What is a Captive Insurance Company?

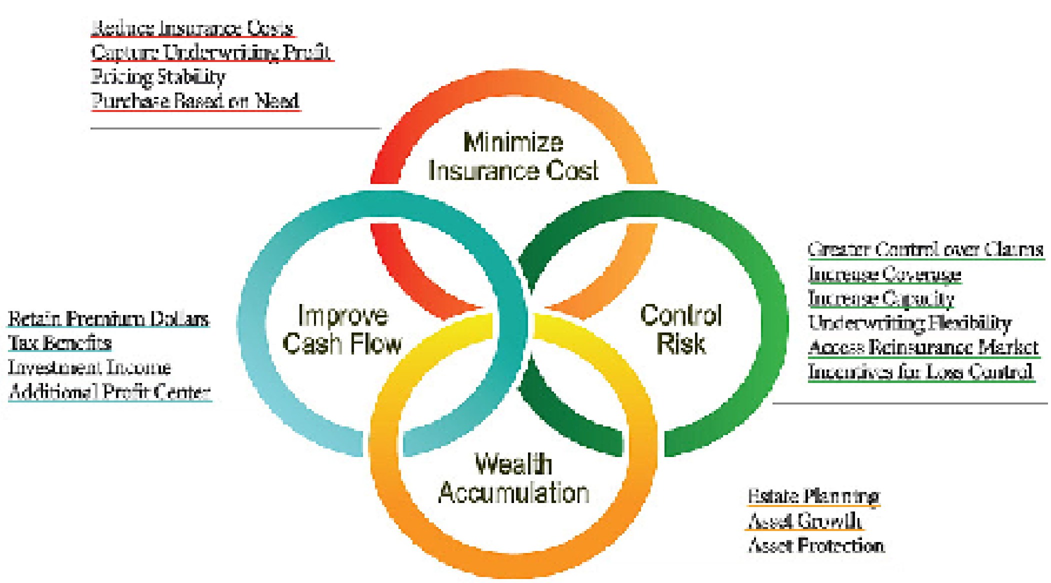
A captive insurance company is the premier risk-management and business-planning tool for businesses and their owners. A "captive" is a small insurance company that is owned by one or more business owners to provide insurance for the business.

The key benefits of a captive include a tax deduction of up to $1,200,000 per year for property and casualty insurance premiums, which is specifically permitted by the Internal Revenue Code. In 2002, the IRS issued three "Safe Harbor" rulings that provide guidance on tax-compliant captive arrangements. With these rulings, and other recent guidance by the IRS, there has never been a better time for closely-held profitable businesses to consider a captive.

A captive provides a number of advantages for a business, including:

- **Insure Hidden Risks.** Most business owners unknowingly self insure a large amount of risk. With a captive, self-insured risks can be converted into tax-deductible premiums that are paid to a captive.
- **Cost Reductions / Capture Captive Underwriting Profit.** Typically, 35% - 50% of the premium paid to a commercial insurer goes to overhead and profit. By eliminating the overhead of big insurance companies, a captive can reduce insurance costs and retain the difference.
- **Wealth Accumulation.** A captive is a wonderful estate planning vehicle; the captive also provides strong protection of assets against frivolous lawsuits and litigation threats.

The purposes of forming a captive include:



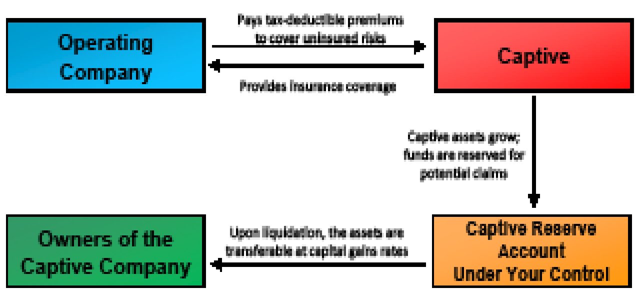
Planning Opportunities with a Captive:

- **Insurance Reserves:** Protect the business and owners with cash reserves
- **Insurance Planning:** Use pre-tax dollars in the captive to purchase life insurance
- **Estate Planning:** Use the captive for generational asset transfer
- **Buy-out Partners:** Buy-out partners using captive assets
- **Deferred Comp.:** Compensate key executives and avoid ERISA issues
- **Finance Purchases:** Use captive assets to finance purchase of land or other investments

Good Candidates for a Captive Include:

- Owners of closely-held profitable businesses
- Real estate developers and contractors
- Physician and physician groups (large and small)
- Other professional groups such as engineers, attorneys and accountants
- Businesses seeking large amounts of insurance at reasonable rates
- Businesses generally need adequate cash flow and taxable income of over $750,000 per year to qualify for a captive

THE CAPTIVE STRUCTURE (Simplified)



HOW THE NUMBERS WORK

An Example of a Captive's Financial Performance with Annual Premiums of $1,200,000

	Year 1	Year 5	Year 10
Aggregate premiums paid to captive:	$ 1,200,000	$ 6,000,000	$ 12,000,000
Tax savings to your business:	$ 480,000	$ 2,400,000	$ 4,800,000
Gross premiums held inside captive:	$ 1,200,000	$ 6,000,000	$ 12,000,000
Returns generated from invested premiums:	$?	$?	$?
Amount you have gained*:	**$ 480,000**	**$ 2,400,000**	**$ 4,800,000**

*Excluding net premium investment returns, insurance losses, and captive set-up and management expenses.

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