Cross Purchase: Introduction

Prepared by Your Name Here

A cross purchase agreement is a plan that provides for an orderly transfer of ownership when a business owner dies. The agreement requires the surviving owners to buy out the deceased owner's business interest.

Unfunded, the agreement creates an obligation to buy the business interest without death benefit proceeds after a business owner has died. However, funded with life insurance, an agreement can help solve many problems that arise with the death of a business owner. A funded agreement can:

1. Create an automatic market for each owner's interest.
2. Predetermine the selling price of each owner's share of the business.
3. Establish the value of each unrelated shareholder's business interest for estate tax purposes if I.R.C. Section 2703 tests are met.
4. Help assure creditors and employees of the continuation of the business.
5. Provide the money to fund the agreement precisely when needed.

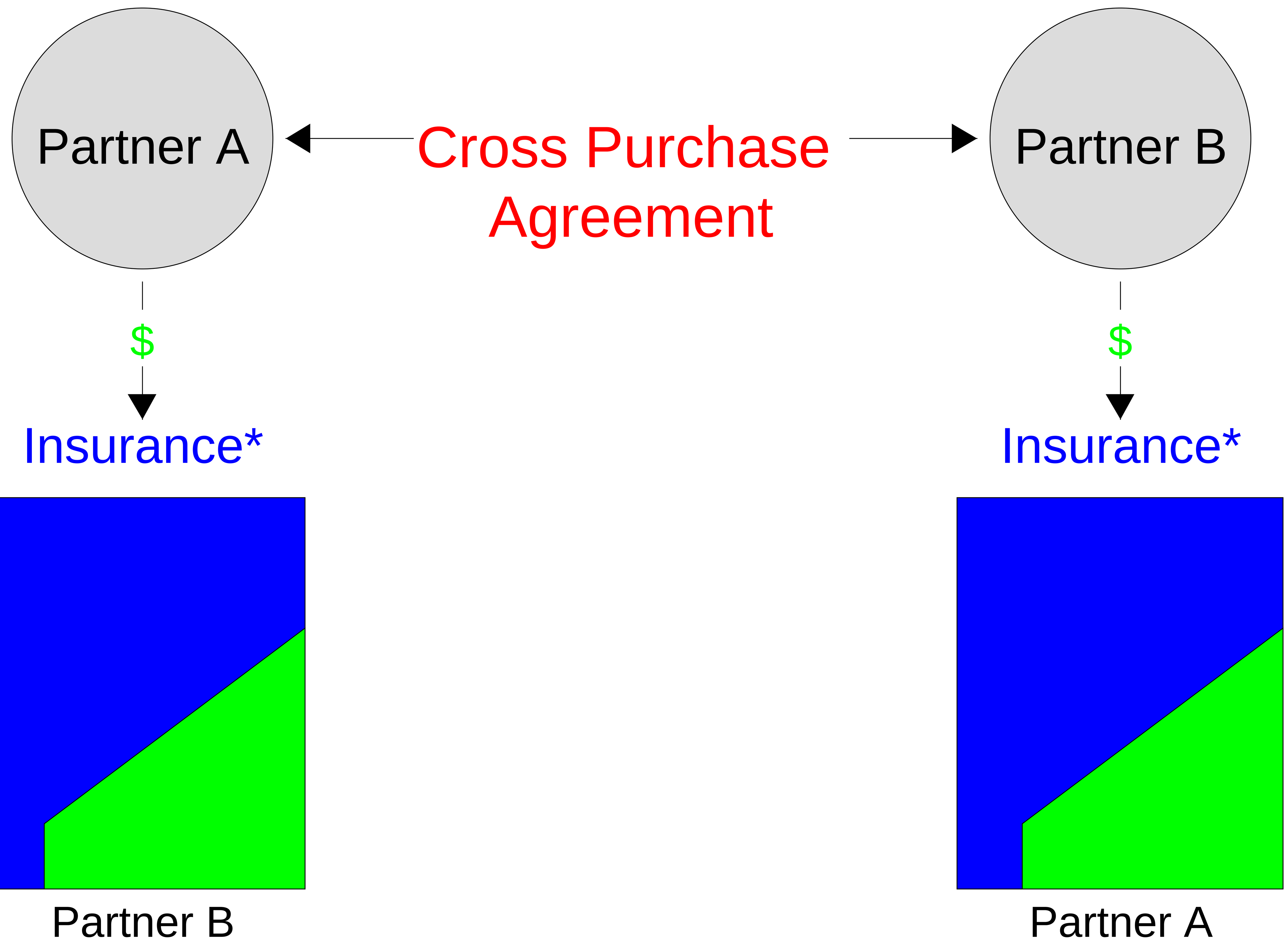
How does it work ? Generally, the owners agree in writing that life insurance will be purchased on their lives in an amount equal to the value of their interest in the business. In the event of an owner's death, the death benefit is used by the surviving owner to purchase the deceased's business interest at the previously determined buy-out price.

Please consult with your legal or tax advisor for specific advice.

Cross Purchase: ABC Corporation

Prepared by Your Name Here

While Alive



How It Works

- Owners consent to cross purchase agreement.
- Each owner purchases a life insurance contract on the life of the other business owner, designating himself as policy owner, payer and beneficiary.

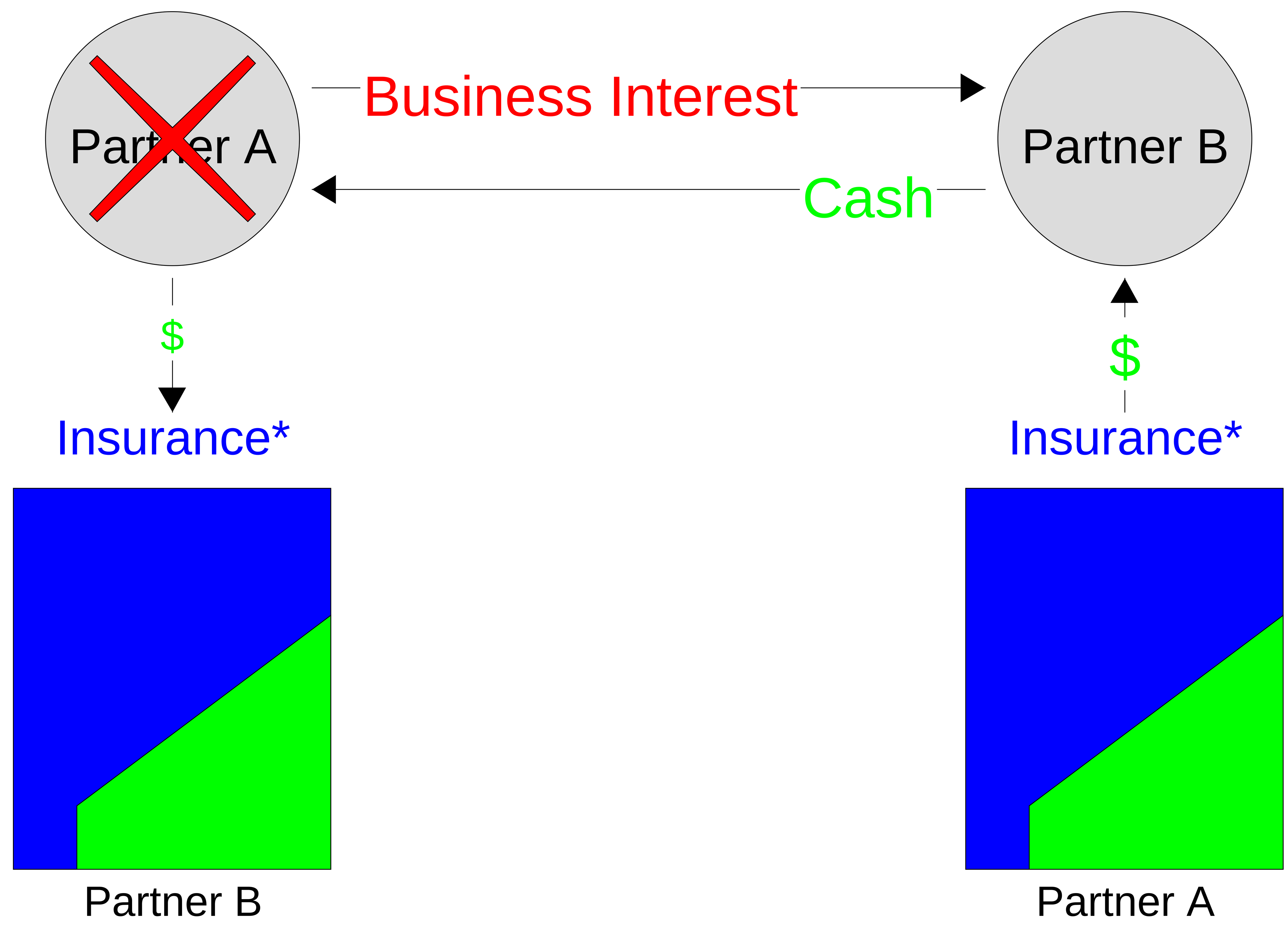
** The insurance death benefit is represented by the combined blue and green areas. The blue area is a hypothetical representation of a permanent insurance policy's death benefit. The green area is a hypothetical representation of its cash values. A term insurance policy contains no cash value.*

Please consult with your legal or tax advisor for specific advice.

Cross Purchase: ABC Corporation

Prepared by Your Name Here

Upon Death



What Happens

- Surviving owner receives death benefit from life insurance policy.
- Deceased's ownership interest is purchased from the estate by the surviving owner per the agreement.

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Please consult with your legal or tax advisor for specific advice.

Cross Purchase: Summary

Prepared by Your Name Here

Advantages

A cross purchase agreement can:

- Assure all owners of a market for their interest.
- Help minimize potential conflicts about the purchase price and ownership issues.
- Prevent the surviving owner from becoming a co-owner with a deceased owner's beneficiary.
- Help establish the value of the business for estate tax purposes, if the I.R.C. Section 2703 tests are met.

Funded with life insurance:

- The event that triggers the problem also triggers the solution.
- The deceased's family members need not rely on the continued success of the business in order to be compensated for their interest.
- Tax free death benefit proceeds provide a cost efficient way to fund the cross purchase cost.

The surviving owner's cost basis, in the newly acquired stock, is equal to the purchase price of that stock.

Disadvantages

A cross purchase agreement can:

- Incur administrative legal expenses.
- May become difficult to administer with more than three owners.

Funded with life insurance:

- Premiums are not tax deductible.
- Premiums reduce the amount of cash available for other purposes.

Please consult with your legal or tax advisor for specific advice.

Key Person Insurance: Introduction

Prepared by Your Name Here

Most businesses don't think twice about insuring the physical assets of the business; although valuable to the company, they are replaceable. Without proper management, any business entity can be doomed to failure. When the success of a company is vulnerable to the loss of one or more key personnel, insuring the risk is only logical.

Andrew Carnegie once said:

> "You can tear down my buildings and destroy my machines, but leave me my men and I will rebuild my business."

Many companies purchase life insurance on their key people. This helps minimize the economic loss due to a key person's premature death.

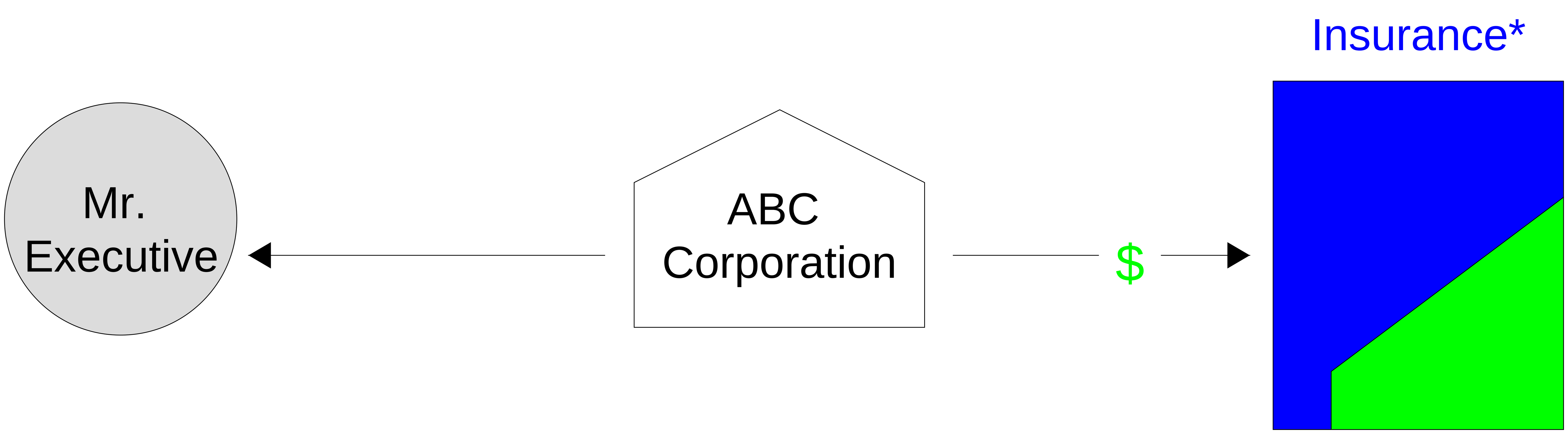
How does it work ? The company is owner, payor and beneficiary of a life insurance policy covering the key person. In the event of the key person's death, the company receives the death benefit that may be used to attract or train a qualified replacement, reinforce the company's financial stability or pay a survivor benefit.

Please consult with your legal or tax advisor for specific advice.

Key Person Insurance: ABC Corporation

Prepared by Your Name Here

While Alive



How It Works

- Company purchases life insurance on the key person.
- Company is the owner, payer and beneficiary.

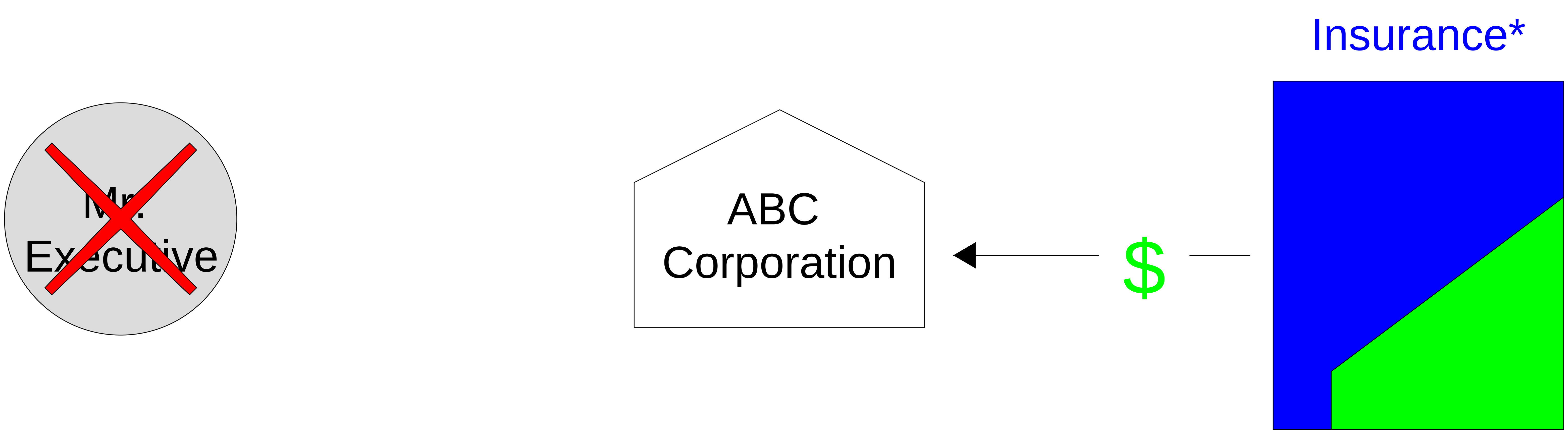
* *The insurance death benefit is represented by the combined blue and green areas. The blue area is a hypothetical representation of a permanent insurance policy's death benefit. The green area is a hypothetical representation of its cash values. A term insurance policy contains no cash value.*

Please consult with your legal or tax advisor for specific advice.

Key Person Insurance: ABC Corporation

Prepared by Your Name Here

Upon Death



What Happens

- Company receives death benefit** from life insurance policy.
- Proceeds may be used to:
    - Hire and/or train new executive.
    - Reinforce company's financial stability.
    - Pay a survivor income benefit.

** The insurance death benefit is represented by the combined blue and green areas. The blue area is a hypothetical representation of a permanent insurance policy's death benefit. The green area is a hypothetical representation of its cash values. A term insurance policy contains no cash value.*

*** Under some circumstances, the proceeds received by a C Corporation may be subject to Alternative Minimum Taxes (AMT). Due to the "employer owned life insurance" rules of I.R.C. Section 101(j), the death benefit is generally income taxed unless the employer fulfills certain written "notice and consent" requirements with the insured before the policy is issued.*

Please consult with your legal or tax advisor for specific advice.

Key Person Insurance: Summary

Prepared by Your Name Here

Advantages

Upon the death of Mr. Executive:

- Helps offset the negative impact to sales and profits.
- Makes funds available to hire and train a replacement.
- Helps assure customers and employees the company will continue to operate.
- Demonstrates to shareholders, creditors and competition the character and foresight of present management.
- Minimizes the interruption of short term cash flow.

Mr. Executive lives until retirement:

- Permanent life insurance cash values may be carried as an asset on the company books.
- Permanent life insurance cash values may help informally fund non-qualified retirement plans, including deferred compensation plans.

Disadvantages

Funded with life insurance:

- Premiums are not tax deductible.
- Premiums reduce the amount of cash available for other purposes.
- Provide executive with notice and obtain consent of business owned policy per I.R.C. Section 101(j).
- Employer annually files Form 8925 disclosing amount of business owned life insurance on key person's life.
- C Corporation receiving death benefit may have proceeds subject to Corporate Alternative Minimum Tax.

Please consult with your legal or tax advisor for specific advice.

Executive Bonus: Introduction

Prepared by Your Name Here

An executive bonus plan allows a company to provide permanent life insurance to selected key executives on a tax deductible basis. The bonus can enhance their personal life insurance program or provide supplemental income to the executive.

How does it work ? The company agrees to make premium payments on a permanent life insurance contract owned by the executive. The corporation deducts the payments as compensation to the executive and the executive pays taxes on the additional compensation. The executive usually has complete control over the policy cash values and beneficiary designation. In some situations the corporation may want to require restrictions or liens against the executive having access to the policy cash values. Care must be taken to avoid complications under ERISA pension plan rules.

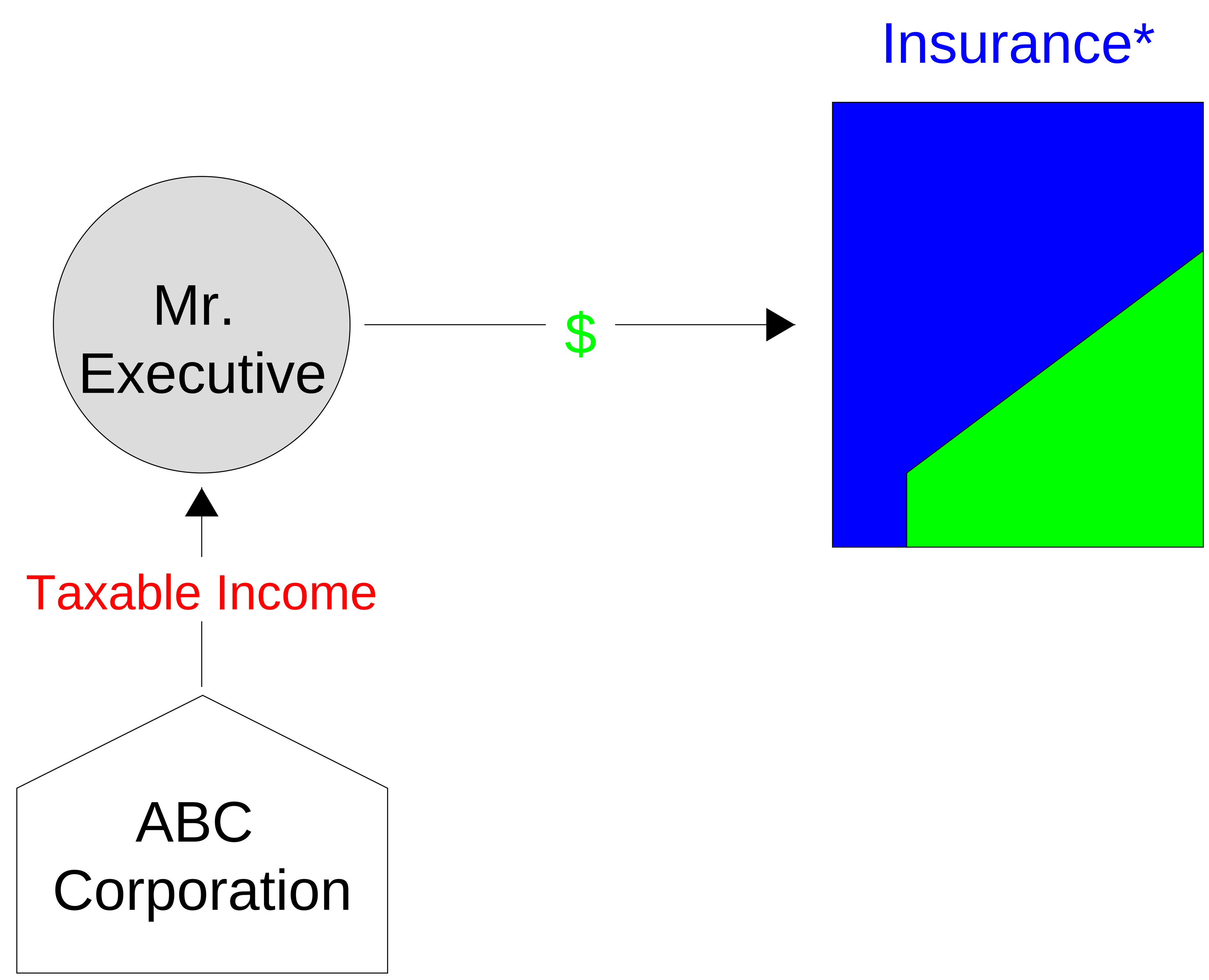
If the executive dies, the death benefit would be paid directly to the executive's beneficiary. If the executive retires, the policy cash values may be used to supplement retirement income. An executive bonus plan is an excellent method to retain and recruit quality executives.

Please consult with your legal or tax advisor for specific advice.

Executive Bonus: ABC Corporation

Prepared by Your Name Here

While Employed



How It Works

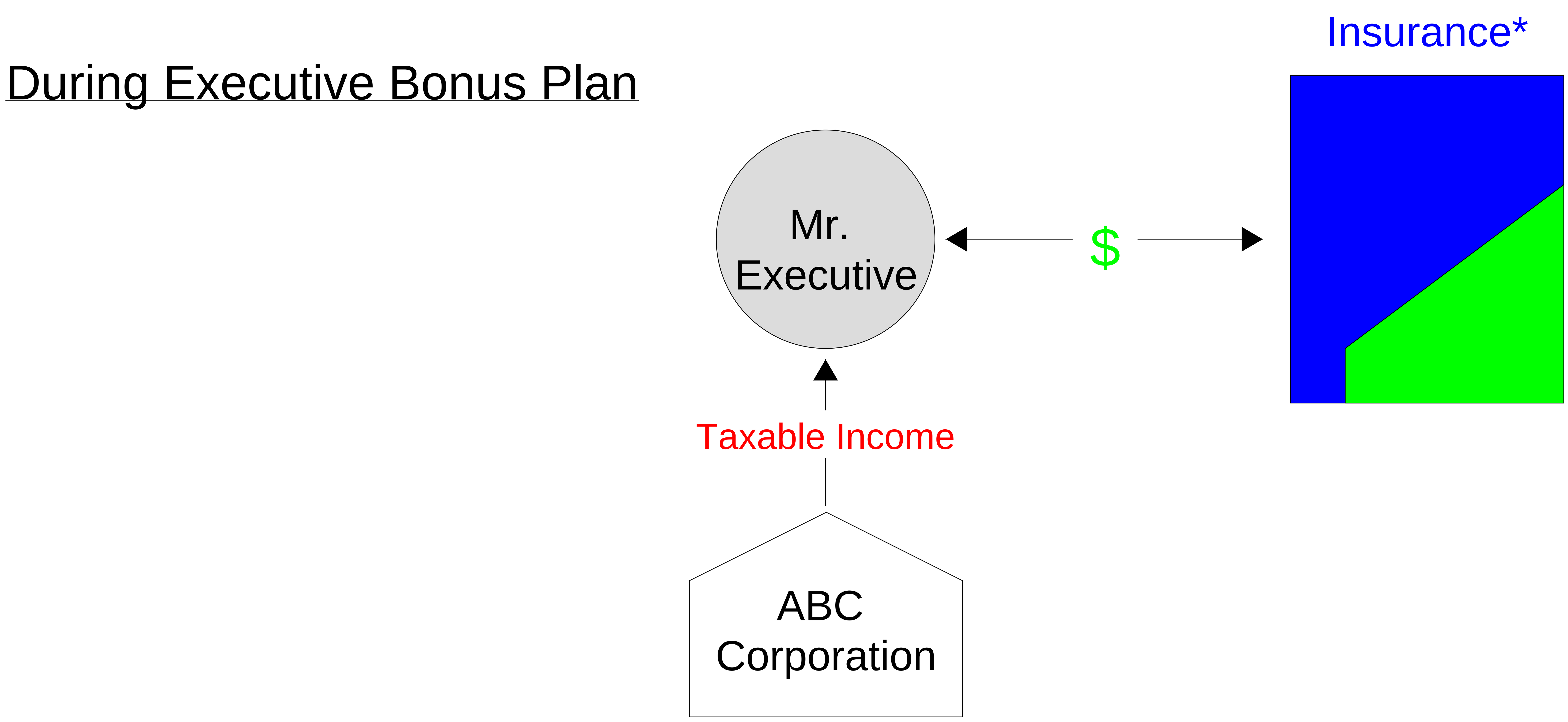
- Company agrees to make premium payments.
- Executive pays income taxes on the amount bonused.
- Executive is owner and designates the beneficiary.
- In the event of death, the executive's beneficiary receives life insurance proceeds.

** The insurance death benefit is represented by the combined blue and green areas. The blue area is a hypothetical representation of a permanent insurance policy's death benefit. The green area is a hypothetical representation of its cash values. A term insurance policy contains no cash value.*

Please consult with your legal or tax advisor for specific advice.

Executive Bonus: ABC Corporation

Prepared by Your Name Here



What Happens

- Company continues to pay bonus equal to premium amount, which allows life insurance cash values to increase.
- Executive may use death benefit for any purpose or use cash values to supplement income in the future.

** The insurance death benefit is represented by the combined blue and green areas. The blue area is a hypothetical representation of a permanent insurance policy's death benefit. The green area is a hypothetical representation of its cash values. A term insurance policy contains no cash value.*

Please consult with your legal or tax advisor for specific advice.

Executive Bonus: Summary

Prepared by Your Name Here

Advantages

To ABC Corporation

- Compensation paid to the executive is tax deductible to the company.
- Liberal discretion over who participates and at what amounts.
- Minimal government reporting or approval requirements.
- Straightforward administration.
- Assists in retaining and recruiting quality executives.

To Mr. Executive

- Acquires life insurance at a reasonable cost.
- Frees income that might have been spent on personal insurance.
- As owner, executive has access to the policy cash values, controls the dividends and designates the beneficiary.
- Policy death benefit may be used for any purposes.
- Policy cash values may be used to provide supplemental income.
- Policy is portable.

Disadvantages

To ABC Corporation

- Premiums reduce the amount of cash available for other purposes.
- No cost recovery.

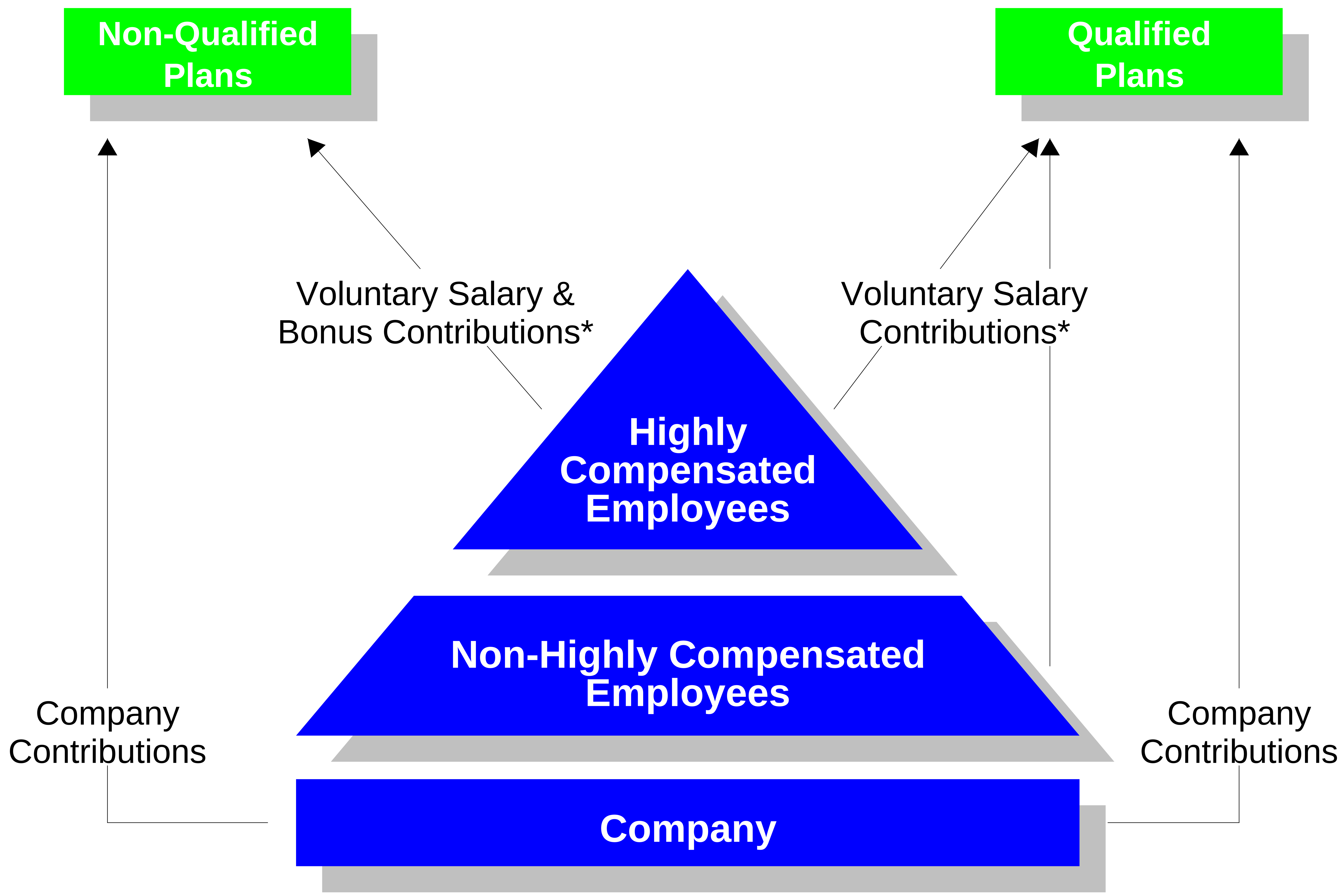
To Mr. Executive

- Pays income tax on the amount bonused (dividends could be used to offset).
- Any policy cash values withdrawn for a variety of reasons will usually reduce the death benefit.

Please consult with your legal or tax advisor for specific advice.

Executive Retirement Benefits

Prepared by Your Name Here



** Both non-qualified and qualified plans must meet the requirements of ERISA laws. All non-qualified plans that offer a promise of deferred compensation also must meet I.R.C. Section 409A rules.*

Please consult with your legal or tax advisor for specific advice.

Executive Benefits Overview

Prepared by Your Name Here

When evaluating executive non-qualified benefit programs, it is important to realize each plan has unique attributes. Listed below are some of the major features of several plans.

	Executive Bonus	NQDC/SERP	Split-Dollar Endorsement	Split-Dollar Loan
Control of cash values	Executive has significant control.	Company has complete control.	Company owns, but shares control of death benefit with employee.	Company controls cash value equal to collateral assignment of loaned premium.
Restrictions on cash values	None.	Company controls the cash values.	Company controls the cash values.	Company may control cash value through loan arrangement*.
Tax deduction	Company deducts premiums immediately.	Company takes deduction when executive compensation is paid out.	None while plan is in place. Company deducts lower of policy's value or its basis in the policy if policy is transferred to EE.	None while plan is in place. Company can claim deduction if it forgives the loan.
Premium recovery	None.	Company may recover all or some of the cost (often from death benefit).	Company may recover all or some of the cost.	Company recovers its loan amount and loan interest.
Impact on company earnings	Premiums charged to earnings, but immediately deductible as executive compensation.	Records cash value as asset. Premium payment greater than the cash value increases is an expense. Accrues liability for NQDC / SERP benefit.	Records cash value as asset. Premium payment greater than the cash value increases is an expense.	Premium loan recorded as asset. Certain loan values are discounted to their present value.

** A demand loan allows the Company to force loan repayment at any time.*

Please consult with your legal or tax advisor for specific advice.