



Capstone Financial Group, LLC



FOR EMPLOYERS

Business Valuation

Proposal

Presented to

Sample Company

Presented by

Doug Ingram
Capstone Financial Group

Based on financials from
2012 - 2014



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BUSINESS OWNER & EXECUTIVE SOLUTIONS

Lean on the Capstone Financial Group to help you maximize the effectiveness of your business.

Tailored solutions

Capstone Financial Group provides you access to a complete package of tailored solutions to help you, your business *and* your key employees. These solutions have been categorized into six primary areas of financial need. After helping you identify and prioritize your areas of need, we can focus on offering solutions to enhance your financial security.



Business protection – In the event of a death, resignation of a key employee or a future change in management, would your business be as successful as it is today?

Exit planning – Do you occasionally obtain a valuation for your business? If you were to sell your business today what would be the market value? Have you established a definite time period to transfer your business to a specific party at an established price?

Income protection – If you or a key person to your organization were to experience an accident or severe illness, how would this affect your business? Would you be able to meet present financial obligations based on your expected income during that stressful time?

Survivor income – Will your spouse and beneficiaries be able to maintain their desired standard of living after your death? How would the unexpected death of a partner or key person affect your business?

Wealth transfer – Is your personal will/trust current and does it accurately reflect how you want your assets distributed? Is the buy-sell agreement or business succession plan for your business current and properly funded?

Retirement income – Are you or your key employees able to set aside enough money for retirement considering the limited amount of contributions that can be made to a qualified plan?

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 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.

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Not FDIC or NCUA insured
May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency

Protect your success

You are among the 28 million owners of growing businesses in the United States. At The Principal, it is our focus to help business owners ensure that proper business planning has been implemented and to then offer simple processes to help you keep those plans current.

We believe there are key components to establishing an effective plan. These components include:

- ▶ Knowing the value of your business
- ▶ Having a current transition plan in place so that the business can be exited or continued on your terms
- ▶ Protecting the value of your business from planned or unplanned events
- ▶ Building a secure retirement for you and your employees

Today, 62 percent of business owners have *never* had their business valued and only 36 percent of growing businesses have an exit or continuation plan in place. Of those 36 percent with an exit plan, only two in 10 have a plan that protects in the event of an owner's death. And, only slightly more than one in 10 have a buy-sell agreement which protects the owners in the event of a disability.¹ These numbers are concerning.

The following pages of this report will provide you with the information and next steps needed to create an effective plan specifically for *your* business. It will help you identify what you have done right, and help you prioritize and update any information that may not be in place, or may need to be updated. This report begins with an informal valuation of your business, which allows you to start — or update — your plans. We look forward to working with you to put a plan in place that will help ensure your business will meet the goals you have set, and thrive under many contingencies.

¹ Harris Interactive business owner survey 2012.

Know the value of your business

There are many different methods to value a business and there is no one method that is always appropriate. At the end of the day, the “fair market value” of a business is the amount agreed upon by a willing buyer and a willing seller. Neither party is under any compulsion to buy or sell, and both must have reasonable knowledge of all the relevant facts. While this is a common definition used for valuing a business, the definition is still vague.

Revenue Ruling 59-60 considerations for valuing a business

- ▶ Nature and history of business
- ▶ Outlook of the economy and the specific industry
- ▶ Financial condition of the business and its book value
- ▶ Earnings capacity of the company
- ▶ Nature and value of any intangible assets of the business, such as goodwill
- ▶ Relative size and block of the business interest to be valued and any prior sales
- ▶ Market price of actively traded stock of corporations in the same or similar business

Valuation approaches and methods

Determining the value of your business is the starting point and an integral part of the planning process. Business valuation methods are generally categorized under three approaches: asset approach, income approach and market approach. Since no single method is appropriate for valuing every business, it is common to reference a business valuation method under any one or all three approaches.

Asset Approach

An asset-based approach to valuation is typically used with businesses that have substantial tangible assets, usually in the form of inventory and equipment. This approach is most appropriate for businesses with a substantial amount of fixed assets.

- ▶ **Adjusted book value** – one type of asset valuation method.

Income Approach

The income approach uses prior earnings to estimate company value based on income potential. This type of valuation approach is most appropriate for businesses with consistently strong earnings. Income approaches include:

- ▶ **Capitalization of earnings method** – Applicable for consulting-type businesses and/or those with few or no tangible assets
- ▶ **Excess of earnings method** – Generally for manufacturing-based firms with significant assets
- ▶ **Discounted cash flow method** – This method uses projected values. Projected future earnings are forecasted, then discounted using an appropriate rate representative of the “next best investment opportunity” with a comparable level of risk. Used mainly for merger and acquisition purposes.
- ▶ **Multiple of discretionary earnings method** – Applicable for more service-oriented firms, such as legal, accounting, healthcare systems, dental, engineering, etc.; the goodwill of the owner(s) has a significant impact on value.

Market Approach

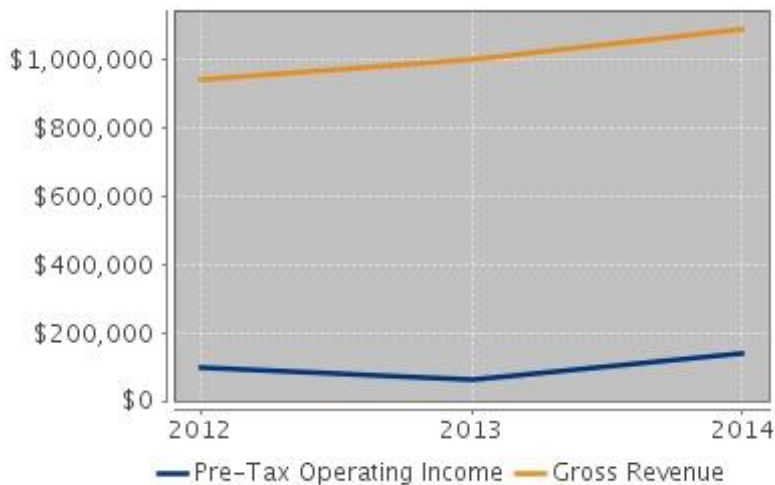
Market-value approaches to business valuation are based on the prices of similar or comparable businesses that have recently sold. This data is more challenging to find for the sale of small businesses and professional practices, rather than for large businesses. **Information related to valuing a business under this method will not be provided in this report.**

Your company profile

Company Name Sample Company
 Entity Type S Corporation
 Industry Consulting Services
 State IA
 Years in Business 12
 Number of Business Owners 2
 Number of Employees 0-9
 Family Business No

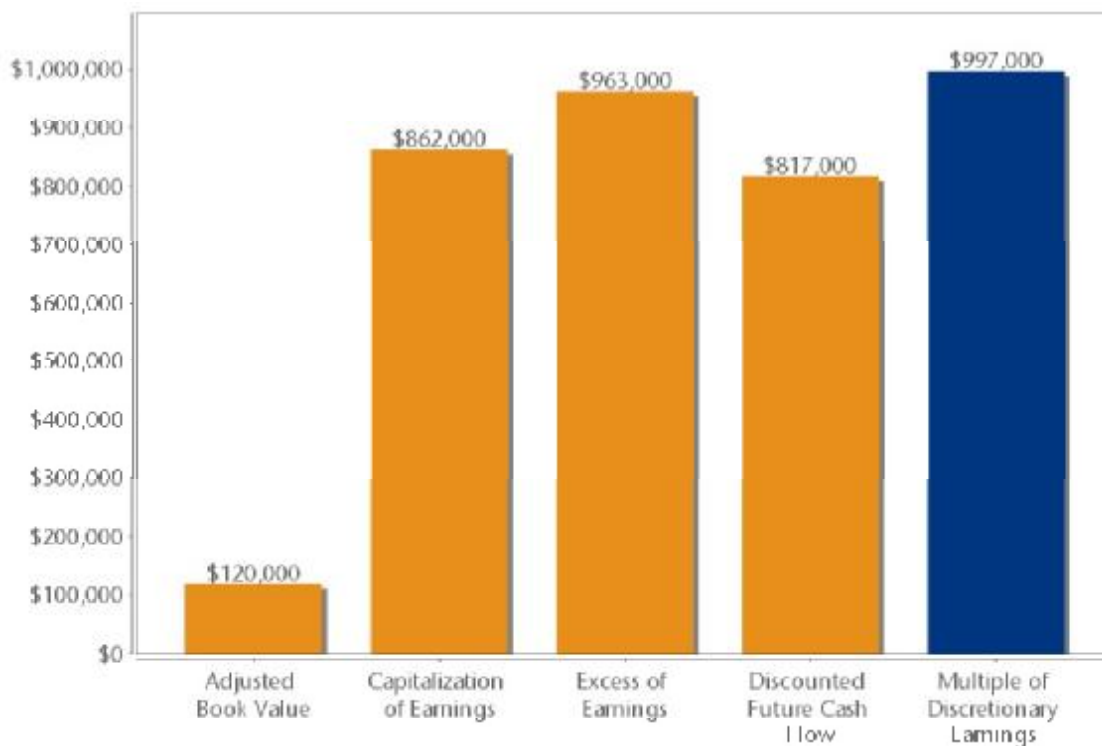
Financial statement summary

INCOME	2012	2013	2014
Revenues	\$940,000	\$1,002,000	\$1,090,000
Pre-tax Operating Income	\$99,000	\$65,000	\$140,000
Depreciation	\$11,000	\$11,000	\$11,000
Owner Compensation	\$196,000	\$204,000	\$181,000



Informal business valuation

Based on the company details you provided, following are estimated informal valuations for your business using five generally accepted methods of valuation. Your company profile suggests the highlighted value below may be most appropriate for your business.



ADJUSTED BOOK VALUE METHOD Assets, with adjustments, less liabilities - generally represents the "liquidation" value	\$120,000
CAPITALIZATION OF EARNINGS METHOD Amount of capital that would have to be invested at a specified rate to yield the current average net annual earnings of the business	\$862,000
EXCESS OF EARNINGS METHOD A combination of the Adjusted Book Value and Capitalization of Earnings methods	\$963,000
DISCOUNTED FUTURE CASH FLOW METHOD Projected future business earnings forecasted, then discounted using an appropriate rate	\$817,000
MULTIPLE OF DISCRETIONARY EARNINGS METHOD Earnings provided by goodwill, times a multiplier; adjusted book value is added to this number	\$997,000
HIGHLIGHTED VALUE	\$997,000

Calculations

ASSUMPTIONS		
Average operating income		\$108,000
Excess owner compensation ¹		\$116,000
Capitalization rate		26.0%
Rate of return on assets		4.0%
Earnings multiplier		4
Number of years to forecast		4
Discount rate		15.0%
Growth rate		8.0%
ADJUSTED BOOK VALUE METHOD		
Book value		\$120,000
Plus adjustments	+	\$0
ADJUSTED BOOK VALUE		\$120,000
CAPITALIZATION OF EARNINGS METHOD		
Average operating income		\$108,000
Plus excess owner compensation	+	\$116,000
<i>Total</i>		\$224,000
Divided by capitalization rate	÷	26.0%
CAPITALIZATION OF EARNINGS		\$861,538
EXCESS OF EARNINGS METHOD		
Average operating income		\$108,000
Plus excess owner compensation	+	\$116,000
Less adjusted book value multiplied by rate of return on assets	-	\$4,800
<i>Total</i>		\$219,200
Divided by capitalization rate	÷	26.0%
Excess of earnings on assets		\$843,076
Plus adjusted book value	+	\$120,000
EXCESS OF EARNINGS		\$963,076
DISCOUNTED FUTURE CASH-FLOW METHOD		
Average operating income		\$108,000
Plus excess owner compensation	+	\$116,000
<i>Total</i>		\$224,000
Growth rate		8.0%
Number of years to forecast		4
Discount rate		15.0%
DISCOUNTED FUTURE CASH FLOW		\$817,000
MULTIPLE OF DISCRETIONARY EARNINGS METHOD		
Average operating income		\$108,000
Plus excess owner compensation	+	\$116,000
Less adjusted book value multiplied by rate of return on assets		\$4,800
<i>Total</i>		\$219,200
Multiplied by earnings multiplier	x	4
<i>Total good will</i>		\$876,800
Plus adjusted book value	+	\$120,000
MULTIPLE OF DISCRETIONARY EARNINGS		\$996,800

¹Excess owner salary is defined as salary over and above what the owner would pay a key employee to perform similar services that the owner is now performing, without incurring the additional risk of business ownership.

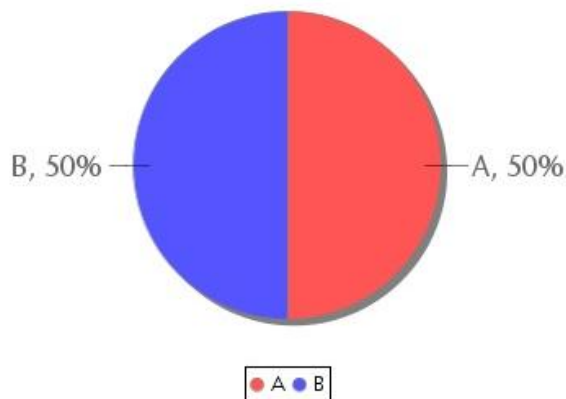
Protect your business with a buy-sell agreement

Business owners need to plan for future contingency events that may impact your ability to meet long-term financial goals. The U.S. Small Business Administration estimates that at any given time, 40 percent of businesses are facing the issue of transfer of ownership and control.¹ A funded buy-sell agreement is an essential planning tool to help enhance the stability, manage known transitions and protect the financial value of your closely held business.

The Principal can help you design a properly funded buy-sell agreement which:

- ▶ Provides departing owners a market and price for an asset that might otherwise be hard to sell;
- ▶ Prevents an unqualified or undesirable individual from acquiring an interest in the business;
- ▶ Minimizes business disruptions at various triggering events;
- ▶ Provides assurances to employees, customers, suppliers and creditors that the business will remain strong through owner transitions;
- ▶ When funded with insurance, the agreement provides both the financing and the mechanism to ensure that control of the business will remain with the current owners.

Business Ownership



	OWNER	OWNERSHIP %	VALUE TODAY	ESTIMATED FUTURE VALUE ²
A	John	50.00%	\$498,500	\$1,076,224
B	Mary	50.00%	\$498,500	\$1,076,224

³SBA of advocacy: www.SBA.gov

⁴Estimated future value is calculated based on growth rate and number of years provided.

Important features of a buy-sell agreement

- ▶ Firm buy-sell commitments
- ▶ A comprehensive list of clearly defined triggering events
- ▶ Funding that is consistent with plan design
- ▶ A clearly designated or defined purchase price
- ▶ Clear, realistic payment terms
- ▶ Language addressing purchase options for life and/or disability income insurance policies

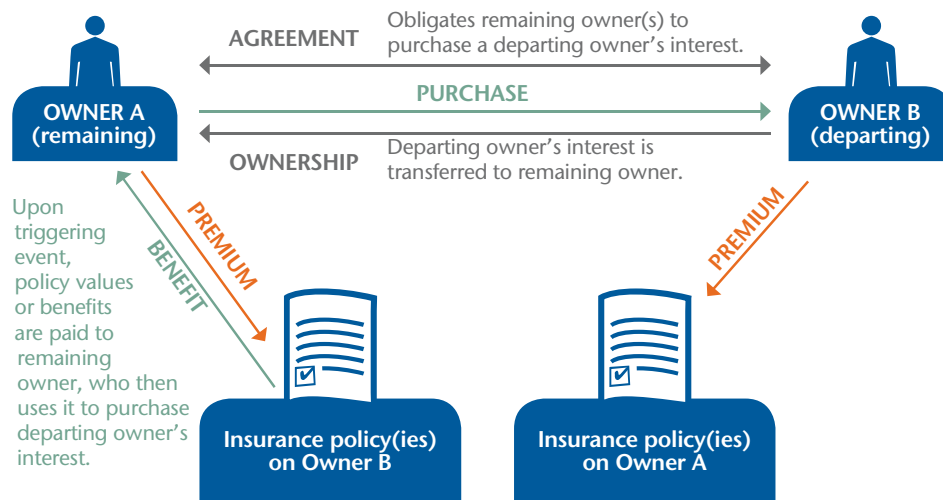
Based on your company profile, specific **exit planning solutions** for your consideration follow.

Cross-Purchase Buy-Sell Agreement

A cross-purchase buy-sell agreement is an arrangement where the individual business owners, rather than the business, agree to purchase a departing owner's interest. The purchase can be triggered by an event such as death, disability, divorce, dissolution or termination of employment.

How it works

A cross-purchase buy-sell agreement is an agreement between business owners where each agrees to be both the owner and beneficiary of insurance on each of the other owners. Upon a triggering event, the surviving owners purchase the *departing* owner's interest.



POLICY DESIGN		PLAN HIGHLIGHTS	
POLICY OWNER	Each owner owns a policy on each other.	BUSINESS	<ul style="list-style-type: none"> Not a party to the agreement Business may bonus premium payments
BENEFICIARY	Each owner is the beneficiary of the policies he or she owns.	PURCHASING OWNER	<ul style="list-style-type: none"> Premiums not deductible Proceeds received income tax free Surviving owner's cost basis increased by amount paid to <i>departing</i> owner (or heirs)
PREMIUM PAYER	Each owner pays premiums on policies he or she owns.	SALE UPON DEATH	<ul style="list-style-type: none"> Purchase price received generally does not cause taxable event due to step-up in cost basis
		SALE UPON DISABILITY	<ul style="list-style-type: none"> Seller recognizes capital gain to extent purchase price exceeds cost basis
		OTHER SALES	<ul style="list-style-type: none"> Seller recognizes capital gain to extent purchase price exceeds cost basis

Buy-sell agreement funding

Buy-sell agreements involve the selling and buying of the departing owner’s business interests in accordance with the formal agreement. It is important for business owners to have a plan in place for securing the money needed to complete this transaction when it occurs. Various options exist for business owners.

FUNDING METHODS

Cash – Requires sufficient funds be available to pay the full price in the designated timeframe.

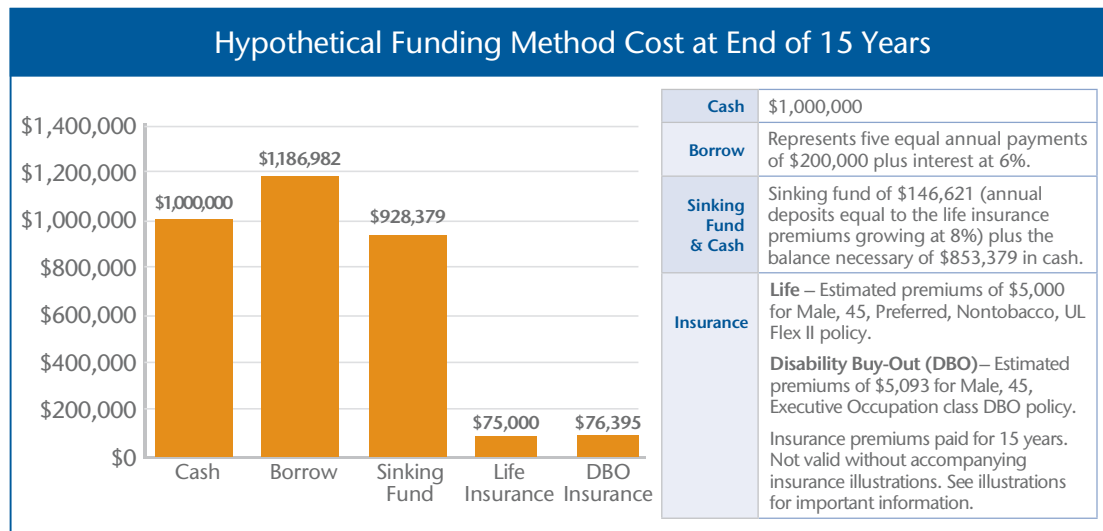
Borrowing – Involves future unknown factors such as credit availability and cost of borrowing. Any borrowed funds must be repaid with interest from earnings.

Saving – Does not assure that sufficient funds will be available when needed because the timing of departure is not predictable.

Installment sale – Requires repayment from earnings and forces your heirs to rely upon the future success of the business in order to receive your payments.

Insurance – Is purchased on the departing owner at the time the buy-sell agreement is implemented. Provides liquidity when needed. Upon death or total disability, the buyer receives the insurance benefit which can be used to fund the purchase of the business.

Timing of liquidity and cost are important considerations when determining an appropriate funding method for your situation. Compare these hypothetical protection costs for a \$1,000,000 purchase price.

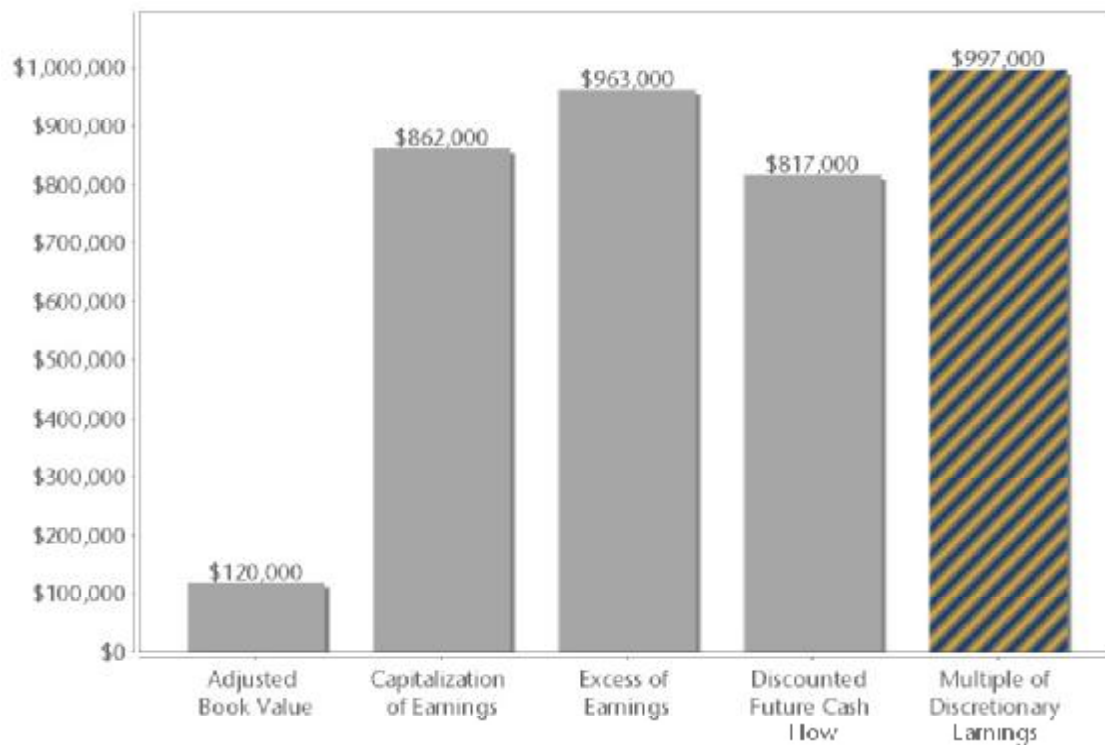


Buy-sell agreement funding (continued)

The death or disability of a business owner may be very disruptive to a business and is often a mandatory triggering event in a buy-sell agreement. It is very common to use an insurance solution to help meet the liquidity needs at the time required.

MITIGATING YOUR RISKS

Financial underwriting requirements of these funding products place limits on the amount of protection that can be purchased. Based on the informal business valuation we provided for your company, the amount of life and disability buy-out insurance available to fund your agreement is outlined below.



LIFE INSURANCE PROTECTION¹ (MULTIPLE OF DISCRETIONARY EARNINGS)	\$997,000
DISABILITY BUY-OUT PROTECTION² (MULTIPLE OF DISCRETIONARY EARNINGS METHOD)	\$997,000

¹The amount insurance available to purchase depends upon the value of the business. Underwriting standards for life insurance and disability coverage are different.

²Disability Buy-Out insurance may not be available for every business.

Your success depends on your key employees

A prominent concern for many businesses is to protect the business from the loss of a key employee. Currently, only 42 percent of business owners have a business protection plan in place¹, leaving them exposed to risk.

Having a business protection strategy in place allows you to implement a financial cushion, with cost-effective liquidity, which can help replace and/or retain key employees who critically impact the value of your business.

You may need to ask yourself, “Who exactly *are* my key employees?” Think about the employees in your organization that really make a difference. Consider the areas of operations, workflow, relationship management, customer relations, sales and profitability.

Key person insurance

This is a simple, yet efficient way to ensure your business has the necessary funds to handle the financial impact of the loss of a key employee through death or disability. This may include such actions as recruiting, hiring and training a replacement.

Life insurance

- ▶ Provides immediate cash after the death of a key employee.
- ▶ Provides cost-effective liquidity to help the business function after losing a key employee.
- ▶ Allows policy cash values to appear as an asset on the business’s balance sheet.
- ▶ Offers access to policy cash values during the life of the policy, which can be used for a variety of business needs, including the informal financing of a nonqualified supplemental retirement plan.

Disability key person replacement insurance²

- ▶ Provides benefits to the business in the event an insured key employee becomes totally disabled.
- ▶ These benefits can be used to minimize lost profits or offset costs associated with replacing that employee.
- ▶ The policy can be used to demonstrate financial stability to creditors and clients.

Are business protection solutions right for your business?

- ▶ Would your business be negatively impacted by the loss of a key employee?
- ▶ Are you interested in developing special incentives to tie your key employees to the business for the long term?
- ▶ Would your key employees like to save more money on a tax-advantaged basis?

If you answered yes to either of these questions, there are simple strategies that you can implement to help you meet these obligations.

Plans for select key employees

An effective tool to help recruit, reward and retain key employees is a nonqualified supplemental retirement plan. When properly designed and financed, these plans can help select key employees reduce the challenges created by qualified plan limits. And, these solutions can be tailored by employers to meet the needs of both the business and the plan participants they select.

¹ Harris Interactive business owner survey 2012.

² Not approved in CA or MD.

Your success depends on your key employees (continued)

By offering a valuable benefit, these plans can help you recruit, retain and reward the key employees that contribute most to the success of your business. These plans:

- ▶ Enhance your total benefits package by offering a financial reward.
- ▶ Encourage loyalty by helping to secure their financial futures.
- ▶ Incent key employees to grow the business.
- ▶ Provide simplified government reporting and disclosure rules – or none at all.

CONSIDERATIONS FOR COMMON NONQUALIFIED PLANS				
Business Considerations	Principal Executive Bonus Plus SM	Principal SERP Select SM	Principal [®] Select Reward Plan	Executive Nonqualified Excess Plan SM
Immediate Tax Deduction	Yes	No	No	No
Golden Handcuffs	Limited	Yes	Yes	Yes
Cost Recovery	No	Yes	Yes	Yes
Administrative Services	Yes	Yes	Yes	Yes
Employer Contributions	Yes	Yes	Yes	Yes
Employee Contributions	Yes	No	No	Yes

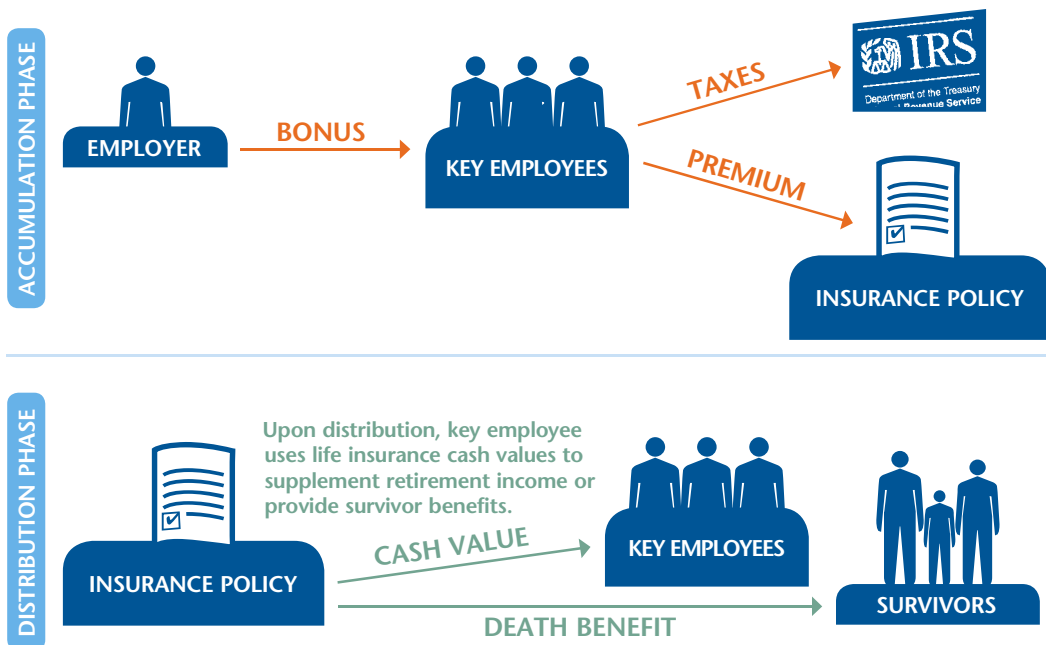
Another way to add value to your key employees is by offering Individual Disability Income (DI) insurance either by itself or as a supplement to group disability insurance. When establishing an Individual DI offering, you can provide tax advantages by implementing an executive bonus or salary continuation program.

Based on your company profile, specific **business protection solutions** for your consideration follow.

This plan can be a simple, yet effective, way for employers to establish a nonqualified benefit for key employees. It provides a platform that allows employers to offer supplemental retirement income benefits to key employees on a tax-deductible basis.

How it works

A life insurance policy is purchased using bonuses received from the employer or existing compensation. Upon distribution, the key employee uses the life insurance cash values to supplement retirement income and/or provide survivor benefits to his/her heirs.



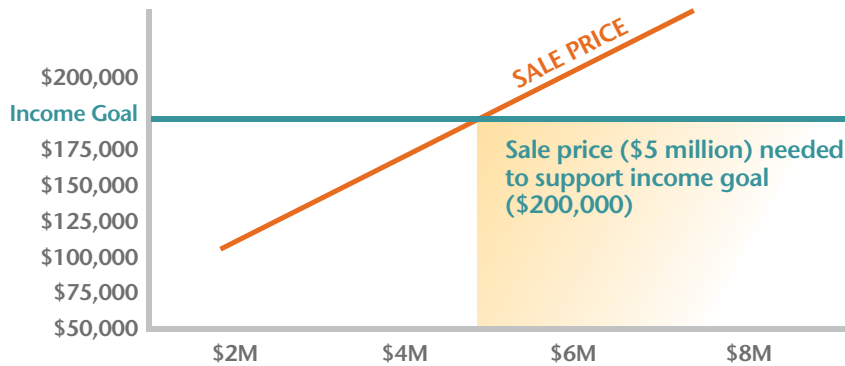
POLICY DESIGN		PLAN HIGHLIGHTS	
POLICY OWNER	The key employee	FOR THE EMPLOYER	<ul style="list-style-type: none"> • Receives a current income tax deduction for any bonus made to the key employee (subject to reasonable compensation restrictions). • Agreements may be added to tie the key employee closer to the business. • Plan is exempt from annual reporting and ERISA requirements. • The asset is not corporate-owned. • Each bonus paid reduces employer cash flow. • Can discontinue the bonus at any time.
BENEFICIARY	The key employee names a personal beneficiary		
PREMIUM PAYER	Premium is generally funded with a bonus given to the key employee by the employer	FOR THE EMPLOYEE	<ul style="list-style-type: none"> • Currently taxed on any bonuses provided by the employer. • Can accumulate enhanced retirement and/or survivor benefits. • Income tax costs may be offset with additional bonus from the employer. • Employer bonus may be contingent on continued employment. • If properly structured, distributions taken from the policy during retirement may be income tax-free.

Will you have adequate retirement income?

A good share of business owners – 25 percent – say they do not plan to retire⁸. There are many reasons for this, but one contributing factor is that they do not feel like they can afford to retire. Many financial professionals say that you will need at least 80 percent of your pre-retirement earnings to maintain your current standard of living in retirement. However, due to limitations in qualified plans, many business owners discover considerable income gaps after establishing their retirement income goals.

Your business will likely play a key role in providing your personal retirement income in one way or another. A nonqualified retirement plan set up through your business can help provide supplemental income. You may choose to hold onto your business and use a continuing income stream for retirement income. Another very likely scenario involves using the proceeds from the sale of your business for retirement income. In this case, it is important to understand the sale price needed to support your retirement income goal.

Hypothetical Sale-to-Income Challenge



⁸ Harris Interactive business owner survey 2012.

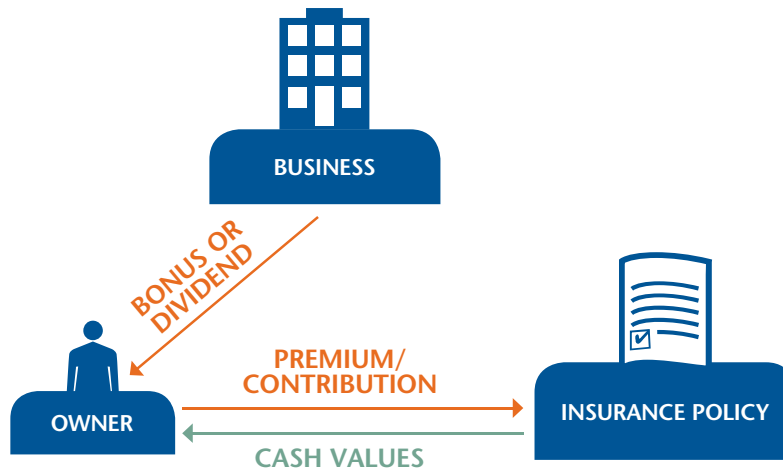
Based on your company profile, specific **retirement solutions** for your consideration follow.

Principal S Owner PlusSM

Designed specifically for owners of S corporations, this nonqualified supplemental retirement solution can help fill one's retirement income gap. It provides tax leverage similar to a Roth IRA without the restrictions on compensation and contribution limits. The tax leverage is with the life insurance policy used to finance the plan, rather than being based on a tax code provision.

How it works

You select an amount to contribute on an after-tax basis. Your dollars are used to finance the personally owned life insurance policy. Contributions can be treated as a bonus or dividend, subject to reasonable compensation regulations. At retirement, you may access the values in the life insurance policy to supplement retirement income.



POLICY DESIGN	
POLICY OWNER	Owner/shareholder of the S corporation
BENEFICIARY	Personal beneficiary named by the owner
PREMIUM PAYER	Owner/shareholder of the S corporation using after-tax dollars

PLAN HIGHLIGHTS	
FOR THE OWNER	<ul style="list-style-type: none"> Premiums can be treated as a bonus or dividend¹, subject to reasonable compensation guidelines. This may allow payroll tax leveraging. Proceeds are received income tax-free by the owner's beneficiary upon death. If properly structured, lifetime distributions for other events such as retirement may also be tax-advantaged.

¹If there is more than one owner of the S corporation and dividend income is used, the distributions need to be in proportion to ownership.

Protect yourself and your business from an unexpected disability

If you suddenly became disabled and could not run your business, how would you pay your utilities, your lease or employees' salaries? Would you have to spend your hard-earned savings, your retirement assets or even your child's college education funds to make ends meet?

As a business owner, you face three key threats in the event of a disability:

- ▶ Keeping a roof over your head.
- ▶ Keeping your business investment intact.
- ▶ Keeping the doors of your business open.

Disability protection solutions are available to protect your life's work.

Income and retirement savings protection and employee benefit needs – *Individual disability income insurance* can help:

- ▶ Provide for your family if you become too sick or hurt to work.
- ▶ You continue saving for retirement during a disability with DI Retirement Security¹.
- ▶ Maintain your lifestyle without draining savings or business profits.
- ▶ Provide benefits for employees.

Exit planning – *Disability buy-out insurance* funds a buy-sell agreement to buy out a totally disabled business owner. This allows you and your partners to:

- ▶ Maximize the financial return when the business is transferred, while minimizing tax liability.
- ▶ Help the business survive a partner's departure, allowing remaining owner(s) and their family(ies) to receive the full value of the business.

Business protection – Three solutions offer protection:

- ▶ *Overhead expense insurance* – Reimburses you for fixed business expenses.
- ▶ *Key person replacement insurance* – Provides benefits to the business in the event an insured key employee becomes totally disabled.
- ▶ *Business loan protection*² – Provides payments to help cover the cost of a business-related loan obligation.

¹ DI Retirement Security is issued as a non-cancelable, guaranteed renewable, individual disability income insurance policy. It is not a pension or retirement program or a substitute for such a program. DI Retirement Security is not available for government employees or anyone who is over insured based on Principal Life's current Issue and Participation guidelines. It may not be available or the benefit amount may be reduced for certain occupations if there is existing DI coverage with lifetime benefits. Additional underwriting guidelines may apply.

² Available as a rider on an overhead expense insurance policy.

Based on your company profile, specific **disability insurance** solutions for your consideration follow.

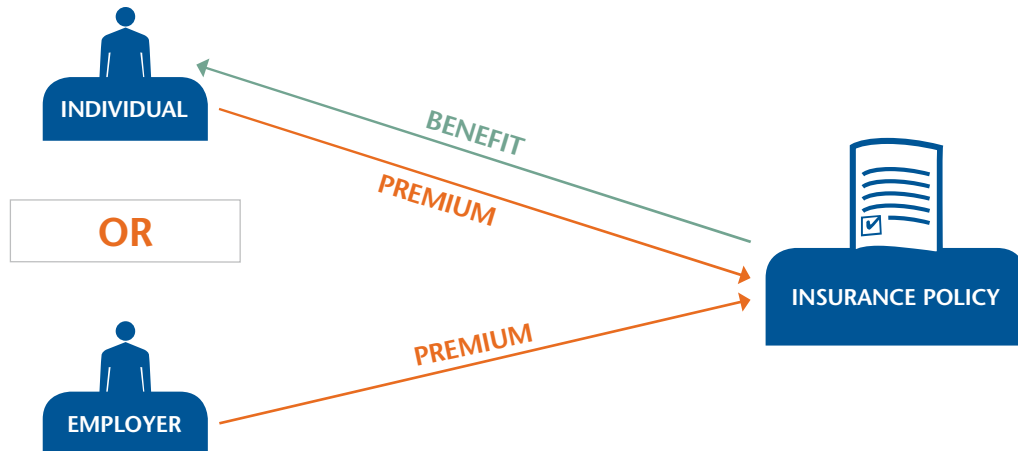


Individual Disability Income Insurance

Protect your most valuable asset – your ability to work and earn an income – with an individual disability income (DI) insurance policy. Should you become too sick or hurt to work, benefits may begin one month after the elimination period of the policy is satisfied. If you remain disabled, benefits are provided through the benefit period of your policy.

How it works

The individual or employer pays premium on an individual DI policy. Should the individual meet the definition of disability, then he/she is provided a monthly benefit for a set period. Benefit amounts are calculated based on current income, occupation when the policy was purchased, medical history and if other disability insurance policies exist.



POLICY DESIGN		PLAN HIGHLIGHTS	
POLICY OWNER	Individual	FOR THE EMPLOYER	<ul style="list-style-type: none"> Can be an excellent addition to an employee benefit package if the employer pays all or part of the premium. Premium can be paid with pre-tax dollars. Executive carve-out and bonus opportunities are available. 20 percent multi-life discount available when three individuals with a common employer purchase coverage (based on gender-neutral rates).
BENEFICIARY	Individual		
PREMIUM PAYER	Individual, employer or combination of both	FOR THE EMPLOYEE	<ul style="list-style-type: none"> Can help supplement group coverage. Benefits received are tax-free if premiums are paid with after-tax dollars. Policy and discounts are fully portable if employee leaves the employer.

Leave the details to us

Implementing business solutions using our life insurance products allows you to take advantage of ongoing services from our Business Market Administration (BMA) department. These complimentary services¹ can make a big difference in the success of these programs.

Services that give you an edge

Dedicated staff – BMA’s sole purpose is to support business programs such as yours. You will be assigned a knowledgeable administrator to provide personalized service and support.

Program-level reporting – We provide consolidated reports that list the coverage amounts, policy values and premium information for all the life insurance policies under your program.

List billing – We send consolidated payment reminders covering all the policies under your program. Annual, semiannual, quarterly and monthly payment modes are available.

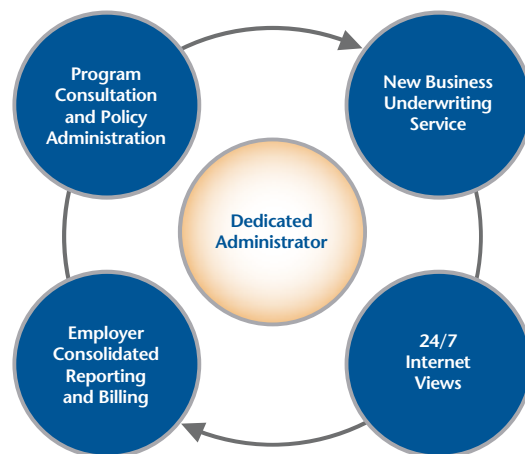
Online access – View policy information online. Policy owners may also make policy changes or initiate service requests via Internet access.

Ongoing support – Your BMA administrator is available to assist you and your financial representative with all of the following, and more!

- ▶ Adding new policies to your program
- ▶ Processing policy adjustments or other service requests.
- ▶ Generating policy illustrations/quotations to help assess life insurance coverage relative to business goals.
- ▶ Providing split dollar economic benefit or imputed interest reporting, if applicable.
- ▶ Researching answers to any questions that arise regarding the policies and/or your program design.
- ▶ Monitoring future tax law changes that could impact your plan.

Exceptional service every step of the way

Implementation is just the beginning. BMA will be with you throughout the life of your program.



¹ Administrative services for deferred compensation plans (e.g. Excess Plan, NQ Defined Benefit) are not provided by BMA, but instead by our dedicated nonqualified deferred compensation service team. Services for these plans are available for a fee with asset/liability tracking and reporting.

Your customized planning considerations

This informal business valuation reveals some planning considerations for your business. Please review the summary of your planning options below and rank your priorities according to the specific needs of you and your business. Then, set a target date for implementation and work with your financial professional on next steps.

	PRIORITY RANKING	TARGET DATE
EXIT PLANNING		
Buy-Sell Agreement – Businesses with two or more owners need a buy sell agreement fully funded with life and disability insurance. If one already is in place, a buy-sell review could be conducted by The Principal. You may have or want to consider a cross-purchase buy-sell agreement.	<input type="text"/>	<input type="text"/>
Business Succession Planning – In order to help you successfully transition out of your business, numerous buy-sell and transfer strategies are available. The Principal can consult with you to identify a solution best suited to your unique needs and company characteristics.	<input type="text"/>	<input type="text"/>
BUSINESS PROTECTION		
Key Person Life Insurance – It is likely that your business relies heavily upon the talents of your key employees. Consider purchasing life insurance policies on all owners and those key employees integral to the success of your business. The Principal offers a key person calculator to help you and your financial professional determine the appropriate amount of coverage.	<input type="text"/>	<input type="text"/>
Recruit, Reward, Retain Key Employees – Consider offering a nonqualified Principal Executive Bonus Plus plan to help fulfill a valuable benefit for select key employees that can also help you recruit, reward and retain those who are vital to the success of your business.	<input type="text"/>	<input type="text"/>
BUSINESS OWNER RETIREMENT PLANNING		
Principal S Owner Plus – As a profitable S corporation, this nonqualified retirement plan could complement other retirement plans you currently have in place.	<input type="text"/>	<input type="text"/>
DISABILITY INSURANCE PROTECTION		
Individual Disability Income Insurance – Consider purchasing disability income insurance to protect your income should you become too sick or hurt to work.	<input type="text"/>	<input type="text"/>

NEXT STEPS

- Consult with your tax and legal advisors.
- Apply for appropriate insurance protection through The Principal.



The previous 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.

All assets assume specific growth rates, calculated based on information from 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.

Although the informal business valuation from The Principal can provide a valuable starting point in helping you determine the value of your business, the valuation will not be a substitute for a formal valuation nor does it establish a value for tax purposes. A formal valuation should be constructed with the guidance of your legal and/or tax advisors.

Solutions outlined in this report do 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.

Because your business planning goals may change in the future, periodic monitoring should be an essential component of your program.

Disability income insurance has certain limitations and exclusions. For costs and complete details of coverage, contact your Principal Life financial representative.

Individual disability income insurance Series 700. Not all products available in all states.

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