corporation which, with the approval of the Board, adopts the Plan, or any successor or successors of said Companies. A Company will mean one of the Companies.

1.6 "Corporate Trustee" will mean the corporate entity or entities appointed by the Board to manage and invest the assets of the Fund that comprise Funds A, B, and C.

1.7 "Earnings" will mean the regular or basic pay of a Participant exclusive of bonuses, overtime pay, and other extra compensation. Earnings of a Participant who at any time is simultaneously in the employ of two or more of the Companies included herein, shall be the total Earnings received by the Participant.

1.8 "Effective Date" will mean January 1, 1976.

1.9 "Election Date" will mean March 31, June 30, September 30, or December 31 of any year.

1.10 "Employee" will mean any person employed by a Company on a salaried basis. Employee will include officers, but will exclude both directors who are not employees, and persons paid on an hourly basis.

1.11 "Fiduciary" will mean any person or entity who exercises discretionary authority or control over the management of the Plan, assets held under the Plan, or disposition of Plan assets; who renders investment advice for direct or indirect compensation as to assets held under the Plan or has any authority or responsibility in the administration of the Plan.

1.12 "Fund" will mean the trust fund held by the Corporate Trustee in accordance with the Trust Agreement. It will consist of Funds A, B, and C, the amount allocable to each of which shall be designated by the Committee.

1.13 "Fund A" will mean that portion of the Fund composed of Participant Contributions which is primarily invested in common stocks, convertible preferred stocks, and other similar securities, except where and to the extent that the Corporate Trustee determines such investment to be imprudent.

1.14 "Fund B" will mean that portion of the Fund composed of Participant Contributions which is primarily invested in fixed income securities such as corporate bonds, debentures, mortgages, preferred stocks, and United States, state, and local securities, or in group annuity contracts, such investments to be made at the direction of the Committee.

1.15 "Fund C" will mean that portion of the Fund composed of the assets of the Old Plan on December 31, 1970, and Company Contributions made on and after January 1, 1971. The assets of Fund C may be invested up to 100% in securities of the Companies or of any Company.

1.16 "Inactive Participant" will mean a Participant whose employment with the Companies has terminated but who has an unpaid balance in his Participant's Account.

1.17 "Month of Service" will have the meaning as set forth in Paragraph 3.2.

1.18 "Old Plan" will mean the Profit Sharing Plan for the Employees of Government Employees Companies as it existed on December 31, 1970.

1.19 "Participant" will mean an Employee who meets the eligibility and procedural requirements set forth in Article II.

1.20 "Participant Account" will mean, as of any Valuation Date, the then amount of the Participant's Participant contributions, the Company contributions, and the forfeitures allocated on his behalf, adjusted to reflect any withdrawals and distributions, investment earnings and losses attributable to such contributions and forfeitures, and the then market value of the Fund, subject, however, to the provisions of Paragraph 6.3.

1.21 "Plan" will mean the Amended Profit Sharing Plan for the Employees of Government Employees Companies as set forth in this document and as it may be amended from time to time; provided, however, that for purposes of Paragraph 16.4, as well as for the purposes of the funding and payment of benefits, the Plan, as adopted by each Company, shall be deemed to be a separate single plan as to each Company.

1.22 "Plan Year" will mean the calendar year.

1.23 "Trust Agreement" will mean the agreement or agreements entered into between the Companies and the Corporate Trustee to carry out the purposes of the Plan, such Trust Agreement being incorporated herein as part of this Plan.

1.24 "Valuation Date" will mean the last business day of any month.

1.25 "Year of Qualifying Service" will have the meaning set forth in Paragraph 2.2.

1.26 "Year of Service" will have the meaning set forth
in Paragraph 3.1.

ARTICLE II

Participation

2.1 Employees Employed Prior to Effective Date. Each Employee on January 1, 1976, who was a Participant in the Plan on December 31, 1975, will remain a Participant hereunder as of the Effective Date. Each Employee on December 31, 1975, who was not a Participant at that time will be entitled to participate hereunder on the earlier of the January 1 of the year immediately following his completion of two years of credited service in accordance with the prior provisions of this Plan or the date set forth in Paragraph 2.2.

2.2 Employees Hired on or After Effective Date. Each Employee hired on or after the Effective Date will become a Participant on the earlier of the January 1 or July 1 coincident with or next following the first anniversary of his date of employment and satisfaction of the following requirements:

(a) He has attained age 23;

(b) He had completed a Year of Qualifying Service;

provided he is an Employee on such date.

The term "Year of Qualifying Service" means a 12 consecutive month period, beginning on the Employee's first date of employment, during which the Employee completes at least six (6) Months of Service, or, in the case of an Employee who does not complete six (6) Months of Service during such 12 month

period, any Plan Year commencing after the Employee's first date of employment in which the Employee completes six (6) Months of Service.

2.3 Participation Following a Break in Service. An Employee who has had a Break in Service and, following such Break, returns to the employment of a Company will become a Participant on the earlier of the January 1 or July 1 coincident with or next following the date he first satisfies the requirements of Paragraph 2.2 following such Break.

2.4 Notification of Eligibility. The Committee will notify each Employee of his forthcoming eligibility to participate in the Plan and of the terms of this Plan and will give him the opportunity to become a Participant hereunder.

2.5 Method of Becoming a Participant. To become a Participant on the January 1 or July 1 he is first eligible to do so, an Employee must make written application to participate in this Plan on a form provided by the Committee, which form will include an authorization for payroll deductions to cover his Participant contributions as described in Article IV.

ARTICLE III

Service

3.1 Year of Service. An Employee shall be credited with a Year of Service for each Plan Year in which he completes at least six (6) Months of Service, beginning with the Plan Year in which he first becomes a Participant; provided, however, that an Employee who does not complete at least six (6) Months of Service in the Plan Year in which he becomes a Participant shall nevertheless be credited with a Year of Service for such Plan Year.

3.2 Months of Service. An Employee shall be credited with a Month of Service for each month during which he is either directly or indirectly compensated by a Company for at least one hour during such month, including months for which back pay, irrespective of mitigation of damages has been awarded or agreed to by a Company. Months of Service also shall be credited for periods of

(a) paid leave such as vacation, personal, holidays, health, work injury, bereavement, jury duty/court;

(b) layoff;

(c) approved leave without pay or leaves of absence not exceeding two years authorized in writing by a Company; and

(d) military leave or furlough

provided, that in the case of an unpaid leave or period of absence, the Employee returns to active employment with a Company at the expiration of such leave or period of absence and, in the case of a military leave or furlough, within the period the Employee's re-employment rights are protected by law. Months of Service also shall include, to the extent that credit for such periods is required under regulations prescribed by the Secretary of Labor or the Secretary of the Treasury and to the extent that credit would be given under this Paragraph 3.2 were the Employee then in the employ of a Company, months during which an Employee is employed by:

(a) an Affiliate; and

(b) any corporation which is a predecessor corporation of a Company, or corporation merged, consolidated or liquidated into a Company or a predecessor of a Company, or a corporation, substantially all of the assets of which have been acquired by a Company if.

(1) such corporation maintained the Plan or a predecessor plan; or

(2) such corporation did not maintain the Plan or a predecessor plan but credit is required to be given for service with such a corporation under regulations prescribed by the Secretary of the Treasury.

3.3 Break in Service. Effective January 1, 1976, an Employee shall incur a Break in Service in any Plan Year in which he completes less than three Months of Service. The determination of the occurrence of a Break in Service prior to such date shall be made under the rules of the Plan as in effect prior to such date.

3.4 Service Which is Disregarded. In computing an Employee's aggregate number of Years of Service, all such Years of Service shall be aggregated, except that the following periods shall be disregarded:

(a) Periods during which a Company did not maintain the Plan or a predecessor plan as defined in regulations issued by the Secretary of the Treasury;

(b) In the case of an Employee who at the time of a Break in Service does not have any rights to vested benefits under Article X, periods prior to a Break in Service if the Employee's number of Years of Service are less than or equal to the number of consecutive years during which the Employee has incurred a Break in Service;

(c) Years of Service after a Break in Service for purposes of determining the Employee's vested interest in the value of his individual account attributable to Company contributions which accrued before the Break;

(d) Periods prior to January 1, 1976 which were disregarded under the rules of the Plan with respect to Breaks in Service as in effect prior to such date.

3.5 Employees Employed Prior to Effective Date.

Years of Service prior to the Effective Date shall be computed in the same manner as Years of Service after such date, provided that:

(a) As of the Effective Date, the number of Years of Service credited to an Employee shall not be less than he would have had under the terms of the Plan on December 31, 1975;

(b) An Employee who on the Effective Date had attained age 24 and becomes a Participant in the Plan on such date by reason of his completion of two years of credited service in accordance with the provisions of Paragraph 2.1, shall be credited with one additional Year of Service; and

(c) An Employee who was a Participant on December 31, 1975, and who was employed after he had attained age 22 shall be credited with one additional Year of Service.

ARTICLE IV

Participant Contributions

4.1 Amount of Participant Contributions. Each Participant, in order to share in Company contributions made on and after January 1, 1971, will authorize payroll deductions for Participant contributions under the Plan in an amount equal to any integral percentage in the range of 1% to 10% of his Earnings. Such deductions will begin as of the first payroll period beginning coincident with or immediately following the date the Employee becomes a Participant. A Participant's contributions of up to and including 6% of his Earnings will be considered as his basic Participant contributions and any Participant contributions in excess of 6% of his Earnings will be considered as his supplemental Participant contributions.

4.2 Change in Percentage of Participant Contributions. The percentage of Earnings designated by a Participant to be deducted as Participant contributions under the Plan will continue in effect, notwithstanding any change in his Earnings, until he elects to change such percentage. Except as provided in this Paragraph a Participant may change such percentage at any time by filing a written request for such change with the Committee; provided, however, that if a Participant does make such a change, he will not be permitted

to make a further change during the 12-month period following the effective date of such change. Any such change will become effective with the first payroll period beginning coincident with or immediately following the expiration of 10 days following the date such written request is filed with the Committee. A Participant whose contributions have been suspended in accordance with Paragraph 4.4 may not, for a period of 24 months following the expiration of such suspension period, increase his percentage contributions over the average percentage (rounded to the nearest whole number) applicable during the 12-month period immediately prior to the effective date of any such suspension.

4.3 Suspension of Participant Contributions. A Participant, after he has participated under this Plan for at least one year and by filing a written direction with the Committee, may elect to suspend his Participant contributions for a period of not less than 3 months. Any such suspension will become effective with the first payroll period beginning coincident with or immediately following the expiration of 10 days following the date such written direction is filed with the Committee. Any such Participant may resume making Participant contributions by filing written authorization to resume payroll deductions with the Committee in which event his Participant contributions will be resumed with the first payroll period beginning coincident with or

Immediately following the expiration of 10 days following the later of:

(a) the date such written authorization is received by the Committee; and

(b) the expiration of a period of 3 months following the effective date of such suspension.

4.4 Effect of Withdrawal. Anything in the foregoing to the contrary notwithstanding, if a Participant makes a withdrawal, as provided in Article XIII, his Participant contributions will be automatically suspended for a period of 3 months in the case of a 10% withdrawal, 6 months in the case of a 25% withdrawal, 9 months in the case of a 50% withdrawal, or 12 months in the case of a 100% withdrawal (or a 100% withdrawal less the value of the Company contributions made within the preceding two years), following the effective date of such withdrawals.

4.5 Remittance of Participant Contributions to Corporate Trustee. The amounts deducted as Participant contributions will be remitted by the Companies to the Corporate Trustee as soon as practicable.

4.6 Other Forms of Participant Contributions Prohibited. A Participant will be entitled to make Participant contributions only through payroll deductions. No cash contributions will be permitted, either in lieu of or in addition to payroll deductions.

4.7 Allocation of Participant Contributions. The Participant contributions made by each Participant will be allocated to his Participant's Account.

ARTICLE V

Company Contributions

5.1 Amount of Company Contribution. Subject to the provisions of Paragraph 5.3 and the right of a Company under Article XVI to suspend its contributions in whole or in part at any time, each Company will remit to the Corporate Trustee for the account of each Participant, concurrently with the payment of such Participant's contribution to the Corporate Trustee, an amount determined as follows:

(a) For any Participant in its employ who has completed less than 10 full calendar years of participation, an amount equal to 50% of his basic Participant contributions that are then being paid to the Corporate Trustee;

(b) For any Participant in its employ who has completed at least 10 but less than 20 full calendar years of participation, an amount equal to 75% of his basic Participant contributions that are then being paid to the Corporate Trustee; or

(c) For any Participant in its employ who has completed at least 20 full calendar years of participation, an amount equal to 100% of his basic Participant contributions that are then being paid to the Corporate Trustee.

For these purposes, any Participant first admitted to the Plan on a July 1 will be credited with a full calendar year of participation for such year of admission. No amount will be contributed by a Company with respect to a Participant's supplemental contribution which was made at a rate in excess of 6% of the Participant's Earnings. If any Participant is employed by more than one Company during a Plan Year, such Company contribution will be apportioned between the Companies that employed such Participant during such Plan Year in accordance with the Earnings paid to the Participant by each such Company during such Plan Year and with respect to which Participant contributions were made. Any Company's contribution will be made only out of its current earnings (determined before contributions to this Plan and before Federal income taxes), and/or accumulated earnings. Subject to the right of the Company under Paragraph 16.1 of this Plan to suspend or discontinue contributions, to the extent such earnings are insufficient to meet the stipulated Company contributions as described in (a), (b) and (c) above, such stipulated contributions shall be reduced on a pro-rata basis with respect to each Participant.

5.2 Application of Forfeitures. Any amounts attributable to Company contributions which are forfeited in accordance with Article X by Participants who incur a Break in Service prior to becoming fully vested will be reallocated to Participant Accounts

as of the Valuation Date set forth in Paragraph 10.4. Such Participant Accounts will include only the accounts of those Participants who are actively employed by the Companies as of such Valuation Date. The amount of forfeitures so reallocated to each such Participant's Account as of such Valuation Date will be that portion of the total forfeitures applicable to his Company with respect to such Valuation Date which bears the same ratio to such total as the Earnings of such Participant having a Participant Account balance above zero bear to the aggregate Earnings received from such Company by all Participants of such Company having Participant Account balances above zero. Such forfeitures will be treated as Company contributions.

5.3 Limit on Company Contributions. In no event shall the total Company contribution on behalf of any Participant in any calendar year exceed the lesser of 10% of such Participant's compensation during such calendar year, or \$10,000, adjusted annually for increases in the cost of living, nor shall Company contributions and forfeitures allocated to Participant's account in any calendar year, plus any Participant contributions in excess of 6% of his earnings in such year, exceed the lesser of 25% of such Participant's compensation during such year, or \$25,000 adjusted annually for increases in cost of living in accordance with regulations issued by the Secretary of the Treasury under Section 415(d) of the Internal Revenue Code. Additionally, in no event shall the sum paid to the Corporate Trustee by all Companies for any one year exceed the

maximum amount deductible from the income of the Companies for such year under Section 404 (a)(3)(A) of the Internal Revenue Code of 1954 as amended from time to time, nor will an amount be contributed by a Company which would result in disqualification of the Plan under Sections 401(a) and 501(a) of the Internal Revenue Code.

ARTICLE VI

Investment of Contributions

6.1 Investment of Contributions. Each Employee will direct, at the time he elects to become a Participant under the Plan, that his Participant contributions be invested in one of the following ways:

- (a) 100% in either Fund A or Fund B;
- (b) 50% in each of the two Funds; or
- (c) 75% in one of the Funds and 25% in the other.

Assets of the Old Plan, as well as Company contributions made on and after January 1, 1971, will be invested in Fund C.

6.2 Change in Investment Elections. Any investment election given by a Participant will continue in effect until changed by the Participant. A Participant may change his investment election as to his future Participant contributions, within the limits set forth in Paragraph 6.1, by giving written notice to the Committee. A Participant may also change his investment election as to the value of his Participant Account created by his prior Participant contributions, within the limits set forth in Paragraph 6.1, by giving written notice to the Committee; provided, however, that if, in the opinion of the Committee, because of market conditions or otherwise, the position of either Fund A or

Fund B may be adversely affected by any transfer necessary to accomplish such change, the Committee may direct that such change may be accomplished over a period not to exceed one year from the date as of which such change was directed. Except as hereinabove provided, any change of investment election will become effective on the Election Date coincident with or immediately following the expiration of 30 days following the date written notice is received by the Committee.

6.3 Savings Account. At any time after his 60th birthday, a Participant may elect, by giving written notice to the Committee, that the value of his Participant's Account and all future contributions and forfeitures allocated on his behalf be transferred, without regard to the extent to which such Participant would be entitled to receive them under Articles X and XII in the event of termination of employment, to a fully insured savings account in a Federally insured savings institution held in the name of the Committee for the benefit of such Participant. At any time after his 50th birthday and before his 60th birthday a Participant who is eligible for retirement under the Companies' Pension Plan and who has completed 10 or more Years of Service in this Plan, may also elect this transfer to a savings account provided he submits in writing to the Committee a firm, irrevocable, early retirement date which is not more than one year from the effective date of such

election. Any transfer made in accordance with the provisions of this Paragraph will be effected as of the Election Date coincident with or immediately following the expiration of 30 days following the date written notice is received by the Committee. Any Participant who elects a transfer in accordance with the provisions of this Paragraph will not be entitled to make any further changes in the allocation of the transferred amounts, nor may such Participant make any further changes in his investment election.

ARTICLE VII

Participant Accounts

7.1 Credits to Participant Accounts. The Participant Account of each Participant will be credited with his own Participant contributions, with forfeitures and with any Company contributions which are allocated thereto. The Participant Account of each Participant or Inactive Participant will be credited, as of each Valuation Date, with the Participant's share of the investment income and any realized and unrealized capital gains of Funds A, B, and C that occurred during the month ending on such Valuation Date. Such Participant's share of the investment income and realized and unrealized capital gains of Funds A, B, or C for a month will be that portion of the total investment income and capital gains of such Fund for such month which bears the same ratio to such total as the balance of his Participant Account attributable to such Fund on such Valuation Date bears to the aggregate of the balances of all Participant Accounts attributable to such Fund on such Valuation Date.

7.2 Debits of Participant Accounts. Subject to Paragraphs 10.3 and 13.3, the Participant Account of each Participant or Inactive Participant will be debited with the amount of any withdrawal made by him pursuant to Article

XIII, with the amount of any forfeitures pursuant to Article X, and with the amount of any distribution made to him or on his behalf pursuant to Articles VIII, IX, X and XI. The Participant Account of each such Participant will also be debited, as of the end of each Valuation Date, with the Participant's share of any realized and unrealized capital losses of Funds A, B, and C that occurred during the month ending on such Valuation Date. The Participant's share of any realized and unrealized capital losses of Funds A, B, or C for a month will be that portion of the total realized and unrealized capital losses of such Fund for such month which bear the same ratio to such total as the balance of his Participant Account attributable to such Fund on such Valuation Date bears to the aggregate of the balances of all Participant Accounts attributable to such Fund on such Valuation Date.

ARTICLE VIII

Retirement

8.1 Retirement Date. The retirement date of a Participant or Inactive Participant will be determined under the Companies' Pension Plan; or for a Participant or Inactive Participant who is not covered under the aforesaid Pension Plan, the retirement date will be the first day of the month coincident with or next following his 65th birthday.

8.2 Benefit at Retirement. If a Participant retires, he will be entitled to 100% of the value of his Participant Account as of the Valuation Date coincident with or immediately preceding his retirement date, without regard to the extent to which such Participant would be entitled to receive it under Article X in the event of termination of employment. Distribution of the value of the Participant's Account will be made in accordance with Article XII.

ARTICLE IX

Death

9.1 Death While Actively Employed. If a Participant dies while actively employed, 100% of the value of his Participant Account, determined as of the Valuation Date coincident with or immediately preceding his death, will be paid to the beneficiary designated by the Participant. Distribution of the value of the Participant's Account will be made in accordance with Article XII.

9.2 Death After Retirement. If an Inactive Participant dies after retirement, any benefit payable to the Participant's beneficiary will depend upon the method that has been employed to distribute the value of his Participant Account in accordance with Article XII.

9.3 Beneficiary. Each Participant or Inactive Participant will designate the beneficiary to whom, in the event of his death, any benefit is payable hereunder. Each such Participant has the right, from time to time, to change any designation of beneficiary. A designation or change of beneficiary must be in writing on forms supplied by the Committee and any change of beneficiary will not become effective until such change of beneficiary is filed with the Committee whether or not such Participant is alive at the time of such filing. The interest of any beneficiary who

dies before such Participant will terminate unless otherwise provided. If a beneficiary is not validly designated, cannot be found or is not living at the date of payment, any amount payable pursuant to this Plan will be paid to the spouse of such Participant if living at the time of payment, otherwise in equal shares to such of the children of such Participant as may be living at the time of payment; provided, however, that if there is no surviving spouse or child at the time of payment, such payment will be made to the estate of such Participant.

ARTICLE X

Termination of Employment or Status as Employee and Vesting

10.1 Before Four Years of Service. Any Participant who ceases to be an Employee for any reason other than retirement, death, or disability prior to the completion of four Years of Service will be entitled to receive, in a lump sum, the entire amount of his Participant contributions then credited to his Participant Account (including any Participant contributions under the Old Plan), adjusted to reflect investment income and realized and unrealized capital gains and losses through to the Valuation Date coincident with or immediately preceding the date he ceases to be an Employee.

10.2 After Four Years of Service. Any Participant who ceases to be an Employee for any reason other than retirement, death, or disability after the completion of at least four Years of Service shall receive, in a lump sum, the entire amount of his Participant contributions then credited to his Participant Account (including Participant contributions under the Old Plan), adjusted to reflect investment income and realized and unrealized capital gains and losses through to the Valuation Date coincident with or immediately preceding the date he ceases to be an Employee. In addition, such Participant shall receive, in a single sum, his entire

vested percentage of the remaining value of his Participant Account attributable to Company contributions. (including all forfeitures) as of such Valuation Date. The applicable percentage will be determined from the following vesting schedule based upon the Participant's Years of Service as of the date he ceases to be an Employee.

<u>Completed Years of Service</u>	<u>Percentage of Vesting</u>
Less than 4	0
4 but less than 5	40
5 but less than 6	50
6 but less than 7	60
7 but less than 8	70
8 but less than 9	80
9 but less than 10	90
10 or more	100

10.3 Distribution of Benefit and Separate Accounting.

Any distribution to a Participant entitled to benefits in accordance with this Article X will be payable as soon as is practicable after the Participant's termination of employment. In the event a Participant receives a distribution prior to a Break in Service which is in part attributable to Company contributions and he is less than 100% vested in his Participant Account attributable to Company contributions at such time, his remaining interest in the portion of his Account attributable to such contributions shall be accounted for separately. The Participant's vested portion of such separate account at any time shall be the Participant's vested percentage of the value of such account balance (determined as if no distributions had ever been made from such account) reduced by the present value of all prior distributions from such account.

10.4 Forfeitures. As of the Valuation Date coincident with the last day of the Plan Year in which a terminated Participant incurs a Break in Service, the nonvested portion of his Participant Account shall be forfeited.

ARTICLE XI

Total Disability

11.1 Definition of Disability. A Participant will be considered as totally disabled for the purposes of this Plan if, by reason of accidental bodily injury or sickness, he is completely unable to perform any and every duty pertaining to his employment with a Company, while such Participant is not engaged in any occupation or employment for wage or profit; provided, however, that a Participant will not be considered as totally disabled within the meaning of this Plan if such disability is the result of intentionally self-inflicted injury, participating in a riot, committing a felony or any type of assault, or engaging in an illegal occupation.

11.2 Disability Benefit. If a Participant becomes totally disabled, as defined in Paragraph 11.1, and such disability continues for at least six months, the Participant will be entitled to receive 100% of the value of his Participant Account, determined as of the Valuation Date coincident with or immediately preceding the expiration of such six months, or, with the consent of the Committee, determined as of any Valuation Date up to or immediately preceding his 65th birthday. Distribution of the Participant's account will be made in accordance with Article XII.

ARTICLE XII

Payments of Benefits

12.1 Form of Payment. Distribution under Articles VIII, IX, or XI normally will be payable in a lump sum, in cash or in kind, at the Committee's discretion. A Participant (or the beneficiary of a deceased Participant) may elect, however, to have distribution of his Participant Account made in monthly (or annual) installments which provide monthly (or annual) payments for a period certain of 5, 10 or 15 years, as selected by the Participant. In the event an installment payout is selected the Committee shall instruct the Corporate Trustee to: (i) segregate the Participant's Account to a fully insured savings account in a Federally insured savings institution held in the name of the Committee, who shall make payments for the benefit of such Participant; or (ii) take the necessary action to provide for such a term certain installment payout under the terms of an insurance company group annuity contract into which the Trustee has entered. ~~_____~~

12.2 Time of Payment. A lump sum payment will be effected by the Committee as soon as is practicable after the date of the Participant's retirement or death or the Valuation Date as of which his disability benefit is determined. The first payment under a distribution in installments will be made within 90 days after such date. In no event shall payment commence later than the 60th day after the close of the Plan Year in which the Participant's normal retirement date occurs.

12.3 Death of Participant or Inactive Participant

Prior to Receiving Full Distribution. If a Participant dies after having become totally disabled and prior to receiving distribution of the value of his Participant Account or if an Inactive Participant dies after having terminated employment or while receiving distributions in the form of installments and prior to having received a complete distribution of all such installments, then, in any of these events, the payments that would otherwise have been made to such Participant will be made to his designated beneficiary.

ARTICLE XIII

Withdrawals

13.1 Conditions of Withdrawal. Subject to the provisions of Article IV, a Participant or Inactive Participant who has completed two Years of Service, by filing a written request with the Committee at any time and from time to time, may elect to withdraw a portion of the value of his Participant Account; provided, however, that if such Participant does make such a withdrawal, he will not be permitted to make a subsequent withdrawal until a period of 12 months has elapsed. Any such withdrawal will be effective as of the Election Date coincident with or next following the expiration of 30 days after such written request is received by the Committee. The portion that may be withdrawn is 10%, 25%, 50%, or 100% of that part of the value of his Participant Account determined as of the Valuation Date that coincides with such Election Date, that such Participant would be entitled to receive under Article X if he had terminated employment as of such Valuation Date; provided, however, such withdrawal will not include the value of Company contributions made in the two years immediately preceding such withdrawal. In the event of any such withdrawal a Participant's contribution shall be suspended in accordance with Paragraph 4.4.

13.2 Fund to be Charged With Withdrawal. To the extent possible, any withdrawal will be charged to the

Participant's interest in Funds A and B, as specified by the Participant, or, if not specified, to Funds A and B in proportion to the Participant's interest in these funds. To the extent the Participant's total interest in Funds A and B is not sufficient to make the total distribution, the excess will be charged in the following order of priority:

(a) To the Participant's interest in Fund C to the extent of the value thereof that is attributable to any Participant contributions made under the Old Plan.

(b) To the Participant's interest in Fund C to the extent of the value thereof that is attributable to Company contributions.

13.3 Separate Accounting. In the event a participant withdraws any amount attributable to Company contributions prior to a Break in Service and prior to becoming 100% vested in his Participant Account attributable to Company contributions, his remaining interest in the portion of his Account attributable to such contributions shall be accounted for separately, and his vested portion of such separate account at any time shall not be less than the amount determined in accordance with Paragraph 10.3.

ARTICLE XIV

Administrative Committee

14.1 Administrative Committee. The Plan will be administered by an Administrative Committee, the members of which shall be appointed by and serve at the pleasure of the Board. All of the members of the Committee shall be officers, directors, or employees of one of the Companies. The Committee shall be the named fiduciary under the Plan.

14.2 Agents of the Committee. The members of the Committee will elect a chairman from among the Committee membership, and a secretary who may, but need not be, one of the members of the Committee, and may appoint such committees with such powers as they shall determine; may authorize one or more of their number, or any agent, to execute or deliver any instrument or to make any payment in their behalf; and may employ counsel, agents, and such clerical, accounting, and other services as they might require in carrying out the provisions of the Plan.

14.3 Meeting of the Committee. The members of the Committee will meet at least annually with minutes of these meetings provided to the Board of the Companies. The majority of the members of the Committee at the time in office will constitute a quorum for the transaction of business. All resolutions or other action taken by the

Committee will be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by a majority of the members of the Committee.

14.4 Administrative Powers of the Committee. The Committee may from time to time establish rules for the administration of the Plan. Except as otherwise herein expressly provided, the Committee will have the exclusive right to interpret the Plan and decide any matters arising hereunder in the administration and operation of the Plan, and any interpretations or decisions so made will be conclusive and binding on all persons having an interest in the Plan; provided, however, that all such interpretations and decisions will be applied in a uniform manner to all Employees similarly situated. The committee shall be responsible for advising the Trustee of the portion of any contributions for deposit in Fund A, Fund B, and Fund C and for directing any transfer of assets or cash between Fund A and Fund B should such transfer be necessary.

14.5 Compensation of Committee. No member of the Committee will receive any compensation for his services as such.

14.6 Certification of Benefits. Subject to the provisions of this Plan, it will be the duty of the Committee to compute and certify the amount of benefit payable hereunder to any Participant, Inactive Participant, or beneficiary.

14.7 Application and Forms for Benefits. The Committee may require a Participant or Inactive Participant to complete and file with the Committee an application for

benefits and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information so furnished it, including such Participant's current mailing address.

14.8 Benefit Claims Procedures. In the event of denial of a claim by a Participant, Inactive Participant, or beneficiary as to the amount of any distribution and/or method of payment under the Plan, such person will be given 30 days notice in writing of such denial, which notice will set forth the reason for the denial. The Participant, Inactive Participant, or beneficiary may request a review of such denial by filing notice in writing with the Committee or its designated representative. The Committee or such representative, at their discretion, may request a meeting to clarify any matters they deem appropriate. All interpretations, determinations, and decisions of the Committee or its designated representative in respect of any matter hereunder will be final, conclusive, and binding upon all interested parties.

14.9 Member's Own Participation. No member of the Committee may act, vote or otherwise influence a decision of the Committee specifically relating to his own participation under the Plan.

14.10 Expenses of the Committee. The Companies will pay any reasonable expenses incurred by the Committee in carrying out the provisions of this Plan.

14.11 Records and Reports. The Committee will exercise such authority and responsibility as it deems appropriate in order to comply with the Employee Retirement Income Security Act of 1974 and governmental regulations issued thereunder relating to records of Participants' Years of Service, account balances and the percentage of such account balances which are nonforfeitable under the Plan; notifications to Participants; annual registration with the Internal Revenue Service; and annual reports to the Department of Labor.

14.12 Indemnification of Committee Members. The Companies will indemnify each member of the Committee, to the maximum extent permitted by law, for all liability incurred while administering the Plan.

ARTICLE XV

Fiduciary Responsibilities

15.1 Delegation of Fiduciary Responsibilities. Any Fiduciary may designate other individuals, corporations or other entities who are not Fiduciaries to carry out such Fiduciary's responsibilities under the Plan, except to the extent that the Employee Retirement Income Security Act of 1974 prohibits the delegation of trustee responsibilities. Any Fiduciary or other person designated to carry out fiduciary responsibilities who is not charged with a specific responsibility under the provisions of the Plan or Trust Agreement shall be under no duty to question any act or omission of another fiduciary with respect to such responsibility, and shall not be liable for a breach of fiduciary responsibility by another fiduciary unless he participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary knowing such act or omission is a breach, or if he has knowledge of a breach by such fiduciary, he fails to make reasonable efforts under the circumstances to remedy the breach.

15.2 Employment of Experts. Any fiduciary may retain the services of and delegate administrative duties to an accountant, trustee, insurance company, counsel or other expert as may be necessary or beneficial to the administration

of the Plan. Upon an expert's acceptance of delegated administrative duties, no fiduciary shall be liable for the acts and omissions of such expert but shall be fully protected in any action taken or suffered in good faith in reliance upon the advice or opinion of such expert.

15.3 Manner of Acting. A fiduciary shall discharge his duties with respect to the Plan with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and isolated with such matters would use in the conduct of an enterprise of a like character and with like aims, and in accordance with the Plan.

ARTICLE XVI

Amendment and Termination

16.1 Right to Amend or Terminate. The Companies reserve the right to amend, modify, suspend, or terminate the Plan in whole or in part at any time and to suspend or discontinue contributions thereto in whole or in part at any time. No amendment will be effective unless the Plan as so amended is for the exclusive benefit of the Participants, Inactive Participants, and their beneficiaries, and no amendment will deprive any such Participant or beneficiary without his consent of any benefit theretofore vested in him, provided that any and all amendments may be made which are necessary to qualify or maintain the qualification of the Plan under the Internal Revenue Code.

16.2 Distribution of Funds Upon Termination. Upon complete or partial termination of the Plan or complete discontinuance of Company contributions, each affected Participant will be immediately entitled to 100% full vesting in the value of his Participant Account and the assets in the Fund will be allocated in accordance with Section 4044 of the Employee Retirement Income Security Act of 1974.

16.3 Withdrawal of a Company From the Plan. If at any time any Company or any unit or division thereof included in this Plan shall cease to participate in the Plan by reason

of voluntary withdrawal or acquisition by or merger into another company, the Board of Directors shall provide for the withdrawal or segregation of that Company's, division's or unit's pro rata share of the assets held by the Corporate Trustee. The amount of such pro rata share shall be determined as of the effective date of such withdrawal on the basis of the value of the Participants' Accounts of Participants, Inactive Participants and beneficiaries of that Company, division, or unit. The Corporate Trustee shall select the assets to be withdrawn or segregated in the amount of the pro rata share so determined, and its valuation of said assets for that purpose shall be conclusive.

If that withdrawal of such Company, division, or unit from this Plan has the effect of a termination of the Plan so far as that Company, division, or unit and its Participants are concerned, then the rights of such Participants, Inactive Participants, and beneficiaries shall be governed by the provisions of Paragraph 16.2 If the Company, division, or unit which ceases to participate in the Plan, and which withdraws the pro rata share of the assets from the Fund, or the successor company, continues the Plan or adopts a substantially similar plan for the benefit of its Participants, Inactive Participants, and beneficiaries the withdrawal from this Plan by that Company, division, or unit shall not be regarded as a termination of the Plan so far as that Company, division or unit and its Participants are concerned; the pro rata share of the assets

shall be transferred to the withdrawing company, or successor company subject to the provisions of Paragraph 16.4; the provisions of Paragraphs 16.1 and 16.2 shall be deemed inapplicable; and the rights of that Company's, division's, or unit's Participants, Inactive Participants, and beneficiaries shall be governed in accordance with the provisions of the Plan so continued, or substantially similar plan so adopted, by that Company, or the successor company, for their benefit as if no withdrawal from this Plan had taken place.

16.4 Merger or Consolidation of Plan. In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Fund to another trust fund held under, any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants, Inactive Participants, or beneficiaries of this Plan, the assets of the Fund applicable to such Participants shall be transferred to the other trust fund only if:

- (a) each Participant, Inactive Participant, or beneficiaries would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger,

consolidation, or transfer (if this Plan had then terminated):

(b) resolutions of the Boards of Directors of the Companies under this Plan, and of any successor or successors of the Companies, shall authorize such transfer of assets; and, in the case of such successor or successors, the resolutions will include as assumption of liabilities with respect to such Participants' inclusion in such other plan; and

(c) such other plan and trust are qualified under Sections 401(a) and 501(a) of the Internal Revenue Code.

ARTICLE XVII

General Provisions

17.1 Plan Voluntary. Nothing contained herein shall be deemed to give any Employee the right to be retained in the service of a Company or to interfere with the rights of a Company to discharge any Employee at any time.

17.2 Payments to Minors and Incompetents. If a Participant, Inactive Participant, or beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Committee or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, they will be paid to such persons as the Committee might designate or to the duly appointed guardian.

17.3 Non-Alienation of Benefits. To the extent permitted by law, no benefit payable under the Plan will be subject in any manner to anticipation, assignment, attachment, garnishment, or pledge; and any attempt to anticipate, assign, attach, garnish or pledge the same will be void; and no such benefits will be in any manner liable for or subject to the debts, liabilities, engagements, or torts of any Participant; and if any Participant is adjudicated bankrupt or attempts to anticipate, assign, or pledge any benefits, then such benefits will, in the discretion of the Committee, cease and in this event the Committee will have the authority

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to cause the same or any part thereof to be held or applied to or for the benefit of such Participant, his spouse, his children or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.

17.4 Appointment of Corporate Trustee. A Corporate Trustee under the Plan will be appointed by the Board, with such powers, as to investments, reinvestments, control, and disbursement of the Fund, as are set forth in the Trust Agreement, of in such Trust Agreement as modified from time to time. The Board may remove a Corporate Trustee at any time on the notice required by the terms of the Trust Agreement.

17.5 Non-Diversion of Contributions. All contributions when made to the Fund and all property and funds of the Fund, including income from investments and from all other sources, will be retained for the exclusive benefit of Participants, Inactive Participants, and their beneficiaries and will be used to pay benefits provided hereunder. Notwithstanding the foregoing, any contribution which is made by a Company by a mistake of fact, or is conditioned upon deduction of the contribution under Section 404 of the Internal Revenue Code of 1954 and such deduction is disallowed, or is conditioned upon the initial qualification of the Plan under Section 401(a) of the Internal Revenue Code of 1954 and the Plan does not so qualify, may be returned to the Company within 1 year after the payment to the Fund

of the contribution, the disallowance of the deduction (to the extent disallowed) or the date of denial of the qualification of the Plan, whichever is applicable.

17.6 Use of Masculine and Feminine; Singular and Plural.

Wherever used in this Plan, the masculine gender will include the feminine gender and the singular will include the plural, unless the context indicates otherwise.

17.7 Governing Law. The provisions of the Plan will be construed according to the laws of the District of Columbia and the Employee Retirement Income Security Act of 1974.

GEICO 1977 INCENTIVE BONUS PLAN

The one-year Incentive Bonus Plan for all Officers (excluding Mr. Byrne) for the year 1977 is as follows:

(a) If the 1977 Business Plan Goal of a natural statutory underwriting profit of 2% of earned premium is reached, it would lead to an incentive bonus pool of 10% of the total officer payroll.

(b) The pool will be distributed in such a manner that there is a reasonably even percentage distribution at all officer levels with no undue concentration of larger bonuses as percentage of salary going to the higher level officers.

(c) Individual bonuses within officer levels will differ widely by performance (from 0% to 40% of base pay) with performance measured, reviewed and ranked by the Corporate Office with heavy emphasis on individual and departmental accomplishments of objectives in the 1977 Business Plan.

(d) Payment will be in a single lump sum cash payment in March 1978.

GEICO 1978 INCENTIVE BONUS PLAN

The one-year Incentive Bonus Plan for the 1978 year for Officers and Key Executives* follows:

BONUS POOL CONTRIBUTIONS. If the 1978 Business Plan Goal of a natural underwriting ratio of 95% is achieved, it would lead to a standard incentive bonus pool contribution of 15% of base pay for eligible Officers and 9% for eligible Key Executives (approximately \$400,000 in total, or 0.5% of anticipated Net Income).

For each percentage point the underwriting ratio exceeds 95%, the pool contribution would drop by 25% of itself so that any underwriting ratio equal to or greater than 99% would mean no pool contribution.

For each percentage point the underwriting ratio is more favorable than the 95% target, the pool would increase by 12.5% to a minimum ratio of 92% where the pool contribution would be 137.5% of the standard.

In no event would the pool contribution exceed the lesser of (a) 1% of total salaries for the year for all employees or (b) 2% of the operating income before taxes for the year.

BONUS POOL DISTRIBUTION. The pool will be distributed in such a manner that there is a reasonably even percentage distribution at all Officer levels with no undue concentration of larger bonuses as a percentage of salary going to the higher level Officers. Similarly, there is to be a reasonably even percentage distribution at the varying levels of Key Executives.

Individual Officer bonuses will differ widely by performance (from 0% to 40% of base pay) distributed around the midpoint reflective of the Officer portion of the pool contribution described above. Similarly, individual bonuses for Key Executives will differ widely by performance (from 0% to 20%), distributed around the midpoint of the Key Executive portion of the pool. In both groups, performance will be measured, reviewed, and ranked by the CEO with the Corporate Office with heavy emphasis on individual and departmental accomplishments of objectives in the 1978 Business Plan.

Payment will be in a single lump sum cash payment in March 1979.

*Key Executives include Branch Office Managers, Product Managers, and other high-level non-officer managers such as Claim Directors, Underwriting Directors, etc.

CONSULTANT AGREEMENT

This AGREEMENT, entered into this 11th day of May, 1977 effective as of April 1, 1977, by and between GOVERNMENT EMPLOYEES INSURANCE COMPANY, a corporation duly organized and existing under the laws of the District of Columbia (hereinafter called the "COMPANY"), and ALVIN E. KRAUS, residing at 9026 Bronson Drive, Potomac, Maryland 20854 (hereinafter called "KRAUS"),

WITNESSETH THAT:

WHEREAS, prior to his retirement on June 30, 1974, KRAUS had been employed by the Government Employees Companies (Government Employees Insurance Company, Government Employees Life Insurance Company, Criterion Insurance Company, Government Employees Financial Corporation) since 1939 and has had extensive experience in the underwriting and sale of property and casualty insurance; and

WHEREAS, at a meeting of the COMPANY's Board of Directors held on March 30, 1977, KRAUS was appointed a Consultant to the Corporate Office of the Company on all matters concerning the underwriting and sale of property and casualty insurance (as well as such other matters as may be specified by the Chairman of the Board) and KRAUS is willing to act in this capacity;

NOW, THEREFORE, in consideration of the mutual promises and agreements of the parties hereto and for other good and valuable consideration, the parties hereto agree as follows:

1. Commencing April 1, 1977, KRAUS agrees to make his services available to the COMPANY as a Consultant to the Corporate Office on all matters concerning the underwriting and sale of property and casualty insurance, for a period of one (1) year, subject to the terms and conditions hereinafter set forth.

2. KRAUS agrees to review the entire underwriting and sales operations of the COMPANY (as well as any other matters as may be specified by the Chairman of the Board) and to make specific recommendations to the Chairman of the Board as to the personnel and procedures involved in such operations.

3. The services to be performed by KRAUS hereunder shall be completed by March 31, 1978, but in no event shall KRAUS be required to render services for more than one hundred twenty-five (125) days during the period of this AGREEMENT.

4. During the period of KRAUS' service as Consultant, the COMPANY shall pay KRAUS a Consulting Fee at the rate of \$50,000 per annum, payable in monthly installments of \$4,166.67 on the first day of each month for the duration of this AGREEMENT.

5. In the event of the death of KRAUS after April 1, 1977, this AGREEMENT will be considered to be terminated and any further fees payable hereunder will be determined by deducting the amount previously paid to KRAUS under the AGREEMENT from an amount computed by multiplying the annual Consulting Fee by a fraction the numerator of which is the number of days of actual service rendered by KRAUS during the period of the AGREEMENT and the denominator of which is the maximum number of days (125) KRAUS is required to render service under the AGREEMENT.

6. KRAUS shall not be eligible to participate in any benefit plan or program for employees of the COMPANY, including (but without being limited to) a plan or program for life, accident, health, medical or travel insurance, executive incentive bonus, stock option or vacation or health leave, except where such plan or program expressly provides benefits, or eligibility for benefits, to DIRECTORS of the COMPANY.

7. The validity, construction, interpretation and enforceability of this AGREEMENT and the capacity of the parties shall be determined and governed by the laws of the District of Columbia.


8. This AGREEMENT is personal to each of the parties hereto, and neither party may assign or delegate any of the rights or obligations hereunder without first obtaining a written consent of the other party.

9. This AGREEMENT constitutes the entire agreement between the parties respecting the consulting services of KRAUS, and there are no representations, warranties or commitments, except as set forth herein. This AGREEMENT may be amended only by an instrument in writing executed by the parties hereto.

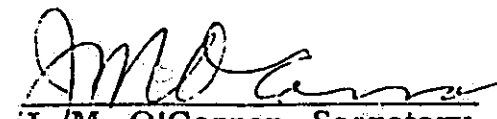
IN WITNESS WHEREOF, ALVIN E. KRAUS has hereunto affixed his hand, and GOVERNMENT EMPLOYEES INSURANCE COMPANY has caused this AGREEMENT to be signed and its corporate seal to be affixed hereto by its corporate officers thereunto duly authorized.


ALVIN E. KRAUS

GOVERNMENT EMPLOYEES
INSURANCE COMPANY

By: 
John J. Byrne, Chairman
of the Board, President
and Chief Executive Officer

Attest:


J. M. O'Connor, Secretary

ENDORSEMENT NO. 1

to

INTERESTS AND LIABILITIES CONTRACT

dated 2nd day of December 1976

to the
Agreement of Reinsurance

effective from 11:59 p.m. June 30, 1976

between

GOVERNMENT EMPLOYEES INSURANCE COMPANY
Washington, DC

and

The Company and the Reinsurers agree to terminate a 25% portion of the original obligations effective as set forth herein.

Subscribing Reinsurers shall participate in this change to the extent and in the manner indicated in the amendment to their Interests and Liabilities contract as provided for herein.

Pursuant to the provisions of Article II of the Agreement of Reinsurance, effective from Midnight, June 30, 1977 the total subscription of the Reinsurers shall be 75% of 25.36125%, the remaining 25% unsubscribed portion of this 25.36125% Quota Share Agreement shall be retained by the Company.

ARTICLE I

In consideration of the Subscribing Reinsurer's participation in the change described above the first paragraph of the Interests and Liabilities contract is hereby amended effective 1977 by deleting % and substituting therefore %.

ARTICLE II

Concurrent with this change, the Company agrees to reassume 25% of the full obligation unearned premium reserves as existing at July 1, 1977 and release the Reinsurers from their appropriate share of losses and loss adjustment expenses arising out of accidents or occurrences taking place at or after 12:01 a.m., July 1, 1977. In consideration thereof, the Reinsurers agree to pay to the Company the funds corresponding to the unearned premium reserve reassumed less the previously allowed commission thereon. Addition-

ally, the Company agrees to reassume 25% of the full obligation loss reserve portfolio as existing at July 1, 1977 and release the Reinsurers from the appropriate share of losses (known and unknown) arising out of accidents or occurrences taking place before 12:01 a.m., July 1, 1977. In consideration thereof, the Reinsurers agree to pay to the Company funds corresponding to the amount of the loss and loss adjustment expense reserves including the IBNR reserves adjusted by such amount "X" as will cause the following equation to be satisfied:

$$\frac{(.25) \text{ Inception-to-Date Commission Written}}{(.25) \text{ Inception-to-Date Premium Written}} + \frac{(.25) \text{ Incurred Loss } \pm \text{ "X" }}{(.25) \text{ Inception-to-Date Earned Premium}} = .98$$

Incurred loss in the above equation shall be interpreted to include loss adjustment expense and IBNR reserve.

ARTICLE III

In consideration of the reduction in the Subscribing Reinsurer's participation as described in Article I hereof the Subscribing Reinsurer shall participate to the extent of _____ % part of the 25% unearned premium reserve, the 25% loss reserve portfolio and their pro rata part of the 100% amount determined to represent "X", all referred to in Article II.

IN WITNESS WHEREOF, the parties hereto have caused this Endorsement to be executed in five counterparts by their duly authorized representatives this 2nd day of August, 1977.

Government Employees Insurance
Company

By _____
John J. Byrne
President and Chief Executive
Officer

By _____
(signature)

(printed name and title of authorized
officer signing on behalf of the
above Subscribing Reinsurer)

ENDORSEMENT NO. 1

to

INTERESTS AND LIABILITIES CONTRACT

dated 2nd day of December 1976

to the
Agreement of Reinsurance

effective from 11:59 p.m. June 30, 1976

between

GOVERNMENT EMPLOYEES INSURANCE COMPANY
Washington, DC

and

The Company and the Reinsurers agree to terminate a 25% portion of the original obligations effective as set forth herein.

Subscribing Reinsurers shall participate in this change to the extent and in the manner indicated in the amendment to their Interests and Liabilities contract as provided for herein.

Pursuant to the provisions of Article II of the Agreement of Reinsurance, effective from Midnight, June 30, 1977 the total subscription of the Reinsurers shall be 75% of 25.36125%, the remaining 25% unsubscribed portion of this 25.36125% Quota Share Agreement shall be retained by the Company.

ARTICLE I

In consideration of the Subscribing Reinsurer's participation remaining unchanged the Subscribing Reinsurer will not participate in the changes provided for by Article II hereof.

ARTICLE II

Concurrent with this change, the Company agrees to reassume 25% of the full obligation unearned premium reserves as existing at July 1, 1977 and release the Reinsurers from their appropriate share of losses and loss adjustment expenses arising out of accidents or occurrences taking place at or after 12:01 a.m., July 1, 1977. In consideration thereof, the Reinsurers agree to pay to the Company the funds corresponding to the unearned premium reserve reassumed less the previously allowed commission thereon. Additionally, the Company agrees to reassume 25% of the full obligation loss reserve portfolio as existing at July 1, 1977 and release the Reinsurers from the appropriate share of losses (known and unknown) arising out of accidents or occurrences taking place before 12:01 a.m., July 1, 1977. In consideration thereof, the Reinsurers agree to pay to the Company funds corresponding to the amount of the loss and loss adjustment expense reserves including the IBNR reserves adjusted by such amount "X" as will cause the following equation to be satisfied:

$$\frac{(.25) \text{ Inception-to-Date Commission Written} + (.25) \text{ Incurred Loss} \pm \text{"X"}}{(.25) \text{ Inception-to-Date Premium Written} + (.25) \text{ Inception-to-Date Earned Premium}} = .98$$

Incurred loss in the above equation shall be interpreted to include loss adjustment expense and IBNR reserve.

IN WITNESS WHEREOF, the parties hereto have caused this Endorsement to be executed in five counterparts by their duly authorized representatives this 2nd day of August, 1977.

Government Employees Insurance
Company

By _____

John J. Byrne
President and Chief Executive
Officer

By _____

(signature)

(printed name and title of authorized
officer signing on behalf of the
above Subscribing Reinsurer)

PROXY AGREEMENT

BERKSHIRE HATHAWAY, INC. ("Berkshire") hereby appoints SUBURBAN TRUST COMPANY ("the Bank") as its proxy with respect to all matters for which Berkshire or its subsidiary corporations, National Indemnity Company, National Fire and Marine Insurance Company, Cornhusker Casualty Company and Kerkling Reinsurance Corporation ("the subsidiaries"), have the right to vote shares of the Convertible Preferred and Common stock of Government Employees Insurance Company ("GEICO") now or hereafter held by Berkshire or the subsidiaries ("the shares"), with such proxy being applicable to each such share of GEICO stock held by Berkshire or the subsidiaries as long as, but only as long as, such share is held by Berkshire or the subsidiaries, subject to the following terms and conditions:

1. Determination of Shares

The number of the shares subject to this proxy at the time of its execution is 1,986,953 shares of Convertible Preferred Stock and 1,294,308 shares of Common Stock. Berkshire shall give the Bank notice of any change in the number of the shares subject hereto as promptly as practicable and, in any event, within 10 days of such a change.

2. Method of Voting

(a) In voting the shares on any matter presented to it, the Bank shall be guided solely by its best judgment as to which decision will be in the best interests of Berkshire as an investor and without regard to the status of Berkshire or the subsidiaries as actual or potential competitors of GEICO.

(b) In reaching its determination on any vote, the Bank shall not discuss that determination with the employees, management, or members of the Board of Directors of Berkshire or the subsidiaries, or with any other proxy for GEICO stock designated by any other insurance company pursuant to any agreement similar to this agreement; provided, that:

(i) This prohibition shall not prevent Berkshire, through its investment or legal counsel, from communicating in writing to the Bank such information as may be necessary or desirable to inform the Bank from time-to-time as to Berkshire's general investment policies and practices with respect to holdings in preferred and common stock, or Berkshire's general policies and practices with respect to proposals presented by outside shareholders of companies in which it owns voting stock; provided further, however, that except for willful default or bad faith, the Bank shall incur no liability to Berkshire or to any other party in the event a vote it casts hereunder is deemed not consistent with such policies and practices;

(ii) Berkshire shall retain the right to instruct the Bank in writing not to vote the shares on a specific matter or to vote the shares on a matter in the same proportion as the vote ultimately cast by all other voting shareholders; provided further, however, that the Bank shall in any event vote the shares whenever a failure to vote would result in the absence of a quorum for the conduct of GEICO corporate business.

(c) Berkshire shall give prompt notice of delivery of any written communication under Paragraph 2(b) to the Superintendent of Insurance of the District of Columbia and to the United States Department of Justice.

(d) Promptly following the date on which all votes of shareholders on a given matter are tallied by GEICO, the Bank shall inform Berkshire of all action taken by the Bank under this proxy by providing written notice thereof to Berkshire.

3. Compensation

(a) As full and total compensation of the Bank for its services hereunder, Berkshire shall pay to the Bank a fee of \$2500, payable \$1250 upon the execution of this agreement and \$1250 by April 1, 1977; provided, however, that in the event this proxy is terminated pursuant to Paragraph 8 hereof prior to the 1977 annual meeting of GEICO shareholders, the initial payment shall be refunded to Berkshire upon termination; and provided further, that in the event GEICO shareholders

are requested during the duration of this proxy to vote upon matters at a special meeting other than the annual meeting of shareholders, Berkshire shall pay the Bank an additional fee of \$1000 for voting the stock at each such special meeting.

(b) In the event that during the duration of this proxy the Bank shall be required to appear before any court or federal, state or local commission, department or agency to testify or give evidence in its capacity as proxy hereunder, Berkshire shall pay the Bank, in addition to the compensation otherwise payable pursuant to Subparagraph 3(a), \$50 for each hour each officer, director or employee of the Bank is required to be engaged in such activity, together with actual out-of-pocket expenses incurred in connection therewith.

4. Application to Consents

This proxy shall operate with equal force and effect with respect to all matters for which GEICO solicits the written consent of its shareholders (including any consents required under its Certificate of Incorporation with respect to its Convertible Preferred stock); provided, that in addition to the written communication permitted under Paragraph 2(b), Berkshire may instruct the Bank in writing as to the customary procedures of Berkshire to be followed in deciding whether or not to grant such consent, subject to satisfaction of the notification requirement of Paragraph 2(c).

5. Notices and Material Correspondence

(a) Immediately upon the execution of this proxy, Berkshire shall cause an executed copy thereof, certified by its Secretary or Assistant Secretary, to be sent to the

Secretary of GEICO, the Superintendent of Insurance of the District of Columbia, and to the United States Department of Justice. Berkshire shall request the Secretary of GEICO to send to the Bank copies of all material relating to any GEICO meeting of shareholders or to any request for written consent of shareholders. Berkshire shall, from time-to-time, execute such other documents and perform such other acts as shall be necessary to effect the purposes of this proxy. In recognizing any vote, proxy, or written consent effected or executed by the Bank on behalf of Berkshire, GEICO may assume full compliance with the terms and conditions hereof unless its Secretary has received, reasonably in advance of such recognition, written notice to the contrary from an officer of Berkshire.

(b) All material correspondence between Berkshire or the subsidiaries and the Bank shall be in writing. Such correspondence, together with the communications provided for in Paragraphs 2(b) and 4, shall be retained for a period of three years and shall be made available for inspection by the Superintendent of Insurance of the District of Columbia and the Department of Justice upon notice and request.

6. Indemnification

Berkshire shall indemnify, defend and hold harmless the Bank from and against any and all claims, losses, liabilities, damages or deficiencies (including, without limitation, reasonable attorneys' fees) arising out of actions of the Bank hereunder. Promptly after receipt by the Bank of any claim or notice of the commencement of any action or proceeding subject to this indemnification, the Bank shall provide written notice thereof to Berkshire.

7. Duration

This proxy shall take effect as of the date of its execution and, unless earlier terminated in the manner indicated in Paragraph 8, shall be applicable to all matters presented to GEICO shareholders from such date up to but not including the second annual meeting of GEICO shareholders to take place after such date. During the period of its duration, the proxy shall apply to all of the shares held by Berkshire or by the subsidiaries, but shall not apply to the shares after they have been sold by Berkshire or by the subsidiaries.

8. Termination

(a) Berkshire and the Bank recognize that, as between them, this proxy is revocable at the pleasure of Berkshire, but Berkshire will exercise such right of revocation only upon the occurrence of one or more of the following events:

(i) Berkshire determines, in its sole discretion, that the Bank is no longer acting in accordance with the procedures set forth in Paragraph 2 above; or

(ii) Any officer or director of the Bank holds a position of director or officer of GEICO; or

(iii) The Superintendent of Insurance of the District of Columbia determines that the Bank, or any person authorized to act on its behalf for the purpose of this proxy:

(A) Owns, controls, or holds with power to vote, whether directly or indirectly, five percent or more of the outstanding voting securities of Berkshire;

(B) Has outstanding voting securities five percent or more of which are directly or indirectly owned, controlled, or held with power to vote by Berkshire;

(C) Is directly or indirectly in control of, controlled by, or under common control with Berkshire;

(D) Is an officer, director, partner, co-partner, or employee of Berkshire;

(E) Is a member of the immediate family of any natural person who comes within any of the categories set forth in clauses (A) through (D) above;

(F) Is a person, or a partner or employee of any person, who at any time since the beginning of the last two fiscal years of Berkshire has acted as legal counsel for Berkshire; or

(G) Has had, at any time since the beginning of the last two fiscal years of Berkshire, such a material business or professional relationship with Berkshire or its principal executive officer as to make it reasonably unlikely that the Bank will be able to act in accordance with the procedures set forth under Paragraph 2.

For the purpose of enabling the Superintendent to make the determinations referred to in this Subparagraph (iii), Berkshire and the Bank agree to provide such information as to their respective managements, stock ownership, and business affiliates as the Superintendent may reasonably request. No determination shall be made by the Superintendent under Clause (G) until Berkshire and the Bank have been given reasonable notice of the pendency of that determination and an opportunity to respond in writing within a reasonable period of time.

(iv) Any governmental agency or department determines that this proxy or its exercise is not permitted, either by any law over which that agency or department has jurisdiction and to which Berkshire or the subsidiaries are subject, or by any regulation, rule or order thereunder; or

(v) The Superintendent of Insurance of the District of Columbia, upon application of Berkshire, determines the proxy is to be revoked.

(b) No termination pursuant to Subparagraphs (i), (ii) and (iv) above shall become effective without the prior approval of the Superintendent of Insurance of the District of Columbia and the United States Department of Justice.

(c) The Bank shall have the right to terminate this proxy at any time upon the giving of not less than 30 days notice in writing to Berkshire, the Superintendent of Insurance of the District of Columbia, and the United States Department of Justice.

9. Addresses

All notices or other communications hereunder to be addressed to Berkshire shall be sent to:

Berkshire Hathaway, Inc.
1440 Kiewit Plaza
Omaha, Nebraska 68131
Attention: Warren E. Buffett

PROXY

The undersigned, as record owner of common and preferred shares of Government Employees Insurance Company owned beneficially by Berkshire Hathaway Inc. and subsidiaries thereof (National Indemnity Company, National Fire and Marine Insurance Company, Cornhusker Casualty Company, and Kerkling Reinsurance Corporation), pursuant to instructions from Berkshire Hathaway Inc., appoints Suburban Trust Company of Maryland its proxy with respect to all common and preferred shares of Government Employees Insurance Company held in its name for which Berkshire Hathaway Inc. or any of its abovenamed subsidiaries is the beneficial owner, such proxy to be of the same duration as the Proxy Agreement between Berkshire Hathaway Inc. and Suburban Trust Company (attached hereto as an Exhibit), and to be subject to and governed by all the terms and conditions of that Proxy Agreement.

Dated: March 9 1977

By: [Signature]

EXHIBIT 8

GOVERNMENT EMPLOYEES INSURANCE COMPANY

PREFERRED STOCK PURCHASE AGREEMENT

Dated December 27, 1977

250,000 Shares

Cumulative Senior Preferred Stock

[This copy contains the Purchase Agreement as executed and as amended by the letter dated December 29, 1977, delivered at the Closing, with respect to Sections 6.6 and 6.14]

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GOVERNMENT EMPLOYEES INSURANCE COMPANY

5260 Western Avenue

Chevy Chase, Maryland 20076

PREFERRED STOCK PURCHASE AGREEMENT

250,000 Shares

Cumulative Senior Preferred Stock

December 27, 1977

[NAMES AND ADDRESSES OF PURCHASERS
APPEAR IN EXHIBIT C HERETO ANNEXED]

Dear Sirs:

Government Employees Insurance Company (the "Company"), a District of Columbia corporation, hereby agrees with you as follows:

SECTION 1. PURCHASE AND SALE OF SHARES

1.1 Issue of Shares.

The Company will authorize the issue of 250,000 shares (the "Shares") of Cumulative Senior Preferred Stock, \$10 par value per share (the "Senior Preferred Stock"). The rights and preferences of the Senior Preferred Stock are as set forth in Part A of Article Third of the Company's Certificate of Incorporation set forth in Exhibit A to this Agreement. The Shares will also be governed by the resolution of the Board of Directors of the Company (the "Resolution") contained in the "Certificate and Statement of Resolution Governing the Cumulative Senior Preferred Stock" set forth in Exhibit B to this Agreement.

1.2 The Closing.

The Company hereby agrees to sell to you and you hereby agree to purchase from the Company, in accordance with the provisions of this Agreement, the number of Shares set forth opposite your name in Exhibit C to this Agreement at a price of \$100 per Share. The closing of your purchase shall be held at 10 a.m., New York City time, on December 29, 1977 (the "Closing Date"), at the offices of Messrs. White & Case, 14 Wall Street, New York, New York 10005. At the closing, the Company will deliver to you one stock certificate in definitive form, registered in your name, evidencing the number of Shares to be purchased by you (except that, by notice to the Company not later than five business days prior to the Closing Date, you may elect to receive not more than ten certificates in smaller denominations aggregating the number of Shares to be purchased by you and/or may designate a different name in which such certificates may be registered), against payment by certified or official bank check, or by credit to the Company's Account No. 1440-14903 at Manufacturers Hanover Trust Company, 350 Park Avenue, New York, New York 10022, in immediately available funds. At, and subject to the completion of, the closing, you will deliver to the Company an executed waiver in the form of Exhibit G to this Agreement.

1.3 Sale of Shares to Other Investors.

Concurrently with the execution and delivery of this Agreement, the Company is executing and delivering agreements (the terms and provisions of which are substantially identical with those of this Agreement) with five other institutional investors. The aggregate number of Shares to be sold pursuant to this Agreement and such other agreements is 250,000; however, the sale to each purchaser is to be a separate sale. Your name, and the names of the other investors, and the number of Shares to be sold to and purchased by you and the other investors pursuant to this Agreement and such other agreements are set forth in Exhibit C to this Agreement.

1.4 Purchase for Investment.

You represent to the Company that you are purchasing the Shares for your own account for investment and with no present intention of distributing or reselling the Shares or any part thereof, but without prejudice, however, to your right at all times to sell or otherwise dispose of all or any part of the Shares under a registration under the Securities Act of 1933, as amended, or under an exemption from such registration available under such Act. You further represent that you are familiar with Release No. 5226 issued by the Securities and Exchange Commission under the Securities Act of 1933, as amended, and that you have consulted with your counsel in regard thereto and that you are fully familiar with the position of the Securities and Exchange Commission limiting the resale of the Shares to the public. You agree that you will not transfer any Shares except in accordance with the provisions of Section 9.1. It is understood that, in making the representations set out in Sections 2.9(b) and 2.11, the Company is relying, to the extent applicable, upon your representation as aforesaid.

1.5 Failure to Deliver.

If at the closing the Company fails to tender to you the Shares to be purchased by you or if the conditions specified in Section 3 have not been fulfilled, you may thereupon elect to be relieved of all further obligations under this Agreement. Nothing in this Section shall operate to relieve the Company from any of its obligations hereunder or to waive any of your rights against the Company.

1.6 Expenses.

Whether or not the Shares are sold, the Company will pay all expenses relating to this Agreement, including but not limited to:

- (a) the cost of reproducing this Agreement and the certificates representing the Shares;
- (b) the reasonable fees and disbursements of your special counsel;
- (c) your reasonable out-of-pocket expenses;
- (d) the cost of delivering to your home office, insured to your satisfaction, the certificates representing the Shares purchased by you at the closing; and
- (e) all expenses relating to any amendments, waivers or consents pursuant to the provisions hereof.

The obligations of the Company under this Section 1.6 shall survive the transfer or redemption of any Shares and the termination of this Agreement.

SECTION 2. WARRANTIES AND REPRESENTATIONS

The Company warrants and represents to you that:

2.1 Subsidiaries.

The Company has no Subsidiaries other than GEICO Properties, Inc. and GEICO Washington Properties, Inc., both of which Subsidiaries are Delaware corporations and the Company has no

Affiliates other than Criterion Insurance Company ("CRICO"), Government Employees Life Insurance Company and its subsidiaries ("GELICO") and Government Employees Financial Corporation and its subsidiaries ("GEFCO"). The Company has good and marketable title to all the outstanding shares of capital stock of each such Subsidiary, free and clear in each case of any Lien. All such shares have been validly authorized and duly issued and are fully paid and non-assessable.

2.2 Corporate Organization and Authority.

The Company, and each Subsidiary:

(a) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation;

(b) has all requisite power and authority and all necessary licenses and permits to own and operate its Properties and to carry on its business as now conducted and as presently proposed to be conducted (including all licenses and permits necessary for the conduct of its insurance business); and

(c) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in each jurisdiction where the character of its Properties or the nature of its activities makes such qualification necessary.

2.3 Business and Property.

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1976 filed by the Company with the Securities and Exchange Commission and previously delivered to you correctly describes the general nature of the business and principal Properties of the Company and its Subsidiaries.

2.4 Financial Statements.

(a) The consolidated balance sheets of the Company and Subsidiaries as of December 31 in the years 1972, 1973, 1974, 1975 and 1976 and the related Consolidated Statement of Operations, Statement of Shareholders' Equity and Statement of Changes in Financial Position for the fiscal years ended on such dates, all accompanied by reports thereon containing opinions without qualification, except as therein noted, by Ernst & Ernst, independent certified public accountants, and the consolidated balance sheet of the Company and Subsidiaries as of September 30, 1977 and the related Statement of Income and Statement of Changes in Financial Position for the nine months ended on such date, copies of which have been delivered to you, have been prepared in accordance with generally accepted accounting principles consistently applied (except that prior to 1974 such financial statements were prepared in accordance with statutory accounting principles), and present fairly the financial position of the Company and Subsidiaries as of such dates and the results of their operations for such periods. These consolidated financial statements include the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship with the Company has existed.

(b) Since December 31, 1976, there has been no change in the Properties, business, prospects, profits or condition (financial or otherwise) of the Company or any of its Subsidiaries except changes in the ordinary course of business, and except for the purchase by the Company of interests in CRICO, GELICO and GEFCO, the continuing decline in written premiums and policies in force and the partial reduction in reinsurance under the Company's Quota Share Reinsurance Agreements, all as described in the Notes to Consolidated Financial Statements and the Management's Analysis of Quarterly Income Statements contained in the Company's Form 10-Q for the nine months ended September 30, 1977, included in the Offering Memorandum. Such changes, individually and in the aggregate, have not been materially adverse.

2.5 Full Disclosure.

The financial statements referred to in Section 2.4 do not, nor does this Agreement, the offering memorandum relating to the offering of the Shares, dated August, 1977 (including the appendices thereto) as supplemented by the Company's Form 10-Q for the nine months ended September 30, 1977 filed by the Company with the Securities and Exchange Commission (herein called the "Offering Memorandum"), or any written statement furnished by the Company to you in connection with the negotiation of the sale of the Shares, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading. The Offering Memorandum has been furnished to you and all the other purchasers referred to in Section 1.3 and the Offering Memorandum (excluding in certain cases the Company's Form 10-Q for the nine months ended September 30, 1977) was furnished or otherwise made available to each of the 146 other institutional investors referred to in Section 2.13. In addition, there was made available to you and all other such purchasers (and to all such other investors, other than any investor who, during the course of the transaction, indicated that it was not interested in purchasing the Shares, or to whom the Company or its agent had determined not to sell any Shares) the opportunity to ask questions of, and receive answers from, the Company and its agent concerning the terms and conditions of the offering and sale of the Shares and the transaction contemplated by this Agreement and to obtain any additional information reasonably necessary to verify the accuracy of the information obtained as aforesaid. There is no fact which the Company has not disclosed to you in writing which materially adversely affects nor, so far as the Company can now foresee, will materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform this Agreement. The National Association of Insurance Commissioners is currently engaged in making a triennial examination of the Company as of December 31, 1976, which is not expected to be completed for several months; while the Company does not believe that the results of such examination will materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform this Agreement, it makes no warranty or representation with respect to the results of such examination.

2.6 Pending Litigation.

There are no proceedings pending, or to the knowledge of the Company threatened, against or affecting the Company or any Subsidiary in any court or before any governmental authority or arbitration board or tribunal which, if adversely determined, might materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform this Agreement except for those proceedings listed in Item 1 of Part II of the Company's Form 10-Q for the nine months ended September 30, 1977, included in the Offering Memorandum. Neither the Company nor any Subsidiary is in default with respect to any judgment or order of any court, governmental authority or arbitration board or tribunal, which default might have a materially adverse effect on the Properties, business, prospects, profits or condition (financial or otherwise) of the Company or such Subsidiary.

2.7 Title to Properties.

The Company, and each Subsidiary, has good and marketable title in fee simple (or its equivalent under applicable law) to all the real Property, and has good title to all the other Property, it purports to own, including that reflected in the most recent balance sheet referred to in Section 2.4 (except as sold or otherwise disposed of in the ordinary course of business), free from Liens (except Liens in the ordinary course of business which do not in the aggregate materially detract from the value of said Properties or materially interfere with their use in the owning company's business and except for the Liens described in the Offering Memorandum on the real Property of the Subsidiaries).

2.8 Patents and Trademarks.

The Company, and each Subsidiary, owns or possesses all the patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing necessary for the present and planned future conduct of its business, without any known conflict with the rights of others.

2.9 Legal and Authorized Sale.

The sale of the Shares by the Company and compliance by the Company and each Subsidiary with all of the provisions of this Agreement, the Resolution and the Shares:

(a) are within the corporate powers of the Company and each Subsidiary; and

(b) are legal and authorized and will not conflict with, result in any breach in any of the provisions of, constitute a default under, or violation of, or result in the creation of any Lien upon any Property of the Company or any Subsidiary under the provisions of, any agreement, charter instrument, by-law or other instrument to which the Company or any Subsidiary is a party or by which any of them or their respective Properties may be bound.

2.10 No Violations.

No event has occurred and no condition exists which upon the issuance of the Shares would constitute a violation of this Agreement or the Terms of the Shares. Neither the Company nor any Subsidiary is in violation in any material respect of any term of any agreement, charter instrument, by-law or other instrument to which it is a party or by which it or any of its Property may be bound.

2.11 Governmental Consent.

Neither the nature of the Company or of any Subsidiary, or of any of their respective businesses or Properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offer, issue, sale or delivery of the Shares is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (including any insurance authority) on the part of the Company in connection with the execution and delivery of this Agreement, the adoption of the Resolution, the offer, issue, sale or delivery of the Shares or the performance of this Agreement or the Terms of the Shares.

2.12 Taxes.

(a) All tax returns required to be filed by the Company or any Subsidiary in any jurisdiction have in fact been filed, and all taxes, assessments, fees and other governmental charges or levies upon the Company or any Subsidiary, or upon any of their respective Properties, income or franchises, which are due and payable have been paid, except for those which are being contested in good faith by appropriate legal proceedings and with respect to which (i) adequate book reserves have been established and (ii) such non-payment has not materially adversely affected the title to, and use of, the Property of the affected Person. Neither the Company nor any Subsidiary knows of any proposed additional tax assessment against it.

(b) The provisions for taxes on the books of the Company and each Subsidiary are adequate for all open years, and for its current fiscal period. The amount of the liability for Federal income taxes reflected in the consolidated balance sheet of the Company and its Subsidiaries as of December 31, 1976 is an adequate provision for such Federal income taxes, if any, as may be payable by the Company and its Subsidiaries.

2.13 Private Offering.

Neither the Company nor Salomon Brothers (the only Person authorized or employed by the Company as agent, broker, dealer or otherwise in connection with the offering or sale of the Shares or any similar Security of the Company) has offered any of the Shares or any similar Security of the Company

for sale to, or solicited offers to buy any thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser, other than you, the other institutional investors referred to in Section 1.3 and 146 other institutional investors, each of whom was offered a portion of the Shares at private sale for investment. The Company agrees that neither the Company nor anyone acting on its behalf will offer the Shares or any part thereof or any similar Securities for issue or sale to, or solicit any offer to acquire any of the same from, anyone so as to bring the issuance and sale of the Shares within the provisions of Section 5 of the Securities Act of 1933, as amended. The Company agrees not to offer or issue any Securities similar to the Shares within six months after the Closing Date, if such offer or issuance is exempt from the provisions of said Section 5 solely pursuant to Rule 146 of the Securities and Exchange Commission.

2.14 Use of Proceeds.

The Company will apply the proceeds from the sale of the Shares to augment the statutory policyholders' surplus of the Company.

2.15 Compliance with Law.

Neither the Company nor any Subsidiary:

(a) is in violation of any laws, ordinances, governmental rules or regulations to which it is subject; or

(b) has failed to obtain and maintain in effect any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Property or to the conduct of its business,

which violation or failure might materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries.

2.16 Restrictions on Company and Subsidiaries.

Neither the Company nor any Subsidiary:

(a) is a party to any contract or agreement, or subject to any charter or other corporate restriction which materially adversely affects the Properties, business, prospects, profits or condition (financial or otherwise) of the Company or its Subsidiaries; or

(b) is a party to, or is subject to, any charter instrument, by-law provision, contract, lease, agreement, instrument, Security or plan restricting or limiting in any way its right or ability to pay dividends on, or to make redemptions of, or other Distributions on, the Shares.

2.17 ERISA.

(a) *Relationship of Vested Benefits to Pension Plan Assets.* The present value of all benefits vested under all "employee pension benefit plans," as such term is defined in Section 3 of ERISA, maintained by the Company and/or its Subsidiaries, or to which the Company and/or its Subsidiaries contribute, as from time to time in effect (herein called the "Pension Plans"), did not, as of December 31, 1976, the last annual valuation date, exceed the value of the assets of the Pension Plans allocable to such vested benefits.

(b) *Prohibited Transactions.* Neither any of the Pension Plans nor any trusts created thereunder, nor any trustee or administrator thereof, has engaged in a "prohibited transaction," as such term is defined in Section 4975 of the Internal Revenue Code of 1954, as amended, which could subject the Pension Plans or any of them, any such trust, or any trustee or administrator thereof, or any party

dealing with the Pension Plans or any such trust to the tax or penalty on prohibited transactions imposed by said Section 4975.

(c) *Reportable Events.* Neither any of the Pension Plans nor any of such trusts has been terminated, nor have there been any "reportable events," as such term is defined in Section 4043 of ERISA, since the effective date of ERISA, except that the number of participants in the Company's pension plan decreased from 8,128 on January 1, 1976, to 5,938 on December 31, 1976. With respect to this "reportable event," the Company has received a letter from the Pension Benefit Guaranty Corporation advising that the reportable event notice was properly filed and was accepted by such Corporation, that such Corporation has determined that no further action relating to such "reportable event" need be taken and that such Corporation has closed its file on the matter.

(d) *Accumulated Funding Deficiency.* Neither any of the Pension Plans nor any of such trusts has incurred any "accumulated funding deficiency," as such term is defined in Section 302 of ERISA, since the effective date of ERISA.

2.18 Capitalization.

The authorized capital stock of the Company consists of 300,000 shares of Senior Preferred Stock, 10,000,000 shares of Cumulative Convertible Preferred Stock, \$1 par value per share (the "Convertible Preferred Stock") and 45,000,000 shares of Common Stock, \$1 par value per share (the "Common Stock"). The options and warrants of the Company described in the financial statements of the Company for the year ended December 31, 1976, referred to in Section 2.4, are also validly authorized and duly issued. As of the Closing Date, the Company's issued and outstanding capital stock (excluding the Shares) will be as set forth in the balance sheet as of September 30, 1977, referred to in Section 2.4, except for the issuance of shares of Common Stock after September 30, 1977, upon (a) conversion of convertible securities outstanding on such date, (b) exercise of warrants outstanding on such date and (c) exercise of options outstanding on such date under employee stock option plans existing on such date. No class of capital stock of the Company is entitled to preemptive rights with respect to the Shares. Since September 30, 1977, the Company has not declared or paid any dividends in cash or stock or made any other distribution of assets to its stockholders, except that the Company has paid regular quarterly cash dividends on the Convertible Preferred Stock and the Common Stock. The Company has not registered the Shares as a separate class of equity security under Section 12 of the Securities Exchange Act of 1934, as amended. So long as you hold any of the Shares, the Company will not so register the Shares without the consent of the holders of at least 66 $\frac{2}{3}$ % of the number of Shares at the time outstanding (exclusive of Shares then owned by the Company, any Subsidiaries and any Affiliates) until such time as it is required by law so to do, and then only after giving you at least 15 days' prior written notice, unless the Company is so required to register the Shares within a time period which does not permit the giving of such 15 days' notice, in which event the Company will give you such notice on or before the date it so registers the Shares. All the outstanding capital stock, options and warrants of the Company are validly authorized and duly issued and all such outstanding capital stock is fully paid and non-assessable.

2.19 Absence of Foreign or Enemy Status.

Neither the Company nor any Subsidiary is a "national" of a foreign country designated in Executive Order No. 8389, as amended, or of any "designated enemy country" as defined in Executive Order No. 9193, as amended, of the President of the United States of America within the meaning of said Executive Orders, as amended, or of any regulation issued thereunder, or a "national" of any "designated foreign country" within the meaning of the Foreign Assets Control Regulations, 31 C.F.R., Subtitle B, Chapter V, Part 500 or of the Cuban Assets Control Regulations of the United States of America, 31 C.F.R., Subtitle B, Chapter V, Part 515, as amended, or a "person" in Southern Rhodesia or is acting

on behalf of or for the benefit of a "person" in Southern Rhodesia within the meaning of the Rhodesian Sanctions Regulations, 31 C.F.R., Subtitle B, Chapter V, Part 530, as amended.

SECTION 3. CLOSING CONDITIONS

Your obligation to purchase and pay for the Shares to be delivered to you at the closing shall be subject to the following conditions precedent:

3.1 Opinions of Counsel.

You shall have received from Donald K. Smith, Esq., General Counsel for the Company, Messrs. Cravath, Swaine & Moore, special counsel for the Company, and Messrs. White & Case, your special counsel, the closing opinions described in Exhibits D, E and F to this Agreement.

3.2 Warranties and Representations True as of Closing Date.

(a) The warranties and representations contained in Section 2 shall (except as affected by transactions contemplated by this Agreement) be true in all material respects on the Closing Date with the same effect as though made on and as of that date.

(b) Neither the Company nor any Subsidiary shall have taken any action or permitted any condition to exist which would have violated this Agreement or the Terms of the Shares if such Agreement or Terms of the Shares had been binding and effective at all times during the period from December 31, 1976 to and including the Closing Date and no Event of Non-Payment shall have occurred.

3.3 Compliance with this Agreement.

The Company shall have performed and complied with all agreements and conditions contained herein which are required to be performed or complied with by the Company before or at the closing.

3.4 Officers' Certificate.

You shall have received a certificate dated the Closing Date and signed by the President or a Vice President and the Treasurer or an Assistant Treasurer of the Company, certifying that the conditions specified in Sections 3.2 and 3.3 have been fulfilled.

3.5 Sale of Shares to Other Investors.

Concurrently with the closing under this Agreement, the Company shall have sold, or shall sell contemporaneously therewith, to the other institutional investors referred to in Section 1.3 the Shares to be purchased by such investors under this Agreement, and shall receive or have received full payment therefor.

3.6 Purchase Permitted by Applicable Laws.

The purchase of and payment for the Shares to be purchased by you shall not be prohibited by any applicable law or governmental regulation and shall not subject you to any penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and you shall have received such certificates or other evidence as you may reasonably request to establish compliance with this condition.

3.7 Proceedings Satisfactory.

All proceedings taken in connection with the sale of the Shares and all documents and papers relating thereto shall be satisfactory to you and your special counsel. You and your special counsel

shall have received copies of such documents and papers as you or they may reasonably request in connection therewith or as a basis for your special counsel's closing opinion, all in form and substance satisfactory to you and your special counsel.

3.8 Completion of Information Certificate.

The Company shall have completed and delivered to you the Information Certificate in the form furnished by your special counsel, with a copy of the Company's most recent audited annual financial statements attached thereto, which Information Certificate and financial statements you have informed the Company may be used as a basis for filings which you may be required to make with certain regulatory bodies and with the National Association of Insurance Commissioners.

SECTION 4. PURCHASER'S SPECIAL RIGHTS

4.1 Direct Payment.

Notwithstanding anything to the contrary in this Agreement or the Terms of the Shares, the Company will pay all dividends and other amounts payable with respect to the Shares held by you, any holder of at least 2,500 Shares at the time outstanding, any institutional holder of any Shares or any nominee of any of the foregoing, which has given written notice to the Company (such as the written direction contained in Exhibit C to this Agreement) requesting that the provisions of this Section 4.1 shall apply, by crediting before 12 noon, New York time, by federal funds bank wire transfer, the account of such Person in any bank in the United States as may be designated in writing by such Person or in such other manner or to such other address in the United States as may be designated in writing by such Person, in any case without presentation or surrender of Shares. At any time you may, and before disposing of any such certificate you agree that you will surrender to the Company any certificate evidencing Shares in exchange for a new certificate or certificates evidencing an aggregate number of Shares equal to the number of shares represented by the certificate surrendered which have not been redeemed (whether for the sinking fund or otherwise). You further agree that after any certificate evidencing Shares held by you has been redeemed in full, you will surrender such certificate to the Company for cancellation.

4.2 Delivery Expenses.

If you surrender any certificate representing any Shares to the Company pursuant to this Agreement, the Company will pay the cost of delivering to or from your home office from or to the Company, insured to your satisfaction, such surrendered certificate and any certificate issued in substitution or replacement for such surrendered certificate.

4.3 Issue Taxes.

The Company will pay all taxes in connection with the issuance and sale of the Shares and in connection with any modification in respect of the Shares and will save you harmless without limitation as to time against any and all liabilities with respect to all such taxes. The obligations of the Company under this Section 4.3 shall survive the transfer and redemption of the Shares and the termination of this Agreement.

SECTION 5. EXCHANGE; REPLACEMENT OF STOCK CERTIFICATES

5.1 Exchange of Stock Certificates.

The Company will, at any time and from time to time, at its expense and promptly upon the surrender of any certificate representing the Shares for such purpose, at the Company's offices referred to in, or designated pursuant to, Section 9.2, issue and deliver to you at your home office a new certificate

or certificates in denominations as may be requested by you for an aggregate number of Shares equal to the number of Shares represented by the certificate surrendered which have not yet been redeemed (whether for the sinking fund or otherwise). Each such new certificate shall be registered in such name as you may request.

5.2 Lost, etc. Stock Certificates.

Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any certificate for Shares and, in the case of any such loss, theft or destruction, upon delivery of an indemnity satisfactory to the Company (in the case of any such Shares held by you, your nominee, your Affiliate or any insurance company, your written agreement of indemnity, or that of such insurance company, shall be satisfactory), or, in the case of any such mutilation upon surrender and cancellation thereof, the Company at its expense will issue and deliver a new certificate of like tenor and for a number of Shares equal to the number of Shares represented by the certificate lost, stolen, destroyed or mutilated, as the case may be, which have not yet been redeemed (whether for the sinking fund or otherwise).

SECTION 6. COMPANY BUSINESS COVENANTS

The Company covenants that so long as any of the Shares are outstanding:

6.1 Transactions with Affiliates.

Neither the Company nor any Subsidiary will enter into any transaction, including, without limitation, the purchase, sale or exchange of Property or the rendering of any service, with any Affiliate except in the ordinary course of and pursuant to the reasonable requirements of the Company's or such Subsidiary's current or proposed business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate, except that the Company provides its customer lists, without charge, to GELICO and GEFCO.

6.2 Acquisition of Shares.

Neither the Company nor any Subsidiary nor any Affiliate will, directly or indirectly, acquire or make any offer to acquire any Shares unless the Company or such Subsidiary or Affiliate has offered to acquire Shares, pro rata, from all holders of the Shares and upon the same terms. Any Shares so acquired shall thereafter be cancelled and no Shares shall be issued in substitution therefor.

6.3 Dividend Payment Restrictions.

The Company will not enter into, or be or become a party to or be or become subject to, any charter instrument, by-law provision, contract, lease, agreement, instrument, Security or plan restricting or limiting in any way its right or ability to pay dividends on, or to make redemptions of, or other Distributions on, the Shares.

6.4 Change in Accounts.

The Company will not alter its shareholders' equity accounts if the effect of such alteration would be to materially adversely affect the rights of the holders of Shares to receive Distributions thereon.

6.5 Issuance of Junior Securities.

The Company will not authorize or issue any new class of stock ranking junior to the Senior Preferred Stock which is not at a minimum made subject to all the restrictions set forth in Section IV of Part A of Article Third of the Certificate of Incorporation of the Company to which the Convertible Preferred Stock is subject pursuant to such Section.

6.6 Change in Corporate Structure.

The Company will not participate in any transaction which would require the holders of the Shares to receive in exchange therefor any Property other than Securities of a Person which succeeds to the actual conduct of substantially all of the business of the Company, which Securities shall have the benefit of preferences, rights, powers and other provisions substantially equivalent to those of the Shares. If, notwithstanding the preceding sentence, the holders of the Shares shall be required to accept in exchange for the Shares any Property other than such Securities, the Company will, at the written request of any such holder of Shares, redeem within 30 days of such request all Shares held by such holder at a redemption price of \$100 per Share plus an amount equal to all accrued and unpaid dividends thereon to and including the date of payment. If the Company shall become a subsidiary of any Person the Company will not sell, lease, transfer or otherwise dispose of to such Person any Property except (a) in compliance with Section 6.12(b) or (b) against current receipt of cash in an amount at least equal to the fair value of such Property.

6.7 Restriction on Redemption.

The Company will not at any time redeem any Shares except pursuant to Sections 6.6, 6.8, 6.13 and 6.14.

6.8 Redemptions.

The Company will redeem on December 1, 1981, 50% of the total number of Shares at the time outstanding at a redemption price of \$100 per Share plus an amount equal to all accrued and unpaid dividends thereon to and including the redemption date and otherwise in the manner described in Section III of Part A of Article Third of the Certificate of Incorporation of the Company (to the extent not inconsistent with the other provisions of this Agreement). On December 1, 1982, the Company will in the same manner redeem all the Shares remaining outstanding on such date.

6.9 Manner of Redemption.

In connection with redemptions of the Shares, the Company will not avail itself of the procedures set forth in Paragraphs (d) and (e) of Section III of Part A of Article Third of the Certificate of Incorporation of the Company.

6.10 Terms of the Shares.

The Company will take no action which would conflict with or result in a breach or violation of any of the Terms of the Shares.

6.11 Merger and Consolidation.

Neither the Company nor any Subsidiary will consolidate with or merge into any other Person, or permit any other Person to consolidate with or merge into it, or sell, lease, transfer or otherwise dispose of all or substantially all of its Property to any other Person; *provided* that the foregoing restrictions do not apply to a merger or consolidation of the Company with or into, or such a sale, lease, transfer or other disposition by the Company to, another corporation if all of the following conditions are met:

(1) the corporation which results from such merger or consolidation, or is the recipient of such Property (the "Surviving Corporation"), is organized under the laws of the United States or a jurisdiction thereof;

(2) the due and punctual performance and observance of all the provisions in this Agreement and the Terms of the Shares to be performed or observed by the Company are expressly assumed in writing by the Surviving Corporation if other than the Company;

(3) after giving effect to the proposed merger or consolidation, or such sale, lease, transfer or other disposition, the Surviving Corporation will be engaged in substantially the same lines of business as described in Section 2.3; and

(4) immediately after the consummation of the transaction and after giving effect thereto no violation of this Agreement or the Terms of the Shares or any Event of Non-Payment would exist.

6.12 Investments and Distributions.

(a) The Company will not make any investment in any affiliate (as defined in Section 6.12(e)), if the aggregate amount of all such investments exceeds 40% of policyholders' surplus of the Company as determined from time to time (as defined in Section 6.12(e)). The Company will not make, or permit to exist, any investment in any common stock, or any option or warrant to purchase common stock, or any other Security convertible into or exchangeable for common stock, of any Person other than an affiliate, as so defined, if the aggregate amount of all such investments exceeds 40% of such policyholders' surplus. Any such investment shall be valued at cost less any net return of capital through the sale or liquidation thereof or other return of capital thereon.

(b) Neither the Company nor any Subsidiary will declare or make or incur any liability to make any Distribution in respect of the common stock of the Company or make or authorize any Restricted Investment unless, immediately after giving effect to the proposed Distribution or Restricted Investment the sum of Distributions in respect of all of its capital stock (except for redemption of Shares pursuant to Section 6.8) and the amount of Restricted Investments (valued immediately after such action, as provided in Section 6.12(a)) for the period subsequent to December 31, 1976 would not exceed 50% of the statutory net income of the Company (as defined in Section 6.12(e)), accumulated after December 31, 1976. For the purpose of making computations under this Section 6.12(b), Restricted Investments made solely by issuance of common stock of the Company shall be excluded.

(c) The Company will not authorize a Distribution on its capital stock junior to the Senior Preferred Stock which is not payable within 60 days of authorization.

(d) Neither the Company nor any Subsidiary will authorize or make a Distribution on the common stock of the Company or make any Restricted Investment if after giving effect to the proposed Distribution or Restricted Investment a violation of this Agreement or the Terms of the Shares or an Event of Non-Payment would exist.

(e) For the purposes of this Section the terms "policyholders' surplus" and "statutory net income" of the Company mean such amounts as determined pursuant to the insurance laws of the jurisdiction of incorporation of the Company. The term "affiliate" of the Company as used in Section 6.12(a) means (i) an Affiliate of the Company or (ii) a Person who beneficially owns or holds 5% or more of any class of the Voting Stock of the Company or (iii) a Person 5% or more of the Voting Stock (or in the case of a Person who is not a corporation, 5% or more of the equity interest) of whom is beneficially owned or held by the Company or a Subsidiary.

6.13 Section 6.12(a) Redemption.

In the event that the Company wishes to take any action not permitted by Section 6.12(a), and if:

(a) the Company shall have requested in writing, pursuant to Section 9.6, the consent of the holders of the Shares to the taking of such action setting forth in reasonable detail the nature of such action and referring specifically to the redemption rights pursuant to this Section 6.13;

(b) the written consent to such request of the holders of the requisite number of Shares pursuant to Section 9.6 shall not have been given within 15 business days after such request; and

(c) the Company shall have given written notice to the holders of the Shares that have not so consented that such written consent has not been so obtained and that the Company will, nevertheless, take such action and that the opportunity for such holders to demand redemption pursuant to this Section 6.13 has arisen;

then each of the holders of the Shares that have not so consented shall have the option for a period of 15 business days thereafter to demand redemption of their respective Shares by the Company, and the Company shall redeem such Shares on a date selected by the Company within 30 days after written notice to the Company of such holder's demand for redemption pursuant to this Section 6.13. The amount payable on each Share at the time of such redemption shall be \$100 per Share plus an amount equal to all accrued and unpaid dividends thereon to and including the date of such payment. The Company shall have the right to take such action not permitted by Section 6.12(a) immediately after fulfilling its redemption obligations under this Section 6.13.

6.14 Change in Taxes

(a) In the event that at any time subsequent to the date of this Agreement (i) a law of the United States shall become effective which reduces or eliminates the deduction for Federal income tax purposes theretofore allowable to which you are entitled with respect to dividends on the Shares received from the Company pursuant to Section 243(a)(1) of the Internal Revenue Code of 1954, as in effect on the date of this Agreement (the "Dividends Received Deduction"), or (ii) the Federal taxing authorities determine that you are not entitled to the Dividends Received Deduction with respect to dividends on the Shares received from the Company, you will as promptly as practicable advise the Company by written notice to such effect.

(b) Within 5 days after such notice, the Company will deliver a copy of such notice to each other holder of the Shares. Within 20 days after such notice, the Company will advise you in writing whether it will (i) indemnify you as provided in Section 6.14(c) or (ii) redeem all the then outstanding Shares as provided in Section 6.14(d). If no such notice is given by the Company, it shall be deemed to have elected so to indemnify you.

(c) In the event that you are entitled to indemnity pursuant to an election by the Company under Section 6.14(b), the Company shall pay you (i) in the event of an applicable change in law as provided in clause (i) of Section 6.14(a), together with each dividend payment subsequent to the effective date of such change, an amount equal to (A) the tax benefit you would have received from the Dividends Received Deduction if at the time of such payment such Dividends Received Deduction had been in effect at the rate of 85% of the amount received as dividends, minus the tax benefit, if any, you received in fact pursuant to such new or amended law plus (B) an amount equal to any income or other taxes payable by you with respect to any payment to you pursuant to clause (A) above or this clause (B), and (ii) in the event of any such determination by the Federal taxing authorities as provided in clause (ii) of Section 6.14(a), together with each dividend payment subsequent to such determination, the amounts which would be payable under this Section 6.14(c) if a law which eliminated your right to the Dividends Received Deduction had become effective at the time of such determination. For the purposes of this paragraph, the receipt by you of any Notice of Deficiency or similar notice from the United States Internal Revenue Service purporting to assess any tax, penalty or interest with respect to the dividends on the Shares based on the contention that such dividends constitute interest for Federal income tax purposes which you shall in good faith decide not to contest, shall be deemed such determination by the Federal taxing authorities. Amounts owed to you by the Company pursuant to the terms of this Section 6.14(c) shall be determined by your principal officer responsible for tax matters and notified to the Company in writing. Such determination shall be final, conclusive and binding in all respects on the Company.

(d) If the Company elects to redeem the Shares pursuant to Section 6.14(b), it will give written notice to the holders of the Shares of redemption of all the outstanding Shares, as a whole but not in part. Such notice of redemption shall state that redemption is to be effected pursuant to this Section 6.14(d) and shall specify a date of redemption which shall be not less than 5 days after the date of such notice nor more than 20 days after notice to the Company pursuant to Section 6.14(a). The amount payable on each Share at the time of such redemption shall be \$100 per Share plus an amount equal to all accrued and unpaid dividends thereon to and including the date of such payment. In the event of any redemption of the Shares, whether pursuant to this Section 6.14 or otherwise, the Company shall have no obligation whatsoever to indemnify you with respect to the tax effects of any dividends received by you on the Shares on or before the date of such redemption except in the case of an election by the Company to indemnify you pursuant to Section 6.14(c) made prior to the date of such redemption.

(e) The Company will not take any action (including, without limitation, deduction of dividend payments on the Shares) which could reasonably be expected to cause the Dividends Received Deduction to be eliminated or reduced with respect to dividends on the Shares received from the Company. In the event that a law of the United States shall be enacted after the date of this Agreement (regardless of the effective date of any of its provisions) which would require any action by the Company in order to prevent the Dividends Received Deduction from being eliminated or reduced with respect to dividends on the Shares, the Company will take such action (including, without limitation, the making of any election) as may be required in order to permit the Dividends Received Deduction to be available with respect to dividends on the Shares, and will not take any action (including, without limitation, the making of any election) which would cause the Dividends Received Deduction to be reduced or eliminated with respect to dividends on the Shares.

SECTION 7. INFORMATION AS TO COMPANY

7.1 Financial and Business Information.

The Company will deliver to you if at the time you or your nominee shall hold any Shares, to each holder of at least 2,500 Shares at the time outstanding (held by such holder or its nominee) and to each other institutional holder of any Shares (held by such holder or its nominee):

(a) *Quarterly Statements*—as soon as practicable after the end of each of the first three quarterly fiscal periods in each fiscal year of the Company, and in any event within 45 days thereafter, duplicate copies of:

(1) a consolidated balance sheet of the Company and its consolidated subsidiaries as at the end of such quarter, and

(2) consolidated statements of income and of surplus of the Company and its consolidated subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail and certified as complete and correct, subject to changes resulting from year-end adjustments, by a principal financial officer of the Company;

(b) *Annual Statements*—as soon as practicable after the end of each fiscal year of the Company, and in any event within 90 days thereafter, four copies of:

(1) a consolidating (if customarily prepared by the Company) and consolidated balance sheet of the Company and its consolidated subsidiaries at the end of such year, and

(2) consolidating (if customarily prepared by the Company) and consolidated statements of income and of surplus of the Company and its consolidated subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and accompanied by an opinion thereon of the accountants named in Section

2.4 or other independent certified public accountants of recognized national standing selected by the Company, which opinion shall state that such financial statements fairly present the financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied (except for changes in application in which such accountants concur) and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(c) *Audit Reports*—promptly upon receipt thereof, one copy of each report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary;

(d) *SEC and Other Reports*—promptly upon their becoming available, one copy of each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to stockholders generally, and of each regular or periodic report and any registration statement, prospectus or written communication (other than transmittal letters) in respect thereof filed by the Company or any Subsidiary with, or received by such Person in connection therewith from, any securities exchange or the Securities and Exchange Commission or any successor agency;

(e) *ERISA*—immediately upon becoming aware of the occurrence of any (i) “reportable event,” as such term is defined in Section 4043 of ERISA, or (ii) “prohibited transaction,” as such term is defined in Section 4975 of the Internal Revenue Code of 1954, as amended, in connection with any Pension Plans or any trust created thereunder, a written notice specifying the nature thereof, what action the Company is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service or the Department of Labor with respect thereto;

(f) *Notice of Violation, Default or Non-Payment*—immediately upon becoming aware of the existence of any condition or event which violates this Agreement or the Terms of the Shares or that any Event of Non-Payment has occurred or that the holder of any evidence of indebtedness or other Security of the Company or any Subsidiary has given notice or taken any other action with respect to a claimed violation, claimed default or claimed Event of Non-Payment, a written notice specifying the notice given or action taken by such holder, the nature of such condition or event or Event of Non-Payment or claimed violation, or claimed default or claimed Event of Non-Payment and the period of existence thereof, and what action the Company is taking or proposes to take with respect thereto; and

(g) *Requested Information*—with reasonable promptness, such other data and information as from time to time may be reasonably requested.

7.2 Officers' Certificates.

Each set of financial statements delivered pursuant to Section 7.1(a) or 7.1(b) will be accompanied by a certificate of the President or a Vice President and the Comptroller or an Assistant Comptroller of the Company setting forth:

(a) *Covenant Compliance*—the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 6 during the period covered by the income statements then being furnished; and

(b) *Violation*—that the signers have reviewed the relevant terms of this Agreement and the Terms of the Shares and have made, or caused to be made, under their supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the accounting period covered by the income statements then being furnished to the date of such certificate and that (i) such review has not disclosed the existence during such accounting period of any condition or event which violates this Agreement or the Terms of the Shares and (ii) the

signers have no reason to believe that any condition or event which violates this Agreement or the Terms of the Shares exists or existed between the end of such accounting period and the date of such certificate, or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Company has taken or proposes to take with respect thereto.

7.3 Accountants' Certificate.

Each set of annual financial statements delivered pursuant to Section 7.1(b) will be accompanied by a certificate of the accountants who certify such financial statements, stating that they have reviewed this Agreement and the Terms of the Shares and stating further, whether, in making their audit, such accountants have become aware that any violation of this Agreement or the Terms of the Shares or any Event of Non-Payment has occurred or if any violation of this Agreement or the Terms of the Shares or any Event of Non-Payment has occurred, specifying the nature and period of existence thereof.

7.4 Inspection.

The Company will permit any of your representatives, while you or your nominee holds any Shares, or the representatives of each holder, or its nominee, of at least 2,500 Shares at the time outstanding or the representatives of any institutional holder, or its nominee, of any Shares, at your or such holder's expense, to visit and inspect any of the Properties of the Company or any Subsidiary, to examine all their books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants (and by this provision the Company authorizes said accountants to discuss the finances and affairs of the Company and its Subsidiaries) all at such reasonable times and as often as may be reasonably requested.

SECTION 8. INTERPRETATION OF THIS AGREEMENT

8.1 Terms Defined.

As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Section following such term:

Affiliate—of a Person shall mean a Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such Person. The term "control" when used with respect to a Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting Securities, by contract or otherwise.

Certificate of Resolution—Section 1.1

Closing Date—Section 1.2

CRICO—Section 2.1

Distribution—in respect of any corporation means:

(1) dividends or other distributions on capital stock of the corporation (except distributions in common stock of such corporation); and

(2) the redemption or acquisition of capital stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for such stock) unless made, contemporaneously, from the net proceeds of a sale of such stock.

ERISA—the Employee Retirement Income Security Act of 1974, as amended from time to time.

Event of Non-Payment—when the Company or any Subsidiary shall fail to pay any amount in respect of indebtedness for borrowed money (the aggregate of the original principal amount of which exceeds \$1,000,000) owing by the Company or such Subsidiary, as the case may be, when due (or, if permitted by the terms of the relevant document, within any applicable grace period), whether such amount shall become due by scheduled payment, scheduled maturity, by required prepayment, by acceleration, by demand or otherwise.

GEFCO—Section 2.1

GELICO—Section 2.1

Lien—any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including but not limited to the security interest Lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Property.

Pension Plans—Section 2.17(a)

Person—an individual, partnership, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof.

Property—any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

Resolution—Section 1.1

Restricted Investments—all investments, made in cash or by delivery of Property, by the Company in any of its Affiliates other than CRICO, GELICO and GEFCO, whether by acquisition of stock, indebtedness or other obligation or Security, or by loan, advance or capital contribution, or otherwise.

Security—shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

Senior Preferred Stock—Section 1.1

Shares—Section 1.1

Subsidiary—a corporation of which the Company owns, directly or indirectly, Voting Stock entitling it to elect a majority of the directors (or Persons performing similar functions) of such corporation.

Terms of the Shares—the provisions of the Resolution and of the Company's Certificate of Incorporation relating to the Shares.

Voting Stock—Securities of any class or classes of a corporation, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or Persons performing similar functions) of such corporation.

8.2 Accounting Principles.

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, such determination or computation shall be done in accordance with gen-

erally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

8.3 Directly or Indirectly.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions taken by or on behalf of any partnership in which such Person is a general partner.

8.4 Governing Law.

This Agreement shall be governed by and construed in accordance with New York law.

SECTION 9. MISCELLANEOUS

9.1 Transfer of Shares.

Each certificate for the Shares and, except as hereinafter provided, each certificate for Shares issued to a subsequent transferee shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be offered, sold or transferred in violation of the registration requirements of such Act."

The holder of any certificate for Shares bearing the aforesaid legend, by acceptance thereof, agrees that it will not make any transfer of any such Shares to anyone other than to a nominee (or, in addition, in the case of two of the original purchasers, Aetna Life and Casualty Company and Aetna Variable Annuity Life Insurance Company, to an Affiliate) of such holder unless, at the time of making such transfer, it delivers to the Company evidence satisfactory to the Company that such transfer may be effected without registration or qualification of such Shares under the Securities Act of 1933 as then in force. The Company will promptly upon such transfer deliver certificates for Shares bearing a legend of the character set forth in the first sentence of this Section 9.1, unless in the opinion of counsel satisfactory to the Company subsequent disposition by such holder or by others of such Shares will not require such registration or qualification, in which event such certificates shall not bear such legend. Upon the delivery by any holder to the Company of any certificates for Shares bearing the aforesaid legend and submission of evidence satisfactory to the Company that subsequent disposition by such holder or by others of such Shares will not require such registration or qualification, the Company will deliver to such holder certificates for such Shares which shall not bear such legend. If the Company appoints a transfer agent, the Company will issue "stop-transfer" instructions to such transfer agent with respect to the Shares bearing the aforesaid legend.

9.2 Notices.

(a) All communications under this Agreement shall be in writing and shall be mailed by first-class mail, postage prepaid,

(1) if to you, at your address shown at the beginning of this Agreement, marked for attention as there indicated, or at such other address as you may have furnished the Company in writing, or

(2) if to the Company, at its address shown at the beginning of this Agreement, or at such other address as it may have furnished in writing to you and all other holders of the Shares at the time outstanding.

(b) Any notice so addressed and mailed by registered or certified mail shall be deemed to be given when so mailed.

9.3 **Reproduction of Documents.**

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by you at the closing of your purchase of the Shares (except the certificates representing the Shares purchased), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

9.4 **Survival.**

All warranties, representations, and covenants made by the Company herein or on any certificate or other instrument delivered by it or on its behalf under this Agreement shall be considered to have been relied upon by you and shall survive the issuance and delivery to you of the Shares regardless of any investigation made by you or on your behalf. All statements in any such certificate or other instrument shall constitute warranties and representations by the Company hereunder.

9.5 **Successors and Assigns.**

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Shares, and shall be enforceable by any such holder, whether or not an express assignment to such holder of rights under this Agreement has been made by you or your successor or assign.

9.6 **Amendment and Waiver.**

(a) *Requirements.* This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Company and the holders of at least 66 $\frac{2}{3}$ % of the Shares at the time outstanding (exclusive of Shares then owned by the Company, any Subsidiaries and any of its Affiliates); *provided* that no such amendment or waiver of any of the provisions of Sections 1 through 4 or this Section 9.6 nor any amendment or waiver which changes the amount or time of any payment in respect of redemption of the Shares, or the rate or time of any payment in respect of dividends on the Shares or the amount or time of any payment in respect of any other Distribution on the Shares shall be effective as to any holder of Shares unless consented to by such holder in writing.

(b) *Solicitation of Shareholders.* The Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Shares unless each holder of the Shares (irrespective of the amount of Shares then owned by it) shall be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. Executed or complete and correct copies of any waiver or consent effected pursuant to the provisions of this Section 9.6 shall be delivered by the Company to each holder of outstanding Shares forthwith following the date on which the same shall have been executed and delivered by the holder or holders of the requisite percentage of outstanding Shares. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional dividend, fee or otherwise, to any holder of the Shares as consideration for or as an inducement to the entering into by any holder of the Shares of any waiver or amendment of any of the terms and

provisions of this Agreement or the Shares unless such remuneration is concurrently paid, on the same terms, ratably to the holders of all of the Shares then outstanding.

(c) *Binding Effect.* Any such amendment or waiver shall apply equally to all the holders of the Shares and shall be binding upon them and upon each future holder of any Shares and upon the Company whether or not the certificates for such Shares shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

9.7 Duplicate Originals.

Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument.

If this Agreement is satisfactory to you, please so indicate by signing the acceptance at the foot of a counterpart of this Agreement and return such counterpart to the Company, whereupon this Agreement will become binding between us in accordance with its terms.

Very truly yours,

GOVERNMENT EMPLOYEES INSURANCE COMPANY

By ARTHUR T. Y. LOH
Senior Vice President

Accepted

[Forms of Signatures of Purchasers appear on
the page following Exhibit G hereto annexed]

**PART A OF ARTICLE THIRD OF
THE CERTIFICATE OF INCORPORATION
OF THE COMPANY**

THIRD: The capital stock of the Company shall be fifty eight million dollars (\$58,000,000), consisting of forty five million (45,000,000) shares of Common Stock of the par value of one dollar (\$1) each, totaling forty five million dollars (\$45,000,000); three hundred thousand (300,000) shares of Cumulative Senior Preferred Stock of the par value of ten dollars (\$10) each, totaling three million dollars (\$3,000,000); and ten million (10,000,000) shares of Convertible Preferred Stock of the par value of one dollar (\$1) each, totaling ten million dollars (\$10,000,000).

PART A. Cumulative Senior Preferred Stock

I. EQUAL RANK. All shares of Cumulative Senior Preferred Stock (the "Senior Preferred Stock") shall rank equally and be identical in all respects.

II. DIVIDENDS. The Senior Preferred Stock shall be preferred as to the payment of dividends over any other class or classes of stock of the Company ranking junior to the Senior Preferred Stock as to such payment, so that the holders of shares of Senior Preferred Stock shall be entitled to receive cash dividends, when and as declared by the Board of Directors, at the rate of \$10 per share per annum (computed on the basis of a 360-day year, 30-day month), and no more, before any cash dividends (other than dividends payable in Common Stock) on any such junior stock shall be declared and set apart for payment or paid. Such dividends shall be payable in cash semiannually on January 1 and July 1 in each year to holders of Senior Preferred Stock on the respective dates, which shall not be more than 40 days preceding such semiannual dividend payment dates, fixed for that purpose by the Board of Directors. Dividends shall be cumulative from the date on which shares of Senior Preferred Stock are first issued. Accruals of dividends shall not bear interest.

III. REDEMPTION.

(a) The Company at the option of the Board of Directors may, with funds legally available for such purpose, redeem at any time or from time to time the whole or any part of the outstanding shares of Senior Preferred Stock at the redemption price of \$100 per share plus an amount equal to all accrued and unpaid dividends thereon to and including the redemption date.

(b) The Company will, out of funds legally available for such purpose, redeem on January 1, 1987, and on each January 1 thereafter so long as any shares of Senior Preferred Stock shall remain outstanding, as and for a sinking fund for the Senior Preferred Stock, 20% of the total number of shares of Senior Preferred Stock outstanding on January 1, 1986, at a sinking fund redemption price of \$100 per share plus an amount equal to all accrued and unpaid dividends thereon to and including the redemption date, such sinking fund obligation to be cumulative. Shares previously redeemed or otherwise acquired by the Company may not be used to satisfy any sinking fund obligation with respect to the Senior Preferred Stock.

(c) Notice of every redemption shall be mailed to the holders of record of the shares of Senior Preferred Stock so to be redeemed at their respective addresses as the same shall appear on the books of the Company. Such notice shall be mailed not less than 30 days in advance of the date designated for such redemption (such date being herein referred to as the "redemption date"). Each redemption notice shall state the redemption date, specify the place of payment of the redemption price and specify, if less than all the shares owned by any shareholder are then to be redeemed, the number of shares which are to be redeemed.

(d) If, after giving notice of redemption but on or before the redemption date, the funds necessary for such redemption shall have been deposited by the Company in trust with a bank or trust company in the District of Columbia having a capital and surplus of at least \$5,000,000 for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificates for shares of Senior Preferred Stock so called for redemption shall not have been surrendered for cancellation, after the date of such deposit, the right to receive dividends thereon shall cease to accrue and all rights of the holders of the shares of Senior Preferred Stock so called for redemption shall forthwith cease and terminate, excepting only the right of such holders to receive on the redemption date the redemption price therefor but without interest, and such shares shall no longer be deemed outstanding.

(e) In case the holders of shares of Senior Preferred Stock called for redemption shall not, at the end of six years from the redemption date, have claimed any funds so deposited, such bank or trust company shall pay over to the Company, upon its demand, such unclaimed funds, and thereupon such bank or trust company shall be relieved of all responsibility in respect thereof to such holders and such holders shall look only to the Company for payment of the redemption price. Any interest accrued on funds so deposited shall be paid to the Company from time to time.

(f) If less than all the shares of Senior Preferred Stock are to be redeemed (whether through the operation of the sinking fund or otherwise), the shares so to be redeemed shall be selected pro rata so that there shall be redeemed from each registered holder of such shares that number of whole shares, as nearly as practicable to the nearest share, as bears the same ratio to the total number of shares held by such holder as the total number of shares to be redeemed bears to the total number of shares of Senior Preferred Stock at the time outstanding.

(g) Shares of Senior Preferred Stock which have been redeemed (whether through the operation of the sinking fund or otherwise), purchased or otherwise acquired by the Company shall be canceled and may not be reissued.

IV. RESTRICTIONS. So long as any shares of Senior Preferred Stock are outstanding, the Company shall not

(i) Declare and set apart for payment or pay any dividends (other than dividends payable in Common Stock) or make any distribution on the Common Stock of the Company or redeem, purchase or otherwise acquire, or permit any subsidiary to purchase or otherwise acquire, any shares of Convertible Preferred Stock or Common Stock.

(ii) Declare and set apart for payment or pay any dividends or make any distribution on the Convertible Preferred Stock of the Company if at the time of making such declaration, payment or distribution the Company shall be in default with respect to any dividend payable on, or any obligation to redeem, shares of Senior Preferred Stock.

(iii) Without the affirmative vote or consent of the holders of all the shares of Senior Preferred Stock at the time outstanding, voting or consenting separately as a class, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, (1) create any class of stock ranking equal or prior to the Senior Preferred Stock as to the payment of dividends or upon liquidation, or increase the authorized number of shares of any such class of stock, or (2) increase the authorized number of shares of Senior Preferred Stock.

(iv) Without the affirmative vote or consent of the holders of at least two-thirds of the number of shares of Senior Preferred Stock at the time outstanding, voting or consenting separately as a class, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, alter or change any of the provisions of this Certificate of Incorporation so as adversely to affect the preferences, special rights or powers given to the Senior Preferred Stock.

V. VOTING RIGHTS IN THE EVENT OF ARREARAGES.

(a) Whenever dividends payable on the Senior Preferred Stock shall be in arrears in an aggregate amount equivalent to three full semiannual dividends on all shares of Senior Preferred Stock at the time outstanding, the number of directors constituting the Board of Directors of the Company shall be increased by two, and the holders of the Senior Preferred Stock shall have the exclusive and special right, voting separately as a class, to elect two persons to fill such newly created directorships. Whenever such right of holders of shares of Senior Preferred Stock shall have vested, it may be exercised initially either at a special meeting of such holders called as provided below or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders. Such right shall continue until such time as all dividends accumulated on the Senior Preferred Stock shall have been paid in full, at which time such right shall terminate, subject to revesting in the event of any subsequent arrearage amounting in the aggregate to the equivalent of three full semiannual dividends.

(b) At any time when the holders of shares of Senior Preferred Stock shall have the special right, voting separately as a class, to elect directors as provided in this Section V, a proper officer of the Company shall, upon the written request of the holders of record of at least 10% of the number of shares of Senior Preferred Stock at the time outstanding, addressed to the Secretary of the Company, call a special meeting of the holders of shares of Senior Preferred Stock and of any other class or classes of stock having voting power for the purpose of electing directors. Such meeting shall be held at the earliest practicable date in the District of Columbia. If such meeting shall not be called by the proper officers of the Company within 20 days after personal service of said written request upon the Secretary of the Company, or within 20 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Company at its principal office, then the holders of record of at least 10% of the number of shares of Senior Preferred Stock at the time outstanding may designate in writing one of their number to call such meeting at the expense of the Company, and such meeting may be called by such person so designated upon the notice required for annual meetings of shareholders and shall be held in the District of Columbia. Any holder of shares of Senior Preferred Stock so designated shall have access to the stock books of the Company for the purpose of causing a meeting of shareholders to be called pursuant to these provisions. Notwithstanding the provisions of this Section V, no such special meeting shall be called during the 90 days immediately preceding the date fixed for an annual meeting of shareholders.

(c) At any meeting held for the purpose of electing directors at which the holders of shares of Senior Preferred Stock shall have the special right, voting separately as a class, to elect directors as provided in this Section V, the presence, in person or by proxy, of the holders of one-third of the number of shares of Senior Preferred Stock at the time outstanding shall be required to constitute a quorum of such class for the election of any director by the holders of the Senior Preferred Stock as a class. At any such meeting or adjournment thereof, (1) the absence of a quorum of Senior Preferred Stock shall not prevent the election of directors other than those to be elected by the holders of shares of Senior Preferred Stock voting as a class, and the absence of a quorum for the election of such other directors shall not prevent the election of the directors to be elected by holders of shares of Senior Preferred Stock voting as a class, and (2) in the absence of either or both such quorums, a majority of the holders present in person or by proxy of the stock or stocks which lack a quorum shall have power to adjourn from time to time the meeting for the election of the directors which they are entitled to elect, without notice other than announcement at the meeting, until a quorum shall be present.

(d) During any period in which the holders of shares of Senior Preferred Stock have the special right, voting separately as a class, to elect directors as provided in this Section V, (1) the directors so elected by the holders of the Senior Preferred Stock shall continue in office until the next succeeding annual meeting or until their successors, if any, are elected by such holders and qualify, or, unless required by applicable law to continue in office for a longer period, until termination of the special right of the holders of the Senior Preferred Stock, voting separately as a class, to elect directors, and (2) any vacancy in the Board

of Directors shall be filled only by vote of a majority (even if that be only a single director) of the remaining directors theretofore elected by the holders of the class or classes of stock which elected the director whose office shall have become vacant. To the extent permitted by applicable law, immediately upon any termination of the special right of the holders of shares of Senior Preferred Stock, voting separately as a class, to elect directors as provided in this Section V, the term of office of the directors then in office so elected by such holders shall terminate, and the number of directors shall be such number as may be provided for in, or pursuant to, the by-laws irrespective of any increase made as a result of the foregoing provisions.

VI. LIQUIDATION. The Senior Preferred Stock shall be preferred upon liquidation over any other class or classes of stock of the Company ranking junior to the Senior Preferred Stock upon liquidation, so that the holders of shares of Senior Preferred Stock shall be entitled to be paid before any distribution is made to the holders of such junior stock upon the voluntary or involuntary dissolution, liquidation or winding up of the Company. The amount payable on each share of Senior Preferred Stock in the event of the voluntary or involuntary dissolution, liquidation or winding up of the Company shall be \$100 per share plus an amount equal to all accrued and unpaid dividends thereon to and including the date of payment. If upon any such liquidation, dissolution or winding up of the Company its net assets shall be insufficient to permit the payment in full of the amounts to which the holders of all outstanding shares of Senior Preferred Stock are entitled as above provided, the entire remaining net assets of the Company shall be distributed among the holders of shares of Senior Preferred Stock in amounts proportionate to the full preferential amounts to which they are respectively entitled. For the purposes of this Section VI, the voluntary sale, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the Company's property or assets to, or its consolidation or merger with, one or more corporations shall not be deemed to be a liquidation, dissolution or winding up of the Company, voluntary or involuntary.

VII. NO VOTING RIGHTS. Except as specifically provided by statute and by Sections IV and V above, the holders of shares of Senior Preferred Stock shall have no voting rights.

VIII. NO PREEMPTIVE RIGHTS. No holder of any shares of Senior Preferred Stock shall be entitled as of right as such holder to purchase or subscribe for any shares of stock of the Company, whether now or hereafter authorized, or bonds, certificates of indebtedness, debentures or other securities convertible into or carrying any right to purchase stock of the Company of any class. Shares of any such stock, or such other securities convertible into or carrying any right to purchase such stock, may be, so far as the holders of Senior Preferred Stock are concerned, issued and disposed of to such persons and upon such terms and for such lawful consideration as may be deemed advisable by the Board of Directors.

GOVERNMENT EMPLOYEES INSURANCE COMPANY
CERTIFICATE AND STATEMENT OF RESOLUTION
GOVERNING THE CUMULATIVE SENIOR PREFERRED STOCK

KNOW ALL MEN BY THESE PRESENTS, that Donald K. Smith, as a Senior Vice President, and John M. O'Connor, as the Secretary, of Government Employees Insurance Company, a District of Columbia corporation (herein called the "Company"), do hereby certify that at a combined meeting of the Executive and Investment Committees of the Board of Directors of the Company duly called and held in accordance with the law of the District of Columbia and the By-Laws of the Company on December 20, 1977, the following resolution governing the Cumulative Senior Preferred Stock (the "Senior Preferred Stock") was duly adopted.

RESOLVED, that the Board of Directors deems it to be in the best interests of the Company that it make, and it does hereby make, the following determinations with respect to the Senior Preferred Stock, for the benefit of the respective purchasers thereof and each of them:

(i) that the Company will not at any time exercise its right to redeem shares of Senior Preferred Stock as set forth in Paragraph (a) of Section III of Part A of ARTICLE THIRD of the Certificate of Incorporation of the Company with respect to any share of Senior Preferred Stock except as described in (ii) below or except as described in Sections 6.6, 6.8, 6.13 and 6.14 of the Preferred Stock Purchase Agreements dated December 27, 1977 between the Company and various purchasers of the Senior Preferred Stock;

(ii) that the Company will, out of funds legally available for such purposes, redeem on December 1, 1981, 50% of the total number of shares of Senior Preferred Stock at the time outstanding, at a redemption price of \$100 per share plus an amount equal to all accrued and unpaid dividends thereon to and including the redemption date; on December 1, 1982, the Company will in the same manner redeem all the Senior Preferred Stock remaining outstanding on such date; shares previously redeemed or otherwise acquired by the Company may not be used to satisfy any such redemption obligation with respect to the Senior Preferred Stock; and

(iii) the provisions of Paragraphs (c), (f) and (g) set forth in Section III of Part A of ARTICLE THIRD of the Certificate of Incorporation of the Company shall apply to the redemptions described above to the extent not inconsistent with the terms thereof.

IN TESTIMONY WHEREOF, witness our signatures this 29th day of December, 1977.

.....
DONALD K. SMITH, *Senior Vice President*

.....
JOHN M. O'CONNOR, *Secretary*

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this 29th day of December, 1977, before me,, the undersigned notary public, personally appeared DONALD K. SMITH and JOHN M. O'CONNOR, known to me, or satisfactorily proven, to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same as Officers of Government Employees Insurance Company for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

.....
Notary Public

My commission expires

[NOTARIAL SEAL]

EXHIBIT C

SCHEDULE OF PURCHASERS

<u>Name and Address of Purchaser</u>	<u>Number of Shares to be Purchased</u>
AETNA LIFE AND CASUALTY COMPANY	100,000

In the case of all payments on account of the Shares in accordance with Section 4.1, by:

- (a) crediting (in the form of federal funds bank wire transfer) its Account No. 000-45-412
in Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015
Attention: Money Transfer Department

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices in respect of payment:

151 Farmington Avenue
Hartford, Connecticut 06156
Attention: Treasury Services PS

In the case of all other communications:

151 Farmington Avenue
Hartford, Connecticut 06156
Attention: Bond Investment Department

AETNA VARIABLE ANNUITY LIFE INSURANCE COMPANY	44,000
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In the case of all payments on account of the Shares in accordance with Section 4.1, by:

- (a) crediting (in the form of federal funds bank wire transfer) its Trust Account No. 6100
in Riggs National Bank
1503 Pennsylvania Avenue N.W.
Washington, D.C. 20005
Attention: Marjorie B. Tilch, Trust Operations Officer

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices in respect of payment:

151 Farmington Avenue
Hartford, Connecticut 06156
Attention: Fund Manager—Bonds, Investment Department

In the case of all other communications:

151 Farmington Avenue
Hartford, Connecticut 06156
Attention: Fund Manager—Bonds, Investment Department

<u>Name and Address of Purchaser</u>	<u>Number of Shares to be Purchased</u>
AMERICAN GENERAL LIFE INSURANCE COMPANY	50,000

In the case of all payments on account of the Shares registered in the name of Maryland Casualty Company in accordance with Section 4.1, by:

- (a) payment in federal funds check forwarded to
 Maryland Casualty Company
 P.O. Box 1228
 Baltimore, Maryland 21203
 Attention: Henry L. Graf

and (b) providing sufficient information with such check to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

American General Insurance Company
 P.O. Box 3855
 Houston, Texas 77001
 Attention: Joseph H. Phillips

In the case of all payments on account of the Shares registered in the name of American General Life Insurance Company of Delaware in accordance with Section 4.1, by:

- (a) payment in federal funds check forwarded to
 American General Life Insurance Company of
 Delaware
 P.O. Box 1526
 Houston, Texas 77001

and (b) providing sufficient information with such check to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

American General Insurance Company
 P.O. Box 3855
 Houston, Texas 77001
 Attention: Joseph H. Phillips

<u>Name and Address of Purchaser</u>	<u>Number of Shares to be Purchased</u>
AMERICAN FINANCIAL CORPORATION	30,000

In the case of all payments on account of the Shares registered in the name of Vault & Co. in accordance with Section 4.1, by:

(a) crediting (in the form of federal funds bank wire transfer) to the account of Great American Insurance Company, its Account No. 50060800

in First Jersey National Bank
One Exchange Place
Jersey City, New Jersey 07303

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

American Financial Corporation
One East Fourth Street
Cincinnati, Ohio 45202
Attention: Investment Department

**Number of
Shares to be
Purchased**

Name and Address of Purchaser

ALABAMA FARM BUREAU 16,000

In the case of all payments on account of the Shares registered in the name of Alabama Farm Bureau Mutual Casualty Insurance Company in accordance with Section 4.1, by:

(a) crediting (in the form of federal funds bank wire transfer) its Account No. 10 002 49

in Alabama National Bank
Commerce Street
Montgomery, Alabama 36104

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

Alabama Farm Bureau
P.O. Box 1100
Montgomery, Alabama 36111

In the case of all payments on account of the Shares registered in the name of Alabama Farm Bureau Mutual Insurance Service Company in accordance with Section 4.1, by:

(a) crediting (in the form of federal funds bank wire transfer) its Account No. 01 0077 3

in First Alabama Bank of Montgomery
Commerce Street
Montgomery, Alabama 36104

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

Alabama Farm Bureau
P.O. Box 1100
Montgomery, Alabama 36111

In the case of all payments on account of the Shares registered in the name of Southern Guaranty Insurance Company in accordance with Section 4.1, by:

(a) crediting (in the form of federal funds bank wire transfer) its Account No. 000 77757-7

in Central Bank of Montgomery, Alabama
Dexter Avenue
Montgomery, Alabama 36104

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices, whether in respect of payment or otherwise:

Alabama Farm Bureau
P.O. Box 1100
Montgomery, Alabama 36111

<u>Name and Address of Purchaser</u>	<u>Number of Shares to be Purchased</u>
REPUBLIC NEW YORK CORPORATION	10,000

In the case of all payments on account of the Shares in accordance with Section 4.1, by:

(a) crediting (in the form of federal funds bank wire transfer) its Account No. 310-024-872

in Republic National Bank of New York
452 Fifth Avenue
New York, New York 10018
Attention: Comptroller's Department

and (b) providing sufficient information with such wire transfer to identify the source and application of such funds;

In the case of all notices in respect of payment:

452 Fifth Avenue
New York, New York 10018
Attention: Comptroller's Department

In the case of all other communications:

452 Fifth Avenue
New York, New York 10018
Attention: Treasurer's Department

DESCRIPTION OF COMPANY COUNSEL'S CLOSING OPINION

The closing opinion of Donald K. Smith, Esq., General Counsel for the Company, which is called for by Section 3.1 of the Preferred Stock Purchase Agreement, shall be dated the Closing Date and addressed to you, shall be satisfactory in form and substance to you, and shall be to the effect that:

(1) *Organization, Standing, etc. of the Company*—the Company is a duly incorporated and validly existing corporation in good standing under the laws of the District of Columbia and has all requisite corporate power and authority to issue, sell and deliver the Shares, execute, deliver and perform the Preferred Stock Purchase Agreement and to carry on its business and own its Property;

(2) *Organization, Standing, etc. of Subsidiaries*—each Subsidiary is a duly incorporated and validly existing corporation in good standing under the laws of its jurisdiction of incorporation and has all requisite corporate power and authority to carry on its business and own its Property;

(3) *Authority to Conduct Business*—the Company, and each Subsidiary, is a duly authorized to conduct its business in each jurisdiction in which it operates and has duly qualified and is in good standing as a foreign corporation in each jurisdiction where the character of its Properties or the nature of its activities makes such qualification necessary or desirable;

(4) *Preferred Stock Purchase Agreement*—the Preferred Stock Purchase Agreement and the Resolution and the certificates representing the Shares being delivered to you at the closing have been duly authorized by all necessary corporate action on the part of the Company (no action by the stockholders of the Company being required by law, by the Certificate of Incorporation or By-Laws of the Company or otherwise), such Agreement and such certificates have been duly executed and delivered by the Company and are legal, valid and enforceable in accordance with their respective terms except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization or other similar laws of general application;

(5) *No Conflict with Charter, By-Laws or Other Agreements*—the issue and sale of the Shares and compliance by the Company with the Terms of the Shares, including the provisions of the Resolution, and the Preferred Stock Purchase Agreement will not conflict with, or result in any breach of any of the provisions of, or constitute a default under, or result in the creation or imposition of any Lien upon any of the Property of the Company pursuant to the provisions of, the Certificate of Incorporation or By-Laws of the Company, or any agreement or other instrument to which the Company is a party or by which it is bound;

(6) *Shares*—the Shares have been validly authorized and duly issued to you, are fully paid and non-assessable, and have the terms set forth in Exhibit A attached to the Preferred Stock Purchase Agreement; in addition, the holders of the Shares are entitled to the benefit of the provisions relating to the Shares set forth in Exhibit B attached to the Preferred Stock Purchase Agreement; and the terms and provisions set forth in such Exhibits A and B are legal, valid and enforceable in accordance with their respective terms except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization or other similar laws of general application;

(7) *Title to Stock of Subsidiaries*—the Company has good and marketable title to all of the shares it purports to own of the capital stock of each Subsidiary (as referred to in Section 2.1), free and clear in each case of any Lien and all such shares have been validly authorized and duly issued and are fully paid and non-assessable;

(8) *Governmental Consent, etc.*—all consents, approvals or authorizations, if any, of any governmental authority (including any insurance authority) required on the part of the Company in connection with the execution and delivery of the Preferred Stock Purchase Agreement, the adoption of the Resolution, the offer, issue, sale or delivery of the Shares to you or the perform-

ance of such Agreement or the Terms of the Shares have been duly obtained, and the Company has complied with any applicable provisions of law requiring any designation, declaration, filing, registration and/or qualification with any governmental authority in connection with the execution and delivery of such Agreement, the offer, issue, sale or delivery of the Shares to you or the performance of such Agreement or the Terms of the Shares;

(9) *Exempted Offering*—the issuance, sale and delivery of the Shares under the circumstances contemplated by the Preferred Stock Purchase Agreement are exempted transactions under the registration provisions of the Securities Act of 1933, as amended, and do not, under existing law, require the registration of the Shares under the Securities Act of 1933, as amended;

(10) *Resolutions*—Clause (ii) of the Resolution constitutes a legal, valid and binding obligation of the Company to redeem the Shares pursuant thereto enforceable in accordance with its terms except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization or other similar laws of general application;

(11) *Capitalization*—the matters set forth in the first four sentences of Section 2.18 of the Preferred Stock Purchase Agreement are accurate;

(12) *Litigation*—there are no proceedings pending, or to the knowledge of such counsel threatened, against or affecting the Company or any Subsidiary in any court or before any governmental authority or arbitration board or tribunal which, if adversely determined, might materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries, or the ability of the Company to perform this Agreement, except for those proceedings described in the Offering Memorandum. To the knowledge of such counsel, neither the Company nor any Subsidiary is in default with respect to any judgment or order of any court, governmental authority or arbitration board or tribunal which default might have a materially adverse effect on the Properties, business, prospects, profits or condition (financial or otherwise) of the Company or such Subsidiary;

(13) *Taxes*—no stamp or other taxes are payable in connection with the issuance and delivery of any Shares pursuant to the Preferred Stock Purchase Agreement;

(14) *Dividends Received Deduction*—you will be entitled to a deduction for Federal income tax purposes in the amount of 85% of the dividends received on the Shares pursuant to Section 243(a)(1) of the Internal Revenue Code of 1954; and

(15) *Filing Requirements*—you are not required to file a Schedule 13D or a Form 3 pursuant to the Securities Exchange Act of 1934 in connection with your acquisition of the Shares pursuant to the Preferred Stock Purchase Agreement and your subsequent holding of such Shares, but any Person who purchases more than 25,000 Shares will be required to file a Form 1 with the Superintendent of Insurance of the District of Columbia.

Such opinion shall also cover such other matters incident to the transactions contemplated hereby as you or your special counsel may reasonably request.

Such opinion may state that such counsel is not a member of the Bar of the State of New York and does not hold himself out as an expert on the laws of the State of New York; and that, therefore, in giving the foregoing opinion he is relying upon the opinion of Cravath, Swaine & Moore, special counsel for the Company, referred to in Exhibit E, as to all matters relating to the law of such state involved in the conclusions set forth in such opinion.

EXHIBIT E

DESCRIPTION OF COMPANY SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Messrs. Cravath, Swaine & Moore, special counsel for the Company, which is called for by Section 3.1 of the Preferred Stock Purchase Agreement, shall be dated the Closing Date and addressed to you, shall be satisfactory in form and substance to you and shall cover the matters referred to in Paragraphs 1, 4, 5 (as to the Certificate of Incorporation, By-Laws and agreements and instruments known to such counsel after due investigation), 6, 8 (as to Federal and New York law only), 9, 10, 11, 13, 14 and 15 of Exhibit D.

Such opinion may state that such counsel are not members of the Bar of the District of Columbia and do not hold themselves out as experts on the laws of the District of Columbia; that, therefore, in giving the foregoing opinion they are relying on the opinion of Donald K. Smith, Esq., General Counsel for the Company, referred to in Exhibit D, as to all matters relating to the law of such jurisdiction involved in the conclusions set forth in such opinion; but that such counsel have made an independent investigation as to the laws of the District of Columbia involved in such matters and, on the basis of such investigation, such counsel concur in the conclusions of such other counsel upon such matters.

EXHIBIT F

DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Messrs. White & Case, special counsel for you, which is called for by Section 3.1 of the Preferred Stock Purchase Agreement, shall be dated the Closing Date and addressed to you, shall be satisfactory in form and substance to you and shall cover the matters referred to in Paragraphs 1, 4, 5 (as to the Certificate of Incorporation and By-Laws only), 6 (as to authorization, issuance and fully paid and non-assessable status only), 8 (as to Federal and New York law only), 9 and 15 of Exhibit D. Such opinion shall also state that based on such due investigation and inquiry as deemed relevant and proper, the closing opinions of Company counsel and special counsel for the Company delivered pursuant to Section 3.1 are satisfactory in scope, form and substance to special counsel and that in their opinion you are justified in relying thereon, and shall cover such other matters relating to the sale of the Shares as you may reasonably request.

Such opinion may state that such counsel are not members of the Bar of the District of Columbia and do not hold themselves out as experts on the laws of the District of Columbia; that, therefore, in giving the foregoing opinion they are relying on the opinion of Donald K. Smith, Esq., General Counsel for the Company, referred to in Exhibit D, as to all matters relating to the law of such jurisdiction involved in the conclusions set forth in such opinion.

WAIVER

December 29, 1977

**GOVERNMENT EMPLOYEES INSURANCE
COMPANY
5260 Westere Avenue
Chevy Chase, Maryland 20076**

Dear Sirs:

Pursuant to the Preferred Stock Purchase Agreement, dated December 27, 1977, between Government Employees Insurance Company ("GEICO") and the undersigned, the undersigned purchased the number of shares of Cumulative Senior Preferred Stock issued by GEICO set forth in such Preferred Stock Purchase Agreement. As the holder of such outstanding Cumulative Senior Preferred Stock, and only in such capacity, the undersigned hereby waives to the full extent permitted by law any rights to which it may be entitled with respect to the restrictions on the declaration and payment of cash dividends on Common Stock of GEICO or the redemption, purchase or other acquisition of any shares of the Common Stock or Convertible Preferred Stock of GEICO, which restrictions are set forth in Paragraph (i) of Section IV of Part A of Article Third of the Certificate of Incorporation of GEICO; *provided* that the foregoing waiver (a) shall terminate if at any time GEICO shall fail to comply with all provisions of Section 6 of such Preferred Stock Purchase Agreement and the Terms of the Shares (as defined in such Preferred Stock Purchase Agreement), (b) shall not permit the declaration or payment of cash dividends on, or the redemption, purchase or other acquisition of any shares of Common Stock of GEICO if, after giving effect thereto, GEICO would fail to comply with all provisions of Section 6 of such Preferred Stock Purchase Agreement and such Terms of the Shares and (c) shall terminate if at any time GEICO shall fail to comply with any other provision of such Preferred Stock Purchase Agreement and such failure continues for more than 30 days after such failure shall first become known to any officer of GEICO; and *provided, further*, that following any termination pursuant to the preceding proviso, this waiver shall be reinstated and shall once again have full force and effect if GEICO shall be in full compliance with all provisions of such Preferred Stock Purchase Agreement and such Terms of the Shares or if written consent to the reinstatement of this waiver shall have been given by the holders of the requisite number of shares of such Cumulative Senior Preferred Stock pursuant to Section 9.6 of such Preferred Stock Purchase Agreement, but no such reinstatement shall extend to or affect any subsequent termination of this waiver or impair any right consequent thereon.

This waiver, and all terms and conditions hereof, shall be binding upon successive holders of such Cumulative Senior Preferred Stock held by the undersigned.

Except as specified herein, all terms, conditions and provisions of such Preferred Stock Purchase Agreement and such Terms of the Shares shall remain in full force and effect.

Very truly yours,

[NAME OF PURCHASER]

By

FORMS OF SIGNATURES OF PURCHASERS
(Composite Conformed Copies Only)

AETNA LIFE AND CASUALTY COMPANY

By **F. W. KINGSLEY**
Assistant Vice President

**AETNA VARIABLE ANNUITY LIFE INSURANCE
COMPANY**

By **EDGAR M. REED**
Fund Manager—Bonds

AMERICAN GENERAL LIFE INSURANCE COMPANY

By **ANDREW DELANEY**
Senior Vice President

AMERICAN FINANCIAL CORPORATION

By **SANDRA HERMANN**
Vice President

ALABAMA FARM BUREAU

By **E. L. LOWDER**
Secretary

REPUBLIC NEW YORK CORPORATION

By **JOHN HARRINGTON**
Controller

THOMAS F. ROBARDS
Assistant Treasurer

END