For

BC Corp

June 30, 2015

Presented by:
Joseph Davis, CLU, ChFC
For Evaluation Purposes Only
215 Broad Street
Charlotte, North Carolina 26292
Phone: 704-927-5555
Mobile Phone: 704-549-5555
Fax: 704-549-6666
Email: joseph.davis@aol.com

Financial Services Corp.
Branch Office
10250 Red Road
Charlotte, North Carolina 26292

Important Notes

These pages depict certain business planning options. All of these options are based on the information you shared with us for this purpose and the assumptions stated throughout the report. Of course, any variance in the information or assumptions could change the results.

Inclusion of one or more of these options does not constitute a recommendation of that option over any other option(s). This report simply shows the effect of particular options on your business and potentially your estate, based on certain assumptions detailed in the report.

All assets assume specific growth rates, which are provided by the client. These individual rates are used to project the possible growth of the business. These projections are made to estimate future business insurance needs.

The report generated by this software represents an estimate of the value of the business for the purpose of estimating the amount of life insurance necessary for covering estate taxes or funding a buy and sell agreement. The values computed are, at best, only rough estimates and this report is not intended to be a substitute for a thorough professional appraisal.

The term *Proposed Plan*, when used within this report, does not imply a recommendation that a specific business planning option should be implemented. Rather it represents a summary of potential considered strategies, which each individual should discuss with his or her tax advisor, attorney, and/or other professional advisor before taking any action. Nothing contained in this report is intended to be used on any tax form or to support any tax deduction.

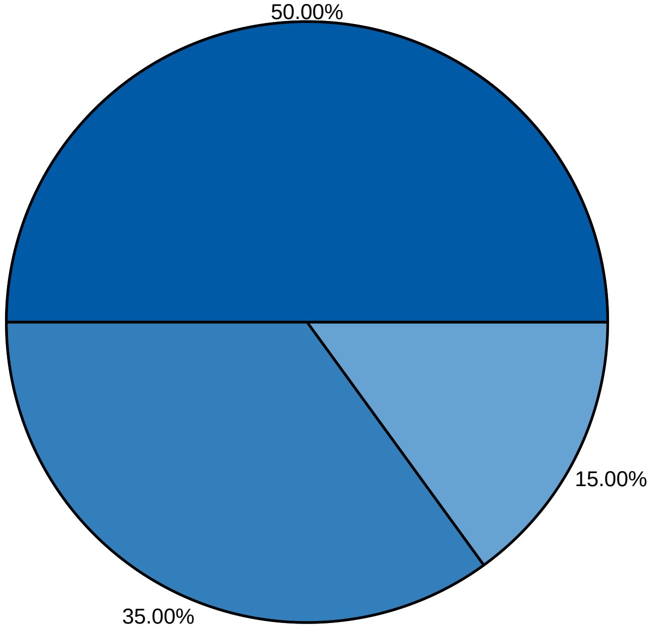
IMPORTANT: The projections or other information generated by this investment analysis tool (Business Continuation) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

IRS CIRCULAR 230 NOTICE: To ensure compliance with requirements imposed by the IRS, this notice is to inform you that any U.S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this presentation.

Total Values Today

Current Values

Business Type: S Corporation
Business Nature: Wholesale Trade



Current Value
$5,000,000

Owner/Key Person	Owner Tax Bracket	Ownership
Bob Clay	35.00%	50.00%
Bonnie Clark	35.00%	35.00%
Brian Carnes	35.00%	15.00%

Business values based on values provided by the client. Each business should have a professional appraiser determine which method will best represent its value.

The Problem of Business Valuation

How to Determine the Value of Your Business

An exact method for determining the value of a business does not exist. The more *experts* you ask, the more opinions you will receive. And more than likely, the opinions will vary widely.

There are many instances when the value of business assets is needed, such as for buy-sell agreements, business loans, and for estate planning purposes. At your death, the value of your estate is subject to estate taxes. Your business assets are part of your estate. Therefore, the higher the value of your business in your estate, the more estate taxes you will pay. The lower the value of your business, the less estate tax you will pay. The IRS will attempt to value your business at the highest reasonable level, while your heirs will try to minimize the value of your business.

There are many methods by which a business may be valued. Five of the most commonly used methods are described below:

- **Book Value:** The value at which the business is carried on a balance sheet, with all assets adjusted for fair market value (fair market value may not be the same as the depreciated value for income tax purposes.)
- **Straight Capitalization Method:** The amount of capital that would have to be invested at a specified rate to yield the current average net annual earnings of the business.
- **Capitalization of Earnings Method:** Assumes that part of earnings are attributed to the assets of the business (book value). Remaining earnings are capitalized at a rate consistent with the relative risk of the business. The result is then added to book value.
- **Years' Purchase Method:** A conservative rate (the pure money rate for an investment with generally accepted lower risk) is used to determine the earnings attributed to assets. The balance is assumed to be provided by goodwill. The earnings provided by goodwill are then multiplied by the number of years for which goodwill is expected to be valuable to a purchaser. The result is then added to the book value to obtain the valuation.
- **Discounted Future Earnings Method:** Projected future business earnings are forecasted, and then discounted using an appropriate rate which reflects the return from the next best investment opportunity with a comparable level of risk. The sum of the discounted future earnings is the current valuation.

The average of these five methods is not an acceptable method of valuation. It is shown in this presentation for comparison purposes only. Each business should have a professional appraiser determine the method that will best represent all of its factors.

Business Valuation

Comparison of Methods

	Value
Book Value:	$4,000,000

Straight Capitalization Method:	
Adjusted Average Annual Earnings[1]	$550,000
Capitalization Rate	12.000%
Total Value	$4,583,333

Capitalization of Earnings Method:	
Adjusted Average Annual Earnings[1]	$550,000
Estimated Earnings on Assets[2]	- 240,000
Excess Earnings	$310,000
Excess Earnings Capitalized at 12.000%	$2,583,333
plus Book Value	+ 4,000,000
Total Value	$6,583,333

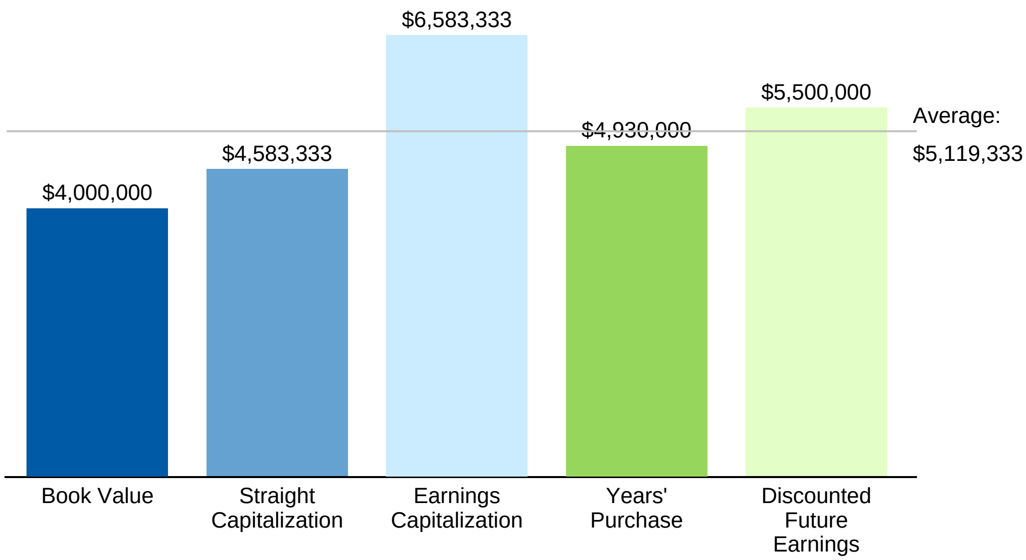
Years' Purchase Method:	
Adjusted Average Annual Earnings[1]	$550,000
Estimated Earnings on Assets[2]	- 240,000
Earnings Attributed to Goodwill	$310,000
Multiply by 3 Years Goodwill	$930,000
plus Book Value	+ 4,000,000
Total Value	$4,930,000

Discounted Future Earnings Method:	
Adjusted Average Annual Earnings[1]	$550,000
Annual Growth Rate	5.000%
Years to Forecast Future Earnings	10
Rate to Discount Future Earnings	5.000%
Resulting Future Value	$5,500,000

[1] Adjusted Average Annual Earnings is the sum of an Average Annual Earnings of $450,000 and an Excess Owner Salary of $100,000.
[2] Estimated Earnings on Assets is calculated from the book value and a Rate of Return value of 6.000%.

Business Valuation

Valuation Graph



Book Value	**$4,000,000**
Straight Capitalization	**$4,583,333**
Earnings Capitalization	**$6,583,333**
Years' Purchase	**$4,930,000**
Discounted Future Earnings	**$5,500,000**

Each business should have a professional appraiser determine which method will best represent its value. The average of the five valuation methods is not an acceptable method of valuation. It is shown in this presentation for comparison purposes only.

Valuation Guidelines

Revenue Ruling 59-60

A buy-sell agreement may be used to establish or *peg* the value of a business interest for federal estate tax purposes. So long as the agreement meets the standards set by IRC Section 2703 and subsequent related case law, it should be accepted by the IRS.[1] This assumes, of course, that the value specified in the agreement is deemed to be a reasonable valuation as of the time of the agreement. A perfectly legitimate buy-sell agreement will still be challenged if the value it specifies is not a reasonable estimation of the value of the business interest in question. So the question still exists as to how to determine this value.

Estate and gift tax regulations show that the standard to be used here is fair market value, which is loosely defined as "the amount at which the asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts." While this may be an adequate definition for the purpose of valuing many assets, it is usually far too vague a standard to be useful when valuing business interests.

Revenue Ruling 59-60 supplements this vague standard by specifying several important factors that must be considered when valuing a business interest for tax purposes. It establishes that although several valuation methods exist, no single method is adequate for determining an acceptable value for a business interest. Instead, all relevant facts and circumstances regarding the business must be considered. The ruling lists the following factors which must be accounted for:

- The nature and history of the business
- The outlook of the economy in general and of the specific industry
- The financial condition of the business and the book value of its stock
- The earning capacity of the company
- The dividend-paying capacity of the company
- The nature and value of any intangible assets of the business, such as goodwill
- The relative size of the block of stock to be valued and prior sales of the stock
- The market price of actively traded stocks of corporations in the same or a similar business

The relative weights of each of these factors are largely dependent on the circumstances of the business and of the specific interest in question. The ruling therefore provides specific guidelines to apply, while retaining the flexibility needed for individual circumstances.

[1] Under Section 2703, a buy-sell agreement will be disregarded unless: (1) it is a bona fide business arrangement; (2) it is not a device to transfer property to members of the decedent's family for less than full value; and (3) the terms of the agreement are comparable to similar arm's length arrangements.

Buy-Sell Agreements

IRC Section 2703

One method to solve the problem of business valuation is to establish a buy-sell agreement. A buy-sell agreement is a contract between a buyer and a seller which stipulates that the buyer must purchase the property in question from the seller upon the occurrence of a specified event. The event is usually death, disability or retirement of the owner of the property. A price for the property in question is specified in the agreement. Therefore, a buy-sell agreement can solve the problem of establishing a reasonable value for a business interest.

To make it likely that the value established in a buy-sell agreement will be accepted by the IRS[1], the following criteria must be met:

- The agreement must be a bona fide business arrangement, negotiated at arm's length.
- It must not be merely a device to transfer the business interest to family members for less than full and adequate consideration.
- The terms of the agreement must be comparable to those found in similar arrangements entered into at arm's length.
- There must be an option to buy and a binding obligation to sell.
- The price must be fixed in the agreement, or the agreement must specify a formula or method for determining the price.
- The agreement must prohibit the owner of the business interest from selling or otherwise disposing of the property during lifetime without first offering it to the other party at a price which does not exceed the price determined in the agreement.

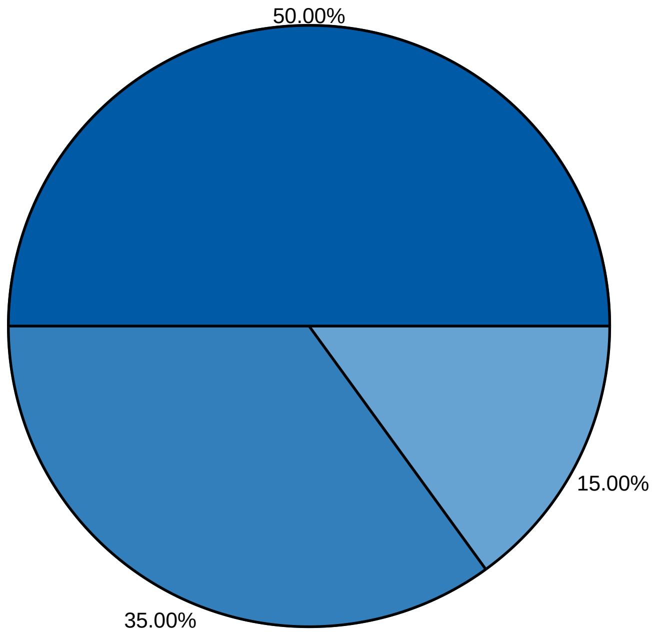
NOTE: The Conference Committee Report for the Revenue Reconciliation Act of 1990 recognizes that there is more than one method of valuing a business (even in the same industry) and it does not require that the method producing the highest value be used.

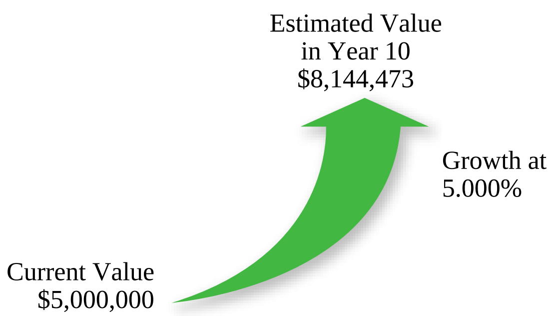
[1] These guidelines are derived from IRC Section 2703 and prior case law. Technically, while it is a question of fact, a buy-sell agreement could bind the IRS or the courts if all of the above requirements are met, and if the value set in the agreement follows the guidelines discussed in Revenue Ruling 59-60, as outlined on the Valuation Guidelines page. If the business is held by primarily family members, it is subject to the special valuation rules of Chapter 14 (IRC Sections 2701-2704)."

Business Values

Future Values

Owner	Today	10 Years	Owner	Today	10 Years
Bob Clay	$2,500,000	$4,072,237	Bonnie Clark	1,750,000	2,850,566
Brian Carnes	$750,000	$1,221,671			





Business values based on values provided by the client. Each business should have a professional appraiser determine which method will best represent its value.

Business Valuation Assumptions

BC Corp

Financial:

Book Value	$4,000,000
Average Annual Earnings	$450,000
Excess Owner Salary	$100,000

Calculation:

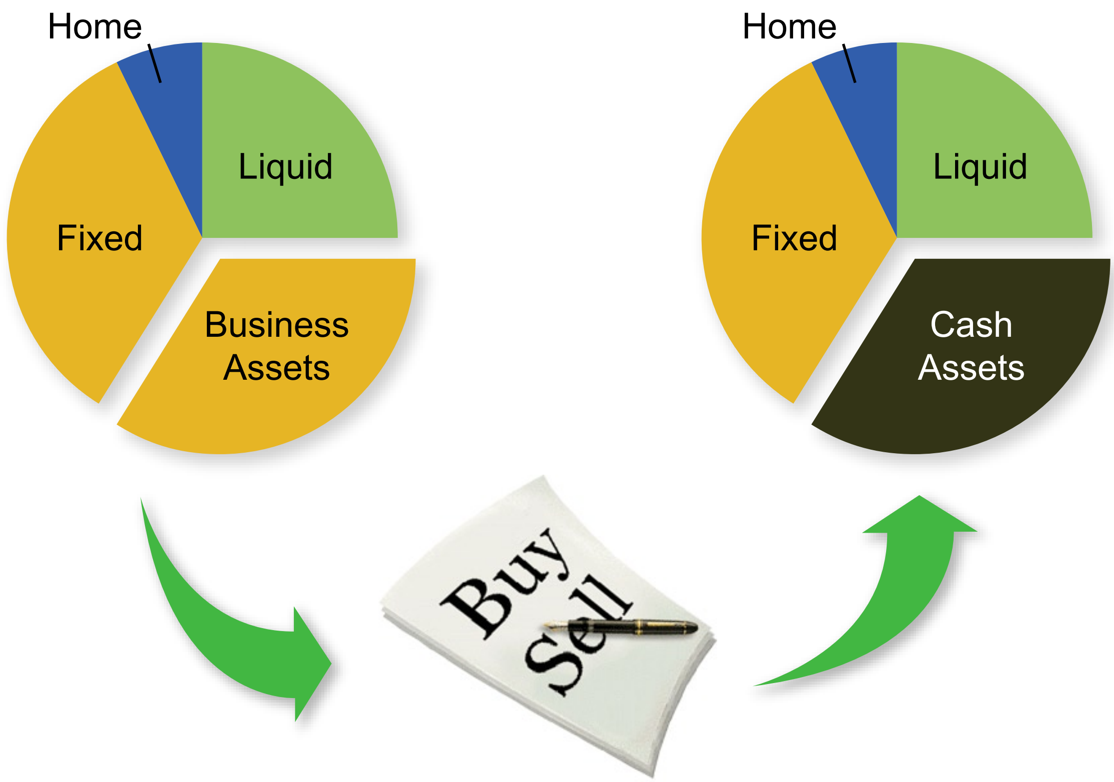
Capitalization Rate	12.000%
Fair Rate of Return	6.000%
Goodwill Multiplier	3 years
Annual Growth Rate	5.000%
Forecast Future Earnings	10 years
Rate to Discount Future Earnings	5.000%

Discounts for Restrictions:

Lack of Marketability Rate	0.000%
Lack of Control Rate	0.000%

Buy-Sell Can Provide Needed Cash

Convert Business Interest to Cash



A Buy-Sell Agreement requires the executor to sell and the buyer to buy the decedent's business interests in accordance with a written agreement.

A buy-sell agreement converts the decedent's business interests to liquid cash assets. Although this arrangement does not actually change the value of the estate, it changes the composition of the estate—it changes a business interest to a liquid asset. It may be a factor to be considered in determining the value of the business interest for estate tax purposes.

A buy-sell agreement can assure the continuation of the business by providing a buyer for the decedent's business interest, and it can provide the estate with needed liquidity to pay estate taxes and expenses. These two benefits may be very beneficial to your estate settlement.

The buyer, typically a business partner or the business itself, usually purchases life insurance on your life. At your death the buyer receives the life insurance proceeds which are used to buy the business.

How Property Passes at Death
Transfer of Assets

Deed

Property owned jointly with survivorship rights passes to the surviving joint owner

Contract

A life insurance policy is an example of a contract that pays death benefits to a named beneficiary

Will

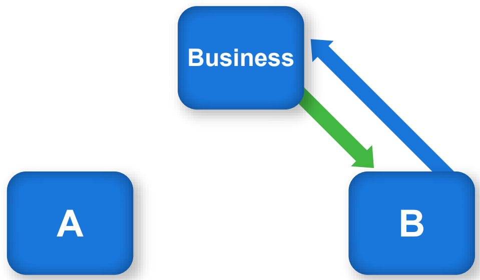
All remaining property is distributed according to the terms of the will

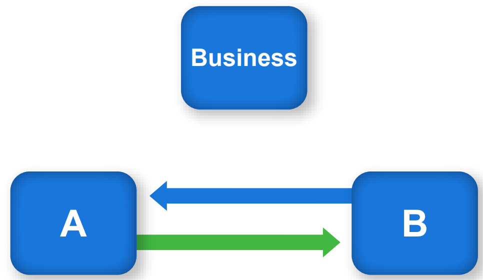
Law

If you have no will, the remaining property is distributed according to state law

Basis

Business Sold Following the Buy-Sell





	Entity Purchase			Cross Purchase		
	Business	**Owner A**	**Owner B or B's Estate**	**Business**	**Owner A**	**Owner B or B's Estate**
Prior to Owner B's Death						
Ownership		50%	50%		50%	50%
Value		$500,000	$500,000		$500,000	$500,000
Cost Basis		$100,000	$100,000		$100,000	$100,000
Buy-Sell at Owner B's Death						
Cash	Pays $500,000	Pays $0	Receives $500,000	Pays $0	Pays $500,000	Receives $500,000
Business Interest	Receives Business	---	Transfers Business	---	Receives Business	Transfers Business
Buy-Sell at Owner B's Death						
Ownership		Outstanding Stock 100%	0%		Outstanding Stock 100%	0%
Value		$1,000,000			$1,000,000	
Cost Basis		$100,000			$600,000	
Sale after Owner B's Death						
Owner A's Capital Gains		$900,000			$400,000	

The choice of business continuation plan needs to consider whether or not the surviving owner is likely to sell the business. Although the ownership and values will be the same after an entity purchase as in a cross purchase, the surviving owner's cost basis is very different.

Double Duty Dollars

Business Continuation & Retirement Needs

Uses of Business-Owner[1] Life Insurance

- Protection for the business during working years
- Death proceeds available for Business Continuation
- Cash to supplement retirement benefits
- Values taken from the policy may not be taxable to the business, but may be deductible when paid to the retired executive

Business Continuation

- Business owned life insurance on owner or key person can provide funds for stock redemption or entity purchase agreement
- Death proceeds could provide tax free dollars for replacing the owner or key person

After Owner's or Key Person's Retirement

- Business could use cash values to provide retirement benefits
- Favorable taxation may be available on policy withdrawals up to basis and on policy loans
- With a deferred compensation arrangement, benefits paid to retirees are usually deductible to the business

[1] Corporate owned life insurance may be subject to alternative minimum taxes.

Problems of 6166

Using the Government Program for Businesses and Farms

How It Works

IRC Sec. 6166 allows an executor to defer payment of that portion of the estate taxes which represent a farm or closely held business if the farm or business constitutes more than 35 percent of the adjusted gross estate. For purposes of the 35% test, if the decedent has interests in closely held businesses equal to 20% or more of the value of the business then each such business can be included in the gross estate.

Payment can be deferred for up to five years at which time the first of a maximum of ten annual payments becomes due. During the deferral period up to five years, the interest on the unpaid tax balance is due annually. After the deferral period, the tax plus interest installments are due annually.

If an estate qualifies under Sec. 6166, a 2% interest rate applies to the amount of tax due on the first $1,470,000 in business interest. The $1,470,000 amount subject to the 2% interest rate is adjusted annually for inflation. Indexing of this amount is rounded to the next lowest multiple of $10,000.

The interest rate on the amount beyond the first $1,470,000 in taxable value is 45% of the rate applicable to underpayments of tax. The underpayment rate is 3 percentage points above the federal short-term rate and is published quarterly.

For business owners dying after December 31, 1997, interest paid on the deferred tax is no longer deductible for either income or estate tax purposes.

Pitfalls of IRC Sec. 6166

- Difficult to plan for its use: Estate may cease to qualify if non-business assets appreciate faster than business assets or the value of the business declines.
- An IRS lien may be placed on the business. This may free the executor of personal liability for the estate tax, but may also impair the business and its financial statement.
- The IRS interest rate for deficiencies is subject to change quarterly.
- Full amount of deferral may become due if:
  - a) A payment is late or missed (if full amount of delinquency is paid within six months of original due date the remaining balance is not accelerated),
  - b) 50% or more of the assets from the business are withdrawn, or
  - c) 50% or more of the value of the business interest is sold, exchanged, or distributed to anyone other than a beneficiary who is entitled to receive the interest.
- Business assets may decline in value, leaving insufficient assets to pay the tax.

Stock Redemption Plans

Using IRS Section 303 Stock Redemption Plans

The Sec. 303 Stock Redemption option could be beneficial for stockholders who want their stock in the corporation to remain in the family, but who have not provided enough liquidity in their estate to cover final expenses and administrative costs.

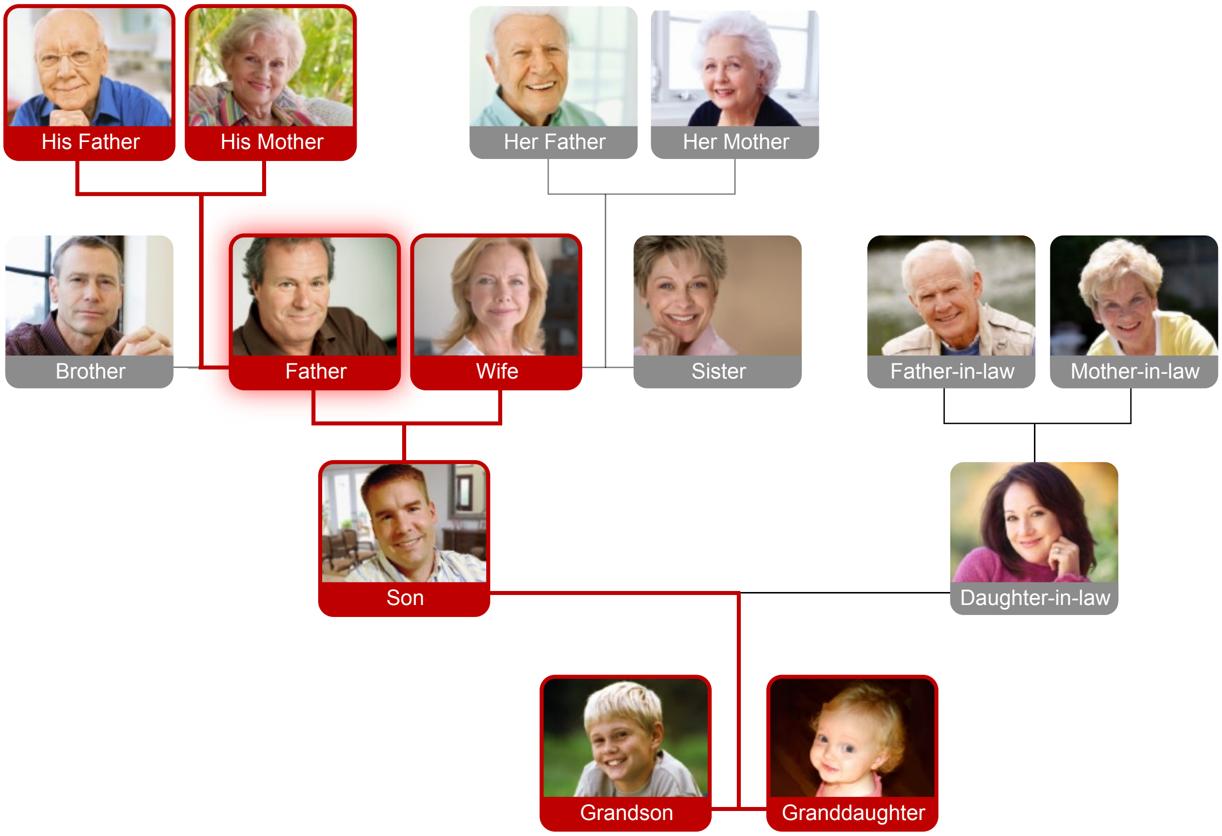
Under the provisions of Sec. 303, the surviving family can sell a portion of the decedent's stock to the corporation, thereby providing cash to pay the decedent's final expenses and estate taxes. This transaction is treated as an exchange, and the gain is treated as a capital gain rather than ordinary income, to the extent that the sales proceeds do not exceed the taxes and expenses.

Pitfalls of Section 303

- The amount redeemable under Sec. 303 is limited to the cost of the funeral, administrative expenses, and estate taxes (both federal and state).
- The party whose stock is being redeemed must bear the tax and administrative costs.
- To qualify, corporate stock must comprise more than 35% of the adjusted gross estate, or the decedent must have owned 20% or more of at least two corporations.
- It is difficult to plan its use: Other estate assets may appreciate to the point that the 35% rule is not met, the stock value may decline, etc.
- Existing stockholders do not receive a stepped-up basis in stock purchases under Sec. 303 (as they would in a cross purchase).

Family Attribution

Family Considerations for Buy-Sell Arrangements



For attribution purposes in this example, the Father's stock includes any stock owned by his parents, his spouse, his children, and his grandchildren. Stock owned by other relatives is not considered.

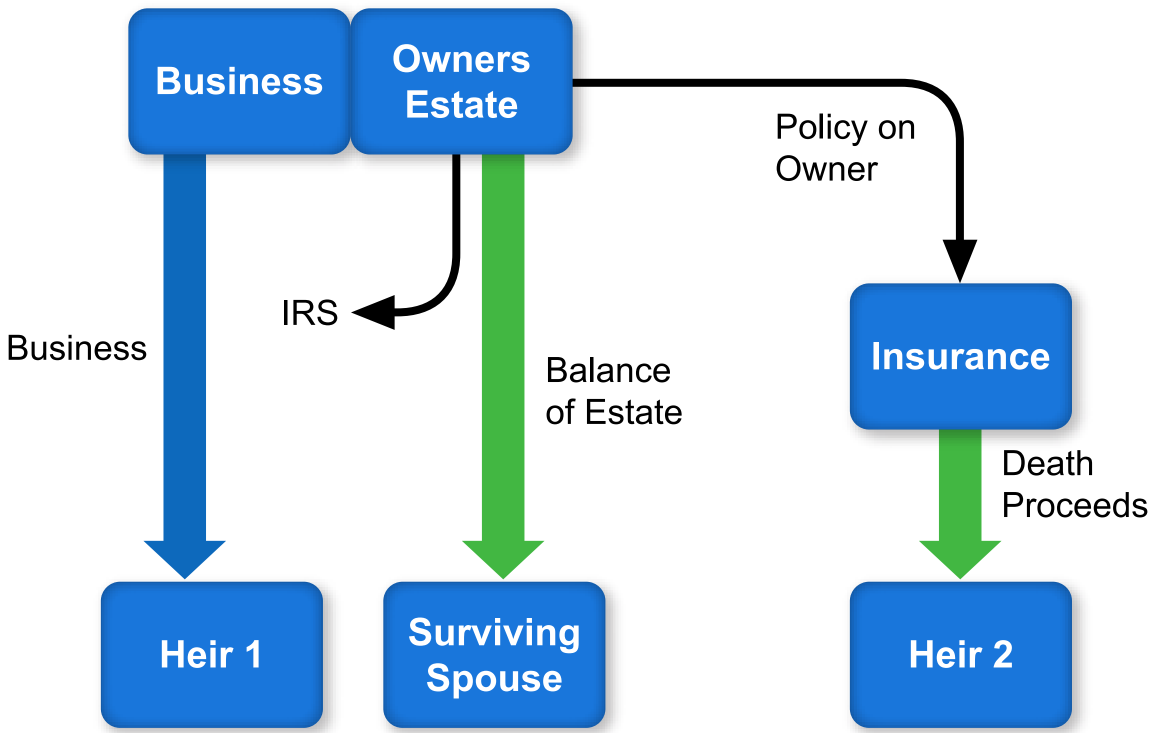
In the example above, only the stock owned by those relatives highlighted are attributed to the Father.

Stock owned by one individual may be considered or presumed owned by another family member to determine if **all** stock is sold or redeemed. Stock attributed to you includes all stock owned by 'blood relations' that are one generation older, or one or two generations younger, and your spouse.

If all stock owned by an estate (or deemed to be owned under the attribution rules) is not redeemed, the transaction is treated as a dividend, not the sale of a capital asset. Most assets receive a step up in basis at time of death and are unlikely to have any taxable capital gains.

Estate Equalization

Equal is not always fair!



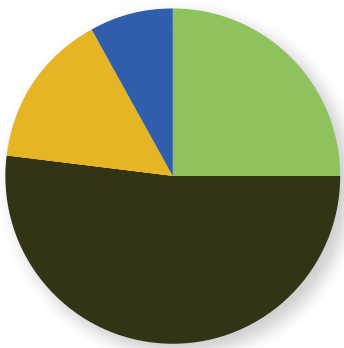
Business continuation of the family business often involves factors outside of the business.

Life Insurance Used to Equalize Inheritance

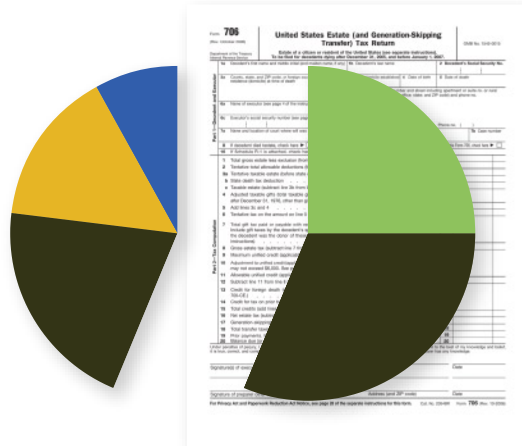
Estate equalization is of particular importance when some heirs are active in the business and others are not. The best arrangement for the business continuation may be unfair to the heirs not active in the business. Life insurance can 'equalize' the heirs.

Estate Planning

Estate Taxes due in Cash within 9 Months of Death



Business Assets
over 50% of Estate



Estate Taxes and Expenses
Can Be Over 50% of Estate

Liquid Assets | Fixed Assets | Residence | Business

How can estate taxes be paid at your death and your business continue?

Estate taxes can be one of the largest problems faced by the successful business owner. If estate taxes are payable, they start at 37% and can increase to 40%.[1]

Dilemma

Which assets do you liquidate to pay the estate taxes?

The only solutions come with proper planning—

Planning for estate taxes

Planning for business continuation

[1] Under the American Taxpayer Relief Act of 2012, the top marginal federal estate tax rate is 40% beginning in 2013 and beyond.

Discounts
Use of Discounted Values in Buy-Sells

A has control

Shares owned by A have a good marketability

Business Ownership

B lacks control

Shares owned by B lack marketability

Marketability of B's shares could be increased by reducing price

When determining the fair market value of a business interest, it is possible that the value of the interest may be less than the proportional underlying net asset value of the business. Often referred to as valuation discounts, the main reasons for these discounts are lack of marketability and lack of control. If the business being valued cannot be readily sold on an open market, its value is discounted for lack of marketability. If the interest being valued does not have control (for example, 40% of the stock of a corporation, where 51% is required to have control), the value of the company is discounted for lack of control. The appropriate person to determine what the level of discounts will be, and ultimately determine the fair market value of the business interest, is an independent appraiser.

Factors resulting in Lack of Marketability

- Purchasers are hard to find
- The business cannot be easily liquidated
- There is little or no market value for the business and its assets
- The business or its assets have transfer restrictions that make liquidate difficult

Lack of Control, sometimes called the minority interest discount, is applicable for someone who does not own a controlling interest in the stock.

Example: Joe owns 40% of the business while Mike owns 60%. Joe wants to sell his 40%. An independent appraiser values the business. Since Joe does NOT have a controlling interest, his portion of the valued business will receive a discount. Since he does not have a controlling interest, his portion of the business is actually worth less than 40% of the underlying net asset value.

Typical discounts for both lack of marketability and lack of control range from 10% to 33%.

Transfer for Value

Hidden Dangers with Buy-Sell Life Insurance

One advantage of life insurance is that the death proceeds are usually received income tax free! Certain transfers can jeopardize this tax advantage. After a policy is transferred for valuable consideration; only the amount paid (consideration and premiums) will be granted this tax-free treatment, unless the transfer is one of these specific exceptions:

1. **Self**
   Transfer to the insured

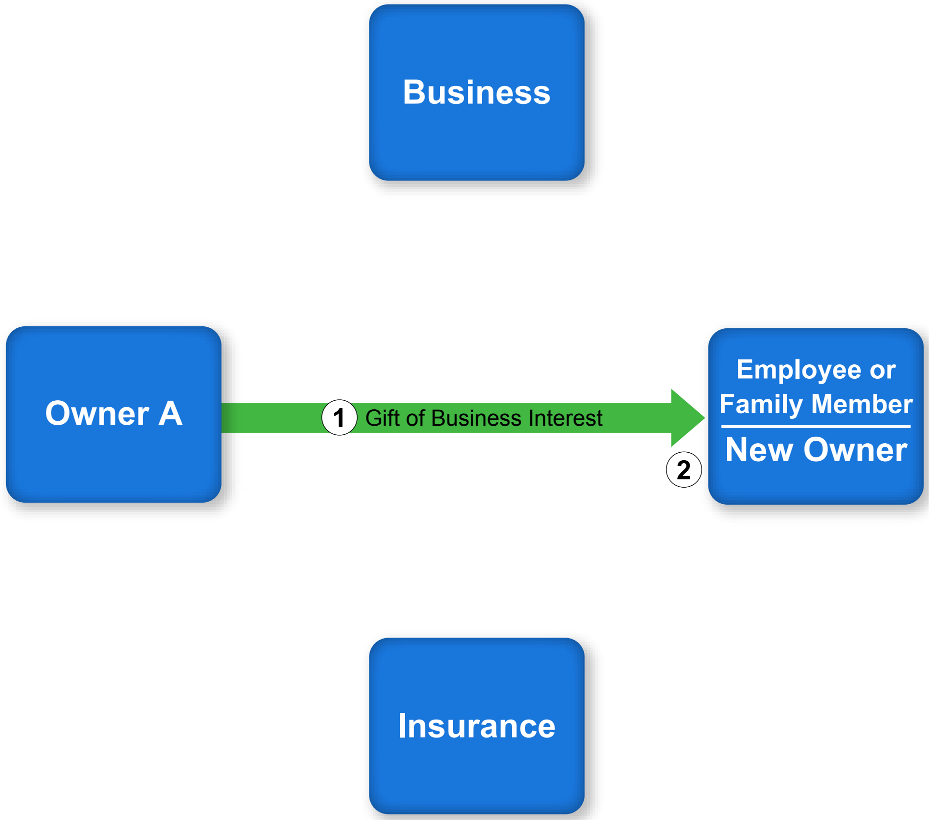
2. **Certain Business Associates**
   Transfer to a partner of the insured
   Transfer to a partnership in which the insured is a partner
   Transfer to a corporation in which the insured is a stockholder or officer

3. **Same Tax Basis**
   Transfers where any gain or loss is figured, whole or in part, by the cost basis of the transferor (Examples: transfers between spouses, gifts of a policy, and from one corporation to another in a tax-free reorganization)

Often the policies used in business continuation agreements are transferred among the remaining owners after the death of one of the owners. Unless the transfer is one of these specific exceptions, the death proceeds will not have the full tax-free advantage. Particular attention needs to be observed whenever stockholders are transferring policies.

Transfer, then Buy-Sell as Co-owner

Treat as a Co-owner after a Gift of Business Interest



1. Gift a small interest in the business to the employee or family member, and then enter a business continuation arrangement with the employee or family member as a co-owner.
2. Business treats new owner as a co-owner and now has all buy-sell solutions available to co-owners.

Considerations

Recommendations for Bob Clay

If you died or became disabled last night—

- Would a willing buyer for your business interest be available today?
- How would the value of the business be determined?
- Would you or your family get a fair price?
- Where would the money come from to pay for your interest in the business?
- Would the buyer have the cash?

Your Preference

You indicated that your preference would be to sell or transfer the business to a co-owner.

A Formal Buy-Sell Arrangement

- Guarantees a buyer
- Establishes a fair price or valuation method in advance
- Arranges the terms of the purchase-obligees buyer and seller
- Drafted properly, may set the value of the business for federal estate tax purposes
- Assures a smooth transition for you, your family and the buyers
- Provides reassurance for creditors and employees of continuation of the business

Funding Alternatives

Cash	Will sufficient funds be available to pay the full price at the time needed?
Borrowing	Credit availability and cost of borrowing in the future are unknown. Any borrowed funds must be repaid with interest from earnings.
Saving	Since timing is not predictable, you cannot be assured that sufficient funds will be available when needed.
Installment Sale	Requires repayment from earnings and forces you or your heirs to rely upon the future success of the business in order to receive your payments.

The potential solution is to establish a cross purchase agreement with co-owners.

Retaining in the Family

Recommendations for Bob Clay

Issues when retaining the business in the family:

- Will the business continue to produce adequate income for your family?
- Will capital be needed for the transition period?
- Are there resources to recruit, hire and train successor management?
- In the event of your death, what assets will be used to pay estate settlement costs and taxes?
- What about the family members that will not be involved in the business? Will provisions need to be made to equalize your estate among them?
- If all family members are not involved in the business, will income flow to the right people?

Estate Costs

The IRS can assess you a marginal tax as high as 40%, depending on the size of your estate. Will your estate have sufficient liquidity to meet this obligation and still allow your family to retain your business?

Cash for Estate Costs

Estate taxes are due in **cash** within 9 months of death!

Where will the dollars come from to pay these costs?

Options for obtaining cash include:

- Liquidating available assets.
- Selling the business to a family member.
- Installment payments under IRC 6166 (available only for closely held business whose value exceeds 35% of the decendent's adjusted gross estate).
- Life insurance can provide the needed cash.

Life Insurance

Life insurance proceeds are received at the time the cash is needed.

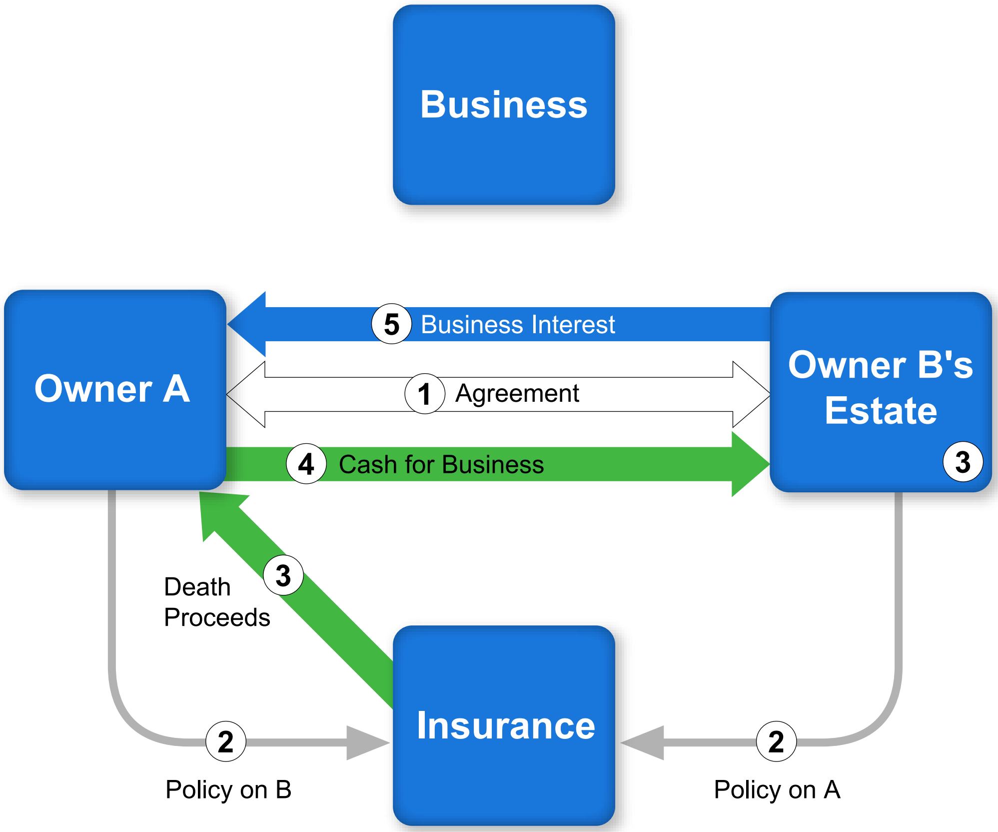
Life insurance proceeds are generally received income tax-free.

Estate settlement obligations can be met without the sale of the business or other assets.

Life insurance can be used to create assets for equalizing the estate amount the heirs.

Cross Purchase

How It Works



1. All owners enter into an agreement obligating the survivors to purchase a decedent's interest and obliging the decedent's estate to sell.
2. Each owner purchases and is the premium payer and beneficiary of a life insurance policy on the life of each other.
3. At the death of one of the owners, the surviving owner(s) receive income tax-free death proceeds from the policy.
4. The surviving owner pays the proceeds of the policy to the estate of the decedent according to the provisions of the buy-sell agreement.
5. The estate of the deceased owner transfers the business interest to the surviving owner.

Recommended Policies

Policies Required for Cross Purchase Solution

Recommendations based on future business value of $8,144,473

Owner Considered: Bob Clay

Future Share Value: $4,072,237

Policy Owner / Beneficiary	Insured	Needed Amount[1]	Face Amount
Bonnie Clark	Bob Clay	$2,850,566	$2,800,000
Brian Carnes	Bob Clay	1,221,671	1,200,000

Owner Considered: Bonnie Clark

Future Share Value: $2,850,566

Policy Owner / Beneficiary	Insured	Needed Amount[1]	Face Amount
Bob Clay	Bonnie Clark	$2,192,743	$2,100,000
Brian Carnes	Bonnie Clark	657,823	650,000

Owner Considered: Brian Carnes

Future Share Value: $1,221,671

Policy Owner / Beneficiary	Insured	Needed Amount[1]	Face Amount
Bob Clay	Brian Carnes	$718,629	$700,000
Bonnie Clark	Brian Carnes	503,042	500,000

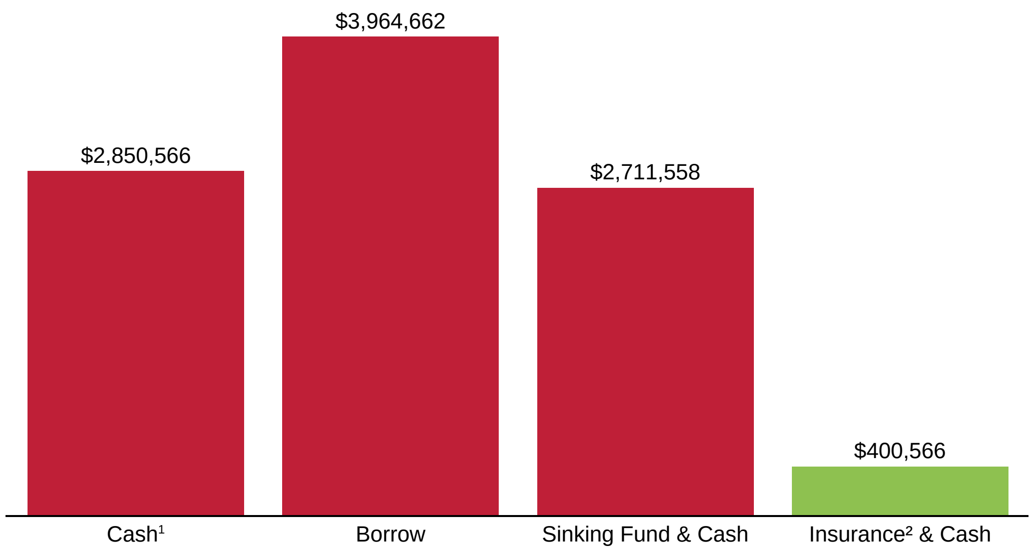
[1] Recommended death benefit amounts are based on the surviving owners maintaining the same ownership relative to the other surviving owners. There are a number of reasons why a different amount may be more appropriate. All factors must be considered when deciding on the proper amount.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Bob Clay

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$2,850,566
Borrow	At 9.000% interest, 7 annual payments of $566,380 for total payments of $3,964,662
Sinking Fund & Cash	Sinking fund of $489,007 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $2,361,559 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $50,566 for a total of $400,566

[1] Value represents the amount needed for Bonnie Clark to buy out Bob Clay's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Bob Clay

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$2,850,566	$1,750,000	$1.00
Borrow	3,964,662	2,011,971	1.15
Sinking Fund & Cash	2,711,558	1,733,566	0.99
Insurance[2] **& Cash**	400,566	314,817	0.18

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$2,850,566
Borrow	At 9.000% interest, 7 annual payments of $566,380 for total payments of $3,964,662
Sinking Fund & Cash	Sinking fund of $489,007 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $2,361,559 in cash.
Insurance[2] **& Cash**	Total premiums for 10 years plus immediate cash need at death of $50,566 for a total of $400,566

[1] Value represents the amount needed for Bonnie Clark to buy out Bob Clay's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Bob Clay

Below are the year by year details of Bonnie Clark's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan- Cost Per Dollar[3]	Borrow- Cost Per Dollar
1	$1,837,500	$2,800,000	$35,000	$37,100	$2,555,657	-$0.50	$1.15
2	1,929,375	2,800,000	35,000	76,426	2,683,440	-0.41	1.15
3	2,025,844	2,800,000	35,000	118,112	2,817,612	-0.32	1.15
4	2,127,136	2,800,000	35,000	162,298	2,958,492	-0.24	1.15
5	2,233,493	2,800,000	35,000	209,136	3,106,417	-0.16	1.15
6	2,345,167	2,800,000	35,000	258,784	3,261,738	-0.09	1.15
7	2,462,426	2,800,000	35,000	311,411	3,424,825	-0.02	1.15
8	2,585,547	2,800,000	35,000	367,196	3,596,066	0.05	1.15
9	2,714,824	2,800,000	35,000	426,328	3,775,869	0.12	1.15
10	2,850,566	2,800,000	35,000	489,007	3,964,662	0.18	1.15

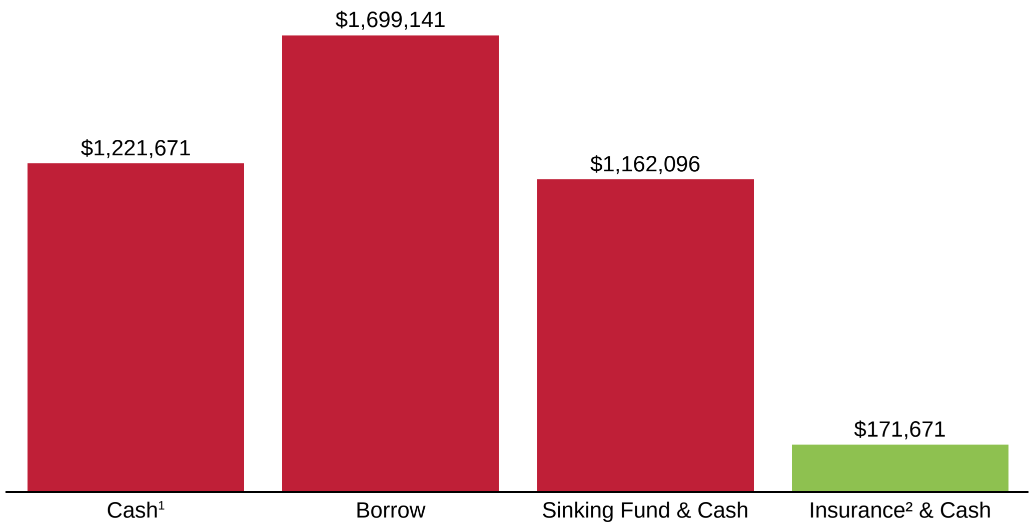
[1] Recommend amount of Bob Clay's business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Bob Clay's business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Brian Carnes
Insured: Bob Clay

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$1,221,671
Borrow	At 9.000% interest, 7 annual payments of $242,734 for total payments of $1,699,141
Sinking Fund & Cash	Sinking fund of $209,575 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $1,012,096 in cash.
Insurance[2] **& Cash**	Total premiums for 10 years plus immediate cash need at death of $21,671 for a total of $171,671

[1] Value represents the amount needed for Brian Carnes to buy out Bob Clay's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Brian Carnes
Insured: Bob Clay

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$1,221,671	$750,000	$1.00
Borrow	1,699,141	862,273	1.15
Sinking Fund & Cash	1,162,096	742,957	0.99
Insurance[2] & Cash	171,671	134,921	0.18

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$1,221,671
Borrow	At 9.000% interest, 7 annual payments of $242,734 for total payments of $1,699,141
Sinking Fund & Cash	Sinking fund of $209,575 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $1,012,096 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $21,671 for a total of $171,671

[1] Value represents the amount needed for Brian Carnes to buy out Bob Clay's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bob Clay's Interest at Death

Owner/Beneficiary: Brian Carnes

Insured: Bob Clay

Below are the year by year details of Brian Carnes's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan- Cost Per Dollar[3]	Borrow- Cost Per Dollar
1	$787,500	$1,200,000	$15,000	$15,900	$1,095,281	-$0.50	$1.15
2	826,875	1,200,000	15,000	32,754	1,150,046	-0.41	1.15
3	868,219	1,200,000	15,000	50,619	1,207,548	-0.32	1.15
4	911,630	1,200,000	15,000	69,556	1,267,925	-0.24	1.15
5	957,211	1,200,000	15,000	89,630	1,331,321	-0.16	1.15
6	1,005,072	1,200,000	15,000	110,908	1,397,888	-0.09	1.15
7	1,055,325	1,200,000	15,000	133,462	1,467,782	-0.02	1.15
8	1,108,092	1,200,000	15,000	157,370	1,541,171	0.05	1.15
9	1,163,496	1,200,000	15,000	182,712	1,618,230	0.12	1.15
10	1,221,671	1,200,000	15,000	209,575	1,699,141	0.18	1.15

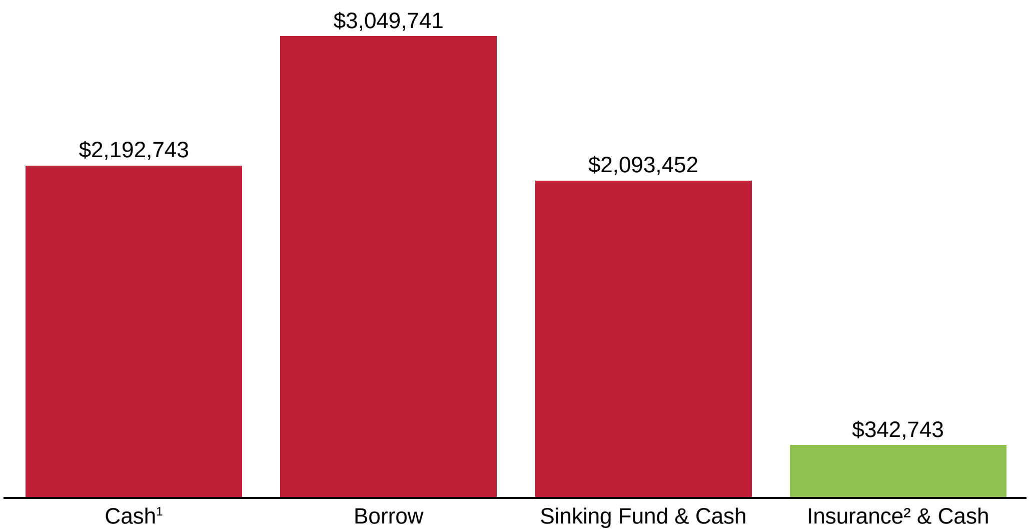
[1] Recommend amount of Bob Clay's business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Bob Clay's business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Bob Clay
Insured: Bonnie Clark

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$2,192,743
Borrow	At 9.000% interest, 7 annual payments of $435,677 for total payments of $3,049,741
Sinking Fund & Cash	Sinking fund of $349,291 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $1,843,452 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $92,743 for a total of $342,743

[1] Value represents the amount needed for Bob Clay to buy out Bonnie Clark's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Bob Clay
Insured: Bonnie Clark

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$2,192,743	$1,346,154	$1.00
Borrow	3,049,741	1,547,670	1.15
Sinking Fund & Cash	2,093,452	1,334,415	0.99
Insurance[2] & Cash	342,743	259,632	0.19

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$2,192,743
Borrow	At 9.000% interest, 7 annual payments of $435,677 for total payments of $3,049,741
Sinking Fund & Cash	Sinking fund of $349,291 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $1,843,452 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $92,743 for a total of $342,743

[1] Value represents the amount needed for Bob Clay to buy out Bonnie Clark's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Bob Clay
Insured: Bonnie Clark

Below are the year by year details of Bob Clay's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan- Cost Per Dollar[3]	Borrow- Cost Per Dollar
1	$1,413,462	$2,100,000	$25,000	$26,500	$1,965,890	-$0.47	$1.15
2	1,484,135	2,100,000	25,000	54,590	2,064,185	-0.38	1.15
3	1,558,342	2,100,000	25,000	84,365	2,167,394	-0.29	1.15
4	1,636,259	2,100,000	25,000	115,927	2,275,763	-0.21	1.15
5	1,718,072	2,100,000	25,000	149,383	2,389,552	-0.14	1.15
6	1,803,975	2,100,000	25,000	184,846	2,509,029	-0.07	1.15
7	1,894,174	2,100,000	25,000	222,437	2,634,481	0.00	1.15
8	1,988,883	2,100,000	25,000	262,283	2,766,205	0.07	1.15
9	2,088,327	2,100,000	25,000	304,520	2,904,515	0.13	1.15
10	2,192,743	2,100,000	25,000	349,291	3,049,741	0.19	1.15

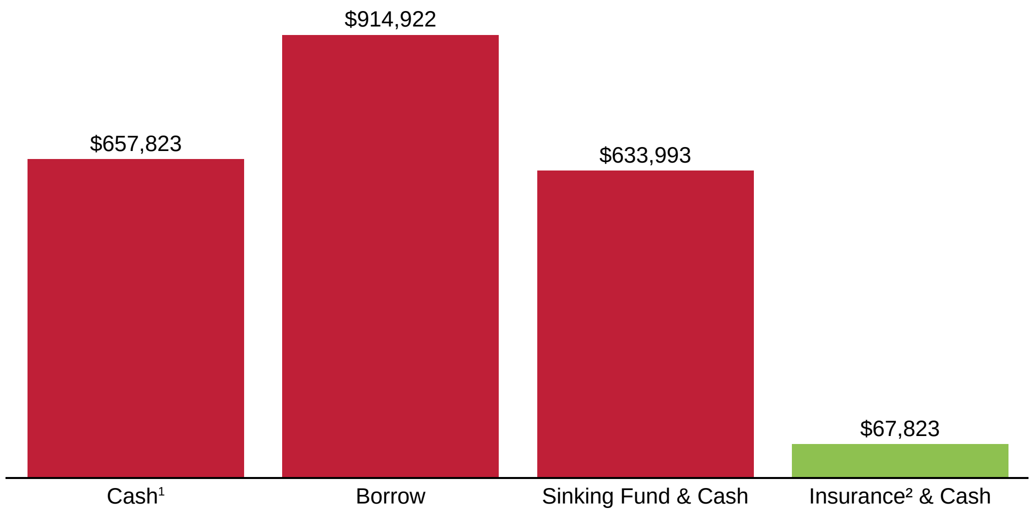
[1] Recommend amount of Bonnie Clark's business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Bonnie Clark's business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Brian Carnes
Insured: Bonnie Clark

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$657,823
Borrow	At 9.000% interest, 7 annual payments of $130,703 for total payments of $914,922
Sinking Fund & Cash	Sinking fund of $83,830 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $573,993 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $7,823 for a total of $67,823

[1] Value represents the amount needed for Brian Carnes to buy out Bonnie Clark's interest at death, based on the values in year 10.

[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Brian Carnes
Insured: Bonnie Clark

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$657,823	$403,846	$1.00
Borrow	914,922	464,301	1.15
Sinking Fund & Cash	633,993	401,029	0.99
Insurance[2] **& Cash**	67,823	53,449	0.13

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$657,823
Borrow	At 9.000% interest, 7 annual payments of $130,703 for total payments of $914,922
Sinking Fund & Cash	Sinking fund of $83,830 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $573,993 in cash.
Insurance[2] **& Cash**	Total premiums for 10 years plus immediate cash need at death of $7,823 for a total of $67,823

[1] Value represents the amount needed for Brian Carnes to buy out Bonnie Clark's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Bonnie Clark's Interest at Death

Owner/Beneficiary: Brian Carnes
Insured: Bonnie Clark

Below are the year by year details of Brian Carnes's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan-Cost Per Dollar[3]	Borrow-Cost Per Dollar
1	$424,038	$650,000	$6,000	$6,360	$589,767	-$0.52	$1.15
2	445,240	650,000	6,000	13,102	619,255	-0.43	1.15
3	467,502	650,000	6,000	20,248	650,218	-0.35	1.15
4	490,877	650,000	6,000	27,823	682,729	-0.27	1.15
5	515,421	650,000	6,000	35,852	716,865	-0.19	1.15
6	541,192	650,000	6,000	44,363	752,708	-0.12	1.15
7	568,252	650,000	6,000	53,385	790,344	-0.05	1.15
8	596,664	650,000	6,000	62,948	829,861	0.01	1.15
9	626,498	650,000	6,000	73,085	871,354	0.07	1.15
10	657,823	650,000	6,000	83,830	914,922	0.13	1.15

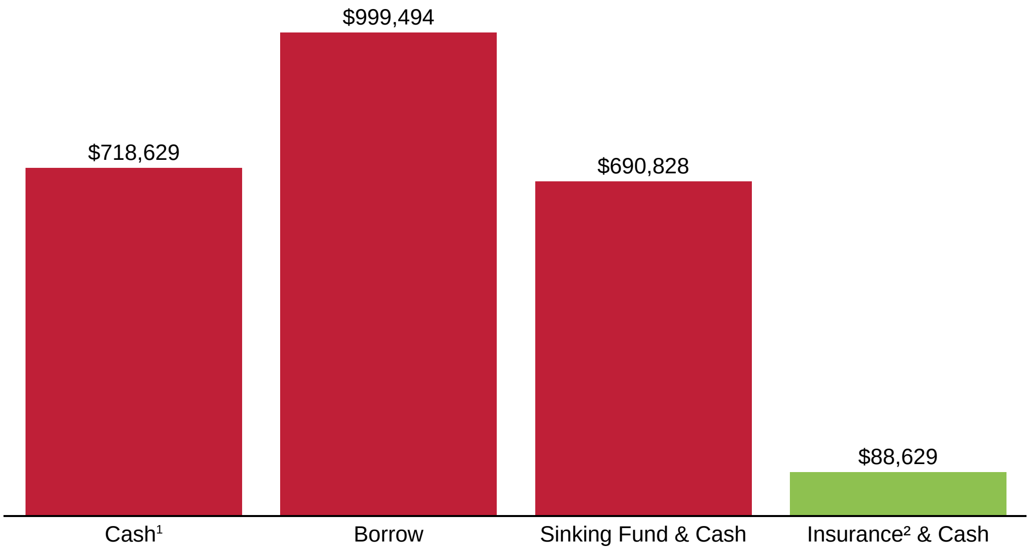
[1] Recommend amount of Bonnie Clark's business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Bonnie Clark's business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bob Clay
Insured: Brian Carnes

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$718,629
Borrow	At 9.000% interest, 7 annual payments of $142,785 for total payments of $999,494
Sinking Fund & Cash	Sinking fund of $97,801 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $620,828 in cash.
Insurance[2] **& Cash**	Total premiums for 10 years plus immediate cash need at death of $18,629 for a total of $88,629

[1] Value represents the amount needed for Bob Clay to buy out Brian Carnes's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bob Clay

Insured: Brian Carnes

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$718,629	$441,176	$1.00
Borrow	999,494	507,219	1.15
Sinking Fund & Cash	690,828	437,889	0.99
Insurance[2] & Cash	88,629	68,191	0.15

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$718,629
Borrow	At 9.000% interest, 7 annual payments of $142,785 for total payments of $999,494
Sinking Fund & Cash	Sinking fund of $97,801 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $620,828 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $18,629 for a total of $88,629

[1] Value represents the amount needed for Bob Clay to buy out Brian Carnes's interest at death, based on the values in year 10.

[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bob Clay
Insured: Brian Carnes

Below are the year by year details of Bob Clay's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan- Cost Per Dollar[3]	Borrow- Cost Per Dollar
1	$463,235	$700,000	$7,000	$7,420	$644,283	-$0.50	$1.15
2	486,397	700,000	7,000	15,285	676,497	-0.41	1.15
3	510,716	700,000	7,000	23,622	710,321	-0.33	1.15
4	536,252	700,000	7,000	32,460	745,838	-0.25	1.15
5	563,065	700,000	7,000	41,827	783,129	-0.17	1.15
6	591,218	700,000	7,000	51,757	822,286	-0.10	1.15
7	620,779	700,000	7,000	62,282	863,400	-0.03	1.15
8	651,818	700,000	7,000	73,439	906,570	0.03	1.15
9	684,409	700,000	7,000	85,266	951,899	0.10	1.15
10	718,629	700,000	7,000	97,801	999,494	0.15	1.15

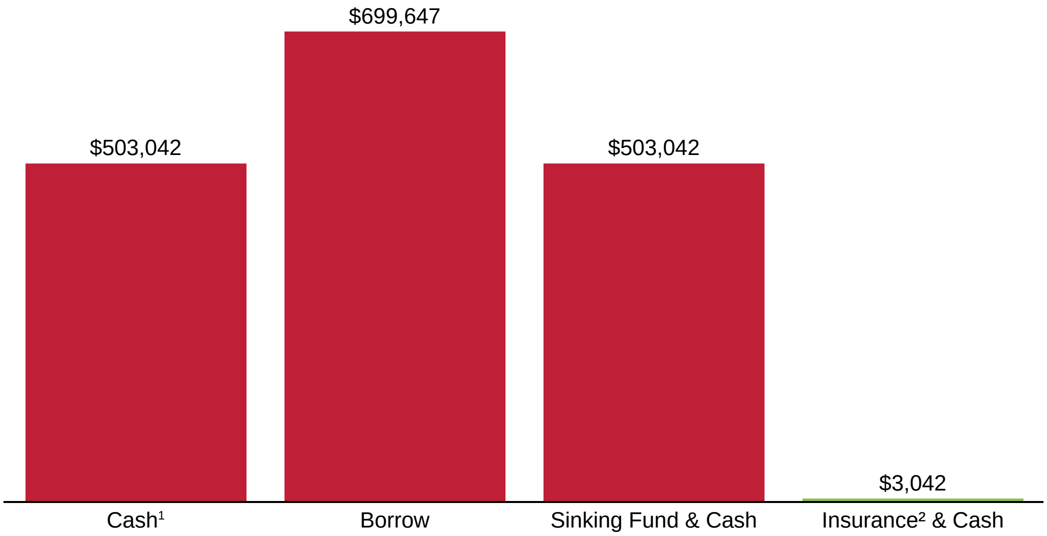
[1] Recommend amount of Brian Carnes' business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Brian Carnes' business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Brian Carnes

Comparison at End of 10 Years



As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. See the following page for net present values.

Cash[1]	$503,042
Borrow	At 9.000% interest, 7 annual payments of $99,950 for total payments of $699,647
Sinking Fund & Cash	Sinking fund of $0 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $503,042 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $3,042 for a total of $3,042

[1] Value represents the amount needed for Bonnie Clark to buy out Brian Carnes's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Brian Carnes

Net Present Value Calculated at 5.00% over 10 Years

	Total Cost	Net Present Value	Cost of One Dollar
Cash[1]	$503,042	$308,824	$1.00
Borrow	699,647	355,054	1.15
Sinking Fund & Cash	503,042	308,824	1.00
Insurance[2] & Cash	3,042	1,867	0.01

As your business grows, the value of the business changes each year. This comparison assumes values in 10 years. Deposits to a sinking fund as well as insurance premiums reflect just the payments during these 10 years; time value of money is not reflected. Some numbers show the amount at death, the sum of the payments beginning at death, and sum of premiums beginning now. Net Present Value shows the relative value in today's dollars.

Cash[1]	$503,042
Borrow	At 9.000% interest, 7 annual payments of $99,950 for total payments of $699,647
Sinking Fund & Cash	Sinking fund of $0 (annual deposits equal to life insurance premiums with interest at 6.000%) plus the balance necessary of $503,042 in cash.
Insurance[2] & Cash	Total premiums for 10 years plus immediate cash need at death of $3,042 for a total of $3,042

[1] Value represents the amount needed for Bonnie Clark to buy out Brian Carnes's interest at death, based on the values in year 10.
[2] This cost only reflects premiums during these 10 years. See the complete life insurance illustration attached for all policy values.

Comparison of Funding Alternatives

Buying Brian Carnes' Interest at Death

Owner/Beneficiary: Bonnie Clark
Insured: Brian Carnes

Below are the year by year details of Bonnie Clark's various funding alternatives. The "Premium Outlay" shows the year by year cost of the Life Insurance funding alternative. The "Cumulative Premiums Plus Int." gives the ongoing balance of the Sinking Fund funding alternative. The "Borrow-Total Payments" shows the year by year amount needed for the Borrow funding alternative. The last two columns illustrate the annual net present value "Cost of One Dollar" amount for the Life Insurance and Borrow funding alternatives.

Year	Value of Business[1]	Life Insurance Death Benefit	Annual Premium Outlay	Cumulative Premiums Plus Int. at 6.000%	Borrow- Total Payments[2]	Insured Plan- Cost Per Dollar[3]	Borrow- Cost Per Dollar
1	$324,265	$500,000	$0	$0	$450,999	-$0.54	$1.15
2	340,478	500,000	0	0	473,549	-0.47	1.15
3	357,502	500,000	0	0	497,226	-0.40	1.15
4	375,378	500,000	0	0	522,088	-0.33	1.15
5	394,146	500,000	0	0	548,192	-0.27	1.15
6	413,854	500,000	0	0	575,602	-0.21	1.15
7	434,546	500,000	0	0	604,382	-0.15	1.15
8	456,274	500,000	0	0	634,601	-0.10	1.15
9	479,087	500,000	0	0	666,331	-0.04	1.15
10	503,042	500,000	0	0	699,647	0.01	1.15

[1] Recommend amount of Brian Carnes' business interest assumed to increase at the rate of 5.000% annually (end of year value).
[2] Assumes a loan to purchase Brian Carnes' business interest with annual payments for 7 years at 9.000% interest.
[3] Based on cumulative premiums at the time of death and the business value less life insurance death proceeds.The life insurance death proceeds in excess of the value of the business provides a gain which is represented by a negative cost per dollar.

Action Plan

Checklist

_____ Seek professional legal advice regarding your needs for disposition of the business.

_____ Meet with a qualified, professional appraiser to determine business value.

_____ Determine appropriate business solution.

_____ Have an attorney:

Draft proper agreement and necessary resolutions to implement a cross purchase agreement with co-owners.

_____ Apply for life insurance and complete medical requirements.

_____ Execute all agreements and put plan into effect.

_____ Schedule annual review of business continuation plan.

Assumptions

Additional Notes and Details

Business Type:	S Corporation
Nature of Business:	Wholesale Trade
Business Value Today:	$5,000,000
Business Growth Rate:	5.000%

Recommended amounts of life insurance are based on the solution being considered and the assumption that the successive owners would desire that their relative ownership to one another should remain the same. This may or may not reflect the owner's actual objective.

The numbers produced by this analysis in no way guarantee the right to purchase life insurance in the amounts illustrated. Premiums may vary based on many factors, including the age, sex, and health of the insured. If life insurance is illustrated, this presentation is not valid unless accompanied by a complete illustration of proposed policy values.

We offer you this presentation to help you understand how life insurance can be used to provide funds for business continuation arrangements. This material contains references to concepts that have legal, accounting and tax implications. It is not intended as legal, accounting or tax advice. Consult your own attorney and/or accountant for advice regarding your particular situation.

Why Create a Will

Distributions Your Way or Their Way

The most important reason to have a will is to avoid dying intestate! If you die intestate, your estate will be subject to intestacy laws. These are laws that prescribe how your property will pass to your heirs if you die without a valid will. Creating your own will allows you to express how you want your remaining property to pass.

Law—Their Way

A will determines how probate assets (assets not jointly owned or distributed according to contract) pass to heirs. If you die without a valid will, your assets will pass to your heirs according to state law.

Each state writes its own intestacy laws which serve as a "generic will" for its residents. Lawmakers design the "wills" to pass property as they think most people would want and to make provisions for all contingencies. These laws vary from state to state.

Usually, the distributions occur as follows:

- If your spouse survives you, and you have no children, your spouse inherits the estate. However, in some states, your parents and your spouse split the estate.
- If your spouse and children survive you, each inherits a portion of the estate. If you live in a community property state, your spouse inherits your community property, and your spouse and children share your separate property.
- If only your children survive you, they inherit the estate.
- If you have no surviving spouse or descendants, your parents inherit the estate. If your parents are deceased, your siblings inherit the estate. If you have no surviving siblings, your next of kin inherits the estate.

Will—Your Way

Creating a will allows you to express how you want your probate property to pass. Probate property consists of any assets not contractually promised or jointly owned.

Advantages of a will:

- You choose who gets your property
- You designate an executor of your choice to carry out your intentions
- You can design your will so that you actually reduce estate taxes
- You can appoint a trustee and/or guardian to manage your assets for your children
- You can amend or revoke the will at any time

Valuation Guidelines

Revenue Ruling 59-60

A buy-sell agreement may be used to establish or *peg* the value of a business interest for federal estate tax purposes. So long as the agreement meets the standards set by IRC Section 2703 and subsequent related case law, it should be accepted by the IRS.[1] This assumes, of course, that the value specified in the agreement is deemed to be a reasonable valuation as of the time of the agreement. A perfectly legitimate buy-sell agreement will still be challenged if the value it specifies is not a reasonable estimation of the value of the business interest in question. So the question still exists as to how to determine this value.

Estate and gift tax regulations show that the standard to be used here is fair market value, which is loosely defined as "the amount at which the asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts." While this may be an adequate definition for the purpose of valuing many assets, it is usually far too vague a standard to be useful when valuing business interests.

Revenue Ruling 59-60 supplements this vague standard by specifying several important factors that must be considered when valuing a business interest for tax purposes. It establishes that although several valuation methods exist, no single method is adequate for determining an acceptable value for a business interest. Instead, all relevant facts and circumstances regarding the business must be considered. The ruling lists the following factors which must be accounted for:

- The nature and history of the business
- The outlook of the economy in general and of the specific industry
- The financial condition of the business and the book value of its stock
- The earning capacity of the company
- The dividend-paying capacity of the company
- The nature and value of any intangible assets of the business, such as goodwill
- The relative size of the block of stock to be valued and prior sales of the stock
- The market price of actively traded stocks of corporations in the same or a similar business

The relative weights of each of these factors are largely dependent on the circumstances of the business and of the specific interest in question. The ruling therefore provides specific guidelines to apply, while retaining the flexibility needed for individual circumstances.

[1] Under Section 2703, a buy-sell agreement will be disregarded unless: (1) it is a bona fide business arrangement; (2) it is not a device to transfer property to members of the decedent's family for less than full value; and (3) the terms of the agreement are comparable to similar arm's length arrangements.

"Fixing" the Business Value

How can you know the value that will be used?

One method to solve the problem of business valuation is to establish a buy-sell agreement. A buy-sell agreement is a contract between a buyer and a seller which stipulates that the buyer must purchase the property in question from the seller upon the occurrence of a specified event. The event is usually death, disability or retirement of the owner of the property. A price for the property in question is specified in the agreement. Therefore, a buy-sell agreement can solve the problem of establishing a reasonable value for a business interest.

To ensure that the value established in a buy-sell agreement will be accepted by the IRS[1], the following criteria must be met:

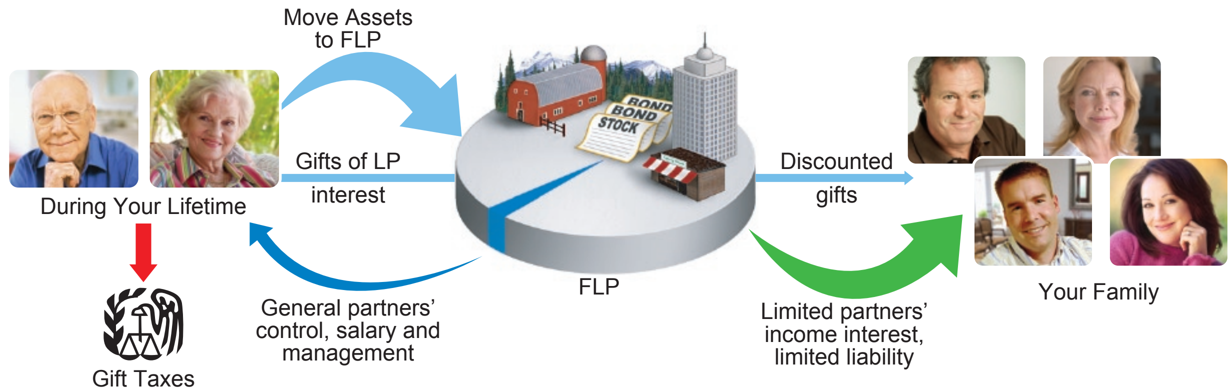
- The agreement must be a bona fide business arrangement, negotiated at arm's length.
- It must not be merely a device to transfer the business interest to family members for less than full and adequate consideration.
- The terms of the agreement must be comparable to those found in similar arrangements entered into at arm's length.
- There must be an option to buy and a binding obligation to sell.
- The price must be fixed in the agreement, or the agreement must specify a formula or method for determining the price.
- The agreement must prohibit the owner of the business interest from selling or otherwise disposing of the property during lifetime without first offering it to the other party at a price which does not exceed the price determined in the agreement.

NOTE: The Conference Committee Report for the Revenue Reconciliation Act of 1990 recognizes that there is more than one method of valuing a business (even in the same industry) and it does not require that the method producing the highest value be used.

[1] These guidelines are derived from IRC Section 2703 and prior case law. Technically, while it is a question of fact, a buy-sell agreement could bind the IRS or the courts if all of the above requirements are met, and if the value set in the agreement follows the guidelines discussed in Revenue Ruling 59-60, as outlined on the Valuation Guidelines page. If the business is held by primarily family members, it is subject to the special valuation rules of Chapter 14 (IRC Sections 2701-2704)."

Family Limited Partnership

Protecting the Family Wealth



FLP can protect the family wealth, provide a tool for reducing the size of your estate, and still let you retain control and management of the contributed assets as the general partner.

You create the Family Limited Partnership (which must have a valid business purpose) and transfer assets to it.[1] The FLP is comprised of General Partner (GP) interests and Limited Partner (LP) interests. You (or a corporation created by you) typically retain a GP interest and LP interests. The GP has all the management responsibilities and unlimited liability. GPs can pay themselves a reasonable salary for these managing duties. The LPs have no management responsibilities. The LP interests usually cannot be liquidated without the consent of the GPs, or freely sold or transferred. This lack of control and marketability causes the value of the LP interests to have a discounted value for gift and estate tax purposes.

You make discounted gifts of LP interest to your children or grandchildren (or trusts for their benefit). The discounted value of LP interests lets you leverage your transfers for gift tax purposes. If the discount (determined by an independent appraiser) is 25%, $6,666,667 of assets would have a gift tax value in the FLP of only $5,000,000 (after the discount). Each parent's $5,000,000 lifetime exclusion amount could be used to avoid gift taxes at this time.[2] Thus, $6,666,667 of assets could be removed from your estate without paying current gift taxes.

The GPs control the business including any income distributions. This is one of the features that helps provide additional protection from outsiders for the owners of the LP interests.

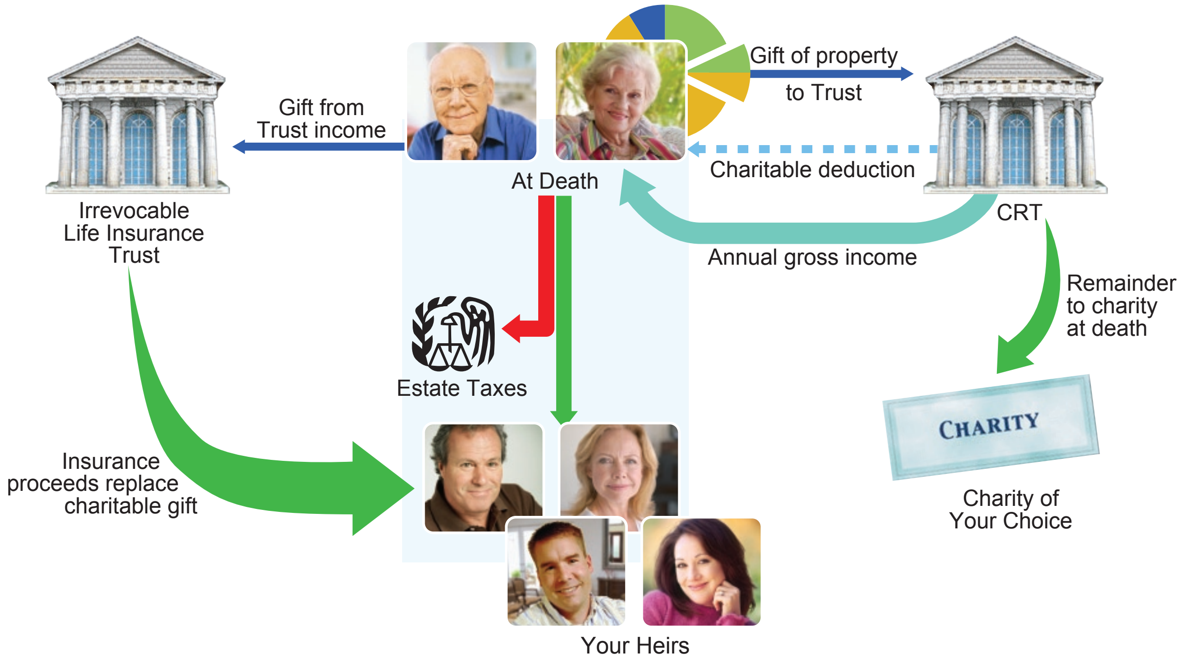
Potential advantages of a family limited partnership:

- Parents retain control
- Gifts to children and grandchildren made simple and more effective
- Parents' taxable estate and transfer costs reduced
- Assets, especially family business, may be protected from creditors of LPs
- Assets stay in the family!

[1] Not all types of assets (e.g. S corporation shares) can be transferred to an FLP.
[2] The American Taxpayer Relief Act of 2012 provides for an Applicable Exclusion Amount of $5,000,000, indexed for inflation starting after 2011.

Charitable Remainder Trust

Remove Assets from Estate But Keep Income



CRTs can remove assets from your estate, yet allow you to keep an income. Combined with an ILIT or Wealth Replacement Trust, your heirs benefit as well as the charity.

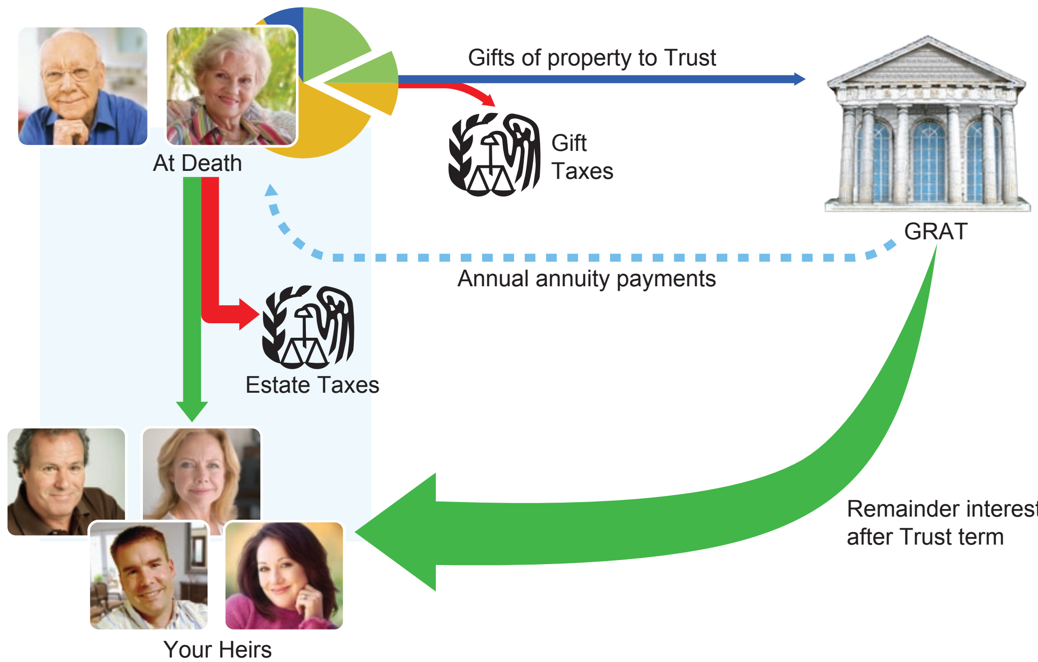
A CRT is an irrevocable trust that benefits you and a charity. While you the grantor (or any other named beneficiary) are alive, you receive annual distributions from the trust. At your death, or at the end of the trust term, the remaining assets in the trust go to a charity. The IRS provides tables to determine the value of the remainder interest that is available as a charitable deduction for you. The deduction may be taken over several years but must follow income tax rules.

A CRT can be an annuity trust or a unitrust. The annuity trust has fixed amount paid at least annually. The unitrust must be a specific percentage of the fair market value of the trust assets and paid at least annually. The fair market value of the trust assets must be determined annually. If the unitrust earns more than the percentage to be paid, then the value of the unitrust increases and future payments could increase. Only the value of the remainder interest when the trust is created (full fair market value less the value of the income interest) is a charitable deduction. The annuity or unitrust payment typically is subject to income tax based upon the tax attributes of the trust.

You could use some of the payments from the trust to make gifts to an ILIT. Life insurance proceeds for policies owned by an ILIT are estate and income tax free. This ILIT can provide life insurance for your heirs to help replace the assets going to charity at your death. The gifts may reduce your net estate, thereby reducing estate taxes. Your heirs receive your net estate after estate taxes and expenses, plus life insurance proceeds from the ILIT.

Grantor Retained Annuity Trust

Using Gifts of Future Interest



GRATs can effectively leverage gifts between generations—you get an annual annuity payment; your heirs get the balance of the trust after the trust term (based on grantor's life, a number of years, or the shorter of grantor's life or a number of years).

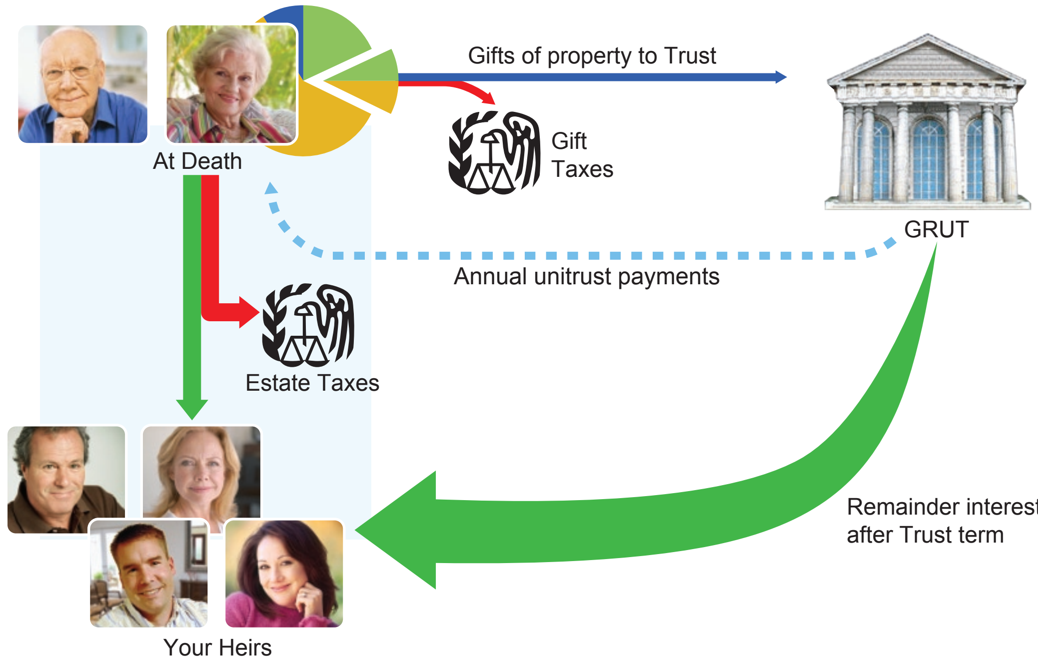
A GRAT is an irrevocable trust in which the grantor retains the right to an annual annuity payment for a specific period of time. The payment must be a specific dollar amount paid at least annually, regardless of trust earnings. The right to this annual income is called the retained interest. IRS tables are used to determine the value of this retained interest. Only the IRS' projected value of the remainder interest (full fair market value less the value of the retained interest) is considered a gift and subject to gift taxes. If the trust estate is worth more than the IRS' projection after the trust term, and if the grantor survives the trust term, the additional value passes to your heirs free of estate and gift taxes.

Since only a portion of the full value of the property is subject to gift taxes, the Basic Unified Credit may be used more effectively. After the trust is created, no further contributions are permitted. The gifts may reduce your net estate, thereby reducing your estate taxes. Your heirs receive your net estate after estate taxes and expenses plus the remainder value of the GRAT.

If you die before the end of the trust term, part or all of the trust property will be taxed in your estate. If you die after the term of the trust, the property should not be taxed in your estate. You want to choose a term long enough to help minimize gift taxes but short enough so that you will probably outlive the trust to avoid estate taxes.

Grantor Retained Unitrust

Using Gifts of Future Interest



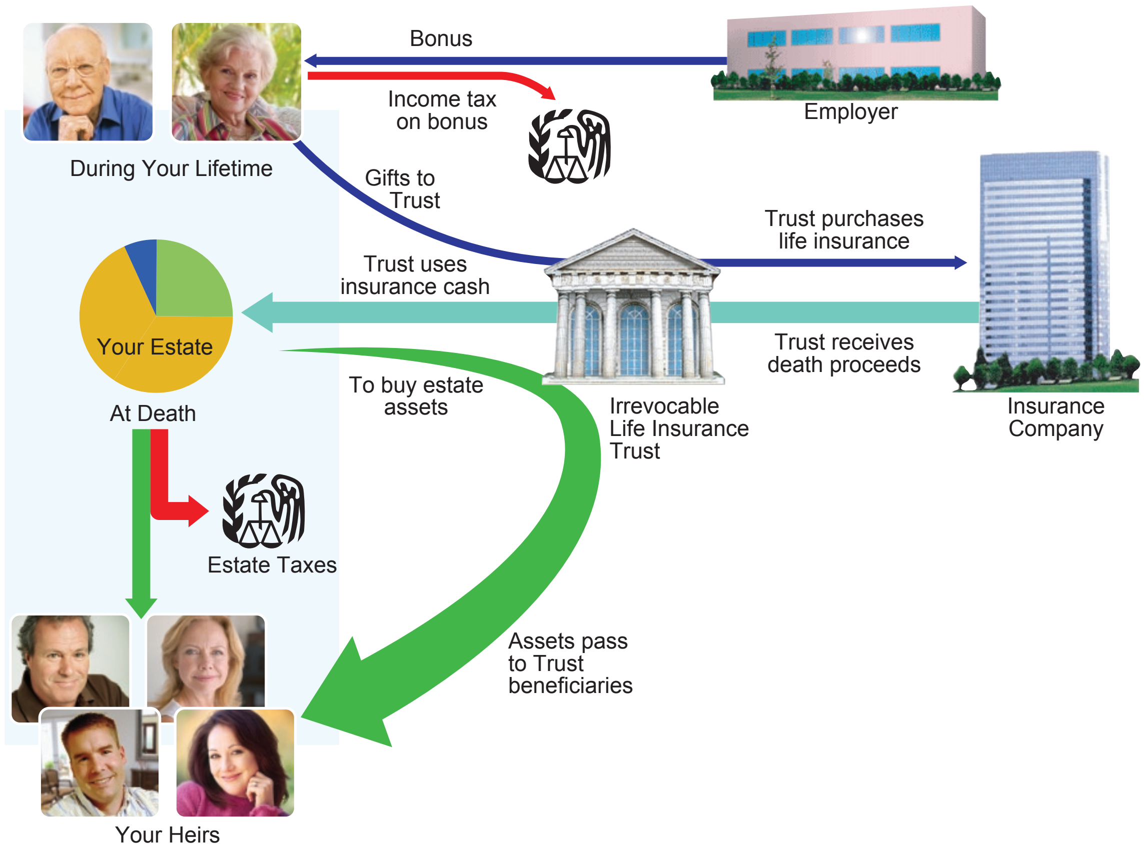
GRUTs can effectively leverage gifts between generations—you get an annual unitrust payment; your heirs get the balance of the trust after the trust term (based on grantor's life, a number of years, or the shorter of grantor's life or a number of years).

A GRUT is an irrevocable trust in which the grantor retains the right to an annual unitrust payment for a specific period of time. The unitrust payment must be a specific percentage of the fair market value of the trust, paid at least annually. The fair market value of the trust must be determined annually (so the payment amount may change each year). If the trust earns more than the percentage to be paid, then the value of the trust increases and future payments could increase. The right to this annual payment is called the retained interest. IRS tables are used to determine the value of this retained interest. Only the IRS' projected value of the remainder interest (full fair market value less the value of the retained interest) is considered a gift and subject to gift taxes. If the trust estate is worth more than the IRS' projection after the trust term, and if the grantor survives the trust term, the additional value passes to your heirs free of estate and gift taxes. Since only a portion of the full value of the property is subject to gift taxes, the Basic Unified Credit may be used more effectively. Additional contributions to the trust are permitted. The gifts may reduce your net estate, thereby reducing estate taxes. Your heirs receive your net estate after estate taxes and expenses plus the remainder value of the GRUT.

If you die before the end of the trust term, the trust property is taxed in your estate. If you die after the term of the trust, the property should not be taxed in your estate. You want to choose a term long enough to help minimize gift taxes but short enough so that you will probably outlive the trust to avoid estate taxes on the trust property.

Irrevocable Trust and Executive Bonus

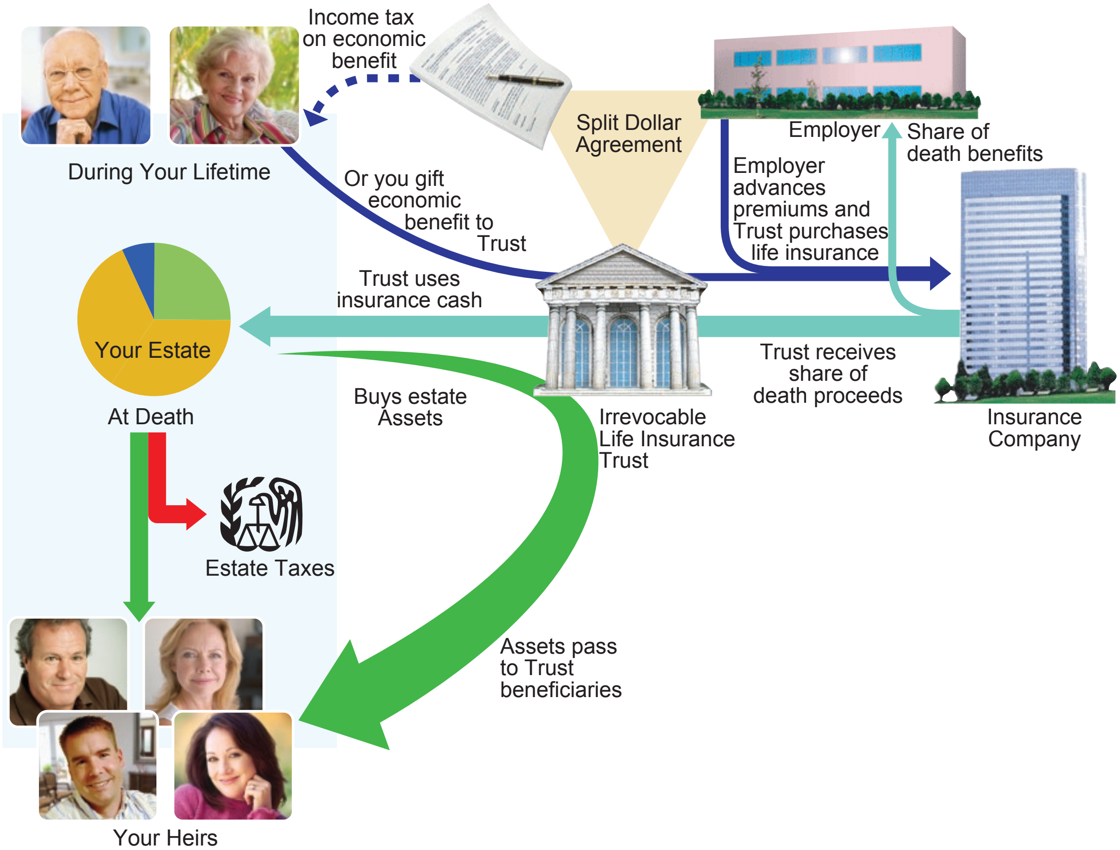
Using Business Dollars to Purchase Life Insurance



Combining an Irrevocable Life Insurance Trust (ILIT) with an executive bonus plan can be an effective way to have your employer fund the premiums on your life insurance policy. You establish an ILIT and enter into a bonus arrangement with your employer. The bonus is treated as taxable income to you. You use your bonus to make gifts to the ILIT. The trustee uses these gifts to purchase a life insurance policy on your life and pay its premiums. At your death, the proceeds are paid to the trust as beneficiary. The trust may use the proceeds to purchase assets from your estate, or to make loans to your estate (provided that there is no obligation to make such purchases or loans). The executor can use this cash to help pay estate taxes and expenses. The assets purchased by the trust may then be distributed to the trust beneficiaries—your chosen heirs, or the trust may continue to hold the assets for the benefit of your heirs as provided in the trust

Irrevocable Trust and Split Dollar

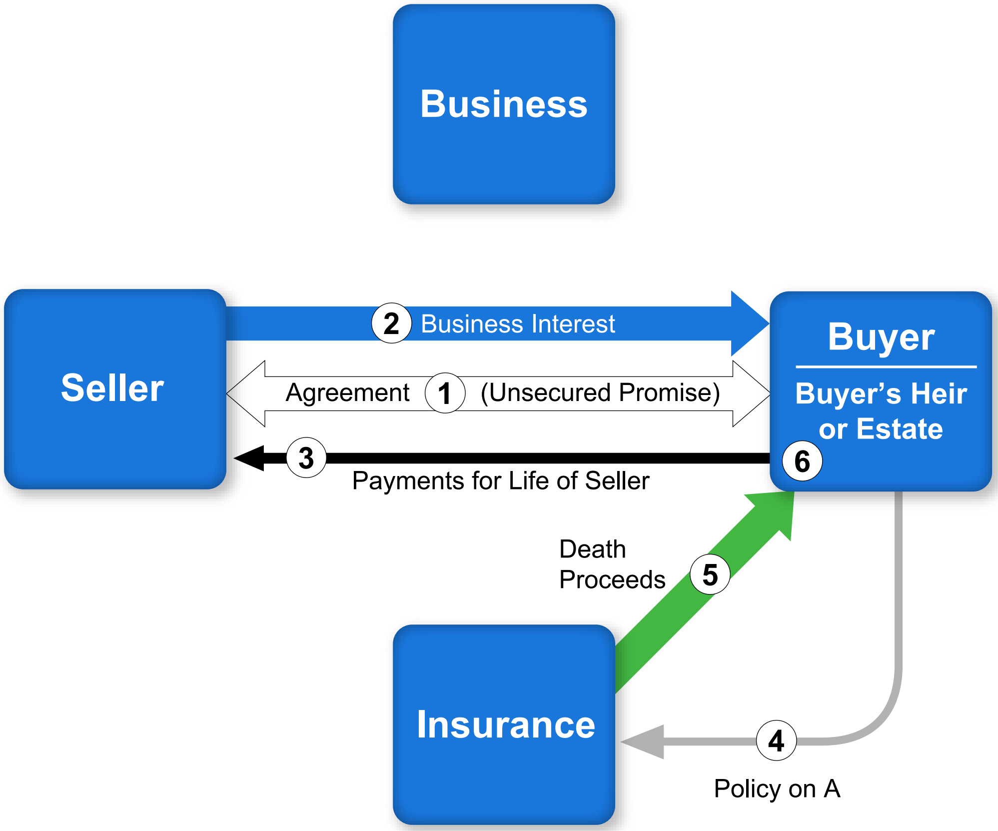
Using Business Dollars to Purchase Life Insurance



Combining an Irrevocable Life Insurance Trust (ILIT) with a split dollar plan can be an effective way to have your employer fund premiums on your life insurance policy. Split dollar is a term used to describe a method of paying for life insurance coverage. It is not a separate type of plan. You establish an ILIT, and you and the trustee enter into a split dollar agreement with your employer. Your employer advances most or all of the premium. The "economic benefit" cost of the coverage is taxable income to you. That is typically determined by the rates the insurer charges for term life insurance, or by the IRS' Table 2001. IRS Notices 2001-10 and 2002-8, and final regulations issued in September 2003 significantly changed the tax treatment of split dollar arrangements, including the ability to use the insurer's term rates. You should check with your tax advisor to be certain this type of arrangement is an appropriate method to fund the life insurance purchase in your situation. If it still is appropriate, you may contribute this amount (to avoid the taxable income and possible adverse gift tax consequences) as a gift to the trust. At your death, your employer receives the cash value of the policy, and the remaining proceeds are paid to the trust. The trustee may either purchase estate assets or make loans to your estate (provided that there is no obligation to make such purchase or loan), and your executor uses these funds to pay estate taxes and expenses. Assets purchased by the trustee may then be distributed to the trust beneficiaries—your chosen heirs, or the trust may continue to hold the assets for the benefit of your heirs.

Private Annuity

Exchange Business for Lifetime Income



1. The seller and the buyer enter into an agreement whereby the business will be transferred to the buyer in exchange[1] for an unsecured promise to provide periodic payments to seller/spouse for life/joint lives.
2. The seller transfers complete title to the business to the buyer.
3. The buyer begins periodic payments to the seller/spouse for life/joint lives. Payments will cease upon the death of the seller/spouse.
4. To protect the buyer's own heirs from the burden of continued payments if buyer dies, the buyer's spouse spplies for and purchases life insurance on the buyer from For Evaluation Purposes Only.
5. Upon the death of the buyer, death proceeds from the purchased policy will be paid to the buyer's personal beneficiary as named in the policy.
6. The estate/heirs of the buyer continue the periodic payment obligations to the seller for the life/joint lives of the seller/spouse.

[1] For Private Annuities established after April 18, 2007, any gain or loss would be recognized at the time of the exchange. Reg. 1.72-6(e) and 1.1001-1(j).

Alternative Minimum Tax

Additional AMT as % of Insurance Proceeds

Other Taxable Income	25,000	50,000	100,000	250,000	500,000	1,000,000	2,000,000	5,000,000	10,000,000
0	0%	0%	7%	13%	15%	15%	15%	15%	15%
25,000	0%	2%	8%	14%	15%	15%	15%	15%	15%
50,000	0%	4%	10%	15%	15%	15%	15%	15%	15%
100,000	0%	0%	6%	14%	15%	15%	15%	15%	15%
250,000	0%	0%	0%	3%	9%	12%	13%	14%	15%
500,000	0%	0%	0%	0%	1%	8%	12%	14%	14%
1,000,000	0%	0%	0%	0%	0%	1%	8%	12%	14%
2,000,000	0%	0%	0%	0%	0%	0%	1%	9%	12%
5,000,000	0%	0%	0%	0%	0%	0%	0%	1%	8%
10,000,000	0%	0%	0%	0%	0%	0%	0%	0%	1%

If tax exempt life insurance proceeds exceed other taxable income, there may be an alternative minimum tax up to 15% of proceeds. When proceeds are less than other taxable income, generally there is no tax on the proceeds. (*Only applicable when life insurance proceeds are paid to a Corporation)

Life insurance death proceeds and the cash value growth inside the policy are usually exempt from income tax. Alternative Minimum Tax (AMT) prevents business with substantial economic income from avoiding taxes due to special tax exemptions deductions or credits. Life insurance death benefits, accelerated depreciation, and certain deductible interest payments relative to the other taxable income in the year received, may 'trigger' AMT. (Only applicable when life insurance proceeds are paid to a C Corporation.)

Generally, 'tax free' life insurance death proceeds may result in Alternative Minimum Tax being applied when the face amount is approximately equal to or greater than other taxable income for the year. The additional taxes can equal as much as 15% of the death proceeds. (75% of the death benefit is added to other earnings, an exemption of up to $40,000 is deducted, and 20% of the balance equals the AMT.) The income taxes equal the greater of the regular calculated taxes or the AMT.

Life insurance cash value increases in excess of annual premiums are also used for the AMT calculations. Often AMT is not an increase in tax liability but is only an acceleration of the taxes since any additional taxes resulting from AMT, may be used as an offset against future corporate tax liability. Small corporations (gross annual receipts of less than $5 million for the preceding three years) are not subjected to AMT under the Taxpayer Relief Act of 1997. (Once qualified, the gross annual receipt limit is increased to $7.5 million.)

Business Forms Compared

Seventeen Perspectives for Comparing Major Business Forms

1. Participation Restrictions

- **Partnership:** Participation by 2 or more individuals or entities.
- **Limited Partnership:** Participation by 2 or more individuals or entities.
- **Limited Liability Partnership:** Participation by 2 or more individuals or entities.
- **Limited Liability Company:** Participation by 1 or more individuals or entities.
- **S Corporation[1]:** One or more individuals but not more than 100. No non-resident aliens. No entities (with limited exception[2]).
- **C Corporation:** One or more individuals or entities.

2. Ease of Formation

- **Partnership:** No formal agreement
- **Limited Partnership:** Registration with state and formal agreement may be required in some states but highly suggested for all.
- **Limited Liability Partnership:** Registration with state. Operating agreement may be required in some states but highly suggested for all.
- **Limited Liability Company:** Registration with state, articles of organization and operating agreement.
- **S Corporation:** Registration with state, certificate of incorporation, by-laws and other formalities.
- **C Corporation:** Registration with state, certificate of incorporation, by-laws and other formalities.

3. Life of Business

- **Partnership:** Dissolved by death or bankruptcy of partner, or by agreed term.
- **Limited Partnership:** Dissolved by death or bankruptcy of general partner, or by agreed term.
- **Limited Liability Partnership:** Typically dissolved by death or bankruptcy of partner, or by agreed term.
- **Limited Liability Company:** Typically limited to fixed period of time, and may dissolve upon death or bankruptcy of member.
- **S Corporation:** Perpetual.
- **C Corporation:** Perpetual.

[1] Numerous restrictions imposed upon Subchapter S Corporation limit their shareholders from enjoying the organizational flexibility enjoyed by partners and members in LLCs.
[2] IRC § 1361(b): an estate, certain trusts described in IRC § 1361(c)(2) and certain organizations described in IRC § 1361(c)(7).

Business Forms Compared (Continued)

Seventeen Perspectives for Comparing Major Business Forms

4. Liability of Owners

- **Partnership:** Unlimited liability of partners.
- **Limited Partnership:** Unlimited liability of general partner. Limited liability for limited partners.
- **Limited Liability Partnership:** Limited liability for all partners.
- **Limited Liability Company:** Limited liability for all members.
- **S Corporation:** Limited liability for all shareholders.
- **C Corporation:** Limited liability for all shareholders.

5. Management

- **Partnership:** Each partner has equal authority unless partners agree otherwise.
- **Limited Partnership:** General partner controls day to day operation.
- **Limited Liability Partnership:** Operating agreement determines form of management. In absence of agreement, each partner has equal authority.
- **Limited Liability Company:** Operating agreement determines form of management.
- **S Corporation:** Managed by board of directors elected by shareholders.
- **C Corporation:** Managed by board of directors elected by shareholders.

6. Transferability of Ownership Interest

- **Partnership:** Requires consent of other partners. May assign rights to receive distributions[1] .
- **Limited Partnership:** Requires consent of other partners. May assign rights to receive distributions[1].
- **Limited Liability Partnership:** Requires consent of other partners. May assign rights to receive distributions[1],
- **Limited Liability Company:** Requires consent of other members. May assign rights to receive distributions[1].
- **S Corporation:** No restrictions unless shareholder agreement exists.
- **C Corporation:** No restrictions unless shareholder agreement exists.

[1] A partner may assign his or her right to receive distributions from the partnership to a third party, but that third party does not take the place of the partner in all other partnership matters.

Business Forms Compared (Continued)

Seventeen Perspectives for Comparing Major Business Forms

7. Taxation

- **Partnership:** No entity taxation. Income and losses pass through to partners.
- **Limited Partnership:** No entity taxation. Income and losses pass through to partners.
- **Limited Liability Partnership:** No entity taxation. Income and losses pass through to partners.
- **Limited Liability Company:** No entity taxation, unless elected. Income and losses pass through to partners. Note: A single member Limited Liability Company is taxed as a sole proprietorship or as a corporation, if elected.
- **S Corporation:** Generally, no entity taxation unless prior C status. Income and losses pass through to shareholders. States may disregard S election for state taxes.
- **C Corporation:** Corporation is separate taxable entity. Shareholders taxed on dividends.

8. Allocation of Income, Losses, Etc.

- **Partnership:** Very flexible[1]
- **Limited Partnership:** Very flexible[1]
- **Limited Liability Partnership:** Very flexible[1]
- **Limited Liability Company:** Very flexible[1] if taxed as partnership. Very inflexible if taxed as corporation.
- **S Corporation:** Inflexible. All allocations are *pro rata* since only one class of stock permitted[2].
- **C Corporation:** Inflexible. Distribution preferences may require other classes of stock.

9. Alternative Minimum Tax and Accumulated Earnings Tax

- **Partnership:** Does not apply.
- **Limited Partnership:** Does not apply.
- **Limited Liability Partnership:** Does not apply.
- **Limited Liability Company:** Does not apply unless taxed as a C Corporation.
- **S Corporation:** Does not apply. May apply if corporation was previously a C Corporation.
- **C Corporation:** May apply.

10. Deduction of Business Losses

- **Partnership:** Partners may deduct partnership losses to extent of basis which includes allocable share of partnership debt.
- **Limited Partnership:** Limited partners may deduct partnership losses to extent of basis, which includes allocable share of partnership debt. The amounts deductible may be limited by the at-risk rules and the passive loss rules.
- **Limited Liability Partnership:** Partners may deduct partnership losses to extent of basis which includes allocable share of partnership debt.
- **Limited Liability Company:** Members may deduct LLC losses to extent of basis which includes allocable share of LLC debt.
- **S Corporation:** Shareholders may deduct corporation losses to extent of basis in stock which does not include any portion of corporate debt.
- **C Corporation:** No deduction.

[1] IRC § 704 provides that a partner's distributive share is determined in accordance with the partner's interest in the partnership which is in turn determined "by taking into account all facts and circumstances."

[2] IRC § 1377(a) provides that the shareholder's share of any item is determined on a *pro rata* basis based upon shares and days of ownership. If stock ownership changes during the year, the allocation of income will reflect the changes in ownership.

Business Forms Compared (Continued)

Seventeen Perspectives for Comparing Major Business Forms

11. Types of Business

- **Partnership:** Few restrictions if legitimate.
- **Limited Partnership:** Few restrictions if legitimate.
- **Limited Liability Partnership:** May be limited to professions.
- **Limited Liability Company:** Few restrictions if legitimate.
- **S Corporation:** Few restrictions if legitimate.
- **C Corporation:** Few restrictions if legitimate.

12. Fringe Benefits for Owners

- **Partnership:** Generally not available. Owners not deemed "employees"—considered self-employed.
- **Limited Partnership:** Generally not available. Owners not deemed "employees"—considered self-employed.
- **Limited Liability Partnership:** Owners not deemed "employees"—considered self-employed.
- **Limited Liability Company:** Generally not available. Owners not deemed "employees"—considered self-employed (unless taxed as a corporation).
- **S Corporation:** Generally not available. 2%+ owners not deemed "employees"—considered self-employed.
- **C Corporation:** Generally available.

13. Fringe Benefits for Employees

- **Partnership:** Available.
- **Limited Partnership:** Available.
- **Limited Liability Partnership:** Available.
- **Limited Liability Company:** Available.
- **S Corporation:** Available.
- **C Corporation:** Available.

Business Forms Compared (Continued)

Seventeen Perspectives for Comparing Major Business Forms

14. Split Dollar for Owners

- **Partnership:** Generally not advisable or appropriate.
- **Limited Partnership:** Generally not advisable or appropriate.
- **Limited Liability Partnership:** Generally not advisable or appropriate.
- **Limited Liability Company:** Generally not advisable or appropriate (unless taxed as C Corporation).
- **S Corporation:** Generally not advisable or appropriate.
- **C Corporation:** Available.

15. Non-Qualified Deferred Compensation for Owners

- **Partnership:** True deferred compensation generally not available. SERP may be available with "guaranteed payments"[1].
- **Limited Partnership:** True deferred compensation generally not available. SERP may be available with "guaranteed payments"[1].
- **Limited Liability Partnership:** True deferred compensation generally not available. SERP may be available with "guaranteed payments"[1].
- **Limited Liability Company:** True deferred compensation generally not available. SERP may be available with "guaranteed payments"[1].
- **S Corporation:** Generally not available.
- **C Corporation:** Available.

16. Non-Qualified Deferred Compensation for Employees

- **Partnership:** Available.
- **Limited Partnership:** Available.
- **Limited Liability Partnership:** Available.
- **Limited Liability Company:** Available.
- **S Corporation:** Available.
- **C Corporation:** Available.

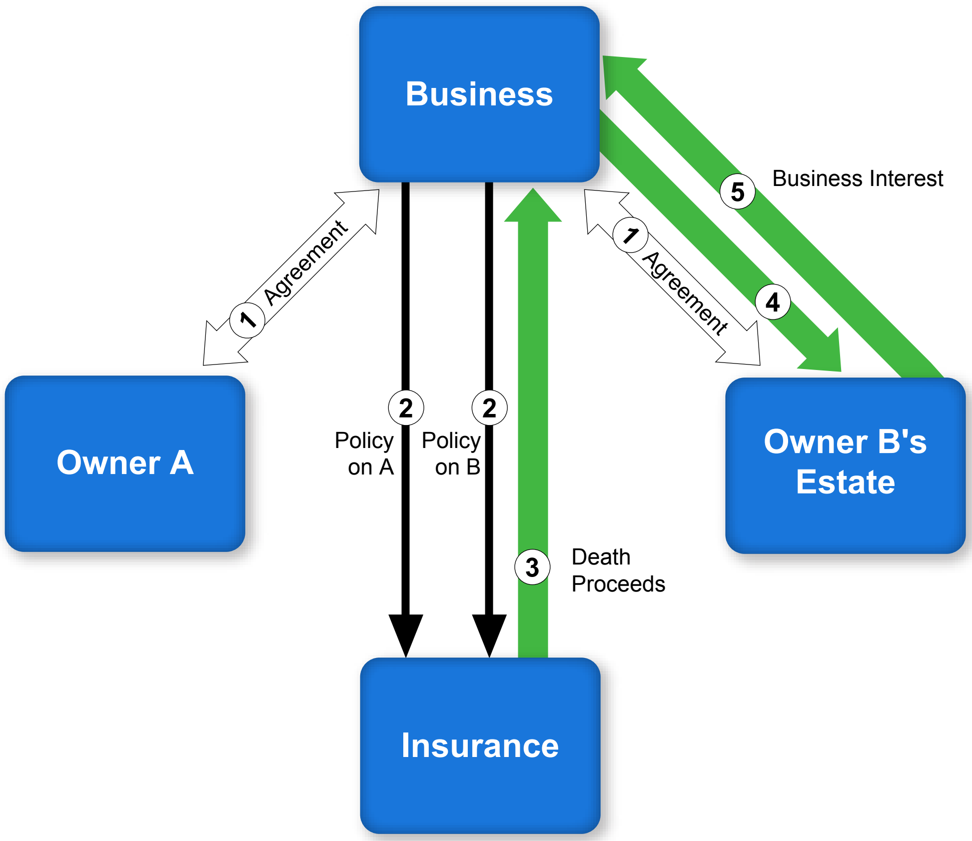
17. Key Person Insurance

- **Partnership:** Available for owners and employees.
- **Limited Partnership:** Available for owners and employees.
- **Limited Liability Partnership:** Available for owners and employees.
- **Limited Liability Company:** Available for owners and employees.
- **S Corporation:** Available for owners and employees.
- **C Corporation:** Available for owners and employees.

[1] IRC § 707(c) "Guaranteed Payments: To the extent determined without regard to the income of the partnership, payments to a partner for services or the use of capital shall be considered as made to one who is not a member of the partnership, but only for the purposes of § 61(a) (relating to gross income) and, subject to § 263, for the purposes of § 162(a) (relating to trade or business expense)." Guaranteed payments are usually only seen in the compensation methods of larger partnerships. Intended to compensate partners who render daily services to partnership business.

Entity Purchase

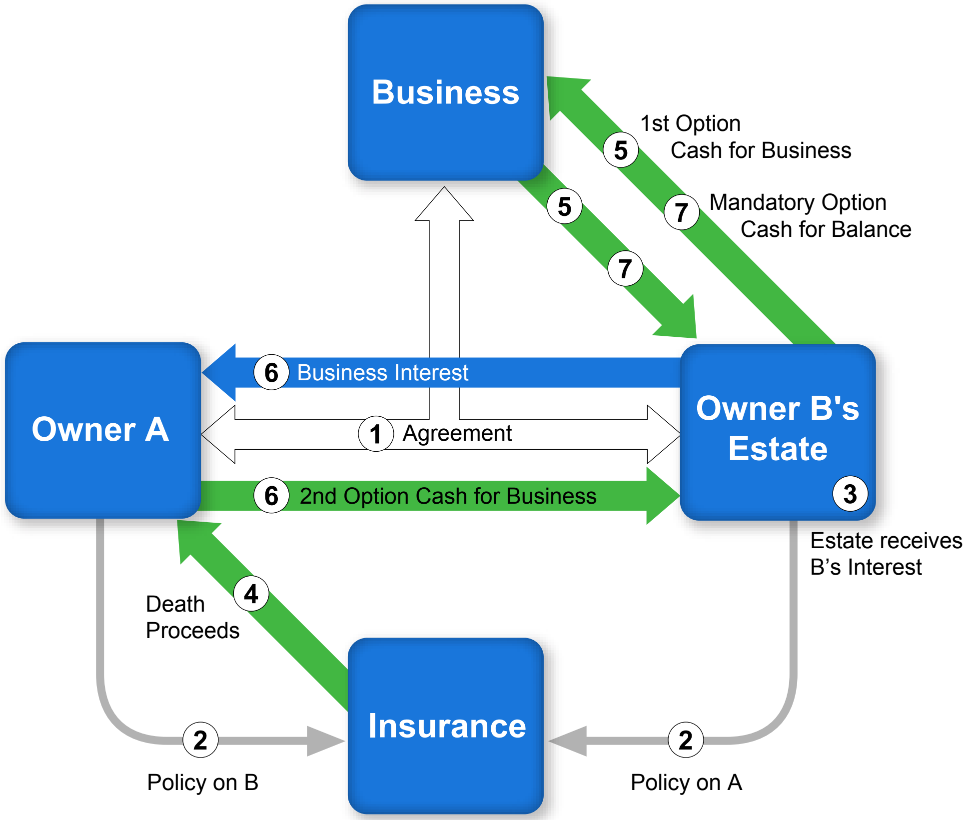
How It Works



1. Business enters into an entity purchase agreement with each owner obligating the business to purchase a disabled or deceased owner's business interest in the business. Each owner or owner's estate agrees to sell the business interest to the business.
2. The business purchases insurance protection on the life of each owner. The business is the policy owner, the premium payer and beneficiary of each policy.
3. At the triggering event, the business collects proceeds from the policy.
4. The business pays an amount, determined according to the terms of the entity purchase agreement, to the owner or owner's estate.
5. The owner or the owner's estate transfers the business interest to the business.

Wait 'n See Buy-Sell

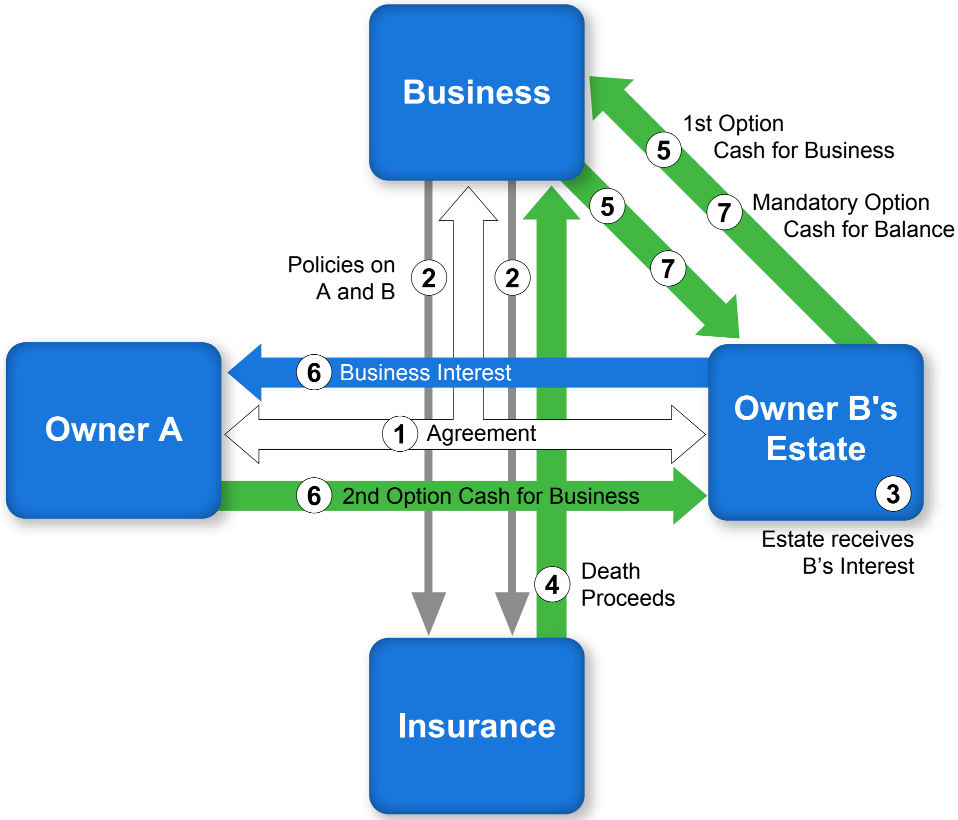
Funded like a Cross Purchase



1. Both owners and the corporation enter into an agreement for the purchase of a deceased/departing owner's interest that obligates the departing owner or decedent's estate to sell.
2. Life insurance purchased on the life of each shareholder using a cross purchase approach. (Each owner is the premium payer and beneficiary of a policy on each owner's life.)
3. At the death of Owner B, the estate receives B's interest in the business.
4. The surviving owner receives the tax-free life insurance proceeds.
5. The corporation is given the option to purchase the stock within a certain period stated in the buy-sell agreement. The corporation can purchase all or any portion of the decedent's stock. Owner A could lend some of the insurance proceeds to the corporation to buy Owner B's stock.
6. If the corporation chooses not to fully exercise its option, Owner A is given an option to purchase all or some of the remaining shares within a stated period of time. Owner A uses the insurance proceeds to buy Owner B's interest.
7. To the extent stock still remains, the corporation is obligated to complete the purchase, assuring 100% of the decedent's interest will be acquired.

Wait 'n See Buy-Sell

Funded like a Entity Purchase

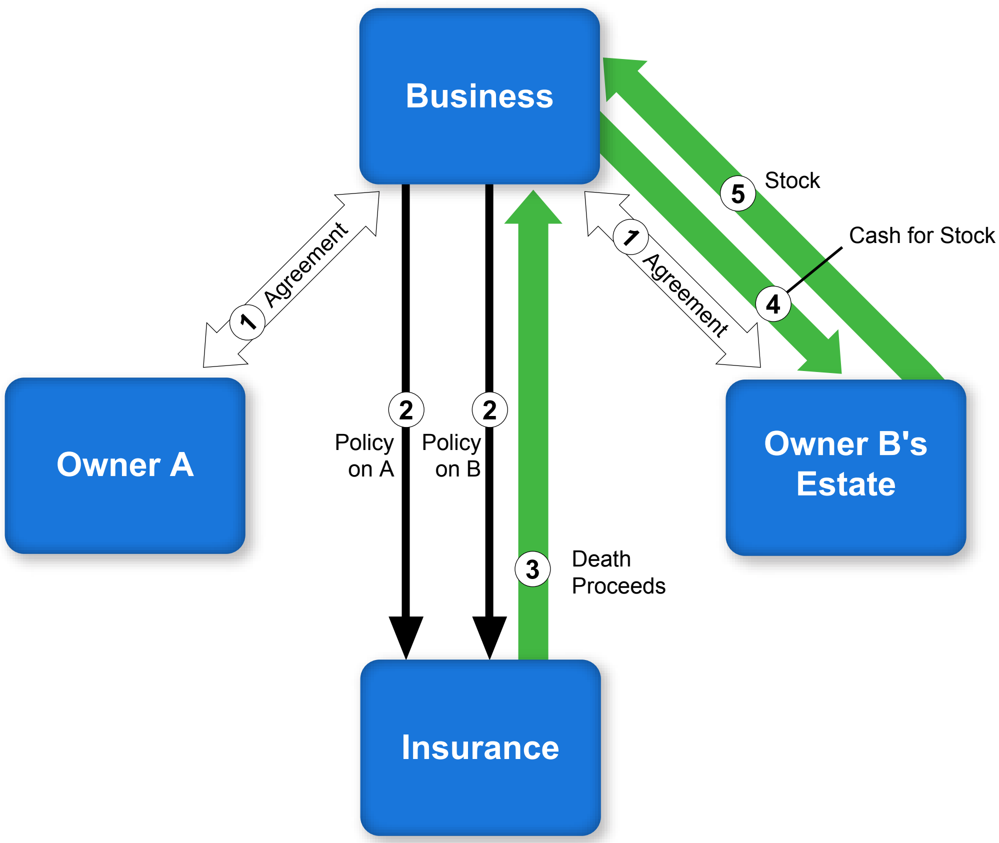


1. Both owners and the corporation enter into an agreement for the purchase of a deceased/departing owner's interest that obligates the departing owner or decedent's estate to sell.
2. Life insurance is purchased on the life of each shareholder using an entity purchase approach, where the corporation is the owner, premium payer, and beneficiary.
3. At the death of Owner B, the estate receives B's interest in the business.
4. The business receives the tax-free life insurance proceeds.[1]
5. The corporation is given the option to purchase the stock within a certain period stated in the buy-sell agreement. The corporation can purchase all or any portion of the decedent's stock, using the insurance proceeds to pay the purchase price.
6. If the corporation chooses not to fully exercise its option, Owner A is given an option to purchase all or some of the remaining shares within a stated period of time. Owner A could borrow some of the insurance proceeds from the corporation to buy Owner B's stock.
7. To the extent stock still remains, the corporation is obligated to complete the purchase, assuring 100% of the decedent's interest will be acquired.

[1] Death benefit on life insurance is a preference item for C corporation alternative minimum tax purposes. Thus, death benefit received by a C corporation could cause payment of alternative minimum tax.

Stock Redemption

Section 302(b)(3) Redemption

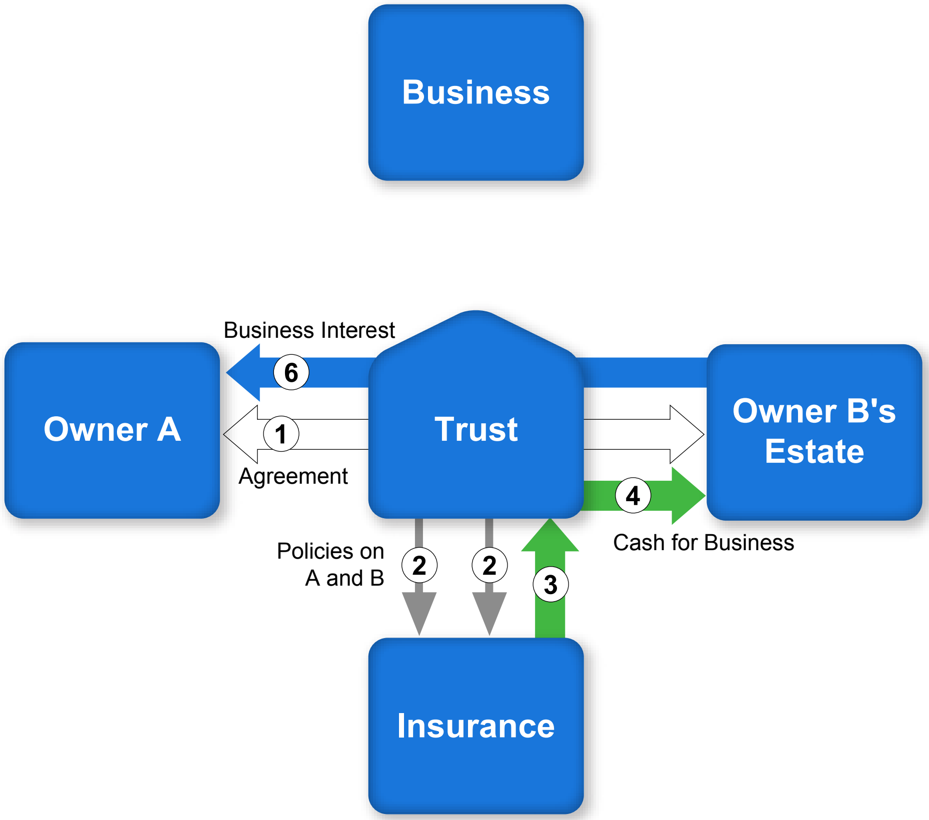


1. Business enters into an entity purchase agreement with each owner obligating the business to purchase a disabled or deceased owner's business interest in the business. Each owner or owner's estate agrees to sell the business interest to the business.
2. The business purchases insurance protection on the life of each owner. The business is the policy owner, the premium payor and beneficiary of each policy.
3. At the triggering event, the business collects proceeds from the policy[1].
4. The business pays an amount, determined according to the terms of the entity purchase agreement, to the owner or owner's estate.
5. The owner or the owner's estate releases the business interest to the business.

[1] Death benefit on life insurance is a preference item for C corporation alternative minimum tax purposes. Thus, death benefit received by a C corporation could cause payment of alternative minimum tax.

Trusteed Cross Purchase

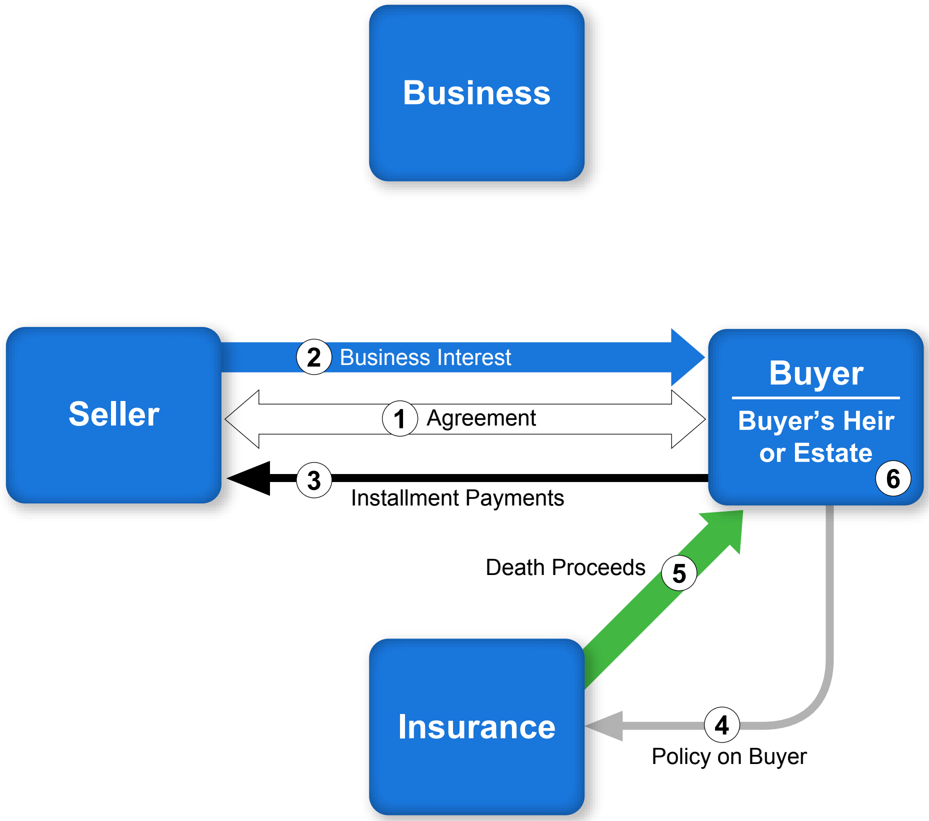
Consolidate Policies & Administration



1. All owners enter into an agreement obligating the survivors to purchase a decedent's interest, obligating the decedent's estate to sell, and creating a trust to facilitate these agreements.
2. The trust purchases a life insurance policy on the life of each owner and is the premium payer (using monies contributed by each owner) and beneficiary.
3. At the death of one of the owners, the trust receives income tax-free death proceeds from the policy.
4. The trust pays the proceeds of the policy to the estate of the decedent according to the provisions of the buy-sell agreement.
5. The estate of the deceased owner transfers the business interest to the surviving owners via the trust.

Installment Sale

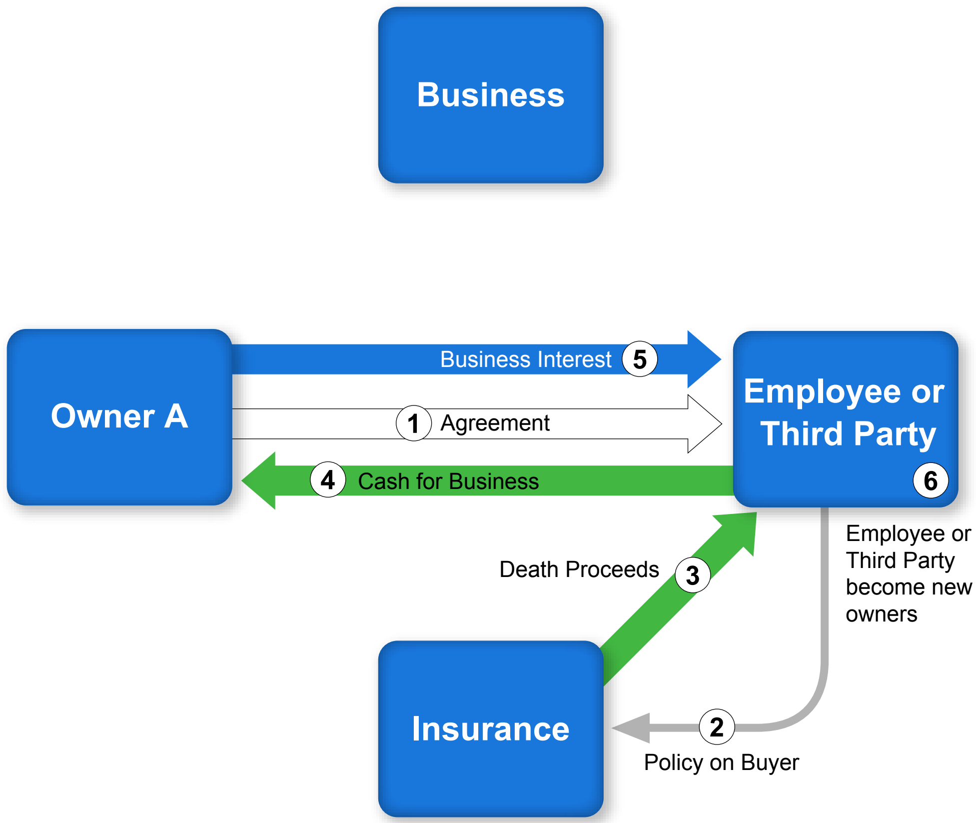
Selling for Periodic Payments



1. The seller and the buyer enter into a purchase agreement whereby the business will be transferred to the buyer in exchange for periodic payments to seller/spouse for specified period.
2. The seller's entire interest in the business is transferred to the buyer.
3. The buyer begins periodic payments to the seller/spouse.
4. To protect the buyer's own heirs from the burden of continued payments if buyer dies and/or to provide liquidity needed to pay estate settlement costs, the buyer's spouse, trust, or adult child applies for and purchases life insurance on the buyer.
5. Upon the death of the buyer, death proceeds from the purchased policy will be paid to the buyer's personal beneficiary as named in the policy.
6. The estate/heirs of the buyer use the proceeds to continue the installment payments to the seller or to meet estate settlement obligations.

Unilateral Buy-Sell

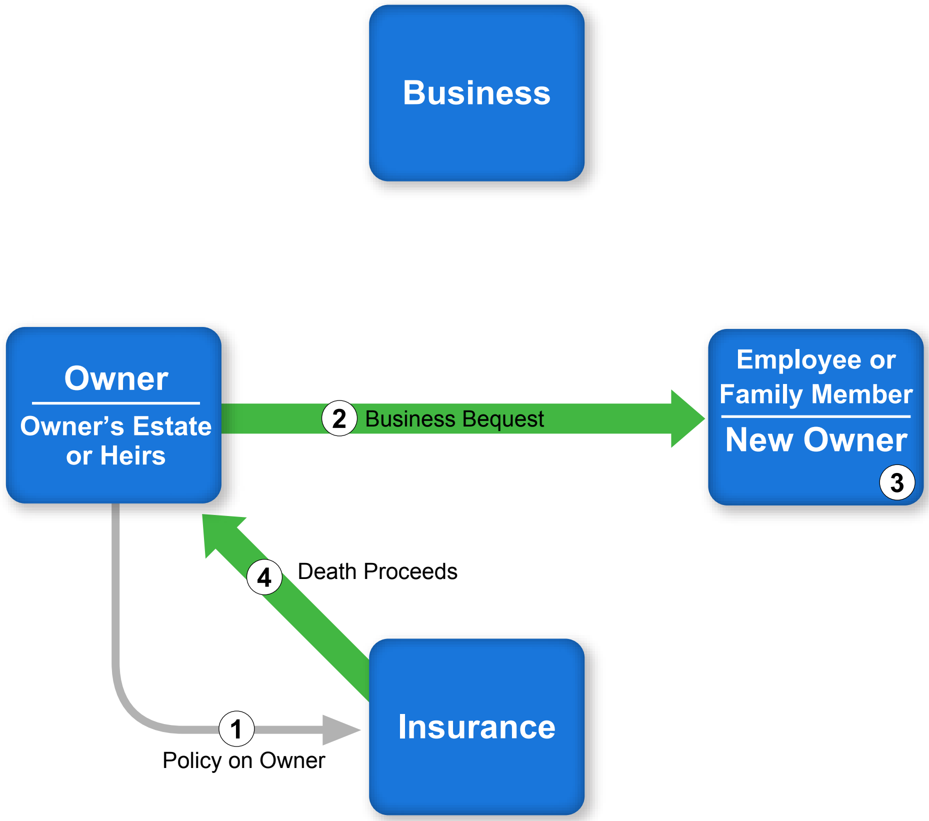
One Half of a Cross Purchase



1. The owner enters into an agreement with a third party (usually family member or employee) obligating them to purchase the owner's interest and obligating the owner's estate to sell.
2. The obligated buyer purchases and is the premium payor and beneficiary of a life insurance policy on the life of the owner.
3. At the death of the owner, the employee or third party receives income tax-free death proceeds from the policy.
4. The buyer pays the proceeds of the policy to the estate of the owner according to the provisions of the buy-sell agreement.
5. The estate of the deceased owner transfers the business interest to the purchasing party.
6. The employee or third party becomes a new owner.

Will/Bequest Business

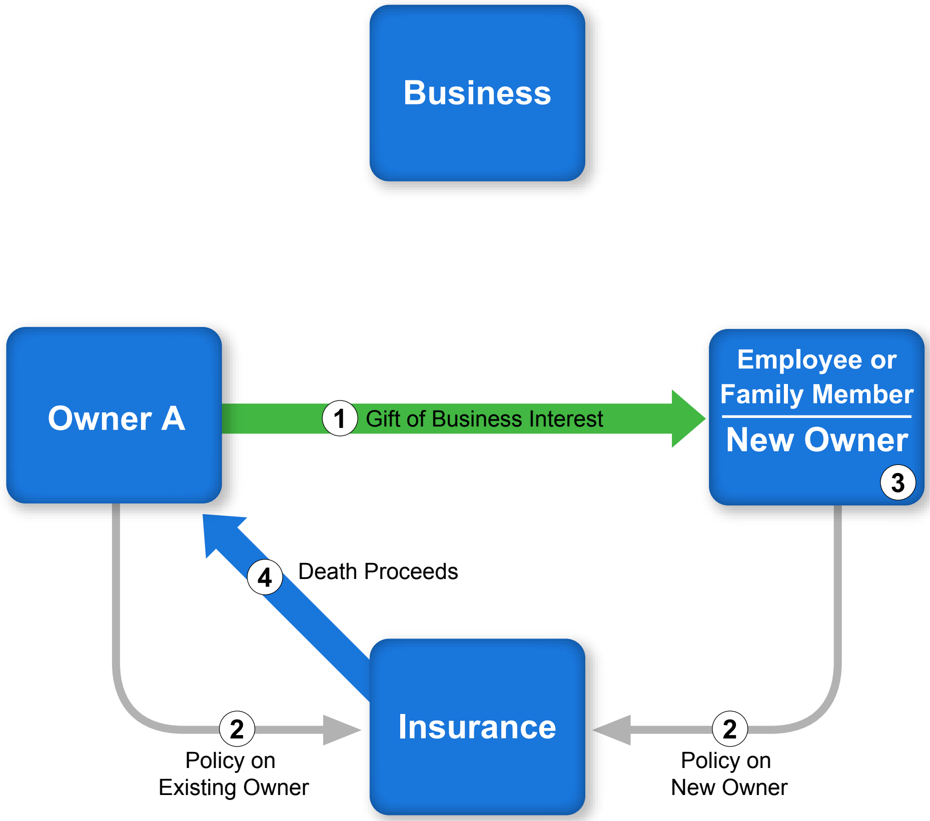
Keeping the Business in the Family



1. The owner or the owner's heirs purchase a life insurance policy on the owner's life.
2. At the death of the owner, the executor of the owner's estate transfers the business as a bequest in the owner's will.
3. The heir(s) becomes the new owner.
4. The owner's estate or heirs receive income tax-free death proceeds from the policy to replace the business and to provide the needed cash for estate transfer costs such as estate taxes and administrative expenses.

Gift Business

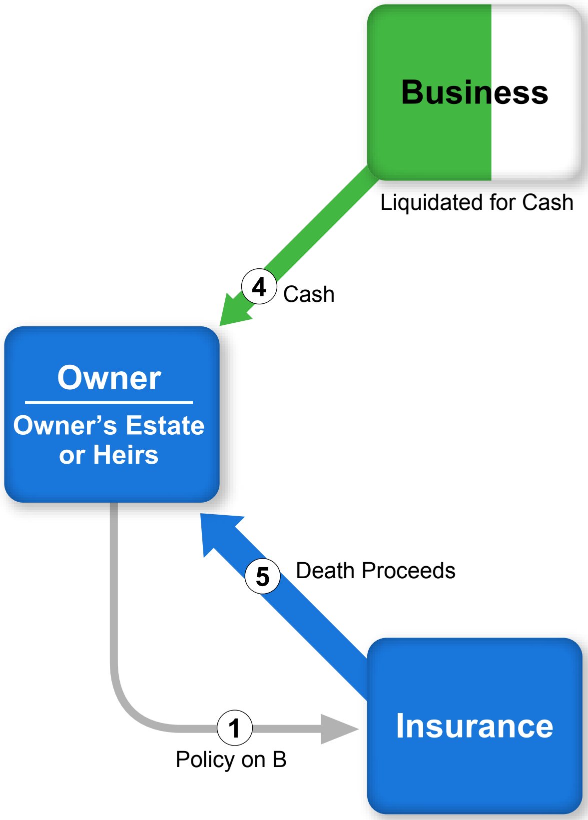
Keep the Business in the Family



1. Owner makes a gift of the business interest to a third party—usually an employee or family member.
2. Life insurance is purchased on the life of the existing owner by the existing owner and on the life of the new owner by the new owner.
3. New owner enters into appropriate business continuation agreements.
4. Death proceeds replace the income from the business and can be used for other estate planning purposes.

Wealth Replacement

Replacing the Shrinkage Due to Liquidation



1. The owner or the owner's heirs purchase a life insurance policy on the owner's life.
2. At the death of the owner, the owner's estate and heirs begin the liquidation process.
3. The business is liquidated. All assets are sold and as many receivables are collected as possible. The liquidation value is usually less than the on-going business value.
4. The owner's estate receives the cash from the liquidation.
5. The owner's estate or heirs receive income tax-free death proceeds from the policy to replace the wealth lost during the liquidation process.