

EXHIBIT
LIFE INSURANCE AND STOCK REDEMPTION SCENARIOS

1. Life insurance proceeds nearly equal the value of the stock redemption. (In this case, the buy-sell agreement has been kept up to date and the redemption funds required are available from the life insurance proceeds.)

Earnings and profits before shareholder dies:	\$200,000
Add: Life insurance proceeds	<u>25,000</u>
Earnings and profits before distribution:	\$225,000
Less: Deceased shareholder's 10% proportionate interest	<u>(22,500)</u>
Remaining earnings and profits:	<u>\$202,500</u>

2. The corporation is underinsured and the life insurance proceeds fall short of the value of the stock redemption.

Earnings and profits before shareholder dies:	\$200,000
Add: Life insurance proceeds	<u>10,000</u>
Earnings and profits before distribution:	\$210,000
Less: Deceased shareholder's 10% proportionate interest	<u>(21,000)</u>
Remaining earnings and profits:	<u>\$189,000</u>

3. The corporation is overinsured and the life insurance proceeds exceed the value of the stock redemption.

Earnings and profits before shareholder dies:	\$200,000
Add: Life insurance proceeds	<u>100,000</u>
Earnings and profits before distribution:	\$300,000
Less: Deceased shareholder's 10% proportionate interest	<u>(30,000)</u>
Remaining earnings and profits:	<u>\$270,000</u>