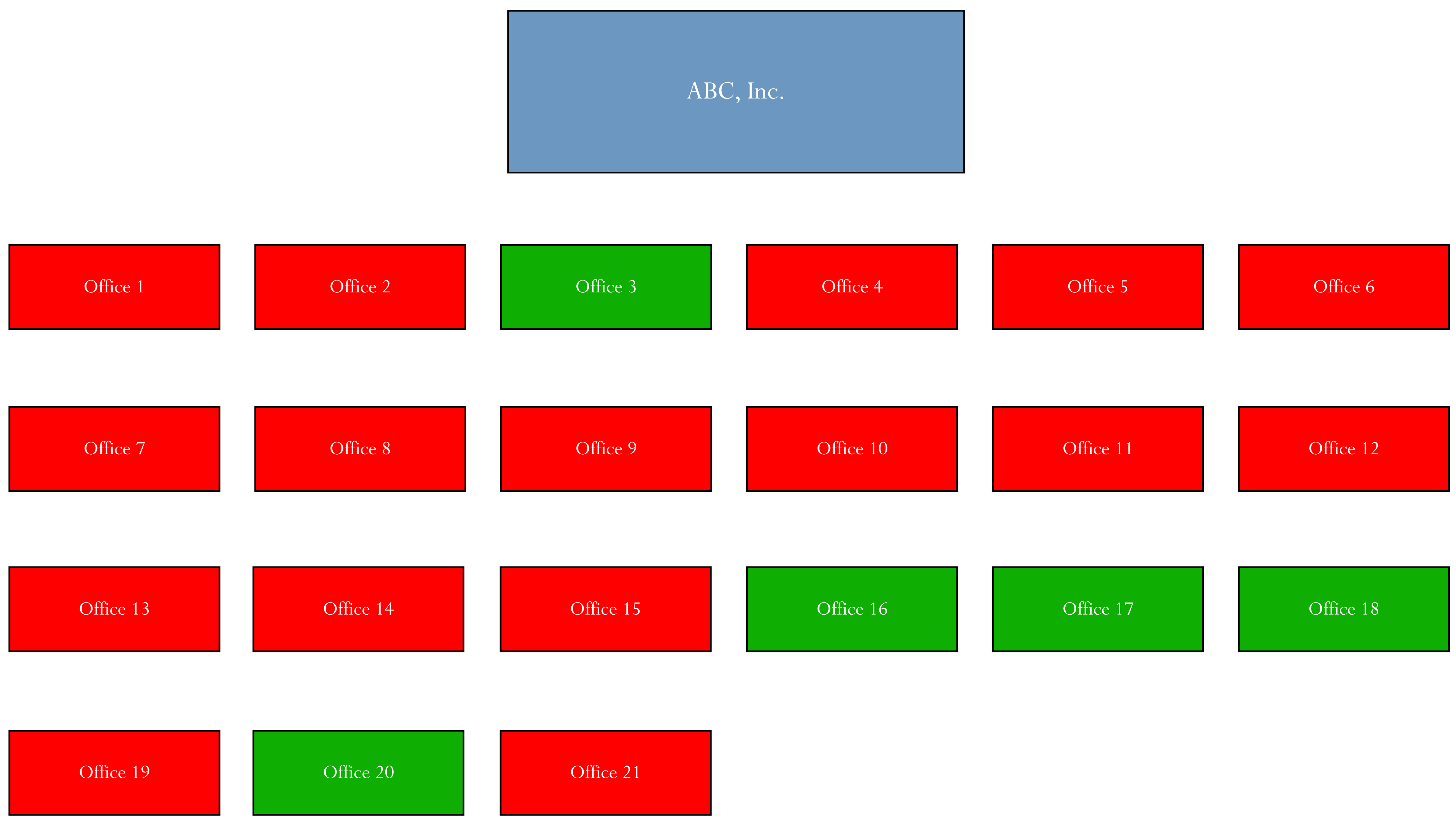
RUSHMORE BluePrint™

Current Diagnostic Status—Potential Conflicts With Joint Venture Agreements



- Interviews with Managers of Office 1, Office 5 and the company CFO indicate the joint venture parties presume they have an "Ownership Interest" in the respective office.
- 16 of the 21 offices are currently operating under some form of joint venture agreement. Three (3) offices are owned by separate corporations but covered under one joint venture form or another.
- Outside legal counsel has reviewed a sample of four (4) different agreements used to achieve the joint venture status and concluded:
  - An argument could be made that *the joint venture party owns part of the company*—either that branch or all of ABC, Inc.
  - The agreements also have Mr. Client as an individual party to the agreement, which could *create personal liability for anyone that has a problem with that branch office*.
  - The agreements create problems from a successor administrative perspective as *they involve Mr. Client in his individual capacity*. Should something happen to Mr. Client, *the probate court fees and costs would be significant* to continue to administer his estate and run each branch office.
- Based on the $2,600,000 valuation placed on the company and allocating the value amongst the 18 offices aggregated into ABC, Inc. (3 offices are owned by separate corporations), each office constitutes $144,000 in value. Most offices are under a 50/50 split agreement.
  - At Mr. Client's death and under current tax law, the 13 joint venture offices represent a value of $1,872,000 which results in an estate tax of $748,000 at a 40% rate. Based on a split of 50/50 with the joint venture parties, Mrs. Client, if she is the survivor, or Child 1, Child 2, and Child 3 as the survivor's, may be ***forced to pay roughly $375,000 in excess Estate Taxes*** because of the present arrangements.

- In our interview with Managers of Office 5, he indicated as a joint venture party that he has an "OWNERSHIP INTEREST" in the respective office.
- In our interview with the CFO, she indicated there are no formal joint venture agreement documents in place for the DEF, Inc. offices to avoid hurdles established by the Department of Business Oversight.
- Verbal agreements and/or the use of the same type of agreements used with ABC, Inc. may result in:
  - An argument being made that *the joint venture party owns part of the company*—either that branch or all of the corporation.
  - If a verbal agreement includes Mr. Client as an individual party to the agreement, it could *create personal liability for anyone that has a problem with that branch office*.
  - The agreements create problems from a successor administrative perspective as *they involve Mr. Client in his individual capacity*. Should something happen to Mr. Client, *the probate court fees and costs would be significant* to continue to administer his estate and run each branch office.
- Based on the $1,400,000 valuation placed on the company and allocating the value amongst the 13 offices aggregated into DEF, Inc., each office constitutes $108,000 in value. Most offices are under a 50/50 split agreement.
  - At Mr. Client's death and under current tax law, Estate Taxes will be applied to $1,400,000 of value generating a tax of $560,000 at a 40% rate. Based on a split of 50/50 with the five (5) joint venture parties, Mrs. Client, if she is the survivor, or Child 1, Child 2, and Child 3 as the survivor's, may be ***forced to pay roughly $108,000 in excess Estate Taxes*** because of the present arrangements.

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