PULLING THE RABBIT OUT OF THE GRAT HAT: SOME OF THE MOST CREATIVE GRAT PLANNING IDEAS WE SEE OUT THERE©

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PULLING THE RABBIT OUT OF THE GRAT HAT: SOME OF THE MOST CREATIVE GRAT PLANNING IDEAS WE SEE OUT THERE©

I. WHAT IS A GRAT AND WHAT IS THIS PAPER ALL ABOUT?

A. What is a GRAT?

The first inquiry is what is a GRAT? A GRAT (a grantor retained annuity trust) is an irrevocable trust to which the grantor transfers an asset in exchange for the right to receive a fixed amount annuity for a fixed number of fiscal years (the "Annuity Period").[1] When the trust term expires, any GRAT balance remaining is transferred tax-free to a designated remainder beneficiary (*e.g.*, the grantor's issue or a "defective grantor trust" for the benefit of the issue).[2] If a grantor makes a gift of property in trust to a member of the grantor's family while retaining an interest in such property, the taxable gift generally equals the fair market value of the gifted property without reduction for the fair market value of the retained interest.[3] However, I.R.C. Section 2702 provides that for a gift of the remainder of a GRAT in which the grantor retains a "qualified interest", defined to include a guaranteed annuity, the taxable gift will be reduced by the present value of the qualified interest, as determined pursuant to a statutory rate determined under I.R.C. Section 7520(a)(2) (the "Statutory Rate"). In general, the Statutory Rate requires an actuarial valuation under prescribed tables using an interest rate equal to 120 percent of the Federal midterm rate in effect for the month of the valuation.[4]

A grantor's ability to determine the size of the guaranteed annuity and the annuity period at the outset allows the GRAT to be constructed so that the present value of the grantor's retained interest approximately equals the value of the property placed in the GRAT, resulting in a "zeroed out" GRAT.[5] Thus, a GRAT could be structured, where there is no, or a relatively modest, taxable

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[1] The GRAT may also be structured to terminate on the earlier of a period of years or the grantor's death, with a reversion of the entire corpus to the grantor's estate on premature death, but doing so will reduce the value of the retained interest.

[2] I.R.C. § 2702 provides the statutory authority for such transfers after October 8, 1990. I.R.C. § 2702(a) uses the "subtraction-out" method to value retained interests of split interests transfers. Under I.R.C. § 2702(b), a qualified interest includes any interest that consists of a right to receive fixed amounts. The value of a remainder interest in a GRAT that meets the requirements of § 2702 is computed by subtracting the present value of the grantor's annual annuity payments from the contributed properties' current fair market value. The grantor must recognize a taxable gift to the extent of any computed remainder interest. The present value of the grantor's annual annuity payment is computed by discount rates set by the Service under I.R.C. § 7520. The IRS Tables change monthly to reflect an interest rate assumption of 120% of the mid-term adjusted Federal Rate for that month under § 1274(d)(1).

[3] *See* I.R.C. Section 2702(a)(2)(A). Absent Section 2702, the amount of the gift would be reduced by the value of the retained interest. *See* Regulations section 25.2511-1(e).

[4] *See*, I.R.C. Section 7520(a)(2). Certain exceptions set forth in Regulations section 25.7520-3(b) do not appear to be applicable to the facts discussed in this paper.

[5] The possibility of completely "zeroing out" a GRAT was negated by Example 5 of Regulations section 25.2702-3(e). Example 5 was invalidated by *Walton v. Comm'r*, 115 T.C. 589 (2000), acq., Notice 2003-72, 2003-44 I.R.B. 964. Final regulations reflecting *Walton* and containing a revised Example 5, have been issued. T.D. 9181

gift. If the GRAT does not earn a yield or otherwise appreciate at a rate equal to the Statutory Rate, all the trust property will be returned to the grantor in payment of the retained annuity, and no transfer of property to the GRAT's beneficiaries will occur. If the grantor dies during the GRAT term, all or most of the GRAT property should be included in the grantor's gross estate and be subject to estate tax, with a reduction for any gift tax paid upon creation of the GRAT. If, however, the grantor survives the GRAT term and the GRAT earns a yield or otherwise appreciates at a rate that exceeds the Statutory Rate, the amount of such excess value should pass to the GRAT's designated beneficiaries free of transfer tax.

B. Some of the Goals of This Paper.

There is no question that the GRAT is one of the most popular estate planning tools that the practitioner utilizes. While it is a very popular estate planning tool, it is probably a fair statement that it is not always an effective estate planning tool. Critical administrative issues exist with a GRAT that can lead to its failure. A GRAT will not succeed unless the asset that is held by the GRAT increases substantially in value. Generally, a GRAT is not a good tool for leveraging a client's generation-skipping tax exemption.[6]

(February 24, 2005), 70 F.R. 9,222-24 (February 25, 2005). Prior to its acquiescence, the Service, in Revenue Procedure 2002-3, 2002-1 C.B. 117, §4.01(51), announced that it will not issue a favorable private letter ruling in circumstances where the amount of the guaranteed annuity payable annually is more than 50 percent of the initial net fair market value of the property transferred to the GRAT or if the present value of the remainder interest is less than 10 percent of the transferred property's initial net fair market value. The regulations do not include any such 50/10 limitation, nor would such a limitation be consistent with the *Walton* case itself, which involved a zeroed-out GRAT. The 50/10 limitation is not mentioned in the Obama administration's recent reform proposals with respect to GRATs and the lack of such limitation seems to be conceded in its explanation. *See*, Treasury Department's "General Explanation of the Administration's Fiscal Year 2010 Revenue Proposals" (Greenbook, May 11, 2009.) In particular the Greenbook notes:

> **Reasons for Change**
> GRATs have proven to be a popular and efficient technique for transferring wealth while minimizing the gift tax cost of transfers, providing that the grantor survives the GRAT term and the trust assets do not depreciate in value. The greater the appreciation, the greater the transfer tax benefit achieved. Taxpayers have become more adept at maximizing the benefit of this technique, often by minimizing the term of the GRAT (thus reducing the risk of the grantor's death during the term), in many cases to 2 years, and by retaining annuity interests significant enough to reduce the gift tax value of the remainder interest to zero or to a number small enough to generate only a minimal gift tax liability.
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> **Proposal**
> This proposal would require, in effect, some downside risk in the use of this technique by imposing the requirement that a GRAT have a minimum term of 10 years. Although a minimum term would not prevent "zeroing-out" the gift tax value of the remainder interest, it would increase the risk of the grantor's death during the GRAT term and the resulting loss of any anticipated transfer tax benefit.
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> This proposal would apply to trusts created after the date of enactment.

However, the no-ruling policy is still in effect. Rev. Proc. 2010-3, 2010-1 I.R.B. 110, §4.01(53).

[6] However, the tax year 2010 may provide a generation-skipping tax exemption window. Whether the window will protect GRATs created in 2010 and terminating in a later year is uncertain.

The purpose of this paper is to offer the reader some suggested solutions, which should ameliorate or eliminate the above concerns and make the GRAT a more effective estate planning tool. This paper discusses some of the most creative structural techniques, financial leverage techniques and financial engineering techniques we see out there that are integrated with the GRAT estate planning technique. Many of the ideas suggested in this paper were borrowed or inspired from the creative thinking of other practitioners[7] and colleagues.[8]

II. ADVANTAGES OF A GRAT

A. Valuation advantage of a GRAT.

Under the regulations, the grantor's retained annuity rights may be defined in the trust instrument as a percentage of the fair market value of the property contributed by the grantor to the trust, *as such value is finally determined for federal tax purposes*. For example, the trust agreement might provide for payments of 53% per year for two years, where the 53% annual payment amount is derived from the initial value. This type of language operates as a built-in revaluation clause, mitigating the risk of a surprise gift on revaluation of the transferred property by the Service. This feature can be especially beneficial with contributed assets of which reasonable people (and unreasonable people) could differ as to the initial value (e.g., a private derivative, closely held limited partnership interest, or closely held subchapter S corporation stock).

B. Ability of Grantor to Pay for Income Taxes Associated With GRAT Gift Tax-free and Substitute Assets of the GRAT Income Tax-free.

A GRAT can be designed to be an effective trust for estate and gift tax purposes and income tax purposes (i.e., a so-called grantor trust). That is, the trust will not pay its own income taxes, rather the grantor of the trust will pay the income taxes associated with any taxable income earned by the trust.

I.R.C. Section 671 through 677 contain rules under which the grantor of a trust will be treated as the owner of all or any portion of that trust, referred to as a "grantor trust." If a grantor retains certain powers over a trust, it will cause the trust to be treated as a grantor trust. If the grantor is treated as the owner of any portion of a trust, I.R.C. Section 671 provides that those items of income, deductions, and credits against the tax of the trust that are attributable to that portion of the trust are to be included in computing the taxable income and credits of the grantor to the extent that such items will be taken into account in computing the taxable income or credits of an individual. An item of income, deduction or credit included under I.R.C. Section 671 in computing the taxable income and credits of the grantor is treated as if received or paid directly to

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[7] All of us are indebted to the creative work of Mil Hatcher, Jonathan Blattmachr, Ellen Harrison, Carlyn McCaffrey, Jonathan Rikoon, Richard Dees, Jonathan Koslow, Richard Covey and Dan Hastings.

[8] Special thanks to my Goldman Sachs colleagues, including Jeff Mullen, Jeff Daly, Cliff Schlesinger, Karey Dye, Melinda Kleehamer, Michael Duffy and Cathy Bell.

the grantor.[9] Thus, if the private investor contributes assets to an intentionally defective grantor trust, the assets will grow (from the point of view of the trust beneficiaries) income-tax free. Furthermore, the IRS now agrees that there is no additional gift tax liability, if the private investor continues to be subject to income taxes on the trust assets and there is no right of reimbursement from the trust.[10]

Under Rev. Rul. 85-13,[11] a grantor is treated as the owner of trust assets for federal income tax purposes to the extent the grantor is treated as the owner of any portion of the trust under I.R.C. Section 671-77. In that ruling, it was held that a transfer of trust assets to the grantor in exchange for the grantor's unsecured promissory note is not recognized as a sale for federal income tax purposes.[12]

Similarly, if the grantor is treated as the owner of the trust property and transfers property into the trust in exchange for property previously held by the trust, such transfer will not be recognized as a sale, exchange or disposition for federal income tax purposes.[13] Thus, no gain or loss is realized by the grantor or the trust. The basis of the property transferred into the trust is unaffected by the transfer, and neither the grantor or the trust acquires a cost basis in the assets transferred from or to the trust.

Thus, if the assets of the GRAT, any time during the term of the GRAT, have significant appreciation, the grantor is in a position to substitute other assets to lock in the profit of the GRAT. As a practical matter, the ability to substitute assets may be used by the grantor of a GRAT to "lock in" appreciation in the investment of a GRAT prior to the end of the Annuity Period by substituting other assets of equal value that are less likely to fluctuate, if at the time of such substitution the yield or appreciation of the investments of a GRAT surpasses the Statutory Rate. In this connection, Treasury Regulation Section 25.2702-3(b)(5) requires the governing instrument of a GRAT to prohibit additional contributions to the GRAT after its inception. It might be argued that the power to swap assets of equal value constitutes a power to make an additional contribution. However, to date the Service has not made this connection. In addition, numerous private letter rulings have approved GRATs containing a power of substitution without raising or reserving as to this issue.[14] Other considerations with respect to swapping assets with respect to GRATs are addressed later in this paper.

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[9] Treas. Reg. Section 1.671-2(c).

[10] *See* Rev. Rul. 2004-64, 2004-2 C.B. 7 (July 1, 2004).

[11] Rev. Rul. 85-13, 1985-1 CB 184.

[12] *See also*, PLR 9146025 (August 14, 1991) (finding that transfer of stock to grantor by trustees of grantor trust in satisfaction of payments due grantor under the terms of the trust does not constitute a sale or exchange of the stock).

[13] *See* PLR 9010065 (December 13, 1989).

[14] *See*, e.g., PLR 200220014 (Feb. 13, 2002); PLR 200030010 (Apr. 26, 2000); PLR 200001013 (idem, 200001015 (Sept. 30, 1999)); PLR 9519029 (Feb. 10, 1995); PLR 9451056 (Sept. 26, 1994); PLR 9352007 (Sept. 28, 1993); PLR 9352004 (Sept. 24, 1993); PLR 9239015 (Jun. 25, 1992).

C. Synergy With Other Techniques.

A GRAT may be a means to transfer enough wealth to a trust for the benefit of the next generation in order to provide leverage for other future estate planning techniques. If the GRAT, or GRATs, that a grantor and a grantor's spouse create are successful (e.g. 10% of the family's wealth is transferred downstream to the grantor's family or to trusts for the grantor's family), further leveraging with respect to other transfer tax planning techniques could occur. For instance, assume that a GRAT or GRATs that are created by a grantor and a grantor's spouse transfer approximately 10% of the family's net worth to a grantor trust for the benefit of their family. The grantor and the grantor's spouse could transfer their remaining assets to a trust in exchange for a note that is equal to the fair market value of what has been transferred. In that fashion, the grantor has achieved a freeze of his or her estate (except for the interest carry on the note) while paying no (or very little) gift tax. That trust could also purchase life insurance to equal approximately 50% of the projected principal amount of the note due on the death of the surviving spouse.

D. Comparatively Low Hurdle Rate.

Currently, the Statutory Rate has been ranging between 3% and 3.6%. In today's relatively low interest rate environment for US Treasury obligations, it is certainly possible, and for certain investments probable, that the investments of a GRAT will exceed that hurdle rate.

E. High Leverage.

A GRAT can be created where the grantor retains an annuity amount that is almost equal to the value of the assets there were originally placed in the GRAT. Stated differently, significant leverage can be created by creating an annuity that is almost equal to the value of the assets placed into the GRAT. As noted above, if there is appreciation above the Statutory Rate, the appreciation above the Statutory Rate will accrue to the remainderman. In comparison, most practitioners believe that other leveraged gifting techniques, including a sale to a grantor trust, should have more equity associated with the transaction (e.g., for example, some practitioners advocate at least 10% equity with a sale to a grantor trust, which usually results in a taxable gift).

F. Non-recourse Risk to Remaindermen.

Another financial advantage of the GRAT technique is that if the asset goes down in value, the remaindermen have no personal exposure. Furthermore, there is no added cost of wasting significant gift tax exemptions of the grantor. For instance, assume for the sake of comparison, that at the time of the sale to the grantor trust, the grantor trust had 10% - 15% equity. If the asset goes down in value, that equity of the trust could be eliminated and the exemptions that were originally used to create that equity could also be wasted.

G. Administration's Legislative Proposal.

President Obama has proposed revisions to the rules governing GRATs. A minimum ten-year term for GRATs was proposed in May, 2009, as part of the Administration's revenue proposals for fiscal year 2010. In February, 2010, the Administration's revenue proposals for

fiscal year 2011 reiterated this proposal and added (1) a requirement that a GRAT remainder have a value greater than zero, and (2) a prohibition on any decrease in the annuity during the GRAT term. The latest statement of the proposal is:

> The proposal would require, in effect, some downside risk in the use of this technique by imposing the requirement that a GRAT have a minimum term of ten years.[15] The proposal would also include a requirement that the remainder interest have a value greater than zero and would prohibit any decrease in the annuity during the GRAT term. Although a minimum term would not prevent "zeroing-out" the gift tax value of the remainder interest, it would increase the risk of the grantor's death during the GRAT term and the resulting loss of any anticipated transfer tax benefit. [emphasis added]
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> This proposal would apply to trusts created after the date of enactment. *General Explanations of the Administration's Fiscal Year 2011 Revenue Proposals* (Department of the Treasury, February 2010)(also known as the "Green Book"), p. 126.

The fiscal year 2010 proposal did not include the underscored text, which was added in the fiscal 2011 proposal. There is a contradiction between the added sentence and the first clause of the sentence that follows it, since requiring the remainder interest to have a value greater than zero would prevent "zeroing out".

President Obama's proposed revisions to the rules governing GRATs have been included in legislation approved by the House Ways and Means Committee. The President proposed a minimum ten-year term for GRATs in May, 2009, as part of the Administration's revenue proposals for fiscal year 2010. In February, 2010, the Administration's revenue proposals for fiscal year 2011 reiterated this proposal and added a requirement that a GRAT remainder have a value greater than zero, and a prohibition on any decrease in the annuity during the GRAT term.

All three of the President's proposals are included in H.R. 4849, which was approved by the House Ways and Means Committee on March 17, 2010. Section 307 of H.R. 4849 would amend IRC Sec. 2702(b) to group existing paragraphs (1), (2) and (3) into a single paragraph (1) as subparagraphs (A), (B), and (C), and then add new paragraph (2) to read as follows:

> (2) ADDITIONAL REQUIREMENTS WITH RESPECT TO GRANTOR RETAINED ANNUITIES.—For purposes of subsection (a), in the case of an interest described in paragraph (1)(A) (determined without regard to this paragraph) which is retained by the transferor, such interest shall be treated as described in such paragraph only if—
>
> (A) the right to receive the fixed amounts referred to in such paragraph is for a term of not less than 10 years,

[15] Cf. section 673 as applicable to a so-called *Clifford* trust created before or on March 1, 1986, with a ten-year minimum term.

(B) such fixed amounts, when determined on an annual basis, do not decrease relative to any prior year during the first 10 years of the term referred to in subparagraph (A), and

(C) the remainder interest has a value greater than zero determined as of the time of the transfer.

The bill applies only to "an interest described in paragraph (1)(A)" (as renumbered by the bill) and therefore does not apply to grantor retained unitrusts.

Sec. 307(b) of the bill provides:

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers made after the date of the enactment of this Act.

The bill does not specify what the required remainder value must be, either absolutely or as a percentage of the trust's value. The specifics are left to the regulations, and there is no grant of special "legislative" regulatory authority in the bill. Given the language of the bill, it would seem difficult for an interpretive regulation to impose any requirement greater than a bare minimum positive value. One approach that Treasury and the IRS might be tempted to take is to return to the rule that applied under former Example (5) of Treas. Reg. §25.2702-3(e) prior to its amendment in T.D. 9181 (Feb. 24, 2005). The amendment reflected the decision in *Walton v. Commissioner*, 115 T.C. 589 (2000), holding Example (5) invalid. Under Example (5), in valuing the retained annuity no actuarial weight was given to payments made after the grantor's death. Since there was always some chance that the grantor would die during the GRAT term, the resulting "mortality contingency" meant that the remainder would have some value, and made zeroing out impossible. The impact of a return to former Example (5) would be increased by the requirement that the GRAT have at least a ten year term, since a grantor is more likely to die within ten years than within two. A return to former Example (5) seems to go well beyond the language of the bill, and to be precluded absent a special grant of regulatory authority.

The ability to "zero out" has been a key feature of GRATs. Since any positive value for the remainder should meet the bill's new requirement, the ability to use GRATs while paying no or minimal gift tax remains intact. The bill does not include provisions that would have effectively shut down the use of GRATs, such as requiring a ten percent remainder and/or putting a cap on the annuity.

The prohibition of any decrease in the annuity during the first ten years of the GRAT term seems the least significant of the three changes. Few GRATs or GRAT strategies have utilized a decreasing GRAT annuity. The current rule of Treas. Reg. §25.2702-3(b)(1)(ii)(A), permitting annual 20% increases in the GRAT annuity, would be unaffected by the bill.

The minimum ten-year term is a significant change that will make GRATs less effective, but will not end their utility. The ten year term will increase interest in techniques that may remove the GRAT from the grantor's gross estate, some of which are discussed in this paper. In addition to the risk of inclusion, the bill would curtail the effectiveness of GRATs in other ways. Most GRATs are zeroed out (or nearly so) to avoid gift tax upon creation. A zeroed-out GRAT is successful in passing property to the remaindermen only to the extent that its assets outperform the IRC Sec. 7520 rate during the GRAT term. The investment performance on the whole will

reflect good years and bad years during the term. A series of short terms, such as five two-year terms, means that the return during good periods is not offset by that of the bad periods. The return in the good period is "captured" when the trust ends, and a subsequent bad period, while not itself successful, does not reduce the captured benefit of the good period. The ten year minimum means that ups and downs over that period will average out, and the result will not be as good as five two year terms.

The effect of good investment performance during one period can be protected against subsequent losses by a sale and shift to less volatile investments, at the possible cost of lower returns thereafter. This can be done without capital gains tax if the GRAT is a grantor trust and the grantor repurchases assets from the GRAT. If the grantor is also the trustee, a self-dealing issue (in the fiduciary, not tax sense) is presented that can be dealt with in the trust instrument. The bill does not negate this technique. It is relevant where the GRAT experiences an extraordinary valuation increase, as upon the sale of a company.

Upon payment of the annuity some grantors transfer the payment to a new GRAT immediately so as to keep as much property as possible earning for the benefit of the GRAT remainderman. Such re-transfers (sometimes called "cascading" GRATs) will now require a ten-year commitment instead of two-year one, as of the date of retransfer.

The bill requires a minimum ten year term only if the GRAT annuity is "retained by the transferor." These words will have to be interpreted by the regulations. Efforts will be made to devise structures that avoid this requirement without giving rise to adverse gift or income tax consequences.

Notwithstanding the disadvantages of a ten year term, several of the techniques discussed in this paper are compatible with a ten year term and will remain highly effective even if the bill becomes law.

III. DISADVANTAGES OF A GRAT

A. Financial Reasons Why a GRAT May Not Succeed.

A famous University of Texas football coach, Darrell Royal, once explained why he disdained the forward pass, "Three things can happen when you throw a pass and two of them are bad." To a certain extent the same thing can be said about investments that are placed in a GRAT. If the investment goes down (the equivalent of a pass interception), or if an investment only increased modestly (the equivalent of a pass incompletion), the GRAT will be unsuccessful in transferring wealth to the remainderman. Thus, because of investment performance, many GRATs may not be successful.

1. Some Assets Are Not Volatile.

Generally, assets that have a chance to have a significant result over the Annuity Period have a wide variance of possible investment outcomes. A stable asset portfolio, while in another context generally desirable, is not a desirable portfolio for a GRAT. If the leading objective of the

GRAT is to produce a transfer of wealth to the remainderman, variance of return (or risk) is a friend, not an enemy. Thus, the challenge for the practitioner for clients that have a stable portfolio of assets is how to make the GRAT an effective technique.

2. Some GRAT Investments Are Only Profitable if the Investment is Long.

Another challenge for the practitioner in dealing with many clients' normal asset portfolio is that the assets are only profitable if the markets in which the assets are invested increase. Markets do not always increase in value, nor do the assets which find much of their return related to that market always increase in value. Thus, if the markets are flat, or if the markets are decreasing in value, many of the GRATS created during that period will be unsuccessful.

B. If a GRAT is Not Administered Properly, the Retained Interest By the Grantor May Not Be Deemed to Be a Qualified Interest.

1. The *Atkinson* Worry.

The U.S. Court of Appeals for the Eleventh Circuit (*see Atkinson*, 309 F.3rd 1290 (11th Cir. 2002), cert denied, 540 U.S. 945 (2003)),[16] has held that an inter vivos charitable remainder annuity trust's (CRAT's) failure to comply with the required annual payment regulations during the donor's lifetime resulted in complete loss of the charitable deduction. The Court found that the trust in question was not properly operated as a CRAT from its creation. Even though the subject CRAT prohibited the offending acts of administration, the Court held that the CRAT fails.

In a similar fashion, the Internal Revenue Service could take the position that if the regulations under IRC Section 2702 are violated by the trustee of the GRAT's administrative practices, then the interest retained by the grantor will not be a qualified interest. Just as in the *Atkinson* case, it may not matter if appropriate savings language is in the document. As explored below, there are many areas in which the administration of a GRAT may fail, including the following: (i) not timely paying the annuity amount due to the grantor; (ii) inadvertently making more than one contribution to the GRAT; (iii) inadvertently engaging in an activity that would constitute an underpayment of the amount owed to the grantor, which would constitute a deemed contribution; and/or (iv) inadvertently engaging in an activity that would constitute an acceleration of the amounts owed to the grantor (a commutation).

2. The Annuity Amount Must Be Paid Annually.

An annuity amount payable based on the anniversary date of the creation of the trust must be paid no later than 105 days after the anniversary date. An annuity amount payable based on the taxable year of the trust may be paid after the close of the taxable year, provided that the payment is made no later than the date on which the trustee is required to file the federal income tax return of the trust for the taxable year (without regard to extensions).[17] Failure to pay the annuity amount

[16] *See* also CCA 200628028 (July 14, 2006).

[17] *See* Treas. Reg. Section 25.2702-3(b)(4).

within these time limits may jeopardize the retained interest by the grantor of the trust from being a qualified interest. If a retained interest in the GRAT is not a qualified interest, then it will have a value of zero for purposes of determining the gift tax associated with the grantor's contribution of assets to the trust.

3. Paying the Grantor in Satisfaction of His Retained Annuity Interest With Hard to Value Assets May Disqualify His Retained Interest From Being a Qualified Interest, if the Assets Are Valued Improperly.

In order to have a successful GRAT, it is obviously desirable to have an asset that has significant potential for appreciation. It is desirable from a volatility and potential growth standpoint to contribute, in many instances, a hard to value asset to the GRAT. Many of the asset classes that have that potential for appreciation (e.g., closely held partnership interests, stock in subchapter S corporations, real estate, hedge funds and other private equity investments) are very difficult to value accurately.

The problem with a GRAT that owns hard to value volatile assets is that when it is time to pay the retained annuity amounts to the grantor, it is often difficult to value the asset that is being used to satisfy the annuity obligation. If the distributed asset is finally determined to have had too low a value when it is used to satisfy the annuity amount owed by the GRAT, it could be deemed to be an additional contribution by the annuitant to the GRAT, which is prohibited. *See* Treas. Reg. Sec. 25.2702-3(b)(5). On the other hand, if it is finally determined that the hard to value asset that is distributed in satisfaction of the annuity payment to the grantor had too high a value, it could be determined by the IRS that such a payment is a commutation, which is also prohibited. *See* Treas. Reg. Sec. 25.2702-3(d)(5). Thus, the trustee of the GRAT, which is frequently also the grantor, must be very careful, like Goldilocks, to make sure that the annuity payments are "just right". Using hard to value assets, to make the "just right" payments, may be highly problematic.

4. The Contribution of Assets to the GRAT Must Be Made At the Exact Point of the Creation of the GRAT.

As noted above, there cannot be any additional contributions to a GRAT. If an assignment to a GRAT is not effective at the same time of assignment of another asset to a GRAT is made, that could be finally determined to violate the prohibition against additional contributions to a GRAT. That additional contribution could cause the retained interest in the GRAT by the grantor to not be considered a qualified interest for purposes of IRC Section 2702.

C. The Retained Annuity Interest is Valued Using the Valuation Principles Under IRC Section 7520.

One of the disadvantages of a GRAT in comparison to sales to intentionally defective grantor trusts is that the qualified interest is valued under IRC Section 7520, which is inherently higher than the AFR that may be used for notes received for sales to intentionally defective grantor trusts.

D. A Successful GRAT Could Regress to the Mean By the End of the Term of the GRAT.

As noted above, one of the disadvantages of the GRAT is that it cannot be commuted. The GRAT must last its designated term and the only permissible beneficiary of the GRAT during the term of the GRAT is the holder of the annuity interest. Assume a grantor creates a three year GRAT with a volatile stock in which there has been a significant increase in value by the end of year two. If the stock then regresses to a lower price before the end of the third year of the GRAT, less value will pass to the remainderman beneficiaries of the GRAT, than would have been the case, if the GRAT could have been commuted in two years.

E. The GRAT May Not Satisfy a Client's Stewardship Goals Because the Investments of the GRAT May Have Been Too Successful.

Many clients, in developing their future stewardship goals for their assets, have a view that only a certain percentage of their assets should go to their descendants. If a GRAT is more successful than a grantor anticipated, the possibility exists that the stewardship balance the client wishes to maintain may be upset.

F. The GST Tax Exemption May Be Difficult to Leverage Through the Use of a GRAT.

It is difficult to leverage the GST exemption with a GRAT. (This may change for GRATs created in 2010 because under current law there is no generation-skipping tax for that year or an estate tax inclusion period ("ETIP") and the gift to a generation-skipping trust may be deemed completed upon the GRATs creation.)[18] It is generally thought that the generation-skipping tax exemption of the grantor may not be leveraged, like the gift tax exemption may be leveraged, through the use of a GRAT. This is because of the ETIP rule found in IRC Section 2642(f)(3), which provides as follows:

> Any period after the transfer described in paragraph (1) during which the value of the property involved in such transfer would be includible in the gross estate of the transferor under Chapter 11 if he died. The transferor's exemption for generation-skipping tax purposes cannot be allocated until after the ETIP period.

Since a grantor is the only beneficiary of a GRAT during the Annuity Period, if the grantor dies during that term a significant portion (usually all) of the assets of the GRAT will be included in the grantor's estate under IRC Section 2036 of Chapter 11. Only after the Annuity Period passes, and it is clear that the property will not be included in the grantor's estate for estate tax purposes, may a grantor's GST exemption be allocated.

[18] Legislation restoring the generation-skipping tax for all or part of 2010 is possible. How such legislation would treat a GRAT created in 2010 and terminating in a subsequent year is uncertain. To hedge this uncertainty, a donor could create a GRAT in 2010 and direct that the remainder interest not subject to the GST tax (if any) be allocated to a properly structured dynasty trust and the balance to the donor's children.

G. A GRAT Will Not Be Successful in Transferring Assets if the Grantor Does Not Survive Until the End of the Term of the GRAT.

If a grantor does not survive the Annuity Period a significant portion or all of the assets of the GRAT will be included in the grantor's estate. The amount of corpus of the GRAT that will be included in the grantor's estate is that amount that is necessary to yield the annuity payment to the grantor without reducing or invading the principle of the GRAT. The annual annuity receivable divided by the Section 7520 interest rate equals the amount includable under Section 2036. *See* Treas. Reg. Section 20.2036-1(c)(2) and Treas. Reg. Section 20.2036-1(c)(2)(iii), Example 2.

IV. POSSIBLE STRUCTURAL SOLUTIONS TO ADDRESS CERTAIN ADMINISTRATIVE AND CERTAIN STEWARDSHIP DISADVANTAGES OF A GRAT

A. Structural Solutions to Prevent the Inadvertent Additional Contribution of Assets to a GRAT.

1. When creating the GRAT, the grantor may wish to consider a provision that prohibits any additional contributions to the GRAT and if any additional contribution is made, a new GRAT must be created specifically to hold that contribution.

2. The grantor of the GRAT may wish to consider initially making the trust revocable. Once all assignments to the trust have been completed, the grantor could amend the trust to make it an irrevocable GRAT.

B. Structural Solutions to Ensure That the Annuity Amount is Always Deemed to Be Paid On a Timely Basis.

The grantor of the GRAT may wish to consider a provision in the trust document that provides (pursuant to a formula) a portion of the trust that is equal to the Annuity Amount due to the grantor shall not be subject to the trust. If that portion remains in the hands of the trustee after the annuity payment date, the trustee shall hold such property only as a nominee or agent for the grantor. The grantor may also wish to consider a provision in the trust document that the portion of the trust estate that is being held in that agent capacity can be comingled and that the person also serving as trustee has full authority, as agent, to invest the property.

C. Structural Solutions to Limit the Amount That is Received By the Remainderman of the GRAT.

Generally, it is advantageous for the grantor to put as much as he or she can afford into a GRAT because that increases the likelihood of the remainderman beneficiaries receiving assets when the GRAT terminates. For instance, assume a client holds an interest in a closely held company. The client believes that within the next few years there could be a monetary event with respect to his stock in the company either through a public offering or a merger. However, assume the client's stewardship goal is that, by the time of his death, a certain dollar amount will pass to

trusts for the benefit of his descendants with the rest of his estate passing to his favorite charitable causes. Under those circumstances, the more stock the client contributes to a GRAT, the greater the chance is that there will be sufficient assets as the end of the term of the GRAT to at least equal stewardship goal he has for his descendants. The inherent conflict with that strategy is that the more stock of the closely held company that he puts into the GRAT the greater the chance that the remainder amount will exceed the stewardship goal that he has for his descendants.

A structural solution for a donor with those stewardship goals is to put a cap on the amount left in the trust for the benefit of his descendants at the end of the annuity term. To the extent that the value of the assets of the GRAT on its termination exceeds that cap, there could be a provision that requires that excess to revert back to the donor. In that manner, the client could be encouraged to contribute most, if not all, of his stock in the closely held business to the GRAT, which helps ensure that the GRAT will be successful in reaching his stewardship goal for his descendants, without the disadvantage of harming his charitable stewardship goals.

D. Solutions to Reduce the Mortality Risk in GRATs.

1. The grantor could sell her retained annuity interest.

If the sale is made to a grantor trust or to a spouse, the sale will not have any income tax consequences. Although the transfer of a retained interest that would otherwise cause inclusion under IRC Sec. 2036 is presumptively subject to the three year rule of IRC Sec. 2035(a), a sale for full and adequate consideration is exempt under IRC Sec. 2035(d). The IRS could characterize consideration equal to the remaining value of the annuity as not full and adequate for purposes of IRC Sec. 2035 under the doctrine of *United States v. Allen,* 293 F.2d 916 (10th Cir. 1961). The viability of *Allen* may be questioned in light of the cases discussed below in Section V D. Even if the sale is not for full and adequate consideration, if the grantor lives at least three years after the sale, IRC Section 2036 inclusion should be avoided.

2. The grantor could create and fund an insurance trust that would have an "estate planning windfall" if the grantor dies before the GRAT term terminates.

3. The grantor could purchase the remainder interest in a profitable GRAT from the remainder beneficiaries.

If before the end of the term of the GRAT, the GRAT is very profitable and the grantor wishes to lock in the gain and the mortality risk of the grantor, the grantor could purchase the remainder interest. If the remainder beneficiary is a grantor trust there will not be any income tax consequences triggered by the purchase. The proceeds of the purchase will be removed from the grantor's estate. The IRS could characterize such a purchase as a commutation, as it did for QTIP trusts in Rev. Rul. 98-8, 1998-1 C.B. 541. However, the policy underlying that ruling (to avoid an "end run" around IRC Sec. 2519) does not apply to a GRAT. In order to preserve this opportunity the GRAT trust document must not contain traditional spendthrift clauses and must permit a transfer of interests in the GRAT.

4. The GRAT could be created by the grantor in consideration of full and adequate consideration.

If the remainder interest of a GRAT is not created by gift, but is created for full consideration, IRC Section 2036 should not apply to the GRAT assets, if the grantor dies before the end of the term of the trust. See the discussion in Section V D.

V. POSSIBLE SOLUTIONS TO ALLOW A GRAT TO LEVERAGE THE GST EXEMPTION

A. Introduction.

The "conventional wisdom" this author sometimes hears on this subject is as follows: "the remainderman of a GRAT cannot be a generation-skipping trust" or "you can use the leverage of a GRAT for gift tax purposes, but you cannot use that leverage for generation-skipping tax purposes." This "conventional wisdom," under the circumstances described below, may be incorrect.

As noted above, a GRAT can be structured to have almost no value attributable to the remainderman, valued as of the creation of the trust. If the asset that has been contributed to GRAT outperforms the I.R.C. Section 7520 interest rate, that outperformance results in a gift tax free gift to the remainderman. Thus, the gift tax exemption can be substantially leveraged using the GRAT technique. It is generally thought that the generation-skipping tax exemption of the grantor may not be leveraged in a similar fashion. This is because of the estate tax inclusion period ("ETIP") rule found in I.R.C. Section 2642(f)(3), which provides as follows:

> Any period after the transfer described in paragraph (1) during which the value of the property involved in such transfer would be includible in the gross estate of the transferor under Chapter 11 if he died. The transferor's exemption for generation-skipping tax purposes cannot be allocated until after the ETIP period.

Stated differently, whether a generation-skipping transfer has occurred cannot be determined until after it is determined whether the property will be included in the grantor's estate. If the period passes, and it is clear the property will not be included in the grantor's estate, then and only then, may the grantor's GST exemption be allocated.

B. Is There a 5% Exception?

Treas. Reg. Section 26.2632-1(c)(2) contains the regulatory definition of ETIP and then provides an exception, as follows:

> For purposes of paragraph (c)(2) of this section, the value of transferred property is not considered as being subject to inclusion in the gross estate of the transferor or the spouse of the transferor if the possibility that the property will be included is so remote as to be negligible. A possibility is so remote as to be

> negligible if it can be ascertained by actuarial standards that there is less than a 5 percent probability that the property will be included in the gross estate.

For a short term GRAT there will often be less than a 5% probability that the grantor will die during the GRAT term. For example, this will be true for a two-year GRAT unless the grantor is above 70 years of age. In such a case, the exception noted above would literally apply. On this reading of the exception, the ETIP rules will not apply to an allocation of GST exemption, because there is less than a 5% chance that the grantor will die during the GRAT term. Thus, a grantor age 70 or younger can create a two-year GRAT in which the remainderman is a generation-skipping trust, make an allocation of the GST exemption that is equal to the amount of the taxable gift of the GRAT remainder, and produce a zero inclusion ratio for generation-skipping tax purposes. Is this a correct reading of the exception? There is not any definitive authority on this subject, but most commentators believe the IRS will resist this result.[19] Ed Manigault and Mil Hatcher discuss this possibility and note the following problem:[20]

> Although it appears that some GRATs should fall outside of the ETIP rule—depending on the age of the grantor and the term of the annuity period—it is not clear *how much* GST exemption would need to be allocated to the GRAT to provide for a zero inclusion ratio. If the allocable amount necessary to produce a zero inclusion ratio was tied to the taxable *gift* amount, then using a nearly zeroed-out GRAT would seem to permit the allocation of an amount only equal to the minimal taxable gift.
>
> The provisions for allocation of GST exemption, however, do not clearly define the allocation amount based on the amount of the taxable gift. Instead, the regulations arguably point to the *amount of the property transferred*, not to the amount of the taxable gift. See Treas. Reg. § 26.2632-1(b)(1)(i), (2)(i) and (ii), and (4). This approach is consistent with the determination of the applicable fraction (for purposes of calculating the inclusion ratio), which has as its denominator the value of the property transferred to the trust. See Treas. Reg. § 26.2642-1(c)(1). It might then be the position of the IRS that, if the above interpretation of the ETIP exception is accurate, a grantor must allocate GST exemption equal to the amount transferred to the GRAT, not the minimal taxable gift created as a result of the funding of the GRAT.

The argument that the authors make is that the amount transferred for generation-skipping tax purposes should be offset by the consideration received by the grantor. In the case of the GRAT, the consideration received is the present value of the amount of the annuities that the grantor is to receive. In the case of a transfer to a generation-skipping trust, pursuant to a bargain

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[19] *See* Private Letter 200107015: Covey and Hastings, Recent Developments 2007, 42nd Annual Heckerling Institute of Estate Planning, University of Miami School of Law (page 295). *See* Manigault and Hatcher, GRATs and GST Planning – Potential Pitfalls and Possible Planning Opportunity, 20 Prob. & Prop. 28 (2006).

[20] *See* Manigault and Hatcher, GRATs and GST Planning – Potential Pitfalls and Possible Planning Opportunity, 20 Prob. & Prop. 28, 32 (2006).

sale, it is commonly accepted that the amount of the GST exemption that needs to be allocated is the amount of the transfer after subtracting the value of the consideration received. The natural question is, why should the result be different if the consideration received is an annuity (from a GRAT) as opposed to a seller financed note from a non-GRAT trust? To take the analogy a little bit further, assume that a grandparent makes a bargain sale to an "old and cold" adequately funded trust (presumably a defective grantor trust) in which the consideration for the "sale" part of the bargain sale is not a seller financed note, but a private annuity. One would assume that the selling grandparent should be able to insulate the trust from GST taxes by allocating her GST exemption in an amount equal to the "bargain" gift component (this assumes the annuity will be recognized on its own terms and not as a disguised retained income interest that is subject to I.R.C. Section 2036). Thus, the question is why should a transaction involving a bargain sale private annuity be treated differently than a transaction involving an annuity from a GRAT, as far as determining the amount of the property transferred for GST tax exemption allocation purposes?

C. Is There a Technique That Uses the Leverage of the GRAT to Indirectly Profit a GST Trust in Which a Skip Person is Not the Remainderman of the GRAT at the Beginning or End of the ETIP (and Does the Technique Work)?

Another interesting inquiry is whether a grandparent who creates a GRAT will be deemed to have made a transfer that is subject to generation-skipping taxes, if the remainderman at the beginning and at the end of the ETIP period of the GRAT is not a skip person? The answer would seem to be no.

However, does that answer change if the original remainderman, who is not a skip person, during the ETIP period transfers, for full and adequate consideration, her remainder interest to a generation-skipping trust that the remainderman has created and at a later time buys back that remainder interest (presumably before the ETIP period ends)? In other words, has the grandparent who created the GRAT made a generation skipping transfer despite naming a non-skip person as the remainderman who in fact receives the remainder after the ETIP period ends? If the original remainderman and the remainderman at the end of the ETIP period is a non-skip person, but during the ETIP period there are non-taxable transfers by the remainderman to and from a generation-skipping trust, has a generation-skipping transfer been made? Consider the following example:

Example 1: Granny Selfmade Creates a GRAT
That, Because of the Non-Skip Remainderman's
Actions, Indirectly Benefits a Generation-Skipping Trust

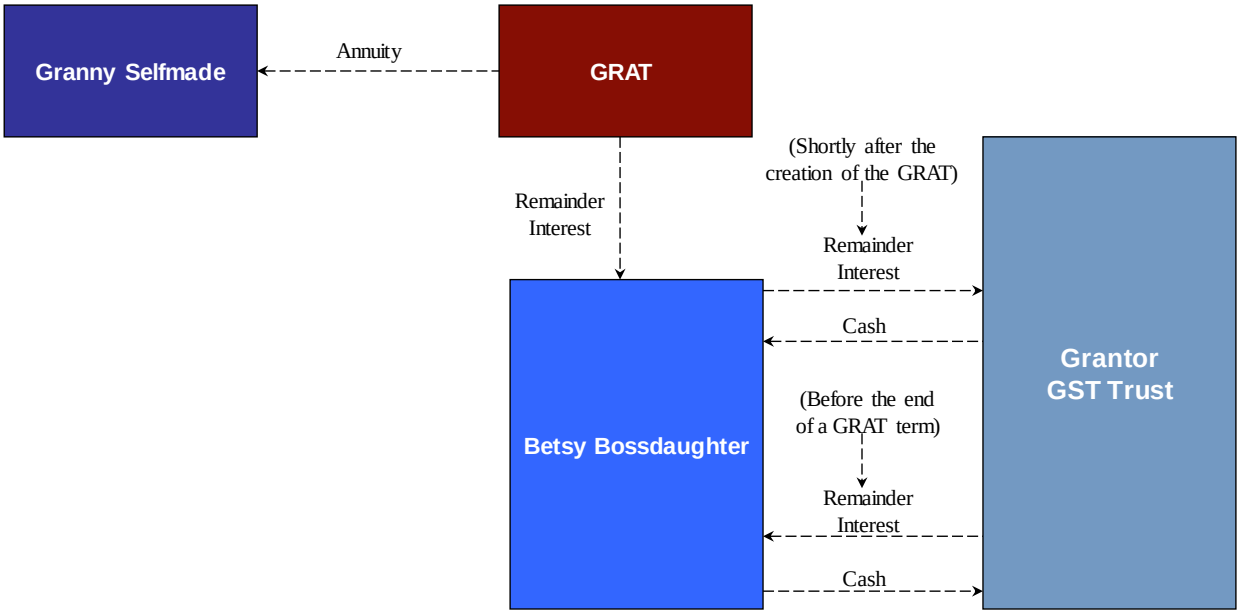
Granny Selfmade creates a GRAT with a retained annuity amount that results in a very low gift for gift tax purposes to the remainderman, her daughter, Betsy Bossdaughter. The terms of the trust agreement creating the GRAT provide that if Granny survives the two year term of the GRAT, but Betsy does not survive the term of the GRAT, the remaining proceeds of the GRAT, if any, are to pass to Betsy's two children, Bob and Brenda Bossdaughter.

Betsy is grateful for the creation of the GRAT by her mother, but she feels that her mother has already done enough estate planning for her benefit. Betsy is interested in transferring wealth to her children. Thus, Betsy makes an independent gift to a generation-skipping trust in

which the primary beneficiaries are her children, Bob and Brenda. The generation-skipping trust is an intentionally defective grantor trust with Betsy being the grantor. In the early days of the GRAT, while the actuarial value of the remainder interest is very low, Betsy, for full and adequate consideration, sells her remainder interest to the GST trust she created.

The GRAT is very successful. Before the end of the two year term (or ETIP period) Betsy decides to buy back the remainder interest for full and adequate consideration (perhaps with a seller financed note). Thus, on termination of the GRAT, Betsy is once again, the only remainderman beneficiary.

The technique is illustrated below:



Granny asked her tax advisor, Pam Planner, whether she owes any generation-skipping transfer taxes on termination of the GRAT because of Betsy's actions.

Before Pam, or anyone, can answer this question, certain key concepts must be understood in addition to the applicability of the ETIP rules. What is a "transfer" for purposes of Chapter 13? In certain contexts "transfer" is shorthand for "generation-skipping transfer", which is a defined term. The generation-skipping transfer is one of the three defined GST taxable events: taxable termination, taxable distribution, or direct skip. However, in certain other contexts of Chapter 13, "transfer" refers to the original transfer of property establishing a trust. The transferor, for generation-skipping tax purposes is "the individual with respect to whom property was most recently subject to federal estate or gift tax." See Treas. Reg. Section 26.2652-1(a)(1).

Another area where it is important, under Chapter 13, to determine whether a generation-skipping tax transfer has occurred is determining the inclusion ratio when additional transfers are made to a trust. Any addition requires a recompilation of the trust's applicable fraction and, thus, its inclusion ratio and requires allocation of GST exemption to preserve a zero inclusion ratio. Treas. Reg. Section 26.2642-4 seems to suggest that no addition to a trust can

occur without a gift or an estate taxable transfer. A transfer for full and adequate consideration is not such a transfer and should not be an addition.

Under these definitions, Pam Planner advises Granny that there appears to be no transfer that would incur GST tax or require an allocation of GST exemption to avoid tax. However, consideration must be given to Private Letter Ruling 200107015. This ruling involved a zeroed-out charitable lead annuity trust ("CLAT") and a proposed gift assignment by a child who was a one-sixth vested remainderman. The gift would be to a trust, which is a generation-skipping trust with respect to the grantor of the CLAT. The purpose of the ruling was to determine whether the child would be treated as the transferor for GST purposes instead of the grantor of the CLAT. The IRS refused to grant the request of a favorable ruling:

> Section 2642(e) provides a special ruling for determining the inclusion ratio for any 'charitable lead annuity trust.' Under §2642(e) and the applicable regulations, in the case of a charitable lead annuity trust the applicable fraction (1) the numerator of which is the adjusted generation-skipping transfer tax exemption ('adjusted GST exemption'), and (2) the denominator of which is the value of all property in the trust immediately after the termination of the charitable lead annuity. The adjusted GST exemption is the amount of GST exemption allocated to the trust increased by an amount equal to the interest that would accrue if an amount equal to the allocated GST exemption were invested at the rate used to determine the amount of the estate or gift tax charitable deduction, compounded annually, for the actual period of the charitable lead annuity. The amount of GST exemption allocated to a charitable lead annuity trust is not reduced even though it is ultimately determined that the allocation of a lesser of GST exemption would have resulted in an inclusion ratio of zero. Under §2642(e)(3), a 'charitable lead annuity trust' is defined as any trust providing an interest in the form of a guaranteed annuity for which the transferor is allowed a charitable deduction for Federal estate or gift tax purposes under §§2055 and 2522.
>
> In the absence of §2642(e), little or no GST tax would ever be imposed with respect to certain charitable lead annuity trusts, even if no GST exemption is allocated to the trust. That is, if the value of the assets transferred to the trust was equal to the estate tax charitable deduction allowed with respect to the transfer, then under the general rules of §2642, the inclusion ratio with respect to the trust would be zero and the trust would be exempt from GST tax. Even if the charitable deduction did not equal the value of the transferred assets, an allocation of only a small amount of GST exemption would have resulted in no GST tax. Congress was concerned that allowing the present value of the charitable interest to reduce the denominator of the applicable fraction permitted the leveraging of the GST tax exemption. If the trust assets sufficiently outperform the rate of return assumed in computing the present value of the charitable interest, the amount passing to noncharitable persons can exceed the amount which would have passed to them had there been no charitable interest in the trust. S. Rep. No. 445, 100th Cong., 2d Sess. 368 (1988).

. . .

> We also note that under the facts presented in the ruling request, the form of the transaction might be disregarded and the series of transactions viewed as the designation by the Trustee of Child A's children as remainder beneficiaries. Under this analysis, Decedent would be treated as the transferor of the entire Trust estate for GST tax purposes. See *Estate of Bies v. Commissioner*, T.C. Memo. 2000-338; *Estate of Cidulka v. Commissioner*, T.C. Memo. 1996-149; *Griffin v. United States*, 42 F. Supp. 2d 700 (W.D. Tex. 1998).

The ruling's basic holding can be viewed as uniquely applicable to the charitable lead annuity trust. However, it is clear that the IRS will look for other opportunities to apply equitable doctrines in similar contexts. Stated differently, the ruling's reasoning could apply just as easily to a GRAT, if the reader substituted the phrase "ETIP rules" for "I.R.C. Section 2642(e)." Using the same logic, the Service could find that a gift by a GRAT remainderman is avoidance of the Congressional intent in enacting the ETIP rules. However, would the equitable doctrines inherent in the ruling apply to a sale by Betsy in above Example 1? It would appear that the answer should be no.

In using a sale for full and adequate consideration, the issue is not whether Granny or Betsy is the transferor of the property that moves from the GRAT to the dynasty trust. The issue is whether there is an addition to the dynasty trust for GST purposes. There should not be an addition to the dynasty trust for GST purposes when Betsy transfers the remainder interest to the GST trust for full and adequate consideration and when Betsy buys the remainder interest back for full and adequate consideration.

If Granny is only 70 years of age or less, Granny might wish to allocate an amount of GST exemption to her transfer to the GRAT that is equal to the gift passing to the remaindermen (whoever they may be). This would provide a back-up defense against even a broad substance over form/step transaction equitable argument that the IRS could make with respect to this transaction. It will be a difficult hurdle for the IRS when, in addition to the above analysis, a GST exemption has been effectively allocated in a case where the ETIP rules may not apply because of the 5% exception that may apply given Granny's age (assuming Granny allocates an amount of GST exemption equal to the gift). Another hurdle for the IRS is that for property law purposes and gift tax purposes, Granny's only transferee is a non-skip person (Betsy Bossdaughter). It would seem that the IRS, in order to be successful, would have to argue that a generation-skipping tax transfer occurred by Granny when Betsy sold for full consideration the remainder interest to the generation-skipping trust she created, even though you could not determine whether a generation-skipping transfer has occurred until after it was determined if Granny Selfmade survived the annuity term (and at that point, the only beneficiary of the GRAT was a non-skip person). The cumulative hurdle of those positions may be very difficult for the IRS to surmount.

D. The Creation of a GRAT For Full and Adequate Consideration.

1. The Technique.

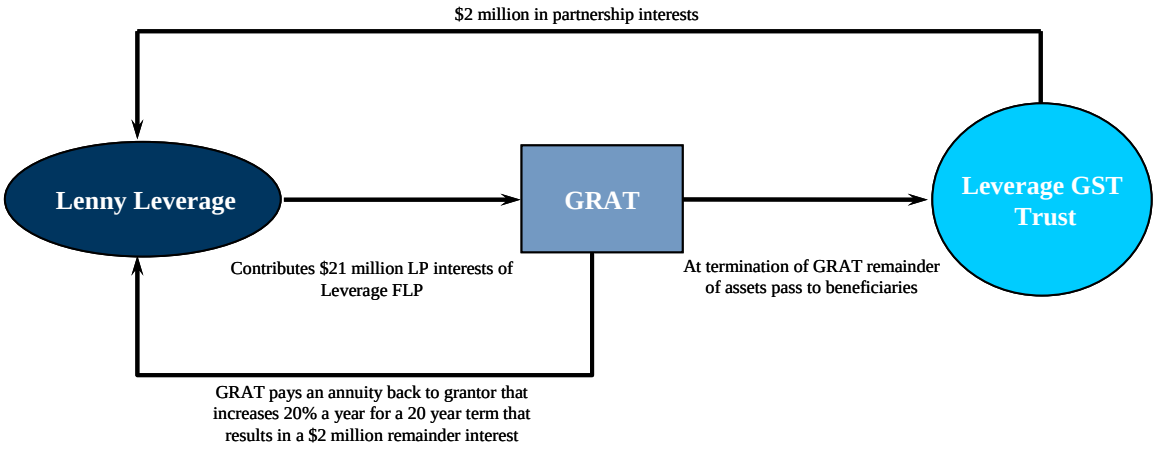
Consider a GRAT that is created with a substantial remainder interest; however, because of a purchase of a remainder interest of the GRAT, there is not a gift. That is, instead of making a gift of the remainder interest, what if the grantor of a GRAT sold it for full and adequate consideration to a pre-existing trust? IRC Section 2036 inclusion does not apply if the grantor dies before the GRAT term ends, and as a consequence, the ETIP limitation may also not apply and the creation of the GRAT may not constitute a transfer to the GST trust. Consider the following example:[21]

Example 2: Lenny Leverage Enters Into a GRAT With the Remainderman Being a Generation-Skipping Transfer Trust With the Generation-Skipping Transfer Trust Purchasing the Remainder Interest For Full Consideration

Several years ago, Lenny Leverage created a generation-skipping transfer trust that is also a grantor trust. The GST trust and Lenny contributed certain assets to a family limited partnership. Lenny's interest in the partnership, after considering valuation discounts, is worth $21 million and the GST trust's interest in the partnership is worth $2,000,000. The GST trust transfers that $2,000,000 partnership interest to Lenny Leverage in full consideration for Lenny Leverage contributing his $21 million interest in the family limited partnership to a GRAT that is designed with a defined value formula annuity which increases 20% a year. The formula produces a remainder value of $2 million under IRC Section 7520. The liquidation value of the partnership interest that is transferred to the GRAT is $30 million and the appraised fair market value of the transferred partnership interest is $21 million (30% discount). The partnership, at that time, has 15 years to operate before it terminates. Lenny has $1,500,000 outside the partnership. Lenny is 50 years old.

The technique is illustrated below:

[21] There are other alternative forms of designing a GRAT that is formed for adequate and full consideration. In order to avoid estate tax inclusion of the value of the remaining annuity payments and future estate income taxes, if the grantor does not live past the annuity term, the GRAT annuity payments (which will have to be higher to provide full consideration) could be designed to terminate at the shorter of the grantor's life or the stated term. The GRAT could be designed to be a joint contribution GRAT. In that circumstance, care should be taken to make sure the same assets (e.g., partnership units of the same partnership) are being contributed by the grantor and the GST trust to the GRAT.



It is crucial to avoid valuation issues with this technique. The purchase price for the remainder interest must be consistent with the valuation assumptions of the GRAT. Thus, using "apples to apples", such as partnership units in the same partnership, will facilitate adequate and full consideration being paid for the remainder interest in the GRAT.

Please note the table below, which delineates the amount that is projected to be transferred to Lenny's children, grandchildren and great grandchildren pursuant to this technique in comparison to not doing any further planning with respect to the partnership. The table assumes Lenny's death at the end of year 20, Lenny consumes $100,000 a year with a 3% inflation rate, an 8% pre-tax rate of return with 2% being taxed at ordinary income rates (35%) and 6% at capital gains rates (15%, with a 30% turnover). Assume that the partnership, at the time of the creation of the purchase GRAT, has only 15 years remaining and that the valuation discount is 30%. *See* Schedule 1 attached to this paper.

Table 1

Technique	Leverage Children	Leverage GST Trust	Consumption – Direct Cost	Consumption – Investment Opportunity Cost	IRS – Income Tax	IRS – Investment Opportunity Cost	IRS – Estate Tax (at 45%)	Total
No Further Planning; Bequeaths Estate To Family	$55,282,583	$13,317,021	$2,687,037	$3,022,654	$20,916,430	$19,680,241	$45,231,204	$160,137,171
Hypothetical Integrated Income and Estate Tax Plan With a Partnership and GRAT; Bequeaths Estate To Family	$9,687,257	$98,772,116	$2,687,037	$3,022,654	$20,778,989	$17,263,179	$7,925,938	$160,137,171

The results are obviously very significant. Will this work? An argument can certainly be made that the creation of the purchase GRAT is not subject to the ETIP rules and the creation of

the GRAT does not constitute a transfer to the GST trust. If Lenny died during the 20 year term of the GRAT, the GRAT property will not be includible in his gross estate.[22] Only the remaining actuarial value of the unpaid annuity amounts of the GRAT would be included under Section 2033.

What would be the results, if the GRAT was for the shorter of 20 years or Lenny's death? The annuity amounts would be higher. The technique would have income tax and estate tax advantages if Lenny died during the 20 years. See the results below and see attached Schedule 1a:

Table 2

Technique	Leverage Children	Leverage GST Trust	Consumption – Direct Cost	Consumption – Investment Opportunity Cost	IRS – Income Tax	IRS – Investment Opportunity Cost	IRS – Estate Tax (at 45%)	Total
No Further Planning; Bequeaths Estate To Family	$55,282,583	$13,317,021	$2,687,037	$3,022,654	$20,916,430	$19,680,241	$45,231,204	$160,137,171
Hypothetical Integrated Income and Estate Tax Plan With a Partnership and GRAT; Bequeaths Estate To Family	$19,236,810	$81,703,110	$2,687,037	$3,022,654	$20,485,173	$17,263,179	$15,739,208	$160,137,171

There could be abusive situations where the remainder interest is very small and the logic of the *Wheeler, D'Ambrosio* and *Magnin* cases would not be applied. However, under the facts assumed under this case, the remainder interest is significant and would seem to be analogous to the remainderman values considered in the Circuit Court cases cited below in the footnote.

2. Need For a Transfer Before GST Tax Can Apply.

Possible further support of the argument that a GST tax under the facts of Example 1 or 2 cannot apply when there has not been a transfer for estate and gift tax purposes is the proposition that an imposition of a generation-skipping transfer tax under those circumstances would constitute a direct tax on the property contributed to the trust rather than an indirect (excise) tax on a transfer. Before an excise tax (known as the generation-skipping tax) on a transfer can occur, there must be a transfer. There does appear to be a transfer under the above assumed facts. See the discussion above under Examples 1 and 2.

The generation-skipping tax valuation must be based on the value of that interest when transferred from one person to another, not the value when held by the transferor, because of the

[22] *See Wheeler v. United States*, 116 F.3d 749 (5th cir. 1997); *Estate of D'Ambrosio v. Comm'r*, 101 F.3d 309 (3d Cir. 1996); *Estate of Magnin v. Comm'r*, 183 F.3d 1074 (9th Cir. 1999); *contra*, *Gradow v. United States*, 11 Cl. Ct. 808 (1987), *aff'd*, 897 F.2d 516 (Fed. Cir. 1990).

limit in the Constitution on the federal government's ability to tax. The Constitution provides that "[n]o Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken."[23] In plain terms, therefore, all *direct* taxes are unconstitutional unless levied across the country in proportion to the states' populations. This clear constitutional prohibition against direct taxes raises two questions: (i) what is meant by a direct tax; and (ii) under what circumstances will a gift, estate, or generation-skipping tax not be considered a direct tax?

a. What constitutes a direct tax?

The definition of direct taxes is found in *Pollock v. Farmers' Loan & Trust Co.*[24] The issue before the Supreme Court in *Pollock* was the constitutionality of a federal income tax. The taxpayer argued that a tax on the income from property is the same thing as a direct tax on the property itself.[25] In agreement, the Supreme Court held clearly and conclusively as follows:

> *First.* We adhere to the opinion already announced, that, taxes on real estate being indisputably direct taxes, taxes on the rents or income of real estate are equally direct taxes.
>
> *Second.* We are of opinion that taxes on personal property, or on the income of personal property, are likewise direct taxes.[26]

The Court's lengthy analysis rests heavily on the substance-over-form rationale advanced by the taxpayer that a tax on the income from property simply cannot be distinguished from a tax on the property itself.[27] After *Pollock*, therefore, there could be no federal income tax without an amendment to the Constitution, and the Supreme Court's decision in *Pollock* in fact led to the Sixteenth Amendment.

It is quite clear since Pollock that a tax on the value of either real or personal property is a direct tax. Further, a tax merely on the income from either type of property is a direct tax, but one that is permitted by the Sixteenth Amendment. *Therefore, the generation-skipping tax cannot be valid unless it is a tax on something other than the value of the transferor's property per se.*

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[23] U.S. CONST. art. I, § 9, cl. 4.

[24] 157 U.S. 429, *reh'g granted*, 158 U.S. 601 (1895).

[25] *Pollock*, 157 U.S. at 555.

[26] *Pollock*, 158 U.S. at 637.

[27] *Pollock*, 157 U.S. at 580-83.

b. The generation-skipping tax will avoid being considered a direct tax only to the extent it operates as an excise tax on the transfer of property.

The Supreme Court often has held or stated that succession taxes, inheritance taxes, estate taxes, and other death taxes will not be considered direct taxes on property if they are applied in a manner that is merely an excise tax on the transfer of property at death.[28]

The seminal case on the matter is *Knowlton v. Moore*,[29] in which the Court stated as follows:

Taxes of this general character are universally deemed to relate, not to property *eo nomine*, but to its passage by will or by descent in cases of intestacy, as distinguished from taxes imposed on property, real or personal, as such, because of its ownership and possession. In other words, the public contribution which death duties exact is predicated on the passage of property as a result of death, as distinct from a tax on property disassociated from its transmission or receipt by will, or as the result of intestacy.[30]

After considering the approach used in other nations and colonies, the Court in *Knowlton* concluded that the "tax laws of this nature in all countries rest in their essence upon the principle that death is the generating source from which the particular taxing power takes its being, and that it is the power to transmit, or the transmission from the dead to the living, on which such taxes are more immediately rested."[31]

In *United States v. Wells Fargo Bank*,[32] Justice Brennan's opinion recognizes that the estate tax, unlike the income tax, is not a direct tax but rather is an excise tax that may be levied only upon the use or transfer of property. That opinion states:

Of course, we begin our analysis of § 5(e) with the statutory language itself. This section states that "[Project Notes], including interest thereon, . . . shall be exempt from all taxation now or hereafter imposed by the United States." Well before the Housing Act was passed, an exemption of property from all taxation had an understood meaning: the property was exempt from *direct* taxation, but certain privileges of ownership, such as the right to transfer the property,

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[28] *See*, e.g., Scholey v. Rew, 90 U.S. (23 Wall.) 331 (1874); Knowlton v. Moore, 178 U.S. 41 (1900); Murdock v. Ward, 178 U.S. 139 (1900); New York Trust Co. v. Eisner, 256 U.S. 345 (1921); Greiner v. Lewellyn, 258 U.S. 384 (1922); Young Men's Christian Ass'n v. Davis, 264 U.S. 47 (1924); Chase Nat'l Bank v. United States, 278 U.S. 327 (1929); Reinecke v. Northern Trust Co., 278 U.S. 339 (1929); Tyler v. United States, 281 U.S. 497 (1930); United States v. Jacobs, 306 U.S. 363 (1939); United States Trust Co. v. Helvering, 307 U.S. 57 (1939); Fernandez v. Wiener, 326 U.S. 340 (1946); United States v. Manufacturers Nat'l Bank of Detroit, 363 U.S. 194 (1960); United States v. Wells Fargo Bank, 485 U.S. 351 (1988).

[29] *Knowlton v. Moore*, 178 U.S. 41 (1900).

[30] *Knowlton*, 178 U.S. at 47.

[31] *Id.* at 56.

[32] 485 U.S. 351 (1988).

could be taxed. Underlying this doctrine is the distinction between an excise tax, which is levied upon the use or transfer of property even though it might be measured by the property's value, and a tax levied upon the property itself. The former has historically been permitted even where the latter has been constitutionally or statutorily forbidden. The estate tax is a form of excise tax.[33]

In *United States v. Manufacturers Nat'l Bank*,[34] the Supreme Court observed that "[f]rom its inception, the estate tax has been a tax on a class of events which Congress has chosen to label, in the provision which actually imposes the tax, 'the *transfer* of the net estate of every decedent.'"[35] In that case, the Court sought to find a transfer, reflecting the critical threshold test of every case in which an estate tax is to be assessed: identify the transfer.

If Congress wanted to tax all property interests owned by a decedent, irrespective of the taxes associated with any transfer that may have occurred as a result of the decedent's death, it could do so simply by amending I.R.C. § 102 to make bequests, devises, and inheritances subject to the income tax. This is true because the federal income tax is a permissible direct tax on property under the Sixteenth Amendment to the Constitution. Because income is by definition taxed only when received, even the repeal of I.R.C. Section 102 would tax only the transfer-receipt of property. However, until a similar constitutional amendment is adopted with respect to generation-skipping, estate and gift taxes, it is unconstitutional to assess the generation-skipping transfer tax in a manner that constitutes an unapportioned direct tax.

Therefore, only that property which is *transferred* as a result of a taxpayer's death or by gift during the taxpayer's life can be subjected to taxation under the federal generation-skipping transfer tax system. The tax cannot be a "wealth tax" or "property tax" on the intrinsic value of an asset to the decedent or donor at the time the transfer occurs; rather, it must be a tax only on the value transferred.

I.R.C. § 2033 expansively defines a decedent's gross estate to include all assets owned by the decedent at the time of his death for purposes of calculating the decedent's estate tax, irrespective of whether all or part of those assets are to be transferred to the decedent's heirs. Specifically, I.R.C. § 2033 provides that "the value of the gross estate shall include the value of all property to the extent of the interest therein of the decedent at the time of his death."[36]

Although the I.R.C. expansively defines a decedent's gross estate to include all assets owned by the decedent at the moment of his death, the U.S. Treasury through its own regulations recognizes that in certain instances such inclusion would be unconstitutional. The decedent's property must not only be owned by the decedent at the moment of his death, but must also be transferable. The Treasury Regulations provide that "the estate tax . . . is an excise tax on the

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[33] *Id.* at 355.

[34] 363 U.S. 194 (1960).

[35] *Id.* at 198.

[36] I.R.C. § 2033.

transfer of property at death and is not a tax on the property transferred."[37] The Regulations add the following helpful example of an asset of the decedent that in many cases has significant value at the moment of death, but very little transferable value (and, thus, very little value for estate tax purposes):

> [A] cemetery lot owned by the decedent is part of his gross estate, but its value is limited to the salable value of that part of the lot which is not designed for the interment of the decedent and the members of his family.[38]

A cemetery lot could be sold for considerable value at the moment of death. However, under the regulations that part of a cemetery lot in which the decedent is buried is not included in the gross estate and is not subject to tax because it is not transferred to the decedent's heirs at death; rather, it is taken or encumbered by the decedent's remains. The logic of the cemetery lot exception in the Treasury Regulations is a tangible example showing that the estate tax is an excise tax on the transfer of property at death and not a tax on the property transferred.

The following example may be even more indicative of the constitutional limitation on the estate tax than the Treasury's example of the cemetery lot: what would be the estate tax result if a decedent died owning the Coca-Cola formula and directed in her will that her executor was to retrieve the formula from her safe deposit box and burn it? What would be the value of that formula for estate tax purposes if the executor burned the formula six months after the decedent's death? Is the value of the transfer equal to what a hypothetical willing buyer would pay for the Coca-Cola formula at the moment of death or what a hypothetical willing buyer would pay for the ashes? The answer is well stated in the Court's opinion in *Ahmanson Found. v. United States*,[39] in which the Ninth Circuit opined:

> [T]he valuation of property in the gross estate must take into account any changes in value brought about by the fact of the distribution itself. *It is undisputed that the valuation must take into account changes brought about by the death of the testator.* Ordinarily death itself does not alter the value of property owned by the decedent. However, in a few instances such as when a small business loses the services of a valuable partner, death does change the value of property. *See United States v. Land, supra,* 303 F.2d at 172. *The valuation should also take into account transformations brought about by those aspects of the estate plan, which go into effect logically prior to the distribution of property in the gross estate to the beneficiaries*. Thus, for example, if a public figure ordered his executor to shred and burn his papers, and then to turn the ashes over to a newspaper, the value to be counted would be the value of the ashes, rather than the papers. Similarly, if a will provides that prior to the distribution of the estate a close corporation owned by the testator is to be recapitalized, with one class of stock in the gross estate exchanged

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[37] Treas. Reg. § 20.2033-1(a).

[38] Treas. Reg. § 20.2033-1(b).

[39] 674 F.2d 761 (9th Cir. 1981) (emphasis added).

> for another, the value of the gross estate would be based on the shares resulting from the recapitalization. *Provident Nat'l Bank v. United States, supra*, 581 F.2d at 1086-87.
>
> . . . The estate tax is a tax upon a transfer. . . . [I]t is a tax on the privilege of passing on property not a tax on the privilege of receiving property.[40]

It is clear that the valuation of what is transferred and subject to estate tax, in the words of *Ahmanson*, takes "into account transformations. . . which go into effect logically prior to the distribution of property in the gross estate to the beneficiaries."[41]

In another Ninth Circuit case, *Estate of McClatchy v. Commissioner*, 147 F.3d 1089 (9th Cir. 1998*)* the court also analyzed the affect changing transfer restrictions had on valuation of stock. The decedent, prior to his death, owned two classes of common stock of a corporation, one class of which was subject to federal securities law transfer restrictions on sales as an affiliate of the corporation. Upon the decedent's death, the restricted stock passed to the executor of his estate. The executor, which was not an affiliate, was not subject to the securities law restrictions applicable to the decedent.

The court held that the restricted stock should be valued in the hands of the decedent and should reflect the discount applicable to the restriction on transfer of the stock. The court ruled that death alone in this instance, did not *logically* alter the value of the stock. Instead, the change in value was occasioned by the identity of the transferee (i.e., the executor) and not by death. Thus, according to the court, the property was not transformed prior to the distribution to the heirs of the estate by the lapsing security law restrictions.

VI. POSSIBLE SOLUTIONS TO INCREASE THE LIKELIHOOD OF A SUCCESSFUL GRAT EVEN WHEN THE INVESTMENT RESULTS OF A CLIENT'S PORTFOLIO ARE RELATIVELY FLAT OR DECREASE

A. Use of the Leveraged Reverse Freeze for the 10 Year GRAT.

1. Example.

Consider the following example, which illustrates the potential of contributing a high yielding preferred to a 10 year GRAT:

Example 3: Ian and Inez Inverse Wish to Transfer $30,000,000 of Their Financial Assets to Their Children in the Most Efficient Transfer Tax Manner Possible

Ian and Inez Inverse own significant financial assets, $103,000,000. They are not fond of paying substantial gift taxes. Ian and Inez want their tax planner, Pam Planner, to devise a plan in which their consumption needs are addressed and in which their stewardship goals are met.

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[40] *Id.* at 768.

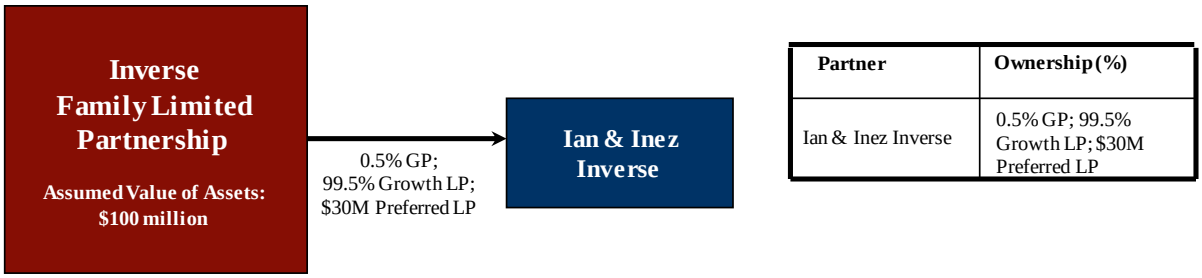
[41] *Id.*

Their stewardship goals are to give, within 10 years, $30,000,000 to trusts for their children and eventually give the rest of their estate to their favorite charitable causes.

Ian and Inez tell Pam that they are both in excellent health. Ian and Inez ask Pam to assume that the assets will earn 6% pre-tax, with 3% of the 6% being taxed at ordinary income rates and 3% being taxed at capital gains rates, with a 30% turnover in capital gains investments.

Ian and Inez desire for Pam to develop a plan in which there are minimum gift tax consequences and, which eliminates, as much as possible, their gift and/or estate taxes on their planned $30,000,000 gift to their children.

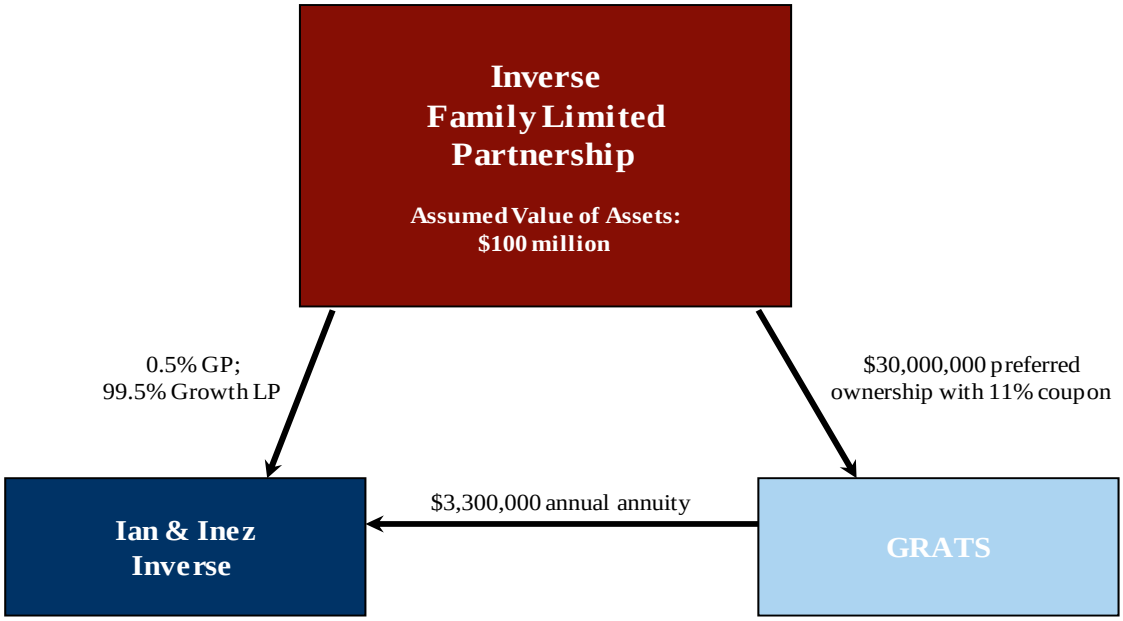
Pam tells Ian and Inez that she believes that a plan exists, under the assumptions that they have asked her to incorporate, which could accomplish their goals. The first step of the plan is to create a partnership or a limited liability company between Ian and Inez that has growth and preferred partnership interests. Pam engages a valuation expert and asks her to apply the Service's valuation parameters inherent in Revenue Ruling 83-120.[42] Assume, for purposes of the analysis below, the expert appraiser tells Pam that a preferred partnership interest, under those parameters and under the facts of the proposed family limited partnership interest, should have a coupon equal to 11% in order to support par value for the preferred. Ian and Inez Inverse will initially own a $30,000,000 preferred partnership interest with the rest of the $100,000,000 of their $103,000,000 portfolio they contributed to the partnership being represented by a general partnership interest or a growth limited partnership interest. See the chart below:



Partner	Ownership (%)
Ian & Inez Inverse	0.5% GP; 99.5% Growth LP; $30M Preferred LP

After the partnership has been created Ian and Inez Inverse each transfer the $30,000,000 preferred partnership interest to GRATs on December 1, 2009. Ian and Inez will collectively be paid an annual annuity of $3,300,000 from the GRATs they each create with their contribution of the preferred partnership interests to the GRATs. (For purposes of the calculations and the chart below, it is assumed that the coupon of the preferred partnership interest will be 11%) See the illustration below:

[42] 1983-2 C.B. 170.



Assuming the partnership earns 3% to 4% before income taxes, there will be enough income to satisfy the preferred coupon of $3,300,000.

2. Valuation Advantage: IRS Concedes Preferred Partnership Interests Should Have a High Coupon.

Prior to passage of I.R.C. Section 2036(c) in 1987 (which was repealed in 1990) and prior to the passage of I.R.C. Section 2701 as part of Chapter 14 in 1990, the Internal Revenue Service did not have many tools with which to fight, from their perspective, abusive estate freezes, except valuation principles. In 1983, the Service issued a Revenue Ruling,[43] which promulgated the factors for determining what an appropriate coupon should be on preferred stock of a closely held corporation or what an appropriate coupon should be on a preferred partnership interest in a closely held family limited partnership. Generally, the IRS took the view that a secondary market does not exist for interests in family limited partnerships. Accordingly, with respect to a preferred partnership interest in a family limited partnership, the coupon should be very high in order to reflect the embedded marketability discount of the preferred partnership interest. In other words, according to the IRS, to have a preferred partnership interest valued at "par", a hypothetical willing buyer would demand a significant return on that preferred partnership interest, in comparison to other comparable fixed income instruments, in order to compensate that hypothetical willing buyer for the lack of marketability that would be inherent in that family limited preferred partnership interest.

[43] Rev. Rul. 83-120, 1983-2 (C.B. 170).

3. IRC Section 2036 Advantage of a Multi-Economic Class Partnership: Strong Legislative History Suggests IRC Section 2036 Should Not Apply to Partnerships With Significant Preferred Interests.

Another advantage of a family limited partnership that has a significant preferred interest is that the legislative history associated with the repeal of I.R.C. Section 2036(c) makes clear the strong desire of Congress that I.R.C. Section 2036 should not apply to partnerships that have a significant preferred partnership interest component. For a very brief period, 1987 to 1990, I.R.C. Section 2036(a), upon application of I.R.C. Section 2036(c), did operate to include the partnership assets of a partnership in which a preferred partnership interest was created to the exclusion of I.R.C. Section 2033. (While I.R.C. Section 2033 also could have applied in 1987 to include the same partnership interests, Congress was very careful to reverse the traditional priority of I.R.C. Section 2033 inclusion over I.R.C. Section 2036 inclusion with the passage of I.R.C. Section 2036(c)(5)). In 1987, Congress explored whether or not to do away with minority and marketability discounts with respect to family partnerships and family corporations and whether to attack so-called estate freezes. At that time, Congress decided not to attack family limited partnership discounts or discounts associated with family corporations. However, Congress decided to attack so-called estate freezes by making estate freezes that met six defined tests (described in I.R.C. Section 2036(c)) subject to the I.R.C. Section 2036(a) inclusion.

This writer's paper on this subject in 1989 stated that the reasons for the application of I.R.C. Section 2036(a) instead of I.R.C. Section 2033 were as follows:[44]

> The House of Representative Ways and Means Committee Conference Report accompanying TAMRA[45] stated that there were two reasons why Congress decided to punitively tax estate freezes. The first stated reason was inherent difficulties exist in valuing common stock that is sold or given away by a transferor in conjunction with an estate freeze transaction. According to the 1988 House Report, the Internal Revenue Service did not have the resources to either

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[44] "The Legacy of I.R.C. Section 2036(c): Saving The Closely Held Business After Congress Made 'Enterprise' A Dirty Word." S. Stacy Eastland, Real Property Probate and Trust Journal, Volume 24, Number 3, Fall 1989.

[45] *See* H.R. Rep. No. 100-795, 100th Cong., 2nd Sess. 418-419 (1988) (hereinafter cited as 1988 House Report). The six primary sources establishing and explaining the new section 2036(c) transaction tax are the statute itself, the 1987 joint Committee of Taxation Conference Report on the Omnibus Budget Reconciliation Act, H.R. Rep. No. 100-495, 100th Cong., 1st Sess. 995 (1987) (hereafter cited as 1987 Conference Committee Report), the 1988 House Report, the Senate Report issued in conjunction with TAMRA, S. Rep. No. 100-445, 100th Cong., 2nd Sess. 522 (1988) (hereafter cited as 1988 Senate Report), the Statement of Managers, issued by the Joint Committee on Taxation in conjunction with TAMRA, TAMRA 1988 Stand. Fed. Tax Rep. (CCH No. 53, 92 (Oct. 24, 1988) (hereafter cited as 1988 Managers' Report), and Notice 89-99, 1989-39 I.R.B. 4 (hereafter cited as Notice). The key source at this time is the Notice, however, because of the tremendous power that has been delegated by Congress to the Treasury Department under Section 2036(c)(8):

> The secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purpose of this subsection, including such regulations as may be necessary or appropriate to prevent avoidance of the purposes of this subsection through distributions or otherwise.

> adequately value the common stock or, in some cases, even to detect that a gift had been made.[46] The second stated reason for penalizing estate freeze transactions was that essentially these transactions are testamentary in nature, because the transferor retains income in the enterprise and, thus, retains enjoyment of the whole enterprise until the moment of death. If a transferor creates a trust and retains the right to receive income from the trust for life, the trust corpus will be includible in the transferor's gross estate for federal estate tax purposes under Section 2036(a)(1). Courts have refused, however, to treat preferred stock in an enterprise as if it were a retained life estate for purposes of including the value of the enterprise in the decedent's estate under Section 2036(a)(1) [and have applied Section 2033 to the exclusion of Section 2036].[47] According to the 1988 House Report, it was necessary for Congress to remedy that refusal by adopting Section 2036(c).

By 1990, it became apparent to many commentators[48], including this one, that I.R.C. Section 2036(a) inclusion in lieu of I.R.C. Section 2033 inclusion with respect to ownership in partnerships and other "enterprises" should be repealed because of numerous problems. Those problems included the following:

> Sometimes the transfer tax system is abused by estate freeze planning but the abuse does not lie in the retention of preferred stock or a preferred partnership interest by the transferor. There is nothing sinister or improper about owning preferred stock or a preferred partnership interest. The economic rights associated with preferred ownership interests serve an extremely useful purpose in the capital market. Many capital investors find an equity interest that bestows a preferred income stream, preferred voting rights, and preferred liquidation preferences suitable for their investment goals. In the closely held family business context, preferred interests are an extremely useful capital concept because it is extremely rare to find a family whose members have equal abilities to run the business, or who all have a desire to participate as employees in the family business. Preferred ownership interests fairly compensate those family members who are not receiving compensation as employees of the business. Occasionally, family owners reach retirement and no longer are employed by the family business. In those circumstances, preferred ownership interests are extremely useful capital structures that allow a portion of the income stream of the business to be directed to that family owner.

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[46] 1988 House Report at 418-419 (cited in note 3).

[47] Courts have reasoned that the receipt of income from the retained preferred stock is only a retention of income from the preferred stock, not from the assets of the entire enterprise and accordingly should be included under Section 2033, not Section 2036(a). See Estate of Boykin v. Commissioner, 53 T.C.M. (CCH) 345 (1987).

[48] *See* Dees, Section 2036(c): The Monster That Ate Estate Planning And Installment Sales, Buy-Sells, Options Employment Contacts and Leases, 66 Taxes 876 1988).

Congress implicitly recognized that there is nothing inherently evil in the ownership of preferred interests for enterprises that are not closely held. For example, an individual of significant wealth may convert that wealth into ownership of preferred stock and common stock of General Motors. That individual could convey the common stock to a child without Section 2036(c) applying to bring the future value of that common stock into the individual's gross estate.

The clear discrimination against closely held businesses under Section 2036(c) is justified, according to the legislative history, because the common stock or growth partnership interest of a closely held enterprise is more difficult to value than the common stock of General Motors. Because Section 2036(c) did not eliminate the need to value the transferred common stock or growth partnership interest, the way to attack the valuation problem would be to aid the Internal Revenue Service in valuing transferred common stock or growth partnership interests.

* * *

A second criticism of Section 2036(a) inclusion is that it is based on a flawed analogy and concept. Besides the valuation problems noted by Congress, the other reason given for adoption of Section 2036(c) was that a transferor's retention of preferred stock after a conveyance of common stock is analogous to creation of a trust in which the settler retains only an income interest, in which case Section 2036(a)(1) would include the entire value of the trust in the transferor's gross estate. Transferred common stock is not includible in a deceased transferor's estate by operation of Section 2036(a)(1), operating without Section 2036(c), because the transferor has not retained rights in the transferred common stock. Thus, the asserted analogy is not appropriate.

To illustrate this, assume a transferor (T) creates two trusts. One trust will be includible in T's estate under Section 2036(a)(1) because T retains an income interest, but the other trust will not be includible in T's estate because T is not a beneficiary of the trust (assume T's children are the sole beneficiaries of the trust.) Finally, assume that T transfer General Motors preferred stock into the retained income trust and transfers General Motors common stock into the trust created for the children. General Motors will allocate a disproportionate amount of the income generated by its assets to the retained income trust and a disproportionate amount of the appreciation of its assets to the trust created for T's children. Under Section 2036(a)(1) the only trust that will be included in T's estate is the retained income trust because T retained no interest in the General Motors common stock that was transferred to the children's trust. T did not retain the right to income, either directly or indirectly, of that common stock. If the facts were changed to assume stock in Family Co. Ranching Operations, the common stock would be includible in T's estate, not under Section 2036(a)(1) but, instead, under Section

2036(c), which ignores the fact that T has not retained an income interest in the common stock.

Even if the analogy to Section 2036(a) were appropriate, and if Congress wished to reform the transfer tax system to make the treatment of trusts consistent with the treatment of family enterprises, the solution would not be to create Section 2036(c) to bring enterprises within the fold of Section 2036(a). Instead, the solution would be to eliminate Section 2036(a) in its present form. The estate taxation of trusts because of retained income interests, particularly in light of the unified transfer tax system that has existed since 1976, is unfair and unnecessary. [See Treasury I]

* * *

The third principal flaw [in application of I.R.C. Section 2036(c) for Section 2036(a) inclusion] is that, while it discourages the utilization of preferred ownership interests, it does not eliminate "freezes" or solve valuation problems. Taxpayers may pay a heavy tax cost under Section 2036(c) if they convert a growth interest in a family business to a preferred ownership interest, which discourages taxpayers from using an equity tool that can solve many family business ownership problems. Meanwhile, Section 2036(c) has compounded the valuation problems inherent in determining the value of transferred growth interests and has not eliminated numerous freezes in family businesses, some of which have been endorsed specifically by Congress. Having failed in its two objectives, Section 2036(c) should not be left also to dissuade legitimate nontax planning in family businesses.

Because the language of Section 2036(c) abandons traditional property law concepts, and applies to transfers that have no inherent gift element, a fourth criticism of it is that application of the tax cannot be predicted with certainty, which is always bad in a voluntary compliance system. Moreover, Section 2036(c) encourages investment in self-gratification assets instead of job-producing enterprises, which also is a poor policy result. Indeed, because of the Service's interpretation that personal use assets are not subject to Section 2036(c), Congress appears to have passed an estate tax statute that opposes the Section 162 and 212 income tax policy of encouraging investment in enterprises.

* * *

. . . with respect to transactions that are pure economic bargains, Section 2036(c) has a doubtful constitutional basis. This section converts the estate tax from a transfer tax to a transaction tax. As is obvious from the literal wording of Section 2036(c)(2), a transfer with a gift element is not required. All Section 2036(c) requires is that a transaction described in Section 2036(c)(1) has occurred. If no donative transfer has occurred, application of Section 2036(c) to a pure economic bargain may be an unconstitutional direct tax on property. Under

> Article I, Section 9, of the United States Constitution, "[n]o capitation, or other direct, Tax shall be laid unless in Proportion to the Census or Enumeration hereinbefore directed to be taken." An estate tax directly levied on property is an unapportioned direct tax. To be constitutional, the estate tax must be an indirect levy against *transfer*. [Application of Section 2036(c) for Section 2036(a) inclusion] is not an indirect levy on the privilege of transferring property if it applies to a transaction in which the growth of an enterprise accrues to a transferee *only* because of the economic bargain made by the transferee and not because of any gift made by the transferor.
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> * * *
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> Finally, the [application of Section 2036(c) for Section 2036(a) inclusion] also may be unconstitutional because it is either a discriminatory denial of due process (the tax ignores the contractual rights of a party who purchases growth interests, if the contract with the transferor requires the transferor to pay all taxes attributable to the sale), a discriminatory denial of equal protection (no rational basis exists to penalize employment of a family member as opposed to a non-family member), or too vague to fairly enforce (no one can calculate the tax at this time). This constitutionally suspect tax out to be repealed and, before it is replaced, Congress should schedule meaningful hearings for debate about the property solution to the valuation problems that justify action in this arena.

Commentators were not the only persons by 1990 who concluded that I.R.C. Section 2036 (a) inclusion in lieu of I.R.C. Section 2033 inclusion for preferred interest partnerships was poor policy. Several prominent Republican Senators also did. What is perhaps noteworthy is that several powerful Democrat Senators felt the same way. Thus, the removal of I.R.C. Section 2036(a) priority over I.R.C. Section 2033 in determining inclusion enjoyed rare bi-partisan consensus. Consider the following statements before the Senate on October 17, 1990:[49]

> MR. BENTSEN. Mr. President, I am introducing legislation today that will repeal section 2036(c) of the Internal Revenue Code and provide new rules to limit evasion of Federal estate and gift taxes by means of estate freezes.
>
> The Omnibus Reconciliation Act of 1987 contained section 2036(c). . . . Unfortunately, the cure 3 years ago turned out to be worse than the disease. The complexity, breadth and vagueness of the new rules have posed an unreasonable impediment to the transfer of family businesses.
>
> . . .
>
> Senators Boren and Daschle, in particular, have labored long and hard on this issue. I commend them on their efforts, as this bill would not have been

[49] Congressional Record, 101st Congress S. 3113: pg 1-4 (October 17, 1990).

possible without their assistance. Earlier this year, they chaired a joint hearing of the Subcommittee on Taxation and Debt Management and the Subcommittee on Energy and Agricultural Taxation. At that hearing the subcommittee members reviewed proposals from the American Bar Association and American College of Probate, the Tax Section of the D.C. Bar, the U.S. Chamber of Commerce, and the American Institute of Certified Public Accountants. In addition, they heard from a wide range of estate planners, small business representatives and the Treasury Department. All witnesses agreed that the current rules should be repealed. Most witnesses testified that these rules should be replaced with a rule that is targeted to valuation abuses. That is exactly what this bill does.

We have worked hard to balance taxpayers concerns with our concerns about transfer tax abuses. I'm convinced that this proposal is a reasonable approach to the problem.

* * *

MR. BOREN. Mr. President, I am pleased today to join with my colleagues Senator Bentsen and Senator Daschle in introducing this legislation that will repeal section 2036(c) of the Internal Revenue Code. At a time when we should be doing all that we can to help keep small family owned businesses afloat section 2036(c), known as the estate freeze provision, poses a real treat to their survival.

. . .

The legislation we are introducing today repeals section 2036(c) and instead provides for special valuation rules for estate freezes. The current law is overly broad and unintelligible to even the most sophisticated counsel, let alone counsel representing many small family owned business or farms throughout the United States. It is worth nothing that even supporters of 2036(c), few though they may be, concede that the 1987 law was clumsily fashioned. What they really mean is that virtually every knowledgeable observer has concluded that the new rules are simply unadministrable and not at all subject to a patch-up job of revision. While Treasury and other academics have suggested modifications, very few have come forward with hard and fast revisions. Given the tremendous burdens this rule places upon family owned small business the only fair and meaningful course is to cleanly and clearly start over with repeal.

. . .

I believe the most efficient way to solve this problem is to repeal section 2036(c) and start over. We should begin with a clean slate, only then can we begin to consider a much more narrow, focused and equitable alternative to the current section 2036(c). I believe the legislation we are introducing today is such an alternative. I urge my colleagues to join us in supporting this legislation.

* * *

MR. DASCHLE. Mr. President, I am pleased to join my distinguished colleagues, Senator Lloyd Bentsen, chairman of the Finance Committee, and Senator David Boren, in introducing legislation to repeal section 2036(c) of the Internal Revenue Code and replace it with a significantly more limited measure that is fairer to family businesses.

Last year, I introduced a bill, S. 349, that would repeal section 2036(c). At that time, I indicated that I would be open to consideration of a more limited substitute – one that was targeted strictly at the estate tax abuses that allegedly were occurring prior to the enactment of section 2036(c). I also expressed an interest in working with Senator Bentsen in this endeavor.

After extensive review of alternative options, including meetings with small business groups and hearings on this issue in the Finance Committee, Senator Bentsen and I have what we believe is a reasonable alternative to current law section 2036(c).

Our bill addresses three major concerns I have about current law. First, current law takes an approach that throws the baby out with the bathwater. Consequently, a wide rage of otherwise legitimate transactions are suspect under its provisions. The bill we are introducing today takes the opposite approach. It says, 'These specifically identified abuses are impermissible.' Period. In this way, family business owners who wish to pas the business on to their children gradually during their lifetimes can do so with a clear understanding of those means which are permissible.

Second, under [application of Section 2036(a) in lieu of Section 2033], *the IRS can find a transaction unenforceable for estate tax purposes years, perhaps decades, after the transaction occurs. Like a number of other substitute proposals that have been advanced, our bill addresses potential abuses at the time the transaction occurs. This ensures that the appropriate amount of gift tax is paid at that time, leaving owners of businesses with confidence that the transaction will not be found invalid years later when they die and it is too late to do anything about it*.

Finally, section 2036(c) is simply too ambiguous and confusing. Senator Bentsen and I have sought to make our bill much simpler and straightforward. This should make the IRS pursuant to the measure much easier and faster to draft. [Emphasis added.]

* * *

Congress did retroactively repeal the application of I.R.C. Section 2036 inclusion to business and other financial enterprises in lieu of I.R.C. Section 2033 inclusion. Among the reasons cited by the Senate in their legislative history were the following:

> The [Senate Finance] committee believes that an across-the-board inclusion rule [application of Section 2036(a)] is an inappropriate and unnecessary approach to the valuation problems associated with estate freezes. The committee believes that the amount of any tax on a gift should be determined at the time of the transfer and not upon the death of the transferor . . . . In developing a replacement for current section 2036(c) the committee sought to accomplish several goals: (1) to provide a well defined and administrable set of rules; (2) to allow business owners who are not abusing the transfer tax system to freely engage in standard intra-family transactions without being subject to severe transfer tax consequences; and (3) to deter abuse by making unfavorable assumptions regarding certain retained rights.[50]

Congress adopted the suggestion of numerous commentators and approached the reform with respect to inclusion of partnership interest and corporate interest as a valuation problem. It reaffirmed the traditional inclusion and taxation of partnership interests, in which part of the partnership is held in preferred form, under I.R.C. Section 2511 and I.R.C. Section 2033. Those sections were modified, however, through the passage of new valuation rules under Chapter 14.

Furthermore, due to the bifurcated economic interest of preferred and growth interests an inherent substantial investment reason, or stated differently, a substantial non-tax reason, exists for the creation of a family limited partnership interest with those bifurcated asset classes. Generally, the tax court and the circuit courts have indicated a willingness to not apply I.R.C. Section 2036 if a non-tax reason, preferably an investment non-tax reason, exists for the creation of the partnership.

4. The Valuation Rules of IRC Section 2701 Should Not Apply, if One Generation Transfers the Preferred Partnership Interests to the Second Generation.

As noted above, there are now new valuation rules under I.R.C. Section 2701 with respect to partnerships that have both preferred interests and growth interests. Would those new valuation rules apply to a transfer of a preferred interest from the older generation to a younger generation, as opposed to the older generation retaining the preferred interest and giving away the growth interest? Stated differently, if a patriarch or matriarch reorganized his or her business and transferred a high-yielding preferred equity interest to his or her issue (or to a partnership in which his or her issue were the major owners), would this transfer and reorganization be a transaction

[50] Informal Senate report accompanying the Revenue Reconciliation Bill of 1990 (S. 3209) as printed in the Oct. 18, 1990, Congressional Record, vol. 136, s. 15679 (Daily Edition) (emphasis added).

that is subject to the valuation rules under I.R.C. § 2701, which was passed as part of Chapter 14? The answer is no.[51]

If a retained distribution right exists, there must exist a senior equity interest (*i.e.*, the transferor must have retained preferred stock or, in the case of a partnership, a partnership interest under which the rights as to income and capital are senior to the rights of all other classes of equity interest).[52] The Senate legislative history of Chapter 14 indicates that retention of common stock, after the gift of preferred stock, is not a transaction which is subject to the valuation rules under I.R.C. § 2701 because retained ownership of the common stock generally does not give the transferor the right to manipulate the value of the transferred interest. (This reasoning also supports exclusion of an option arrangement from I.R.C. § 2701.) Any transferred preferred stock that has a cumulative right to a dividend, or any transferred note in a corporation which has a cumulative right to interest, is not subject to value manipulation by the common stock owner. For instance, if a dividend or an interest payment is missed, the preferred stock owner or bondholder, as the case may be, continues to have the right to that dividend payment or interest payment. It is true that in certain instruments the preferred stockholder would not enjoy the compounding effect of receiving a late dividend. However, the "lowering" of value to a transferee, by not paying the transferee's dividend, or delaying the payment of the dividend, does not hurt the fisc since that tends to help or increase the junior equity interest owner's net worth (*i.e.*, it increases the transferor's net worth). Thus, even though a transferee may receive a valuable asset in a junk bond or a junk preferred interest, it is a type of security in which the junior equity interest cannot manipulate value, except to *decrease* the value of the transferred interest at a later date.

5. What is the Comparative Outcome Under the Proposed Plan.

If Mr. and Mrs. Inverse create GRATs that last 10 years, with the payouts described above, the gift will be $2,135,460, assuming the IRC Section 7520 rate is 3.2%, even though trusts for their children will receive $30,000,000 of preferred partnership interests at the end of 10 years. If the term of the GRAT is 11 years, assuming the IRC Section 7520 rate is 3.2%, the gift will be zero. If the appraisers find that the rate of return on the preferred interests should be equal to 11.843% in order to support par value of the preferred interests, and the 10 year GRATs are created with $30,000,000 of preferred interest paying all of that coupon in satisfaction of the retained annuity, the GRATs will be near zeroed out GRATs.

Thus, in each of these scenarios, Mr. and Mrs. Inverse could be in the position to receive substantial cash flows for a 10 year or 11 year period, and assuming the gift tax exemption that they each have is $1,000,000, they will each transfer preferred interests that are equal in value to over $30,000,000 to trusts for the benefit of their children by paying little or no gift taxes. All of this is accomplished, even though their investment portfolio only earns 4% to 5% annually, after taxes.

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[51] *See* I.R.C. § 2701(c)(1)(B)(i).

[52] *See* I.R.C. §§ 2701(c)(1)(B)(i) and 2701(a)(4)(B); Treas. Reg. § 25.2701-2(b)(3)(i). *See also* P.L.R. 9204016 (Oct. 24, 1991).

6. Conclusions.

Significant wealth may be able to be transferred from one generation to the next using the valuation arbitrage that may exist between a yield on a preferred partnership interest determined under the parameters of Revenue Ruling 83-120 and a yield determined under IRC Section 7520. This valuation arbitrage has an inherent advantage over the valuation arbitrage that exists for a gift of a pro rata partnership interest to a GRAT for two reasons. The "rate of return" difference between the arbitrage for high yield non-marketable preferred and IRC Section 7520 is probably greater, in the current market, than the difference between a pro rata partnership interest and IRC Section 7520. Secondly, the IRS agrees that the marketability discount exists for closely held preferred partnership interests.

B. Financial Engineering May Ameliorate Those Financial Concerns.

As will be discussed below, the financial reasons why a GRAT may not succeed may be ameliorated by contributing options obtained pursuant to a cashless purchase. The purchase of volatile options may not be objectionable from a family's investment point of view, if the profit and the volatility of the transaction stay within the family or it is obtained in a hedging transaction which actually reduces the family portfolio's financial risk.

1. Vocabulary of the financial engineer.

Before this section of the paper examines the integration of financial engineering with GRAT planning, it is perhaps useful to explore basic financial engineering concepts. While financial engineering may seem somewhat like a mysterious foreign language to some estate planners, the path may be made easier once the vocabulary of that foreign language is learned. The discussion below attempts to outline some of that vocabulary.

a. What is a call option?

A call option is a contract under the terms of which a buyer acquires an option ("call option") to purchase stock held by a seller under certain conditions. The cost of acquiring the call option (the "purchase price") will typically be a portion of the value of the stock at the time the call option is purchased (the "initial value"). Under the terms of the call option, if the stock price stands at or above a specified value (the "target value") on a specified date (the "target date"), the buyer will acquire the right to purchase the stock at a specified price (the "exercise price"). If the stock price is less than the target value on the target date, the call option is not exercisable. If the stock does not appreciate to the target value, the buyer loses the purchase price of the call option to the seller. If the stock does appreciate to the target value, the seller loses the stock while retaining the purchase price and exercise price, the sum of which is, however, less than the then stock value.

For example, when XYZ Company stock is $50 per share, the buyer of a call option pays the seller a $7 premium for the right to buy XYZ Company stock for $55 (the exercise price) at a future date.

Buyer's net worth increases: On the target date, the XYZ stock is trading at $65. The buyer will pay the seller the exercise price of $55 to get the stock. The seller will have the original

call option premium of $7 and the exercise price of $55, but that is $3 less than the value of the XYZ Company stock. The buyer will have paid $62 (the $7 premium and the $55 exercise price) to own a $65 stock. The buyer's net worth increases by $3.

Seller's net worth increases: On the target date, the XYZ stock is trading at $52. The buyer won't pay $55 to purchase the stock, so the seller keeps the $7 premium. The seller's net worth increases by $7.

The most the buyer can lose is the $7 premium.

Theoretically, the seller can lose an unlimited amount if the price of XYZ Company skyrockets, unless the seller owns the same amount of stock in XYZ Company (a so-called "covered call").

b. What is a call spread option?

A call spread option is similar to the call option except that part of the proceeds from the purchase price of selling the call option is in turn invested in another call option, which has a target value below the target value of the original call option. Thus, if a seller of a call option invests the proceeds of that sale in another call option, which has a lower target value, the seller will enhance his net worth, if the stock price on the target date is between the target value for the first selling call option transaction and the second purchasing call option transaction.

For example, when XYZ Company stock is $50 per share, the buyer of a call option pays the seller a $7 premium for the right to buy XYZ Company stock for $55 (the exercise price) at a future date and that buyer then sells a call option for $3 to another buyer for the right to buy XYZ Company stock for $65 at the same future date.

Buyer's net worth increases: On the target date, the XYZ stock is trading at $65. Assume the call spread contract is cash settled. The buyer will gross $10 on his $4 net investment, the maximum possible. The buyer will gross one dollar for every dollar by which the stock price exceeds $55 up to $65, a maximum of $10, so the transaction is profitable at a price above $54. Increases in value above $65 will be owed to the purchaser of the $65 call option, capping the net profit at $6 ($10 - $4).

The most the buyer of the call spread option can lose is the $4 net premium.

Theoretically, the seller of a call spread option, under the above assumed facts, cannot lose more than $6 after the net premium received is considered.

c. What is a put option?

A put option is a transaction in which a buyer enters into a contract with seller, whereby the outside buyer acquires an option ("put option") to sell certain stock under certain conditions to the seller. The cost of acquiring the put option (the purchase price) will typically be a portion of the value of the stock at the time the put option is purchased. Under the terms of the put option, if the stock price stands at or below a specified value (the target value) on a specified date (the target

date), the buyer will acquire the right to sell the stock to the seller at a specified price (the exercise price). If the stock price is more than the target value on the target date, the put option is not exercisable. If the stock does not depreciate to the target value, the buyer loses the purchase price of the put option. If the stock does depreciate to the target value or below, the seller of the put option must purchase the stock at the exercise price from the buyer or settle the difference in value for cash.

For example, when XYZ Company stock is $50 per share, the buyer of a put option pays the seller $7 (the "premium") for the right to sell XYZ Company stock to the seller for $40 (the exercise price) at a future date.

Buyer's net worth increases: On the target date, the XYZ stock is trading at $30. The buyer will sell the stock to the seller of the put option for the $40 exercise price. The buyer of the put option will have $40 from the seller, less the $7 premium previously paid. The buyer's stock was only worth $30 when the buyer exercised the put option, so the buyer nets $33 ($40 stock price less the $7 premium) and the buyer's net worth increases by $3.

Seller's net worth increases: On the target date, the XYZ stock is trading at $45. The buyer won't sell the stock to the seller of the put option for $40, so the seller keeps the $7 premium. The seller's net worth increases by $7.

The most the buyer of the put option can lose is the $7 premium.

Theoretically, the seller can lose the entire $40 exercise price of the stock if the stock price falls to zero, but the seller will still get to keep the $7 premium.

d. What is a put spread option?

A put spread option is similar to the put option except that the proceeds from the purchase price of selling the put option are in turn invested by the seller in another put option that has a higher target value than the target value of the original put option. Thus, if a seller owns a put option, that has a higher target value than the put option that it is the obligor of, the seller will enhance his net worth if the stock price on the target date is between the target value of the first "selling" put option transaction and the second "purchasing" put option transaction.

For example, when XYZ Company stock is $50 per share, the buyer of a put option pays the seller $7 (the "premium") for the right to sell XYZ Company stock to the seller for $40 (the exercise price) at a future date and that buyer then sells a put option for $3 to another buyer for the right to sell XYZ Company stock for $30 at the same future date.

Buyer's net worth increases: On the target date, the XYZ stock is trading at $30. Assume the call spread contract is cash settled. The buyer will gross $10 on his $4 net investment.

The most the buyer of the put spread option can lose is the $4 net premium.

Theoretically, the seller of a put spread option, under the above assumed facts, cannot lose more than $6 after net premium received is considered.

2. Use of Derivatives Purchased From an Investment Bank Solely For the Purpose of Using That Investment For Contribution to a GRAT.

The friend of the GRAT technique is a volatile investment. Put spread options and call spread options are very leveraged financial instruments. Very small movements in the underlying asset on which the derivative is based can produce significant gains for any GRAT to which the derivative is contributed. *See* Tables 5, 7 and 8 below. On the other hand, if the asset on which the derivative is based moves in the opposite direction, the derivative could expire worthless.

One way to ameliorate the risk of purchasing a volatile derivative is to also purchase a derivative that will similarly profit if the underlying asset moves in the opposite direction. One of the derivatives could be contributed to a GRAT and the other derivative could be contributed to another GRAT.

In designing the transaction it is important that each of the GRATs and each of the derivatives be recognized as independent transactions. The GRATs need to be designed so that they would not be considered reciprocal trusts of each other with different beneficiary provisions. There should be meaningful economic risk between the derivatives transaction and a non-tax business purpose.

The safest way to use the power of the offsetting derivative transactions and have them recognized with use of the GRAT technique is to use one GRAT. The donor could keep the potential profit from one of the derivatives with the other derivative being contributed to a GRAT. If the donor keeps the derivative in which there is greater potential profit because of a greater investment in that derivative, one of two outcomes should be present: either (i) the client makes a small profit from the two derivative purchases, which more than pays for the legal cost of creating the unsuccessful GRAT or (ii) the client and his family collectively lose a modest amount of money on the derivative purchases, but the economic loss is more than offset by the gift tax savings of the transfer to the client's family with the successful GRAT.

3. The Use of GRATs When a Client is Purchasing Derivatives For Reasons Independent of Estate Planning.

Of course, many clients have a strong view about the direction of the value of their stock and/or would like to hedge or partially hedge the value of their stock and they use "cashless" derivatives to implement their views. The creation of a GRAT or GRATs increases the attractiveness of using derivatives under those circumstances.

If a client wishes to enhance her return on the value of her stock over the next 13 months, she may wish to engage in a "cashless" derivative strategy that doubles her return up to a certain dollar amount over that period. This strategy is sometimes known as the enhanced price selling strategy of "EPSS". This derivative strategy involves a "cashless" purchase of one 13 month European style at-the-money call. The purchase is funded by a sale of two 13 month European style out-of-the-money calls. Thus, the client will double her return over a 13 month period up to the strike price of the out-of-the-money calls. The client will not lose on any potential future profit by engaging in the transaction, unless the stock substantially increases above that strike price and all of the two for one profit within the spread is exceeded by that increase.

If a client wishes to hedge her return on the value of her stock over a 13 month period, she may wish to engage in a "cashless" derivative strategy that doubles her return up to a certain dollar amount if the stock increases or decreases over that 13 month period. This derivative strategy involves a "cashless" purchase of one 13 month European style at-the-money call and two 13 month European style modified at-the-money puts. The purchases are funded by a sale of two 13 month European style out-of-money calls. The 13 month European style puts are modified to protect only the first 25% decrease in the value of the stock over a 13 month period. This strategy is sometimes called the "Twin-Win" strategy.

These strategies and their inter-relationship with the GRAT technique may perhaps be best illustrated with an example.

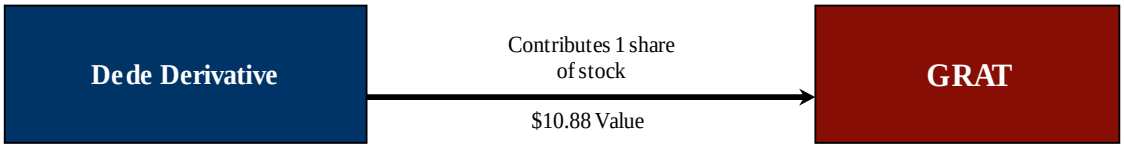
Example 4: Dede Derivative Wishes to Enhance and Hedge the Return of Her Stock and Also Wishes to Engage in Estate Planning

Dede Derivative owns Dow Chemical stock. On February 6, 2009, she decides to engage in both the EPSS strategy and the Twin-Win strategy. Dede also wishes to engage in estate planning using the GRAT technique. Dow is priced at $10.88 on that date and the statutory rate for GRATs is at 2%.

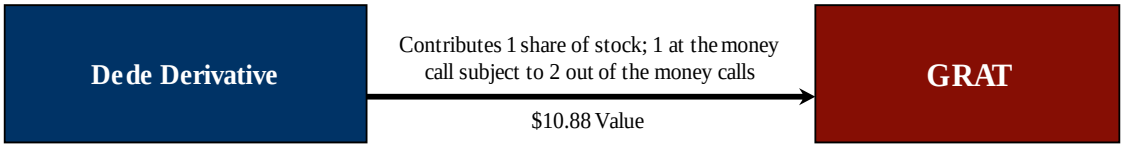
Thirteen month European style at-the-money calls will cost $2.94. An out-of-the-money 13 month European style call with an upper call strike of $13.82 will sell for $1.47 or two such calls will sell for $2.94. Two 13 month European style at-the-money puts cost $0.16 that would protect the value of the stock until it decreased below $8.16 (a 25% drop in the value of the stock). Two 13 month European style out-of-the-money calls with an upper call strike at $13.44 would sell for $3.10 (enough to pay for one at-the-money call and two modified at-the-money puts).

Assuming Dede is contemplating for financial reasons the EPSS strategy for part of her stock, Dede's attorney, Dan Devious, designs three GRAT strategies for Dede to consider and compare, which are illustrated below:

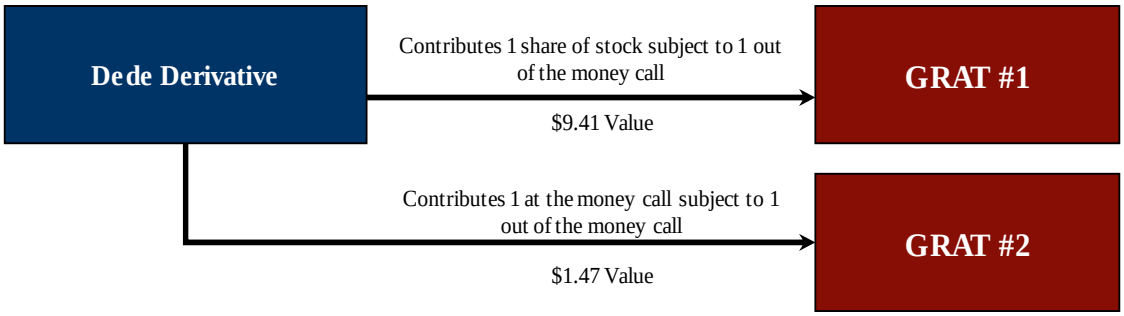
Strategy #1: Conventional GRAT funded with stock



Strategy #2: GRAT funded with stock and EPSS strategy



Strategy #3: 2-GRAT strategy (GRAT #1 – stock subject to call; GRAT #2 – call spread)



The results of the three strategies, with respect to certain assumed stock prices in 13 months, are delineated in the table below (see attached Schedules 2 through 5):

Table 3

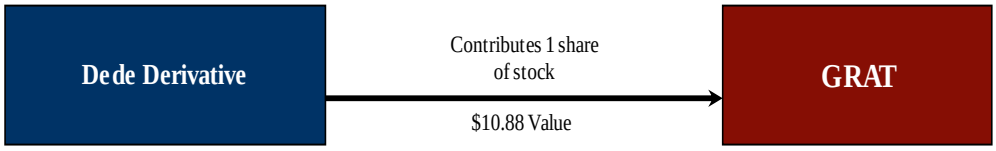
Stock Value	Percentage Increase or Decrease in Value of Stock	Percentage of Beginning GRAT Assets to Remainderman at the End of One Year: Strategy #1	Strategy #2	Strategy #3
$9.38	-13.79%	0.00%	0.00%	0.00%
$9.63	-11.49%	0.00%	0.00%	0.28%
$10.88	0.00%	0.00%	0.00%	11.77%
$11.13	2.30%	0.30%	2.60%	14.07%
$12.38	13.79%	11.79%	25.57%	25.57%
$13.88	27.57%	25.57%	52.00%	52.00%
$16.63	52.85%	50.85%	52.00%	52.00%
$16.88	55.15%	53.15%	52.00%	52.00%

Strategy #1: Conventional GRAT Funded With Stock
Strategy #2: GRAT Funded With Stock and EPSS Strategy
Strategy #3: 2-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread)

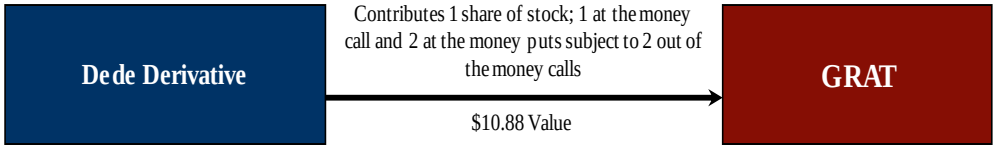
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown. Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, and thus may not reflect material economic and market factors, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight.

Assuming Dede is also contemplating, for financial reasons for part of her stock, the Twin-Win derivative strategies, Dede's attorney, Dan Devious, also designs three GRAT strategies for Dede to consider and compare, which are illustrated below:

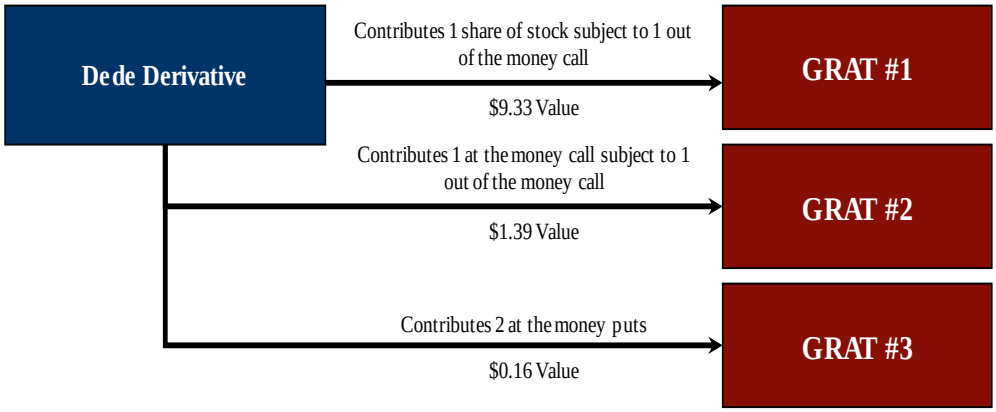
Strategy #1: Conventional GRAT funded with stock



Strategy #2: GRAT funded with stock and Twin-Win derivatives



Strategy #3: 3-GRAT strategy (GRAT #1 – stock subject to call; GRAT #2 – call spread; GRAT #3 – 2 puts)



The results of the three strategies, with respect to certain assumed stock prices in 13 months, are delineated in the table below (see attached Schedules 6 through 9):

Table 4

Stock Value	Percentage Increase or Decrease in Value of Stock	Percentage of Beginning GRAT Assets to Remainderman at the End of One Year: Strategy #1	Strategy #2	Strategy #3
$8.13	-25.28%	0.00%	0.00%	0.00%
$8.38	-22.98%	0.00%	20.98%	44.43%
$10.63	-2.30%	0.00%	0.30%	13.30%
$10.88	0.00%	0.00%	0.00%	12.54%
$11.13	2.30%	0.30%	2.60%	14.83%
$13.38	22.98%	20.98%	43.96%	45.49%
$13.63	25.28%	23.28%	45.00%	46.53%
$16.13	48.25%	46.25%	45.00%	46.53%
$16.38	50.55%	48.55%	45.00%	46.53%

Strategy #1: Conventional GRAT Funded With Stock

Strategy #2: GRAT Funded With Stock and Twin-Win Derivatives

Strategy #3: 3-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread; GRAT #3 - 2 Puts)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown. Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, and thus may not reflect material economic and market factors, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight.

As the above tables illustrate, using the EPSS and the Twin-Win strategies substantially increases the likelihood of a successful GRAT (compare Strategy #1 with Strategy #2). Furthermore, if the components of the EPSS or Twin-Win strategy are bifurcated into two or more GRATs, the comparative benefit is even more substantial (compare Strategy #3 with either Strategy #1 or #2).

In part because of the estate planning opportunities of the cashless derivative strategies, Dede Derivative decides to engage in both strategies and contribute the derivatives to multiple GRATs.

4. Use of a GRAT and private derivatives to hedge an existing grantor trust and to also transfer wealth from the grantor to the grantor's family.

a. The technique.

Many times an existing grantor trust will have a significant position in a single stock or in an exchange traded fund ("ETF"). A prudent trustee may wish to hedge against the possibility that the single stock position and/or the ETF could depreciate in value and still enjoy the benefits of the stock or EFT increasing in value. A prudent trustee may wish to provide for greater protection for a stock's downside and/or an ETF's downside owned by the trust and also generate the possibility of enjoying greater upside under certain circumstances. One approach is to consider a Twin-Win strategy.

As noted above, this strategy involves selling two out-of-the-money calls and using those proceeds to buy one out of the money call and two so-called "knock-out" puts. Since the out-of-pocket cash costs of the positions are neutral, the derivative is, on a net basis, cashless. A "knock-out" put differs from the classic put in that downside protections only exist for a limited amount. For instance, if a trustee wanted downside protection for the first 20% decrease over a 53 week period and was willing to undergo the risk for any risk below that 20%, the trustee may consider purchasing knock-out puts to that 20% level rather than puts that provided downside protection all the way to zero. Knock-out puts will be cheaper than classic puts and could put the trustee in the position to enjoy greater protection through that 20% threshold. For instance, the trustee may find that is much cheaper to buy two knock-out puts than one put that provides protection all the way down to zero.

Consider the following example.

Example 5: A Trust Wishes to Hedge its ETF Investment By Entering Into a Twin-Win Derivative With its Grantor

Tom Trustee enters into a cashless derivative with Connie Counterparty who is the grantor of the trust and Connie contributes her position to a GRAT.

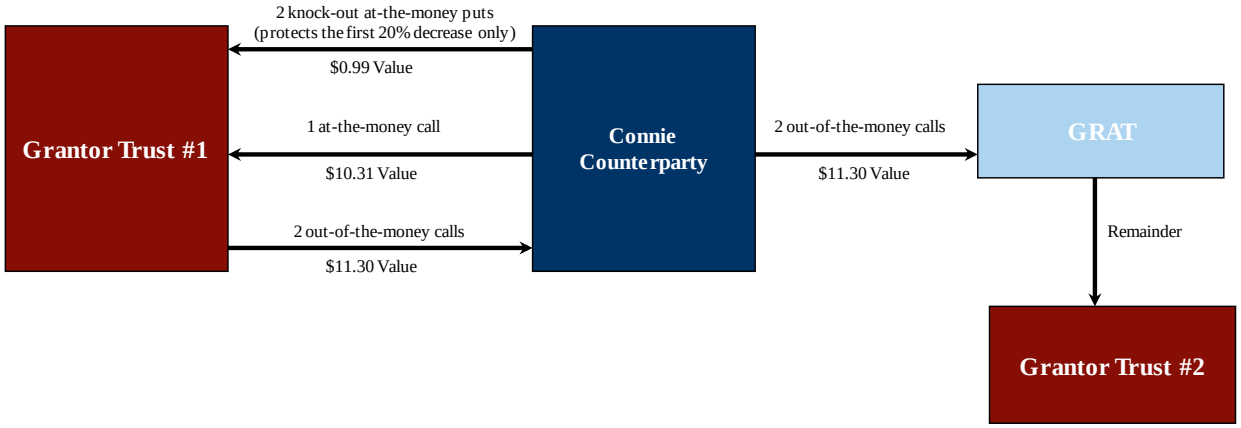
Tom Trustee is trustee of a grantor trust that was created many years ago by Connie Counterparty. The trust has a significant position in an ETF that mimics the S&P 500 stock index. On March 2, 2009, Tom decides to hedge the ETF position. Tom approaches a big investment bank and buys two out-of-the-money calls with respect to his S&P 500 index ETF that are 13% out-of-the-money. These two call positions are a 53 week European style options. The proceeds of the sale of those two out-of-the-money call positions are then utilized to buy one at-the-money call position that is also a 53 week option and two knock-out puts that protect the ETF for any decrease that does not exceed 20% of the position of the ETF in 53 weeks. Thus, Tom is in a position to enjoy a $2.00 profit for every dollar increase in the value of the ETF position until it increases more than 13% and will enjoy $1.00 increase every time the ETF position decreases by $1.00 until it decreases by more than 20%. Tom will not regret the trade unless the stock index grows by more than 26% in the 53 week period.

Connie Counterparty learns about the trade that Tom Trustee is entering into with the investment bank. Connie suggests to Tom that she would like to do the same trade with Tom. That is, Connie will purchase two out-of-the-money call positions from Tom, as trustee, and Tom, as trustee, can use those proceeds to buy from her at-the-money call position and two knock-out puts. All of the positions with Connie will also be 53 week options.

The ETF simulating the S&P 500 on March 2, 2009 is worth $70.60. The sale of two out-of-the-money call positions that are 13% above that $70.60 price (or $79.78) will bring to Tom $11.30 for each share of the ETF. That $11.30 can be redeployed to buy one at-the-money call, which is worth $10.31 and two at-the-money knock-out puts, which will protect the first 20% of downside of the ETF (the downside knock-out level is $56.48). The knock-out at-the-money puts will cost 99¢.

After Connie enters into the transaction with Tom, she decides to transfer her two out-of-the-money call positions to a new GRAT. The GRAT could have as it remainderman a different grantor trust (Grantor Trust #2) with different provisions.

The proposed transaction with Connie Counterparty is graphically demonstrated below:



b. Outcome.

The beneficiaries of the old grantor trust benefit under most scenarios projected for the S&P 500 in that 53 week period. Additionally, if Connie contributes her out-of-the-money call positions that she owns from the grantor trust to a new GRAT, in which the remainderman beneficiary is a new grantor trust, the family will always be in a better position than if the hedging transactions had not been entered into with Connie, or the same position. See the chart below (and see attached Schedules 10 through 14):

Table 5

Numeric Summary Comparison of Results from the Perspective of Connie Counterparty's Family

Assumptions:		Status Quo with Grantor Trust Holding One Share of ETF		Hypothetical Plan With Grantor Trust Holding Derivatives Strategy and a GRAT Funded with 2 Out-of-the-Money Calls		
Estimated ETF Value	**Percentage Increase or Decrease in Value of ETF**	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust (Holding 1 Share of ETF)	**ESTIMATED TOTAL ASSETS TO BENEFICIARIES** **Trust Total ($)**	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust #1 (Derivatives Grantor Trust)	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust #2 (2 OTM Call GRAT Beneficiary)	**ESTIMATED TOTAL ASSETS TO BENEFICIARIES** **Trust Total ($)**
$56.10	-20.54%	($14.50)	**$56.10**	($14.50)	$0.00	**$56.10**
$56.60	-19.83%	($14.00)	**$56.60**	$14.00	$0.00	**$84.60**
$70.10	-0.71%	($0.50)	**$70.10**	$0.50	$0.00	**$71.10**
$70.60	0.00%	$0.00	**$70.60**	$0.00	$0.00	**$70.60**
$71.10	0.71%	$0.50	**$71.10**	$1.00	$0.00	**$71.60**
$79.60	12.75%	$9.00	**$79.60**	$18.00	$0.00	**$88.60**
$80.10	13.46%	$9.50	**$80.10**	$18.36	$0.00	**$88.96**
$85.60	21.25%	$15.00	**$85.60**	$18.36	$0.08	**$89.03**
$89.10	26.20%	$18.50	**$89.10**	$18.36	$7.08	**$96.03**
$91.10	29.04%	$20.50	**$91.10**	$18.36	$11.08	**$100.03**
$91.60	29.75%	$21.00	**$91.60**	$18.36	$12.08	**$101.03**
$94.10	33.29%	$23.50	**$94.10**	$18.36	$17.08	**$106.03**
$94.60	33.99%	$24.00	**$94.60**	$18.36	$18.08	**$107.03**
$111.60	58.07%	$41.00	**$111.60**	$18.36	$52.08	**$141.03**

* This derivative strategy involves a "cashless" purchase of one at the money call and two modified at the money puts. The purchases are funded by a sale of two out of the money calls. More specifically, two 53 week out of the money (13% above current market price) calls are sold. The proceeds of that sale are used to purchase one 53 week at the money call and two 53 week at the money puts. However, the puts are designed to have no value if the stock declines by more than 20%.

The line graph below also illustrates that Connie's family will always be better off if they enter into the hedging transaction with Connie and if Connie contributes her position in the hedge to a new GRAT:

Graphic Summary Comparison of Results from the Perspective of Connie Counterparty's Family

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown. Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, and thus may not reflect material economic and market factors, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight.

With significant movements of the ETF, almost 20% down or over 40% up, significant improvement will occur in Connie Counterparty's family's net worth in various trusts. That improvement will accrue at the expense of Connie Counterparty. While that wealth will be transferred from Connie Counterparty to one or more trusts for the benefit of her family, that transfer should accrue with minimum gift taxes assuming the GRATs that Connie creates are near zeroed out GRATs.

5. Use of Intra-Family Derivatives in Combination With a GRAT.

Another method to produce the volatility of derivative instrument contribution to a GRAT and mitigate the financial risk to the family of a derivative investment is to have an intra-family derivative with a family member being a counter-party instead of an investment bank. *See* the example below:

a. The technique.

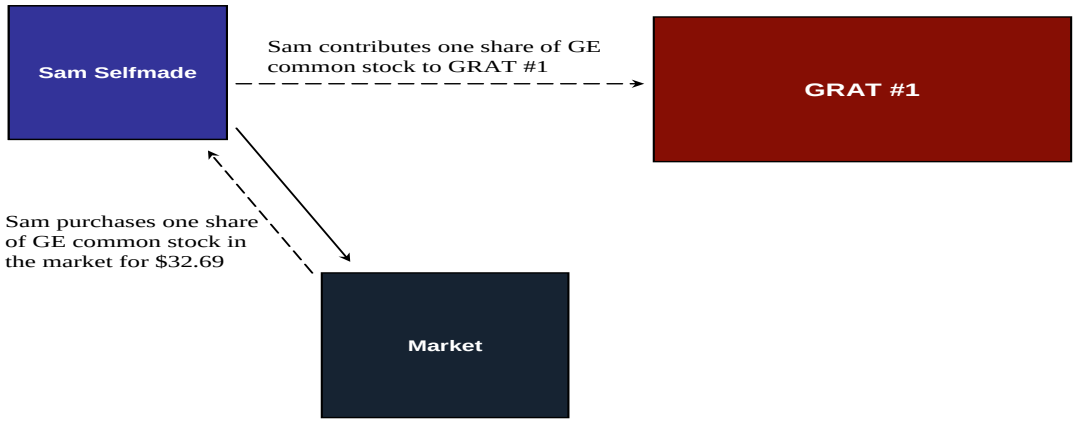
Example 6: Grantor of GRAT Enhances the Likelihood of Exceeding the Statutory Rate By Contributing a Derivative (Which is the Result of a Private Transaction With the Grantor's Spouse, or a Marital Trust That is Also a Grantor Trust) to a GRAT

Many years ago, Sam Selfmade's company merged with General Electric. Sam received General Electric stock as a result of that merger. In 2005, Sam, with his wife Sally and their children put some of their General Electric stock in a family limited partnership. Sam and Sally still own a significant part of their General Electric stock outside of the partnership. Both Sally and the trustee of the marital deduction trust for her benefit believe it would be economically beneficial from their perspective to hedge their GE stock positions with a financial counterparty (as many other GE investors do everyday).

Sam Selfmade explores if he should be that financial counterparty. Sam Selfmade, on July 31, 2006, also wishes to compare over a one year period the possible results from entering into a variety of private derivative hedging transactions involving GE stock with either his spouse, Sally Selfmade, or a marital deduction trust he created for her benefit, acting as the financial counterparty, and contributing his derivative to a GRAT.

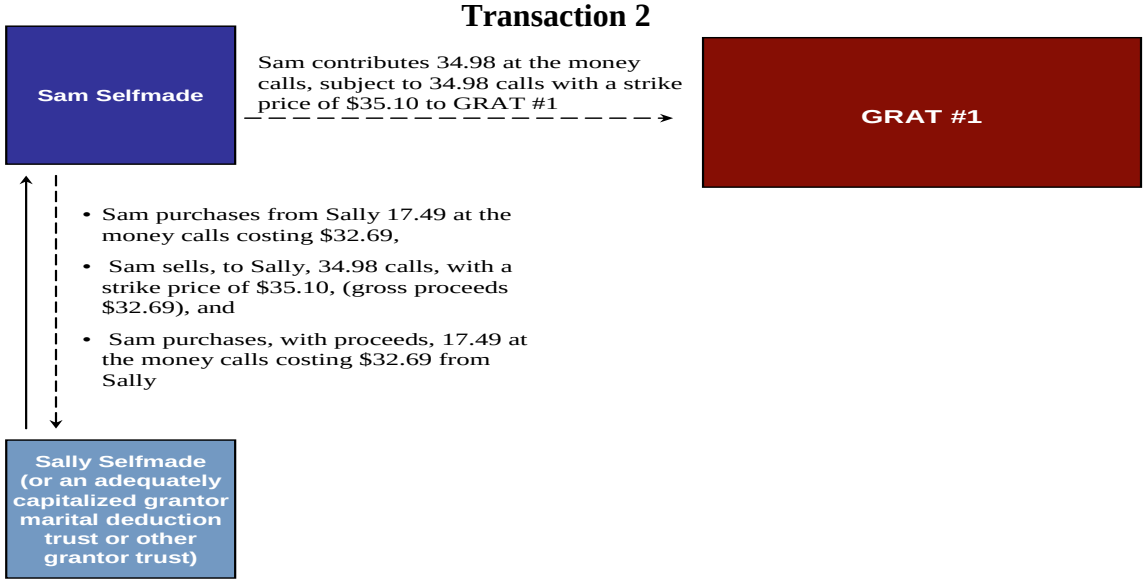
Sam wishes to compare the various results if he simply contributes his GE stock to a traditional GRAT, which is noted on the flow chart below as Transaction 1. See the illustration below:

Transaction 1



Under Transaction 2, Sam purchases 34.98 at the money calls and sells 34.98 calls with an out of the money strike price of $35.10 from Sally Selfmade, or from a marital deduction trust that is adequately capitalized and is also a grantor trust (with a difference between those two amounts being worth $32.69, which Sam pays either to Sally Selfmade or the trust); Sam Selfmade contributes his at the money calls subject to the calls that are out of the money to a GRAT. In lieu of cash, Sam could use some of his partnership units to either pay Sally, or the marital deduction trust, for the premium on the call spread option. See the flow chart below:

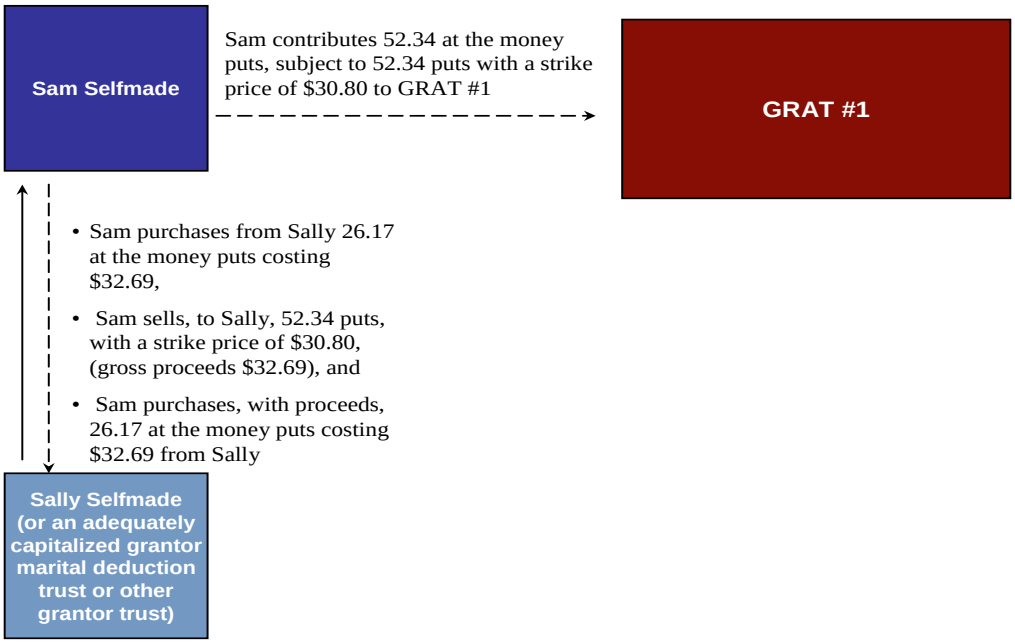
Transaction 2



* Assuming that Sam Selfmade is willing to contribute, to a GRAT, assets that have a net value of $32.69. Transactions are assumed to take place on July 31, 2006.

Under Transaction 3, Sam Selfmade purchases from Sally Selfmade, or the trust, 52.34 at the money puts and sells to Sally Selfmade 52.34 out of the money puts with a strike price of $30.80. In lieu of cash, Sam could use partnership units to either pay Sally, or the marital deduction trust, for the premium on the put spread option. Sam Selfmade contributes the at the money puts subject to the out of the money puts to a GRAT. See the flow chart below:

Transaction 3



* Assuming that Sam Selfmade is willing to contribute, to a GRAT, assets that have a net value of $32.69. Transactions are assumed to take place on July 31, 2006.

As noted above, Sam Selfmade may purchase either the call spread option or the put spread option with assets in kind without income tax consequences (e.g., an interest in the family corporation or partnership). Similarly, if Sally Selfmade, or her marital deduction trust, later become liable to the GRAT because of the obligations of the option contract, that obligation may be settled in kind without income tax consequences.

Below is a chart summarizing the results of the Schedules attached to this outline. This chart summarizes the GRAT remainderman's return at the end of one year as a percentage of assets in the GRAT. *See* Schedules 15 to 18 attached to this paper.

Table 6

GRAT Remainderman's Return at the End of One Year as a Percentage of the Initial Value of the Assets in GRAT

Stock Price	Increase (Decrease) in the Value of GE Stock	Transaction 1 Traditional GRAT With Stock	Transaction 2 GRAT With Call Spread	Transaction 3 GRAT With Put Spread
$10.00	-69.41%	0.00%	0.00%	196.44%
$15.00	-54.11%	0.00%	0.00%	196.44%
$20.00	-38.82%	0.00%	0.00%	196.44%
$25.00	-23.52%	0.00%	0.00%	196.44%
$27.00	-17.41%	0.00%	0.00%	196.44%
$28.00	-14.35%	0.00%	0.00%	196.44%
$29.00	-11.29%	0.00%	0.00%	196.44%
$30.00	-8.23%	0.00%	0.00%	196.44%
$30.80	-5.78%	0.00%	0.00%	196.44%
$31.00	-5.17%	0.00%	0.00%	164.42%
$32.00	-2.11%	0.00%	0.00%	4.29%
$33.00	0.95%	0.00%	0.00%	0.00%
$35.00	7.07%	0.87%	140.99%	0.00%
$35.10	7.37%	1.17%	151.69%	0.00%
$41.00	25.42%	19.22%	151.69%	0.00%
$50.00	52.95%	46.75%	151.69%	0.00%
$55.00	68.25%	62.05%	151.69%	0.00%
$60.00	83.54%	77.34%	151.69%	0.00%

Transactions are assumed to take place on July 31, 2006.

As noted above, only those transactions in which there is not any possibility that the marital trust will be exhausted may be utilized with the trust being the financial counterparty. All of the transactions may be utilized with a spouse. A quick review of the chart shows that significant results will be attained in either the private call spread transaction (see Transaction 2) or the private put spread transaction (see Transaction 3). If GE stock increases from July 31, 2006 to July 31, 2007, by 7.37% in a traditional GRAT that has shares of GE stock, the remainderman will have an actuarial interest on July 31, 2006 that is only equal to 1.17% of the initial value of the assets in the GRAT. Contrast that result with a call spread transaction (see Transaction 2), in which the remainderman beneficiary receives an amount equal to 151.69% of the initial value of the assets in the GRAT. Stated differently, in dollars and cents, assume the initial value contributed to the GRAT has a value of $3,269,000 (whether it has 100,000 shares of GE stock or 3,498,000 call spread options). If a traditional GRAT is utilized with only GE stock, $38,247.30 will accrue to the remainderman. However, if the call spread transaction is utilized, $4,959,000 will accrue to the remainderman beneficiaries.

In similar fashion, very leveraged results can accrue with a put spread transaction. If the GE stock should decrease by 5.78% over a one year period the traditional GRAT (Transaction 1) is a failure. However, if Sam and Sally Selfmade (or her marital deduction trust) enter into a put spread transaction (Transaction 3) 196.44% of the initial assets in the GRAT at the end of year one will accrue to the remainderman beneficiaries. Stated differently, in dollars and cents, under the traditional GRAT with 100,000 shares of GE, nothing passes to the GRAT remainderman.

However, if the put spread transaction is utilized, $6,422,000 will accrue to the GRAT remainderman.

Naturally, the question is why do Transaction 2 and Transaction 3 perform so well in comparison to the traditional GRAT technique? The answer is leverage or, in the case of a GRAT, double leverage. For every dollar of the stock price increases in the traditional GRAT (Transaction 1) above $2.03, there is $1.00 of profit that accrues to the remainderman beneficiaries of the GRAT. The grantor is entitled to the first $2.03 of profit in the first year. The stock needs to increase to about $35.00 before the remainderman beneficiaries in a traditional GRAT receive anything. In Transaction 2 (the call spread option) for every dollar GE increase above $1 of GE stock (i.e., once the stock price hits $34.72) almost $35.00 of value accrues to the remainderman. Once the stock grows more than $1.00, all of that value accrues to the family remainderman beneficiaries on a very leveraged basis. Stated differently, for every dollar increase in value, once that break even point has been obtained, $34.98 accrues to the remainderman beneficiary until the inherent limitations of the call spread price of $35.10 is hit.

The chart below summarizes the leverage comparisons of the call, spread option contributed to a GRAT in comparison to a contribution of stock of the same value to a GRAT:

Table 7

Transaction	Assets of the GRAT, Which Are Worth $32.69 on July 31, 2006	The Amount of Growth in Value That GE Must Achieve Before GRAT Remaindermen Receive Value (Breakeven Point)	The Amount GRAT Remaindermen Will Receive For Every Dollar of Growth of a Share of GE Stock Once Breakeven Point is Achieved
Transaction 1	One share of GE stock	$2.03	$1
Transaction 2	34.98 at the money call, subject to 34.98 calls with a strike price of $35.10	$0.99	$34.99

Are the results any different with a more volatile stock like eBay? Please see the chart below and Schedules 19 through 22 attached to this paper.

Table 8

GRAT Remainderman's Return at the End of One Year as a Percentage of the Initial Value of the Assets in GRAT

Stock Price	Increase (Decrease) in the Value of Stock	Transaction 1 Traditional GRAT With Stock	Transaction 2 GRAT With Call Spread	Transaction 3 GRAT With Put Spread
$10.00	-58.45%	0.00%	0.00%	136.22%
$15.00	-37.68%	0.00%	0.00%	136.13%
$20.00	-16.91%	0.00%	0.00%	136.04%
$21.00	-12.75%	0.00%	0.00%	78.80%
$22.00	-8.60%	0.00%	0.00%	18.54%
$23.00	-4.45%	0.00%	0.00%	0.00%
$24.00	-0.29%	0.00%	0.00%	0.00%
$25.00	3.86%	0.00%	0.00%	0.00%
$26.00	8.02%	1.82%	0.00%	0.00%
$27.00	12.17%	5.97%	24.02%	0.00%
$29.00	20.48%	14.28%	112.91%	0.00%
$31.00	28.79%	22.59%	201.80%	0.00%
$31.35	30.25%	24.05%	217.36%	0.00%
$32.00	32.95%	26.75%	217.36%	0.00%
$41.00	70.34%	64.14%	217.36%	0.00%
$42.00	74.49%	68.29%	217.36%	0.00%
$50.00	107.73%	101.53%	217.36%	0.00%

Transactions are assumed to take place on July 31, 2006.

As can be ascertained from a comparison of the two charts, a smaller movement in the GE stock produces the same result as a much larger movement in the eBay stock. This is logical since eBay is much more volatile (i.e., has much greater range of expected outcomes in value) than the GE stock. Thus, using call spread options and put spread options for almost any stock, after taking into account volatility, may have a decent chance of producing a significant estate planning result. Not only does this private derivative technique seem to have universal appeal for most stocks, it also could be utilized with respect to almost any closely held businesses, because the interest in the closely held business could be used as the currency to pay the premiums and other obligations under the option contracts.

b. Refinements of the technique.

What if Sam Selfmade purchases both a call spread option and a put spread option from the marital deduction trust for Sally's benefit, and then contributes each option to different GRATs with different annuity payouts and different remainderman provisions? Investors sometimes make that purchase (the so-called "Winged-Tip" strategy) when they are betting on market volatility. There are circumstances when neither strategy would work (because that stock is flat or the markets are flat). Even so, in most instances one of the GRATs will work and the failure of the other will be costless (apart from administrative costs). This bothers the practitioner who applies a "too good to be true" test.

A more conservative approach, and just as effective an approach in the long term, would be for Sam Selfmade to use his judgment as to whether GE stock is going to be higher or lower

and purchase a call spread or put spread option, but not both. If Sam's judgment is incorrect, he could do another transaction at a later time. Eventually, Sam's judgment will presumably be correct, and at that time he will have a successful GRAT with this cascading GRAT strategy.

Assuming Sam's judgment is eventually correct, Sam and his family will not be disadvantaged by the cascading GRAT strategy except for the continuing legal costs in creating the GRATs. One way to ameliorate that concern, and to create evidence as to the fair market value of the private call spread option or put spread option, is for Sally Selfmade, or her marital deduction trust, to sell, for a premium, a very small part (e.g. 5%) of the transaction to an independent third party. If the private call spread option expires worthless, the independent third party call spread option will also expire worthless. The Selfmade family will, under those circumstances, "pocket" the third party premium, which could pay for the legal costs of creating the unsuccessful GRAT that holds the private call spread option.

The annuity payout percentage of the GRAT that is funded with a private derivative should be around 90% of the original fair market value in first year and around 12% in the second year. The result, or success of the transaction, will be known by the end of year one. In effect, the large annuity payout in year one creates a GRAT that performs similar to a one year GRAT. It should be noted, there is not any express support or prohibition in the treasury regulations with respect to decreasing annuity payouts for GRATs.

As noted above, the payment of the premium by Sam to the grantor marital trust could be "in kind" (e.g., shares of an S corporation or family limited partnership units). Likewise, the marital deduction trust could settle the option contract "in kind". In this manner, the technique could be used to transfer, assuming a successful GRAT, any of the client's assets.

c. Advantages of grantor of GRAT entering into financial engineering with a spouse of grantor, or a marital deduction trust, that is also a grantor trust and contributing that position to a GRAT.

(1) Advantage of a grantor selling or buying an option either from grantor's spouse, or a marital deduction trust that is also a grantor trust, and contributing that position to a GRAT in comparison to the GRAT selling or buying an option from the grantor.

It may not be possible for a grantor of a GRAT to enter into direct option transactions with the trustee of the GRAT after the grantor contributes stock subject to the proposed options to the GRAT. The purchase or sale of an option by a grantor could be deemed in part a taxable gift by the grantor despite the fact that the purchase price equals the fair market value of the option. The reason is that part of the consideration paid to a purchaser and exerciser of the option is the initial value of the stock at the time of the option.[53] The grantor already beneficially owns the initial

[53] However, the argument has been made that a grantor may receive full consideration for certain types of options. If the GRAT wrote covered calls to the grantor, the grantor receives the consideration of "capping" the amount that would go to the GRAT remainderman. The problem with that analysis is that the grantor could place an

value of the stock through the grantor's annuity interest in the GRAT. Thus, the Service may take the position that a GRAT cannot compensate the grantor for the full value of the option in a transaction that occurs after the creation of the GRAT.

(2) Income tax advantage.

The GRAT could be structured as a wholly grantor trust as to the grantor. It is not, however, a grantor trust as to the grantor's spouse. Thus, the spouse's payments to or receipts from the GRAT could result potentially in taxable income to the grantor (through the GRAT) or to the spouse if the GRAT and the spouse are treated as the independent parties to the transaction for income tax purposes. A transaction between two spouses, by contrast, does not result in taxable income or gain. *See* I.R.C. Section 1041.

As noted above, under Rev. Rul. 85-13, a grantor trust is deemed to have no existence with respect to transactions between the grantor and the trust. To say that transactions between the grantor and the trust are treated as transactions between the grantor and himself is not quite the same as saying that transactions between a third party and the trust are treated as transactions between the third party and the grantor. The latter conclusion, however, follows logically from the former, and this extension of Rev. Rul. 85-13 has been endorsed by two private rulings. PLR 8644012 and PLR 200120007 hold that a transfer between H (or H's grantor trust) and W's grantor trust is treated the same way as a transfer between H and W and is governed by I.R.C. Section 1041. Therefore, there should be no income tax consequences to the transactions explored below.[54]

One of the problems with options is that they may be income tax inefficient. This disadvantage disappears in transactions between grantor trusts having the same grantor and, as noted above, would also appear to disappear with respect to transactions between a spouse and a grantor trust created by the other spouse, since the profit of the transaction would be a profit that is exempt from taxation under I.R.C. Section 1041.

(3) Family financial advantage.

As noted under the facts of this hypothetical, Sally and/or the trustee of the marital deduction trust (as do many other investors everyday) wish to hedge their GE stock exposure with a financial counterparty. There are advantages for Sally or the trustee of the marital deduction trust using Sam as the financial counterparty instead of a financial institution. The obvious

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upper limit on the amount going to the remainderman by the language of the GRAT instrument without paying additional consideration to the GRAT for a call option. For instance, the grantor could provide in the document that any amounts passing to the remaindermen are capped at a certain dollar amount with the rest reverting back to the grantor.

[54] *Rothstein v. U.S.*, 735 F.2d 704 (2nd Cir. 1984) held that a transaction between a grantor trust and a grantor was not disregarded for income tax purposes. This case has not been overruled and stands as authority of a high level against the income tax analysis herein. However, the IRS disagreed with the case in Rev. Rul. 85-13 and, it appears, has never departed from Rev. Rul. 85-13 or relied on the case even when to do so would have favored the government. As a practical matter is seems that Rothstein may be ignored.

advantage of an inter-spouse option, or a transaction with a marital deduction trust that is also a grantor trust, is that any potential profit, loss, or financial inefficiencies (commissions, flat market, etc.), stays in the family. From a cohesive family's point of view, if the totality of the profits, losses, inefficiencies and costs remain with the family, there should be no downside, except for the shifting of value between various members of the family.

Stated differently, from the cohesive family's point of view, shifting value between family members is certainly more palatable than the shifting of the value from family members to outside third parties and/or financial institutions.

d. Potential considerations with respect to a grantor of a GRAT entering into financial engineering with either the spouse of grantor, or a transaction with a marital deduction trust that is also a grantor trust.

(1) Volatile investments (including call options and put options) should not jeopardize the retained annuity of a GRAT from being a "qualified interest."

If a grantor contributes an option to the GRAT, it could be argued by the IRS that the annuity should be valued at less than the value of the option because the grantor annuitant cannot share in the potential "upside" of the option beyond the Statutory Rate, but can fully share in its "downside." The IRS could argue a hypothetical willing buyer of the annuity would not be willing to pay the full price of the option because he or she does not acquire the full value of the option.[55]

This argument, if asserted, should not prevail because it reduces to the contention that certain assets are too volatile to be valued under Section 7520 and there is no precedent to support that position. On the contrary, the clear language Congress used in I.R.C. Section 2702(a)(2)(B) mandates valuation under Section 2702 for qualified interests, and nothing in the Treasury Regulations under Section 2702 suggests that the potential volatility of the GRAT's investments should disqualify an otherwise qualified interest or that volatility *per se* is the basis for an exception to Section 2702's ordinary valuation mechanisms. Moreover, no precedent requires the current value of a gift made through a GRAT, which may subsequently fluctuate substantially in value, to be determined pursuant to a method which is different than that generally prescribed by Section 7520.

[55] Regulations section 25.2512-1 defines the value of the property as the price at which such property would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell, and both having reasonable knowledge of the relevant facts. However, recent case law (for instance, *see*, *Kimbell v. US*, 371 F.3d 257 (5th Cir. 2004)) has made it clear that the "willing buyer-willing seller" test determines the amount of the gift, when a gift is deemed to occur, not whether there *is* a gift.

(2) If a grantor of a GRAT enters into a transaction with either his spouse, or with a marital deduction trust that is also a grantor trust, and the grantor then contributes the grantor's position in the option transaction to a GRAT, the transaction should be treated for transfer tax purposes, the same as if the grantor had a transaction with an independent third party.

Ordinarily, the gift tax applies separately to an individual and his or her spouse. The actions of one are not attributed to the other. Stated differently, for gift tax purposes, spouses are almost always treated as different parties with respect to potential donees. On occasion, however, a court will recharacterize a transfer for federal gift or estate tax purposes to determine that a person other than the donor in form should be regarded as the true donor.[56] It is possible that a court might apply the doctrine of "integrated transaction" or "substance over form" or "step transaction" or some other equitable doctrine to recharacterize the transaction. The application of these doctrines is subject to a case-by-case analysis and depends on the facts of a particular case. Thus, it is not possible to say with certainty that no such doctrine could be applied to every transaction with the grantor's spouse. Generally, it would appear that it would be more difficult to apply those equitable doctrines to an independent trustee, if the grantor enters into a transaction with a marital deduction trust that is also a grantor trust.

If the option position contributed to the GRAT appreciates at a rate greater than the Statutory Rate and the option position owned by the grantor's spouse depreciates, an amount should pass to the GRAT's remainder beneficiaries without further gift tax, although the two positions in the aggregate may not produce a yield greater than the Statutory Rate. For this reason, the Service might contend that the two positions should be viewed as a whole in determining the gift tax consequences of the arrangement, and that a taxable gift occurs, not by reason of the GRAT *per se*, but by reason of the grantor's adoption of an investment strategy pursuant to which any increased value passing to the GRAT remaindermen is substantially matched by a decreased value in the grantor's spouse's own assets or the marital deduction trust's own assets.

However, these doctrines have not been applied, and should not be extended to, recharacterize the subject matter of a gift to include other property owned or acquired by the donor (much less, a donor's spouse) which has not been transferred under state property law for the benefit of any donee. (This assumes the grantor's spouse does not contribute the option to another GRAT with the same remainderman as the first GRAT.)

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[56] *See United States v. Estate of Grace*, 395 U.S. 316 (1969), *rev'g* 393 F.2d 939 (Ct. Cl. 1968) (reciprocal trust created by a decedent's spouse is treated as if it was created by the decedent); *Estate of Schuler v. Comm'r*, 282 F.3d 575 (8th Cir. 2002) and *Sather v. Comm'r*, 251 F.3d 1168 (8th Cir. 2001) (annual exclusions denied after reciprocal gifts to nieces and nephews were recast as gifts by each donor to his own children); and *Griffin v. United States*, 42 F. Supp.2d 700 (W.D. Tex. 1998) (husband's gift to wife followed by wife's gift to children is recast as a gift by husband to children). *See also, Brown v. U.S.*, 329 F.3d 664 (9th Cir. 2003) (wife's payment of gift tax on split gift attributed to husband under step transaction doctrine where husband had given wife funds to pay the tax).

Secondly, it is clear that Congress anticipated that there would be transactions between spouses. Generally, Congress has encouraged those anticipated transactions with favorable treatment. Congress has made it clear that inter-spousal transactions are to be income tax-free (see I.R.C. Section 1041), gift tax-free (see I.R.C. Section 2523), and are not to be subject to estate taxes (see IRS Section 2056).

Thirdly, it is axiomatic that the federal gift tax is to be applied by looking solely at the gifted property (here the contributed option), without reference to other property retained by the donor or owned by other family members. For example, in Revenue Ruling 93-12,[57] the Service held that when a grantor transfers shares in a corporation, the extent of the family's control over the corporation which is attributable to non-transferred shares is not to be considered in determining the value of the transferred interests.

Fourthly, there does not appear to be any precedent that should alter the federal transfer tax consequences attributable to the transfer of property to a GRAT, on account of a family member of the grantor, or a trust for the benefit of a family member, personally "hedging" the gifted property. Whether the grantor's spouse owns or acquires an offsetting position to that held by the GRAT should not factor into the calculation of the gift tax incurred upon creation of the GRAT by the grantor and should have no effect on the amount of the taxable gift, even if the grantor's spouse obtains the option position as part of an overall strategy which includes the gift.

Some or all of the following facts should help defeat any attempt to attribute the grantor's actions to the grantor's spouse or *vice versa*:

(i) The option transactions could be structured to relate to the grantor and grantor spouse's market exposure. Stated differently, the option transactions could "track" the market exposure of the grantor and grantor's spouse. For instance, if the grantor has a broad basket of stocks, using options relating to a broad market index may be appropriate. On the other hand, if the grantor has a concentrated portfolio, using options relating to that market sector or concentrated stock may be appropriate. If the grantor has a closely held business, using an option that tracks a stock or index in the same business may be appropriate.

(ii) The grantor and the grantor's spouse (or the marital deduction trust or other grantor trust) each use their own funds.

(iii) An independent trustee or co-trustee makes the decision to retain the option.

A natural question is, if an equitable doctrine is applied to treat a grantor's spouse (or a marital deduction trust or other grantor trust) as the grantor, instead of as a third party, with respect to a potential donee, what are the worst possible gift tax consequences?[58] If the trustee of

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[57] 1993-1 C.B. 202. *See also, Estate of Lee v. Comm'r*, 69 T.C. 860 (1978).

[58] There is obviously a greater than 50% actuarial chance that any proposed option transaction will not be successful in passing wealth to the remainderman. However, there will not be any gift taxes owed in a "zeroed out" GRAT, unless the GRAT is not qualified.

the GRAT owns an option position with the spouse, and if the grantor's spouse is treated as a deemed grantor, the transaction may be treated as a deemed contribution.

On its face, it would appear that such a position by the IRS, if adopted by the courts, would not be a disaster if the timing of the deemed equitable contribution by the spouse is at the time of the creation of the GRAT. All that it would mean is that there are two initial grantors (instead of one) and the formula annuity could be drafted under the GRAT instrument to adjust to cover that contingency. While the technique would not be successful because both positions of the option will be deemed contributed, it would not be a "disaster" (unless paying legal fees for a technique in which there was no gift tax nor an effective transfer is considered a "disaster").

Additionally, the terms of GRAT should make it clear that if the option transaction is found to constitute a later additional contribution when the spouse or marital deduction trust as the financial counterparty, a new second GRAT will be created with that contribution and that contribution will not accrue to the original GRAT.

Another solution, if the practitioner feels the potential IRS argument is a risk, is to use a short term grantor retained uni-trust ("GRUT") that complies with I.R.C. §2702(b)(2), instead of using a GRAT. The GRUT could be designed to last for 13 months.[59] The GRUT would have two fiscal years with one of the years having a short period (e.g. one month). Alternatively, there could be a significant percentage payout in the first year in comparison to the second year. There is no prohibition against additional contributions to a GRUT. If there is an additional contribution, or deemed additional contribution, the uni-trust payment is simply adjusted upward. Thus, if the spouse (or marital deduction trust) is treated as a deemed grantor, instead of as a third party or counterparty, the retained GRUT payment will not be disqualified. However, assuming the spouse is treated as a third party the short-term GRUT will not work quite as well as the short-term GRAT, because part of the appreciation, if the option transaction is successful, will be paid back to the grantor due to the adjustment in payments which will occur in the short second fiscal year of the GRUT. The amount paid to the grantor will increase on a pro-rata basis (e.g., 1/12), because the fair market value of the assets of the GRUT will increase in the short second fiscal year, which in turn increases the amount paid to the grantor in the second year.

(3) If the spouse that is acting as a financial counterparty contributes that spouse's option position with other assets to another GRAT, will the transaction be respected for I.R.C. Section 2702 purposes?

There is added pressure on the technique, if the grantor's spouse takes his or her part of the family's hedged position and contributes that option with other assets to another GRAT. The spouse's contributed option is a potential liability that will lower the net value of the assets

[59] *See Kerr v. Comm'r,* 292 F.3d 490 (5th Cir. 2002), *aff'g* 113 T.C. 449 (1999). (National Office of IRS and both courts found a GRAT was a valid GRAT even though it lasted 366 days.) *See also,* Reg. §§ 25.2702-3(c)(3) and 25.2702-3(d)(4).

contributed to the second GRAT. If the potential liability disappears, because the option expires as worthless, the second GRAT's net worth obviously increases.

On occasion, as noted above, a court will apply certain judicially developed doctrines (e.g., the so-called "reciprocal trust doctrine") to recharacterize a transfer for federal gift or estate tax purposes. These doctrines are applied to determine that a person other than the donor in form should be regarded as the true donor.

In order to increase the likelihood that the spouse's transfer of his or her options to another GRAT will be respected, the transaction should be structured in which there is more than a remote chance that neither GRAT will be successful. Stated differently, if one of the GRATs will *always* be successful, then there may be a greater chance that a court will apply one of the equitable doctrines.

VII. POSSIBLE STRUCTURAL PLANNING SOLUTION TO (i) LOWER THE LEVERAGE COST OF A GRAT; (ii) AVOID PAYING THE RETAINED ANNUITY WITH HARD TO VALUE ASSETS; (iii) ASSURE THE CONTRIBUTION OF ASSETS TO A GRAT IS MADE AT THE EXACT POINT OF THE CREATION OF THE GRAT; AND (iv) MINIMIZE THE AMOUNT THAT WOULD BE INCLUDED IN THE GRANTOR'S ESTATE IF THE GRANTOR DIED BEFORE THE END OF THE TERM OF THE GRAT

A. Introduction.

If the Statutory Rate is 3.2%, what rate of annual return would an asset contributed to a three year GRAT need to earn in order to produce a value to the remainderman equal to three times the value of the asset contributed to the GRAT? The answer is 100.35% annual return as shown below:

Table 9

	Beginning of Year Value	Annuity	Amount before Appreciation	Growth	End of Year Value
Year 1	$1,001,000	($354,532)	$646,468	$648,705	$1,295,173
Year 2	$1,295,173	($354,532)	$940,641	$943,896	$1,884,536
Year 3	$1,884,536	($354,532)	$1,530,004	$1,535,298	$3,065,303

What if a technique existed that simulated that result, even if a client's portfolio only earned a 4% annual return? That technique does exist: the leveraged reverse freeze in combination with a GRAT. (Please compare this result with the result in VII B below, if a $10,000,000 preferred partnership interest subject to a $8,999,000 debt is contributed to a three year GRAT.)

As noted above, four potential disadvantages of using the GRAT are: (i) the Statutory Rate is higher than the AFR rate; (ii) satisfying annuity payments with hard to value assets, which

may be finally determined by the Internal Revenue Service as either violating the prohibition against commutation or additional contributions; (iii) the contribution of assets to the GRAT must be made at the exact point of the creation of the GRAT, and (iv) the inclusion of most of the assets of a GRAT in the grantor's estate, if the grantor dies before the end of the term of the GRAT.

A possible solution to these potential disadvantages of using the GRAT technique is to consider contributing and/or selling property in exchange for a note to a single member LLC. At a later time the LLC membership units could be contributed to an irrevocable GRAT. If the LLC has significant leverage (for example, 90% leverage) the disadvantage of the Statutory Rate hurdle and the grantor dying before the end of the term of the GRAT is greatly ameliorated, the disadvantage of having to pay annuity payments with hard to value assets is likely eliminated, and the concern of having more than one deemed contribution of assets to a GRAT is also likely eliminated. The following example may illustrate the concept:

Example 7: Use of GRAT With Mortgaged Property

Grant Gratuitous approaches his attorney, Lenny Leverage and tells him that he would like to transfer, through the use of a GRAT, the maximum amount that he can transfer using a three year GRAT or a ten year GRAT to his children. Grant Gratuitous tells Lenny Leverage that he has around $30,000,000 in financial assets. Grant is willing to have about one-third of his assets subject to the three year GRAT and all of his assets subject to a ten year GRAT.

Lenny likes many of the aspects of a GRAT, including its built-in revaluation clause. Lenny also likes using family limited partnerships because of the substantive nontax investment reasons that are sometimes associated with partnerships and because of the possibility of valuation discounts with family limited partnerships. Lenny particularly likes in today's credit markets the use of a family limited partnership with preferred partnership units.

Despite the advantages of GRATs and the possibility of valuation discounts of family limited partnerships, Lenny feels that the are certain disadvantages with contributing partnership units to a GRAT in comparison to a sale of partnership units to a grantor trust, including the disadvantage of the higher Statutory Rate and the potential difficulties in paying the retained annuity amounts in a GRAT with hard to value partnership units.

Lenny suggests that Grant consider structuring the transaction using partnership interests that are both contributed and sold to a single member LLC. The consideration for the sale could be a note equal to 90% of the value of the transferred partnership units. At a later time Grant could contribute most of the LLC member interests to a GRAT. Lenny would also like to compare the results that would be obtained using a two class partnership (with preferred and growth interests) and a simple pro rata partnership.

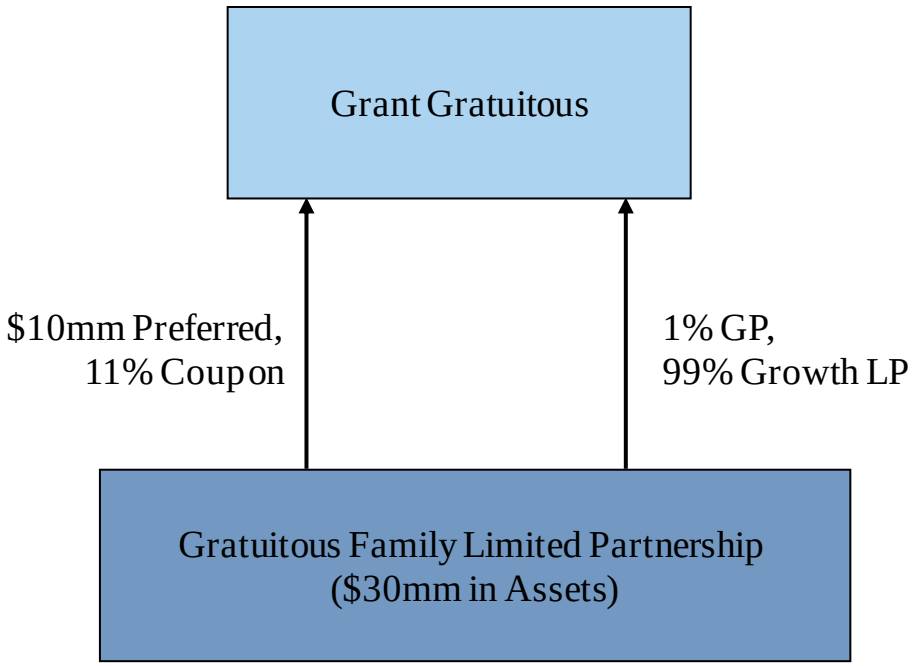
Grant and Lenny assume the pro rata partnership will distribute 3% of the value of its assets to its partners. Grant and Lenny assume the partnership assets will grow at an 8% return pre-tax. They assume that a preferred partnership interest will pay an 11% dividend.[60] *The 8%*

[60] For a discussion of the valuation of preferred partnership interests, see Section X of this outline.

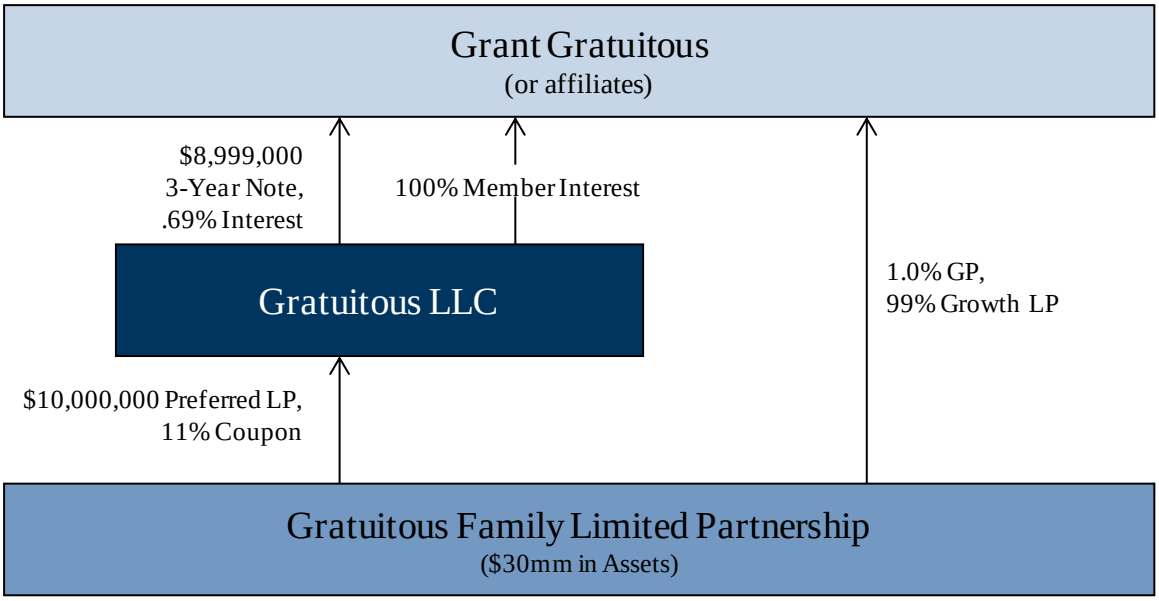
return will be taxed at 3% ordinary income rate and 5% long term capital gains rates (with a 30% turnover). Grant and Lenny assume that the annual interest rate on a three year intra-family note is .69% (i.e., the short term AFR) and on a nine year intra-family note is 2.45% (i.e., the mid-term AFR). Grant and Lenny assume that the Statutory Rate for a GRAT is 3.2%. Grant and Lenny assume the pro rata partnership discount is 35%.

B. Use of a Leveraged LLC With a Three Year GRAT.

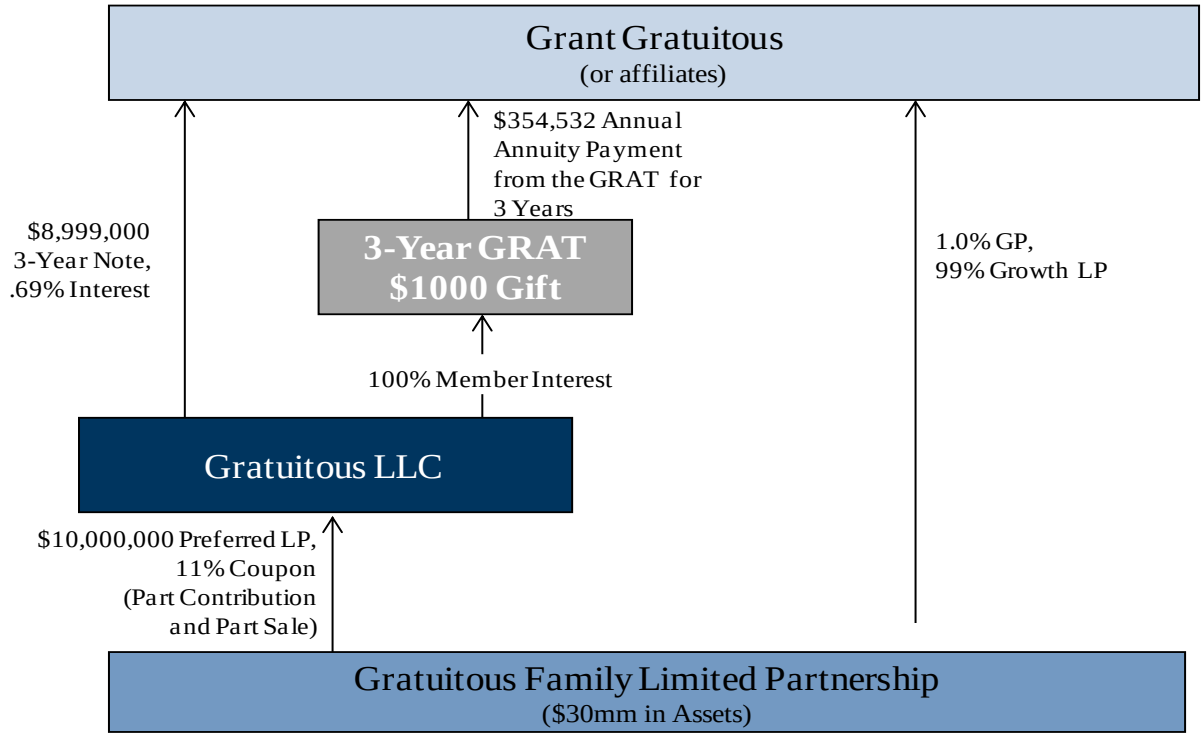
Grant Gratuitous could create a family limited partnership or a family limited liability company that has a structure similar to the structure illustrated below (Scenario 1):



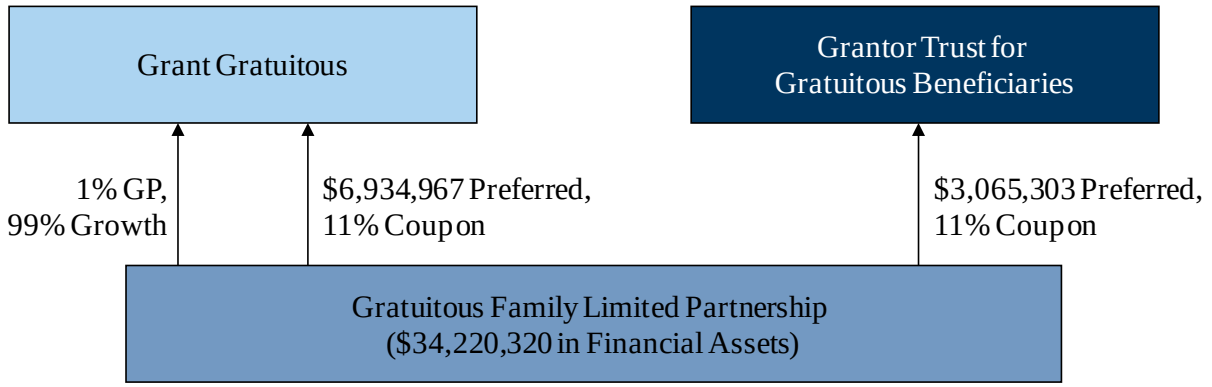
Grant Gratuitous could then gift $1,001,000 of his preferred interest to a single member LLC and sell his remaining preferred interest to that single member LLC for an $8,999,000 for a three year balloon note that annually pays the short term AFR annual interest (assumed to be .69% for this illustration). That transaction (Scenario 1, Transaction 2) is illustrated below:



After all of the assignments are completed, Grant could contribute most of the LLC membership interests to a near "zeroed out" GRAT. The GRAT could pay Grant an annual annuity of $354,532 for the next three years (subject to a revaluation adjustment under the GRAT instrument). That transaction (Scenario 1, Transaction 3) is illustrated below:

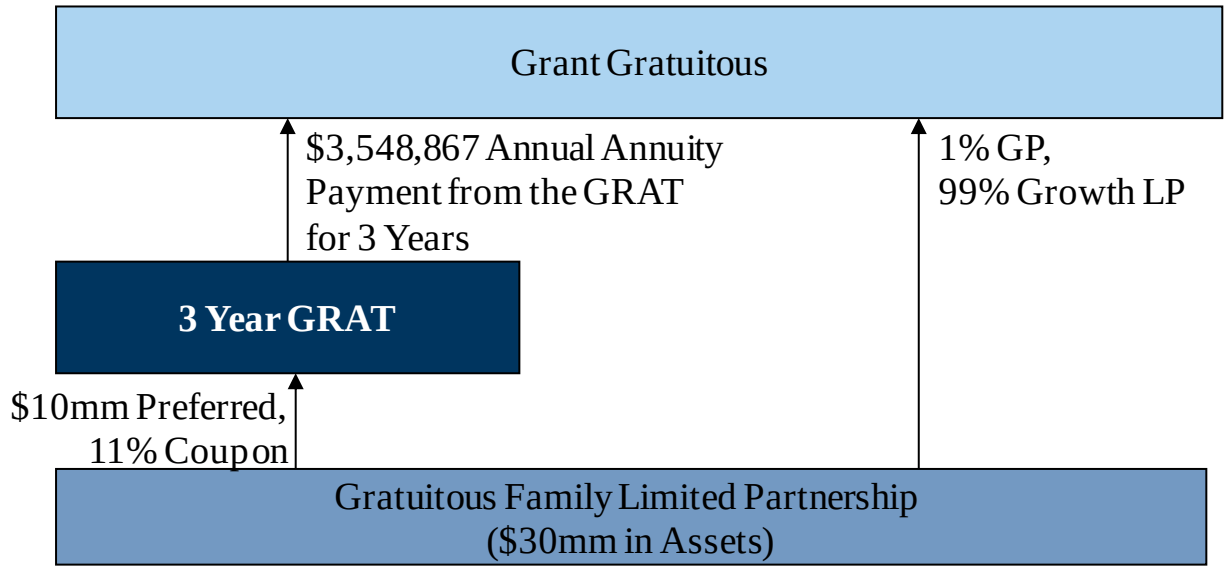


At the end of three years, after the GRAT and LLC terminates and after the note is paid in kind by the remainder beneficiaries (the grantor trust) under the above assumptions, $3,065,303 of the preferred interests will remain with the remainder beneficiaries of the GRAT that Grant created, as illustrated below (also see attached Schedule 23):

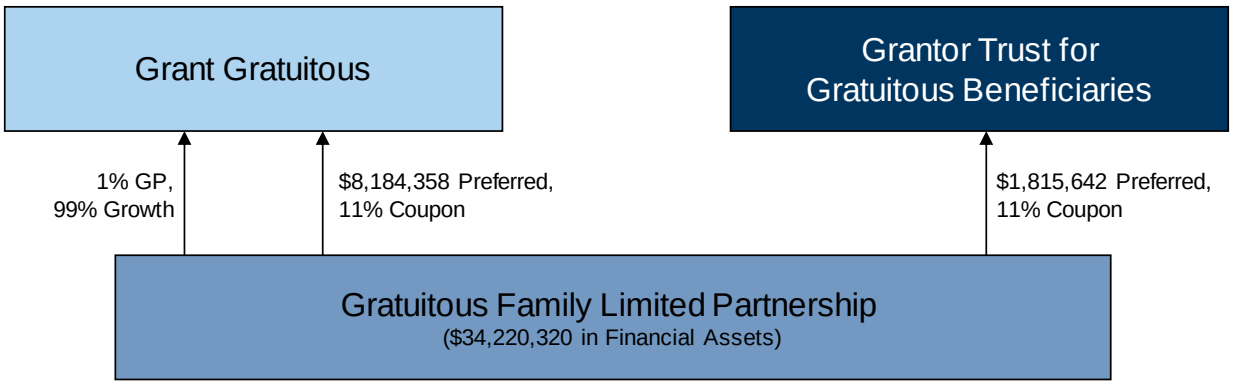


The "estate planning" results of this technique simulate the results of a three year GRAT that is blessed with a portfolio (that is not mortgaged) that annually earns 100%. See Table 9 above.

Lenny also compares what would happen if Grant contributes $10,000,000 preferred to a GRAT without first mortgaging the preferred. If the preferred interest was simply contributed to a GRAT, the transaction would be similar to the illustration below (Scenario 2):

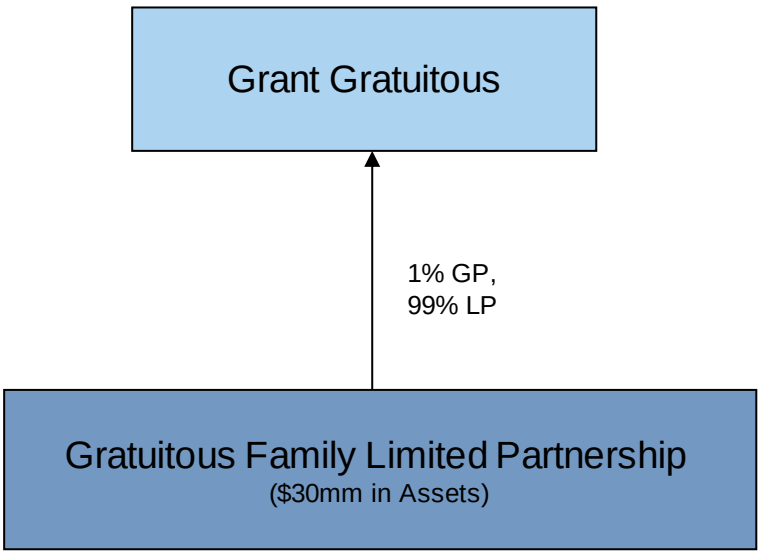


At the end of three years, under the above assumptions, $1,815,642 of the preferred interests would have been transferred to the remainder beneficiaries of the GRAT, as illustrated below (also see attached Schedule 23):

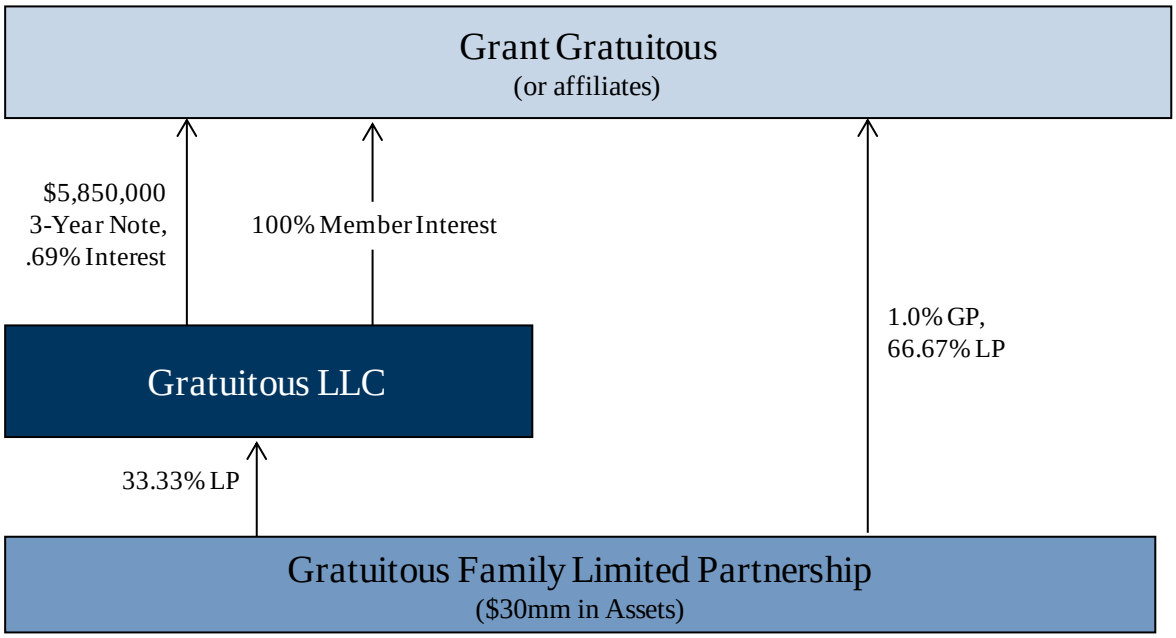


Obviously, the use of leverage substantially improves the result of the GRAT and also avoids having to pay the retained GRAT annuity with hard to value assets.

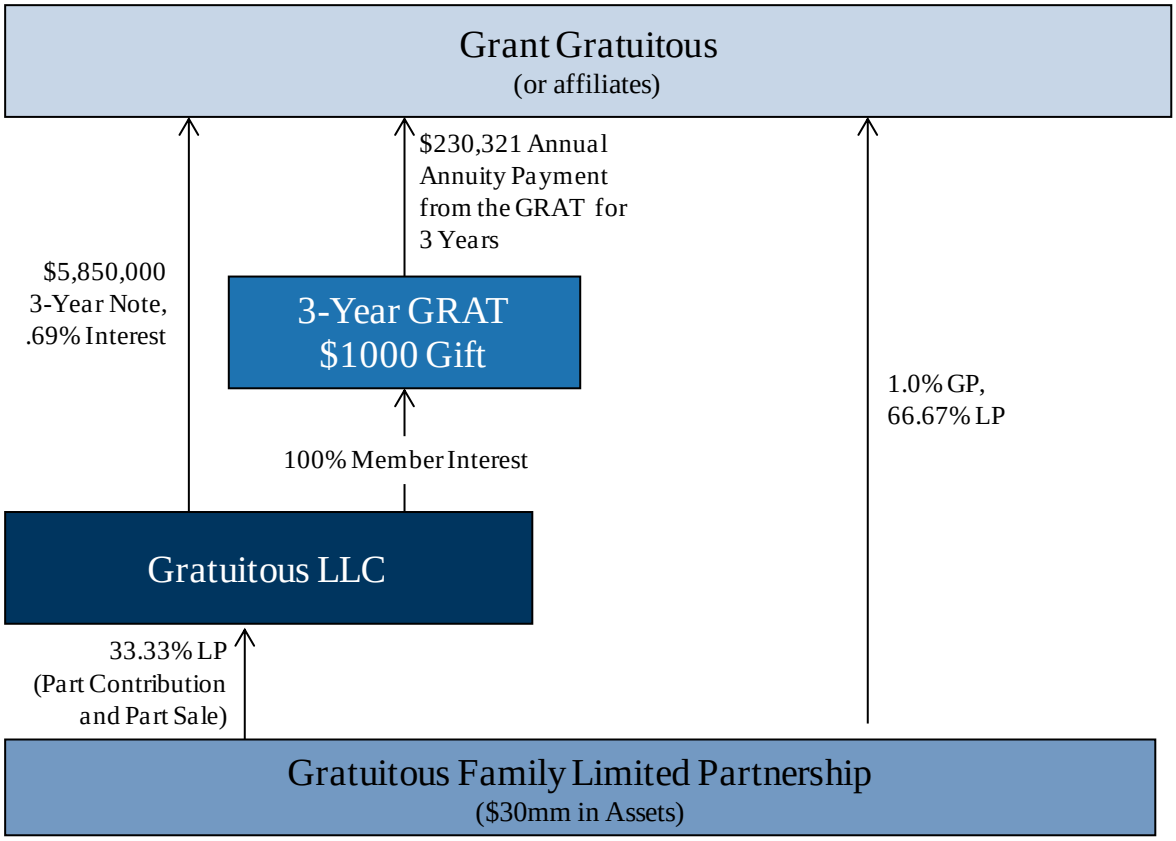
Lenny would also like to compare the two tiered partnership of using preferred and growth interests with a simpler structure of using a pro rata partnership or a pro rata limited liability company. See the illustration below:



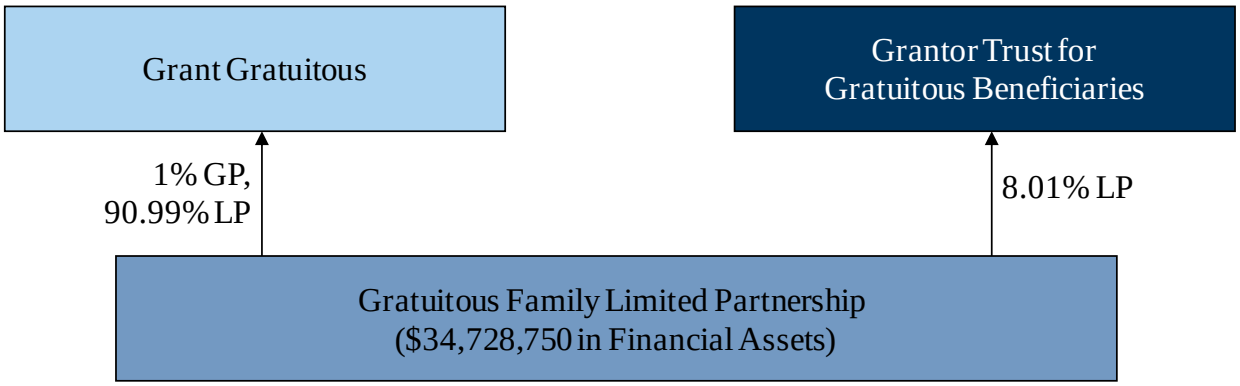
Again, assuming Grant would like to maximize the benefits of a GRAT in transferring one-third of his financial assets (which represent $10,000,000) of partnership assets on a liquidation basis) to the proposed GRAT, Lenny suggests a structure in which a family limited partnership is created and then one-third of the partnership units are first contributed and/or sold, using 90% leverage, to a LLC of which he is the sole owner. That transaction (Scenario 3, Transaction 2) is illustrated below:



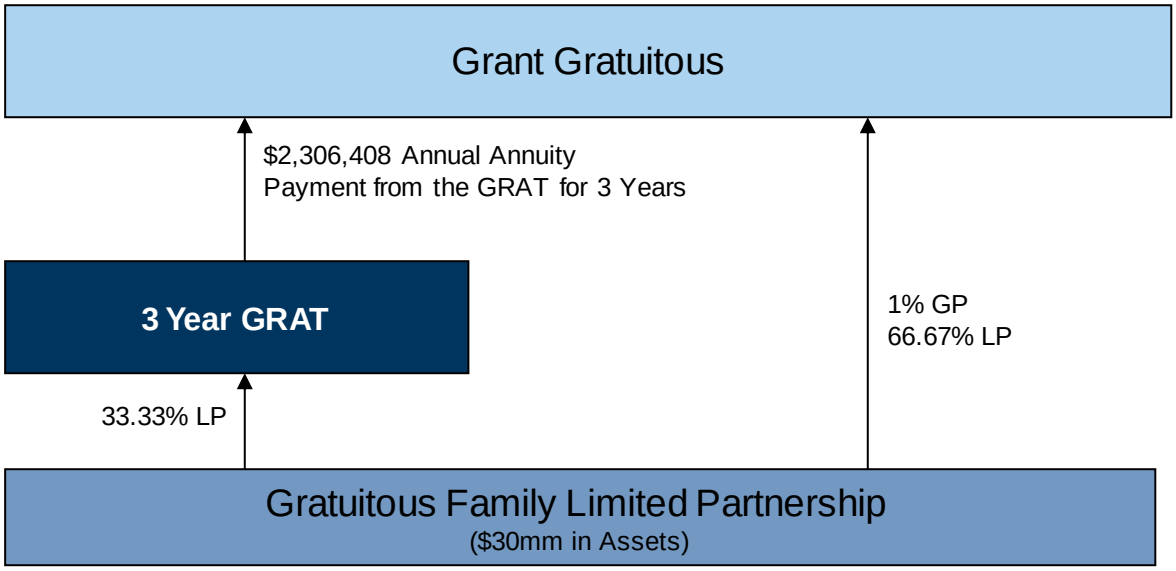
After all assignments have been completed, Grant could contribute the LLC membership units to a near "zeroed out" GRAT. The transaction is illustrated below (Scenario 2, Transaction 3):



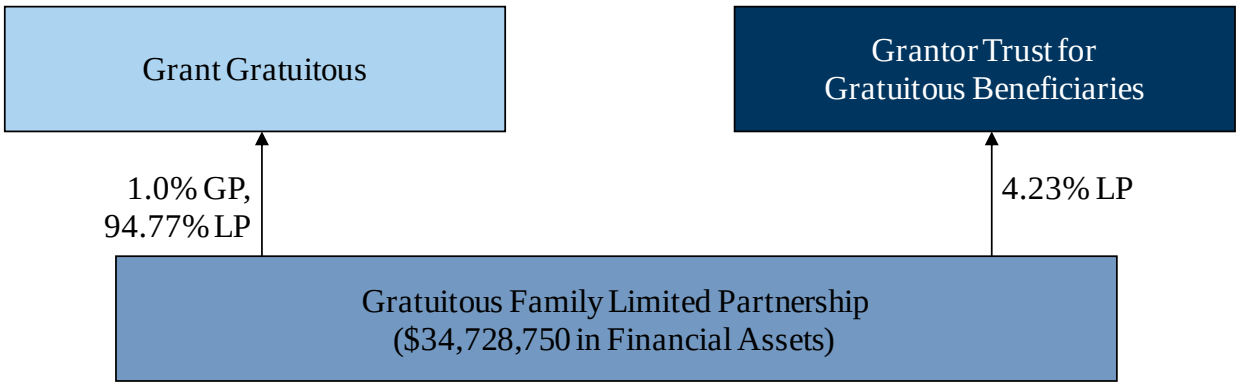
Three years later, under the assumptions noted above, after the LLC and the GRAT terminates and after the note is paid by the remainder beneficiaries (the grantor trust) is paid in kind, 8.01% of the limited partnership interest will remain with the remainder beneficiaries, as illustrated below (see Schedule 23):



Finally, Lenny wishes to illustrate to Grant what the transaction would be like without any leverage. Thus, a 33.33% pro rata limited partnership interest is contributed to a GRAT in a transaction similar to the illustration below (Scenario 4):



At the end of three years, under the above assumptions, 4.23% of the limited partnership interest will be transferred to the remainderman beneficiaries of the trust as illustrated below (see Schedule 23):



C. Certain Conclusions and Observations.

When an LLC that is leveraged is owned by a GRAT, under the assumptions above, there is enough cash flow coming out of the partnership to the LLC to pay all of the GRAT annuity

amounts during the Annuity Period in cash. This eliminates the problems associated with satisfying the GRAT annuity with hard to value assets.

The note associated with the mortgage before the GRAT is created could be finally satisfied by the remainderman (the Grantor Trust) with hard to value assets after the GRAT terminates. However, the use of payments in kind to satisfy the loan, after the GRAT terminates, does not run the "deemed contribution" danger that may be inherent in satisfying GRAT annuity payments with hard to value assets.

Another advantage of the technique is that because of the relatively modest annuity payment in comparison to value of the partnership interest passing to the remainder beneficiary, if a death of the grantor of the GRAT occurs before the Annuity Period ends, there is a much greater chance that some of the assets of the GRAT will not be included in the grantor's estate under IRC Section 2036.

As the chart below illustrates, not only is the technique more structurally conservative, as far as preserving qualified interest status of a GRAT, the technique of using a mortgaged interest also has the desirable effect of significantly increasing the "estate planning" success of the GRAT (a 69% to 89% improvement under the investment assumptions of this example):

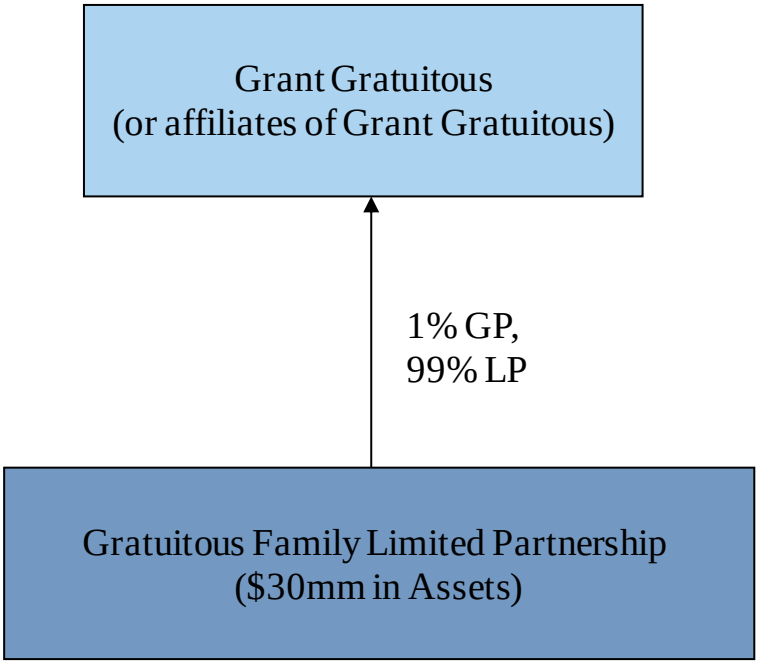
Table 10

Comparison of Various Partnership Scenarios in which Partnership Units with a Liquidation Value of $10mm are Transferred to a GRAT	Grant Gratuitous	Grantor Trust for Beneficiaries	Estimated Income Taxes	Estimated Gift Taxes	Total
Scenario #1: Creation of a 90% Mortgaged Preferred Interest with the Contribution of the Mortgaged Preferred to a GRAT	$33,269,422	$3,065,303	$1,456,635	$0	$37,791,360
Scenario #2: The Contribution of the Preferred to a GRAT Without any Leverage	$34,519,083	$1,815,642	$1,456,635	$0	$37,791,360
Scenario #3: Creation of a 90% Mortgaged 33.33% Pro-Rata Partnership Interest, with the Contribution of the Mortgaged Pro-Rata Partnership Interest to a GRAT	$33,553,004	$2,781,721	$1,456,635	$0	$37,791,360
Scenario #4: The Contribution of the 33.33% Interest in a Pro-Rata Partnership to a GRAT Without Any Leverage	$34,865,173	$1,469,552	$1,456,635	$0	$37,791,360

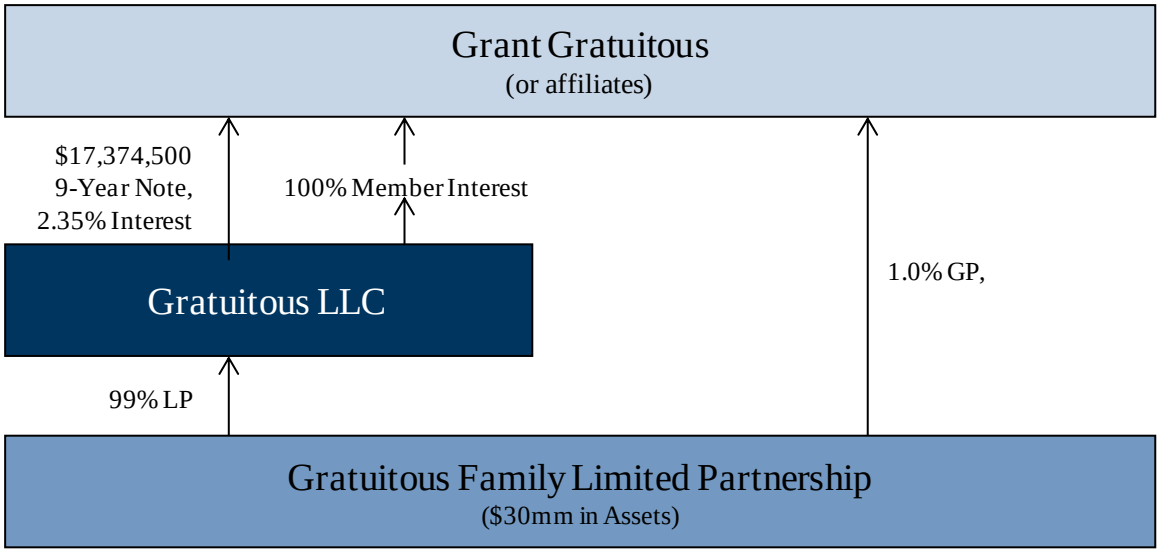
The reason for the substantial improvement is two-fold: (i) the annuity amount is always paid with undiscounted cash and (ii) the average hurdle rate "cost" of that leverage is below 1% (instead of the Statutory Rate of 3.2%).

D. Use of a Leveraged LLC With a Ten Year GRAT.

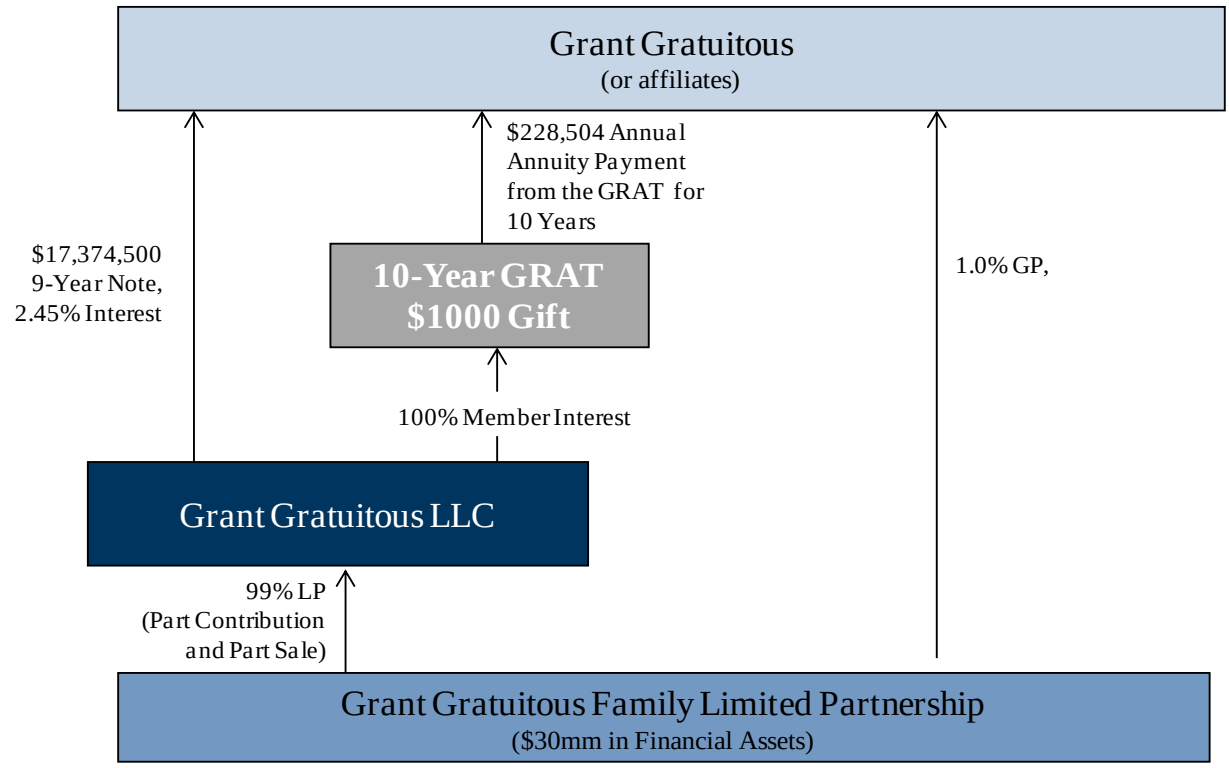
Assume the same facts as Example 7, except that Grant wishes to transfer 99% of his partnership interests to a ten year GRAT and the partnership is structured as a pro rata partnership (without a preferred interest). See the illustration below:



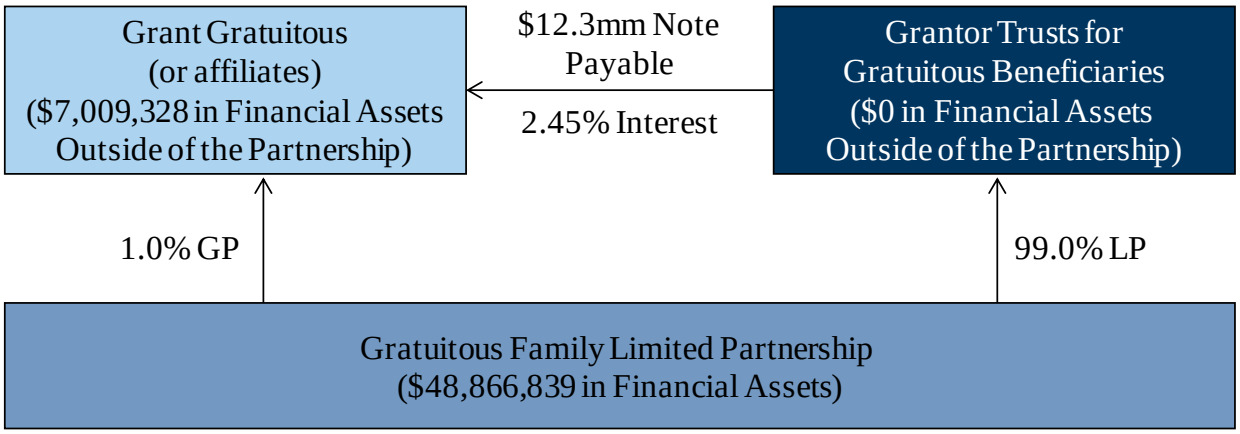
Again, assuming Grant would like to maximize the benefits of a ten year GRAT, Lenny suggests a structure in which a family limited partnership is created and the limited partnership units are contributed and/or sold, using 90% leverage, to a LLC of which he is the sole owner. That transaction is illustrated below (Scenario 1, Transaction 2):



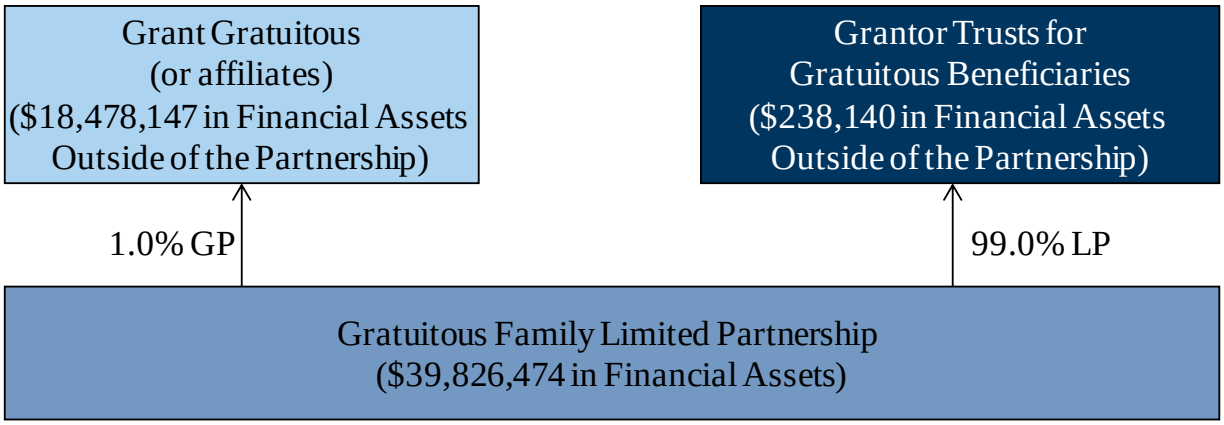
After all assignments have been completed, Grant could contribute most of the LLC membership interests to a 10 year near "zeroed out" GRAT. The transaction is illustrated below (Scenario 1 Transaction 3):



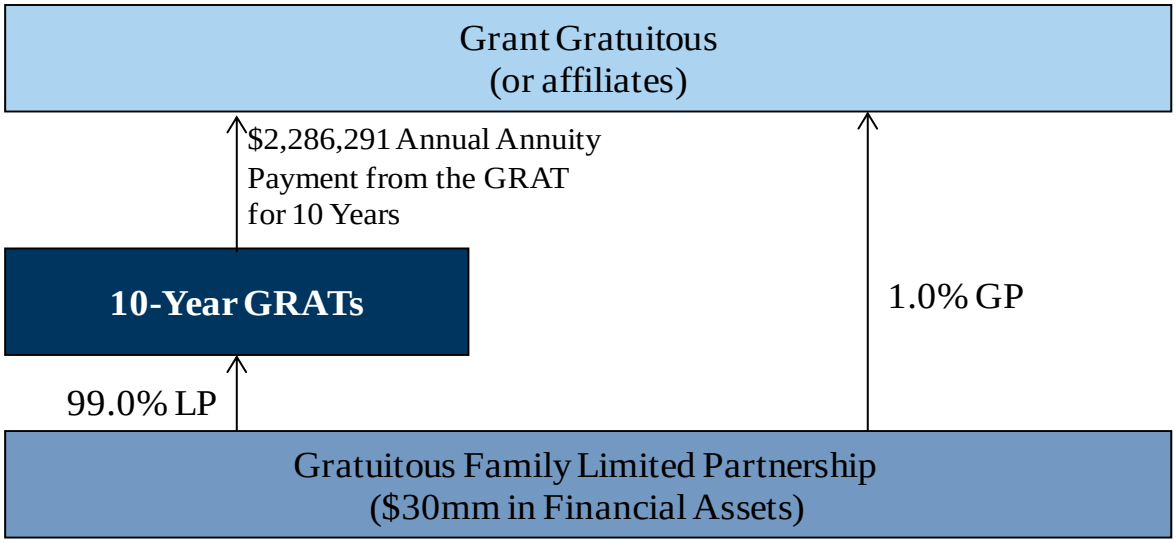
After ten years, the GRAT terminates and the GRAT assets and liabilities are paid to the remainderman (the Grantor Trust).



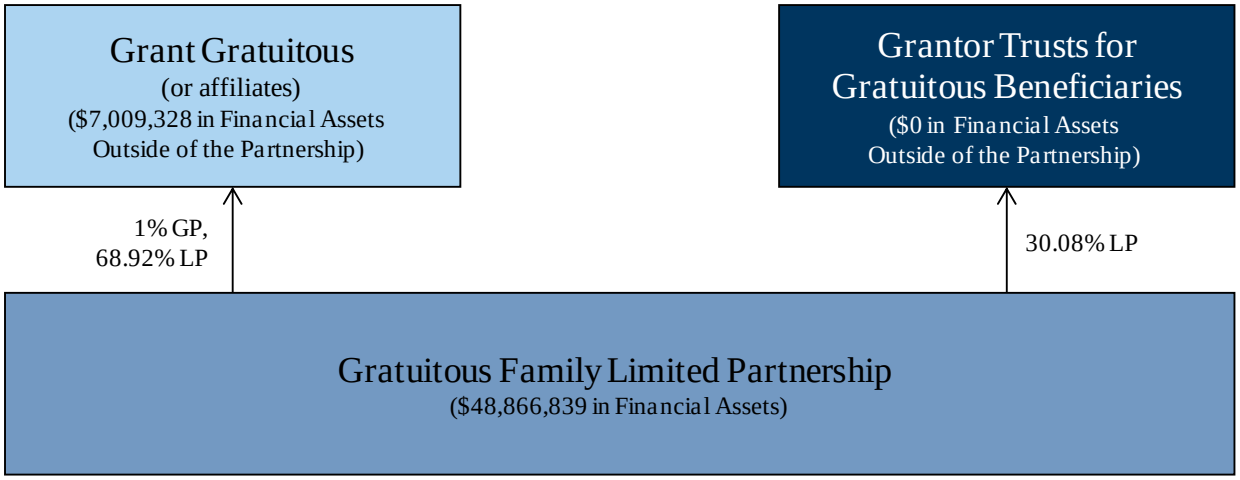
At the beginning of year 11, the family limited partnership could make a special pro rata distribution of 24.45% of its assets and the Grantor Trusts could use its share of the distribution to pay the note obligations or alternatively, the notes could be paid over time by the Grantor Trusts with the normal distributions from the partnership (see Schedule 24):



Lenny also wishes to illustrate to Grant what the transaction would be like without any leverage. Thus, a 99% pro rata limited partnership interest is contributed to GRATs in a transaction similar to the illustration below (Scenario 2):



At the end of ten years, under the above assumptions, 30.08% of the limited partnership interest will be transferred to the remainderman beneficiaries of the trust as illustrated below (see Schedule 24):



When an LLC that is leveraged is owned by a GRAT, under the assumptions above, there is enough cash flow coming out of the partnership to the LLC to pay all of the GRAT the annuity amounts during the Annuity Period in cash. This eliminates the problems associated with satisfying the GRAT annuity with hard to value assets.

The note associated with the mortgage before the GRATs are created could be finally satisfied by the remainderman (the Grantor Trust) with hard to value assets after the GRAT terminates. However, the use of payments in kind to satisfy the loan after the GRAT terminates

does not run the "deemed contribution" danger that may be inherent in satisfying GRAT annuity payments with hard to value assets.

Another advantage of the technique is that because of the relatively modest annuity payment in comparison to value of the partnership interest passing to the remainder beneficiary, if a death of the grantor of the GRAT occurs before the Annuity Period ends, there is a much greater chance that some of the assets of the GRAT will not be included in the grantor's estate under IRC Section 2036.

As the chart below illustrates, not only is the technique more structurally conservative, as far as preserving qualified interest status of a GRAT, the technique of using a leveraged LLC with a GRAT also has the desirable effect of significantly increasing the "estate planning" success of the GRAT (by over 157%):

Table 11

Comparison of Various Partnership Scenarios in which Partnership Units are Transferred to a 10-Year GRAT	Grant Gratuitous	Grantor Trust for Beneficiaries	IRS - Income Taxes	IRS - Investment Opporutnity Costs	Total
No Further Planning	58,545,204	-	8,287,317	3,116,649	69,949,170
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT	18,878,855	39,666,348	8,287,317	3,116,649	69,949,170
Scenario #2: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Limited Partnership Interests to a 10-Year GRAT (No Leverage)	43,110,792	15,434,412	8,287,317	3,116,649	69,949,170

The reason for the substantial improvement is two-fold: (i) the annuity amount is always paid with undiscounted cash and (ii) the average hurdle rate "cost" of that leverage is below 2.525% (instead of the Statutory Rate of 3.2%).

VIII. USING A 20% ANNUAL INCREASING ANNUITY GRAT, AND USING "PROPORTIONALITY" AND "DEBT" EXCEPTIONS TO IRC SECTION 2701 TO PLAN FOR PRIVATE EQUITY FUND MANAGERS AND HEDGE FUND MANAGERS

A. The Technique.

Private equity fund managers or hedge fund managers often participate in their funds in two different manners. The fund manager often invests in his managed fund along with other investors and receives the same return and rights that the other investors receive. Additionally, the fund manager also receives a right to "carried" interest from the fund that participates in the

profits of the fund after a certain minimum amount of profits have been allocated to the investors. Many of these mangers would like to do estate planning solely on their "carried" interest because of its greater growth potential. However, because managers have two different types of equity interests in their funds, and because they are in control of the funds, many worry that the special valuation rules of IRC Section 2701 may apply to any transfers of the "carried" interest and those valuation rules may be applied in a manner that is disadvantageous in comparison to the hypothetical willing buyer, willing seller standard that is normally applied for gift tax transfers.[61]

Because of that IRC Section 2701 concern, the creation of a leveraged pro rata partnership, with a certain percentage of the pro rata partnership units being contributed to a GRAT, may be the estate planning vehicle of choice for a private equity fund manager. Consider the following example:

Example 8: Iam A. Carrier Engages in Estate Planning With Respect to His Carried Interest

Iam A. Carrier is a private equity fund manager, along with his partners of a $1 billion private equity fund. Mr. Carrier is interested in estate planning with respect to certain of his interests in a private equity fund in which he invests and co-manages. Mr. Carrier owns a .2% investment interest in the $1 billion private equity fund. Mr. Carrier also has a 10% interest in the entity that owns the general partner of the private equity fund. The general partner is entitled to the "carried interest" as further described below.

The profits and cash flow of the private equity fund are to be divided as follows:

- *First, to the investment owners in proportion to their unreturned capital contributions until all capital contribution amounts have been returned.*
- *Second, to the investment owners until they have received an 8% return on their unreturned capital contribution amounts. This 8% "preference" return is cumulative and compounds annually.*
- *Third, to the carried interest owners until they have received distributions totaling 20% of the total profits of the private equity hedge fund on a cumulative basis.*
- *Fourth, to the carried interest owners and the investment owners so that the carried interest owners receive 20% of the "residual" cash flow and profits and the remaining 80% of the "residual" cash flow and profits are allocated among the investment owners in proportion to their respective membership interests.*

[61] *See* Wendel and Hatcher, How to Profit Without Getting Carried Away: Carried Interests, Profits Interests, or Black Holes?, American College of Trust and Estate Counsel Annual Meeting (March 4-9, 2009) and Jonathan J. Rikoon, Fun with Funds: FUNDamentals of Estate Planning with Carried Interests in Private Equity and Hedge Funds, 43rd Heckerling Institute on Estate Planning (January 13, 2009) .

There are many investment reasons for Mr. Carrier to create a LLC to hold the carried interest before he engages in estate planning, including certain control aspects inherent with his other co-managers.

Mr. Carrier has asked his attorney, Connie Careful, to develop planning ideas based on the following assumptions about the growth of the private equity fund:

	Beginning of Year	Distributed Income	Unrealized Growth*	End of Year
Year 1	1,000,000,000	20,000,000	101,353,392	1,101,353,392
Year 2	1,101,353,392	22,027,068	111,625,902	1,212,979,294
Year 3	1,212,979,294	24,259,586	122,939,566	1,335,918,860
Year 4	1,335,918,860	26,718,377	135,399,908	1,471,318,768
Year 5	1,471,318,768	29,426,375	149,123,148	1,620,441,915
Year 6	1,620,441,915	32,408,838	164,237,285	1,784,679,200
Year 7	1,784,679,200	35,693,584	180,883,290	1,965,562,490
Year 8	1,965,562,490	39,311,250	199,216,425	2,164,778,916

Mr. Carrier would like Ms. Careful to concentrate on the estate planning opportunities inherent with his carried interest. It is assumed that if Mr. Carrier is a hypothetical willing seller, a hypothetical willing buyer would pay $1,500,000 for his interest in the entity that owns the general partnership carried interest. Mr. Carrier generally wishes to retain (free of estate planning techniques) most of the preference economics associated with his investment interest in the private equity fund for his consumption needs.

Ms. Careful is worried about the gift tax valuation rules of IRC Section 2701 applying, if the estate plan is isolated on solely planning for the carried interest. Ms. Careful reasons that the carried interest will only be profitable if the private equity fund earns over 8%. Thus, if she devises a plan that uses the proportionality and debt exceptions to the application rules of the IRC Section 2701 valuation rules (assuming interest on the debt will be equal to or less than 8%), she believes she may be able to simulate (and even improve) any potential estate planning opportunities in comparison to an isolated plan involving the carried interest.

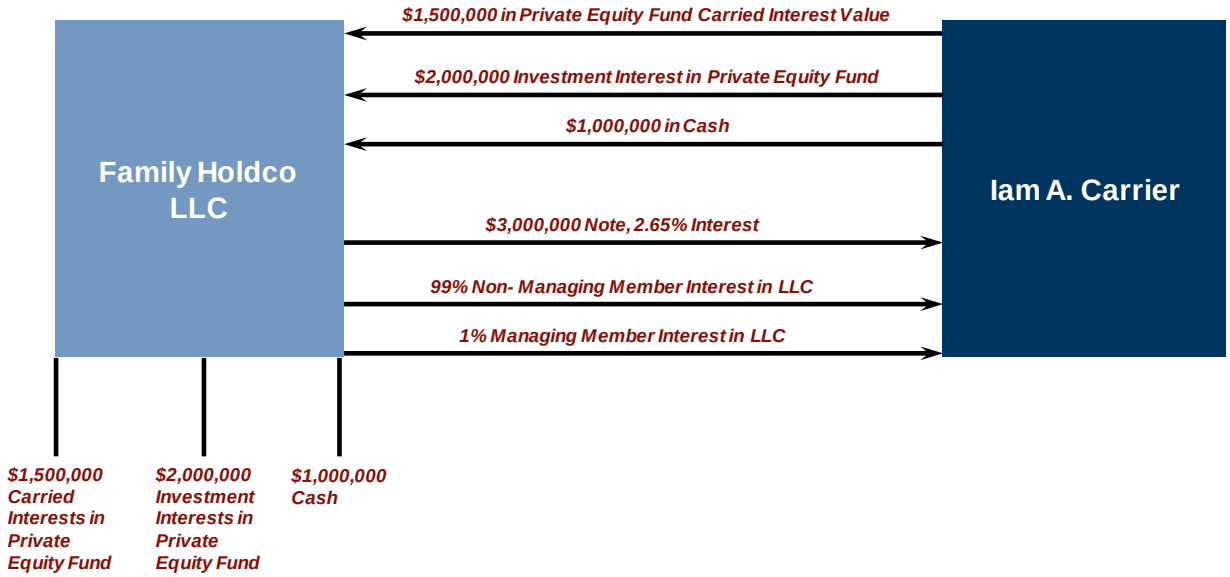
Ms. Careful believes that Mr. Carrier should contribute the same proportion of his ownership in the carried interest and his investment interest in the private equity fund to a family limited partnership or LLC. For his contribution, Mr. Carrier could receive a combination of equity interests and notes in that family entity with the face amount of the notes being equal to the value of the contributed investment interest in the fund.

Ms. Careful believes she would then be in a position to plan for Mr. Carrier's estate, without the investment interest "diluting" the planning opportunity for the carried interest. More specifically, Ms. Careful believes that if Mr. Carrier receives a note from the family holding entity that is equal to the value of the investment interest in the private equity fund contribution, there

will be no dilution in her planning for the carried interest contribution to the family holding entity.

The initial Holdco structure would be organized as follows:

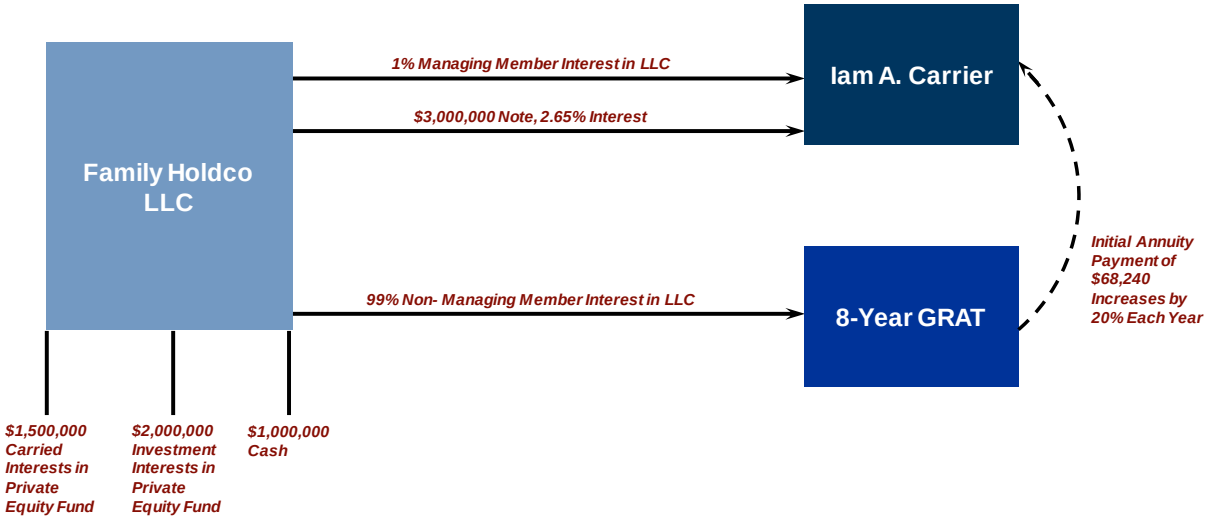
Scenario 1: Hypothetical Transaction 1



Ms. Careful believes that because of certain income tax considerations it may be prudent to use a GRAT instead of a sale to an intentionally defective grantor trust or some other estate planning technique that could be considered as involving a disposition of the carried interest.[62] Thus, she suggests to Iam A. Carrier that he transfer his 99% non-managing member interest in Holdco to an eight year near "zeroed out" GRAT in which the annuity increases 20% a year. The estate planning structure is illustrated below:

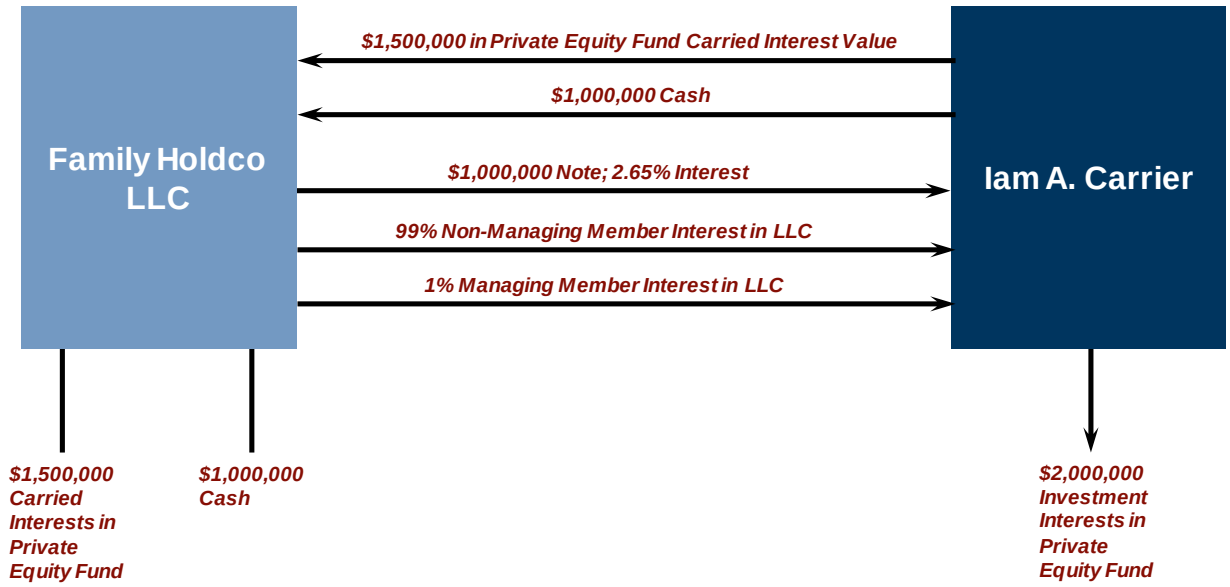
[62] Receipt of a carried interest in exchange for services provided to the managed fund held in partnership form by a fund manager is generally not a taxable event regardless of whether it is vested upon receipt, subject to compliance with Rev. Proc. 93-27, 1933-2 CB 343, and 2001-43, 2001-2 CB 191. One of the requirements for the no income tax treatment provided for in Rev. Proc. 93-27 is that the recipient partner not dispose of the carried interest or any other profits interest within two years of receipt. A gift to a GRAT that is a grantor trust for income tax purposes should not be considered a disposition because there is no sale either for income tax purposes or property law purposes. A sale to an intentionally defective trust should not be considered a disposition for income tax purposes, but may be considered a disposition for property law purposes, which may be fatal under Rev. Proc. 93-27. *See also Diamond v. Commissioner*, 492 F.2d 286 (7th Cir. 1974) where the receipt of profits interest was taxable because it was disposed of shortly after receipt.

Scenario 1: Hypothetical Transaction 2



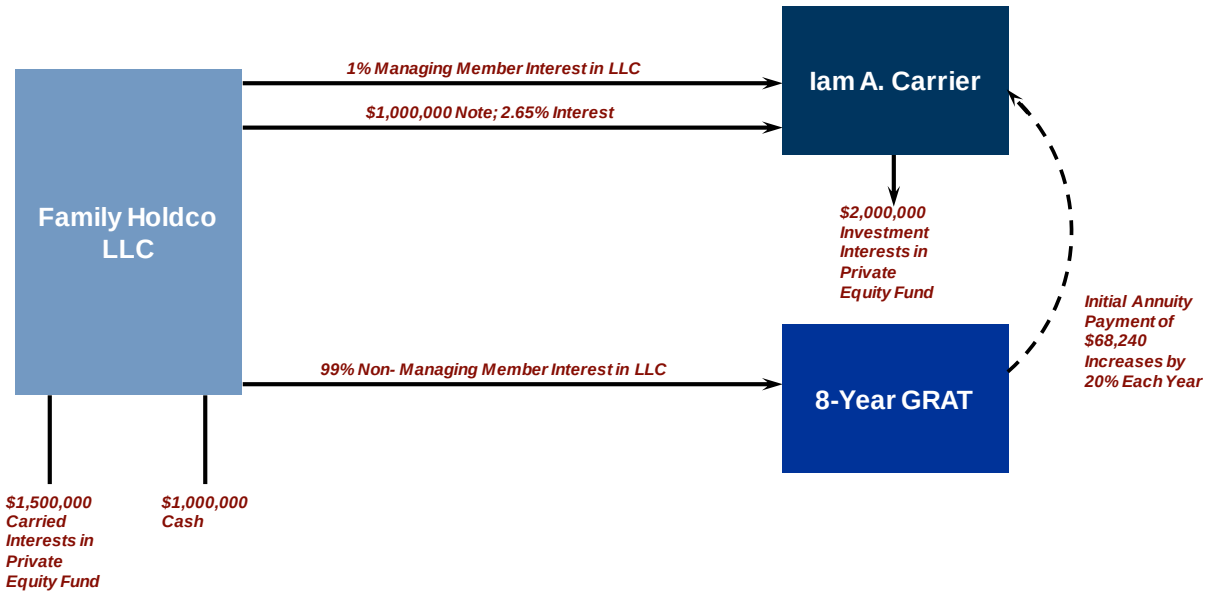
An alternative structure, which may be subject to the valuation rules under IRC Section 2701, would be for Iam Carrier to contribute $1,000,000 along with the carried interest to Holdco. Iam A. Carrier would continue to individually own the investment interest in the private equity fund. The structure would be similar to the illustration below:

Scenario 2: Hypothetical Transaction 1



Iam A. Carrier could transfer his 99% non-managing member interest in Holdco to an eight year near "zeroed out" GRAT in which the annuity increases 20% a year. The estate planning structure is illustrated below:

Scenario 2: Hypothetical Transaction 2



Under the assumptions of this example, the estate planning results of scenario one and scenario two in comparison to each other and in comparison to no further planning are delineated below (see attached Schedule 25):

Table 12

Technique	Carrier Family	IRS - Income Tax	IRS - Investment Opportunity Cost	IRS - Gift Tax (at 45%)	Total
No Further Planning; Transfers Estate to Family at the End of 8 Years	14,092,544	3,755,759	68,598	11,530,263	29,447,164
Planning Scenario #1: Iam A. Carrier Creates a Family Partnership and Contributes $1,000,000 Cash, Carried Interest and a $2,000,000 Investment Interest in a Private Equity Fund that he Co-Manages; and the Partnership Issues $3,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier then Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years	24,886,627	3,769,157	68,598	722,783	29,447,164
*Planning Scenario #2: Iam A. Carrier Creates a Partnership and Contributes $1,000,000 Cash and the Carried Interest; Iam A. Carrier Returns the Investment Interest in the Private Equity Fund; the Partnership Issues $1,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years	24,447,268	3,497,229	68,598	1,434,069 *	29,447,164

* This scenario may also be subject to additional gift taxes because of the valuation rules under IRC Section 2701.

B. Observations.

Using two of the exceptions to the valuation rules of IRC Section 2701, (i) the proportionality exception (client contributes all of his interests (both his investment interest and his carried interest) in the private equity fund to the Holding Family Limited Partnership) and

(ii) the debt exception (the investment interest is contributed in exchange for a note), in combination with a 20% annual increasing annuity GRAT, the results attained are similar to or enhanced over the results of contributing a partnership that solely owns a carried interest to a 20% annual increasing annuity GRAT, without the IRC Section 2701 valuation concerns.

IX. POSSIBLE SOLUTIONS TO LOCKING IN THE GAINS OF A SUCCESSFUL GRAT OR MANAGING AN UNDERWATER GRAT WITHOUT COMMUTING THE GRAT

A. Introduction.

The mathematical friend of the GRAT is volatility. The problem, of course, with contributing a volatile asset is the asset could have significant movement in value either up or down. If the asset increases significantly in value before the end of the term of the GRAT, the concern is that the asset value could regress to the mean and the hoped for "estate planning" profit during the GRAT term will be diminished. If the asset value that is contributed to the GRAT decreases significantly in value, it would be much better from an estate planning standpoint, to start over with the planning of that diminished asset rather than have that asset remain in the old GRAT.

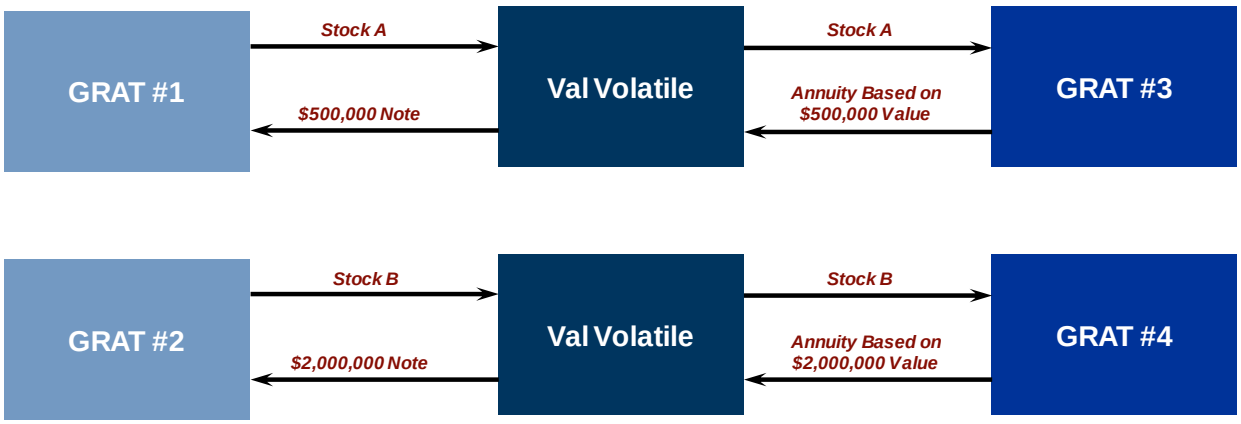
B. First Technique: Grantor Purchases the Assets of the GRAT For a Note That Pays an Applicable Federal Rate and Then Contributes Those Purchased Assets to a New GRAT.

1. The Technique.

The grantor of a GRAT could purchase the assets of an underwater GRAT, or purchase the assets of a GRAT that is extremely successful in which the grantor wishes to lock in the gains, for a note that pays the applicable federal rate. The purchased assets could then be contributed to a new GRAT. In that manner, the appreciation of those assets would then be captured in the new GRAT, assuming appreciation exceeds the Statutory Rate of that new GRAT. The grantor's retained annuity in the "old" GRAT would be satisfied with the principle and interest on the note as the grantor makes those principle and interest payments. The note should not run afoul of Treas. Reg. Section 25.2702-3(d)(6), because the note will not be issued by the trustee of the current GRAT in satisfaction of the annuity.

Example 9: Grantor Purchases Assets Out of GRATs and Creates New GRATs With Purchased Assets

Val Volatile creates two three year GRATs in year one. One GRAT (GRAT #1) holds Stock A. The other GRAT (GRAT #2) holds Stock B. Each stock is worth $1,000,000 upon creation of the GRATs. At the end of year two, Stock A is worth $500,000. At the end of year two, Stock B is worth $2,000,000. Val purchases the stock from each GRAT for a one year note and creates new GRATs (GRAT #3 and GRAT #4) at the end of year two as illustrated below:



2. Advantages.

The advantages of this technique are that it is very simple and can be utilized in almost any situation, if the correct purchase price of the GRAT assets can be ascertained.

3. Considerations.

If the technique is used to lock in a gain on a particular asset in a successful GRAT and if that asset continues to increase in value, the technique will produce a lower amount being transferred to a grantor's beneficiaries in comparison to just keeping the asset in the original GRAT because a new Statutory Rate in the new GRAT needs to be satisfied.

The technique may not work with a hard to value asset because the purchase price that is assumed with the purchase transaction may not be accurate. If the purchase price is not accurate the sale for a note may be treated as a prohibited additional contribution[63] by the grantor (if the purchase price is too high) or as a prohibited commutation[64] of the grantor's retained annuity interest (because the purchase price is too low). In either event, the Internal Revenue Service could take the position that the purchase disqualifies the GRAT and the retained interest by the grantor is no longer a qualified interest under the *Atkinson* case rationale.[65]

Another consideration is that the purchase of GRAT assets by a note issued by the annuitant of the GRAT with the GRAT then satisfying the annuity owed to the annuitant with cash flow from the annuitant may lead the IRS to take the position that the transaction is circular and lacks economic substance and, as a consequence, should be a deemed commutation.

Even if the principal amount of the note is equal to the value of the asset, another consideration is that the Internal Revenue Service could take the position that using an interest

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[63] *See* Treas. Reg. Section 25.2702-3(b)(4).

[64] *See* Treas. Reg. Section 25.2702-3(d)(5).

[65] *See* the analysis in Section III B 1 of this paper.

rate equal to the applicable federal rate is inadequate for purposes of purchasing assets from the current GRAT. The Internal Revenue Service could take the position that the public policy allowing a GRAT safe harbor requires a Statutory Rate that is equal to 120% of the mid-term applicable federal rate and that a purchase using any interest rate below that rate is a disguised commutation based on the public policy inherent in the Statutory Rate of a GRAT.

The proponents of the above note purchase technique argue that if such a deemed commutation argument is brought by the IRS it would be unsuccessful. Assuming the principal amount of the note is equal in value to the GRAT asset that is purchased and the interest rate of the note is equal to the applicable federal rate, there is a clear congressional mandate that the note is full and adequate consideration for the GRAT asset.

Secondly, proponents of the technique argue that under federal estate tax and gift tax law the courts are first to determine the state law property rights of the transaction and then apply the federal estate tax and gift tax to that transaction.[66] Under state law, a fair market value purchase of a GRAT asset does not commute or terminate the GRAT or the GRAT term. If under state property law there should be no commutation, then under federal gift tax law there should be no commutation.

C. Second Technique: Grantor Substitutes the Assets of the GRAT For Another Asset That is Not Volatile and Then Contributes Those "Swapped" Assets to a New GRAT.

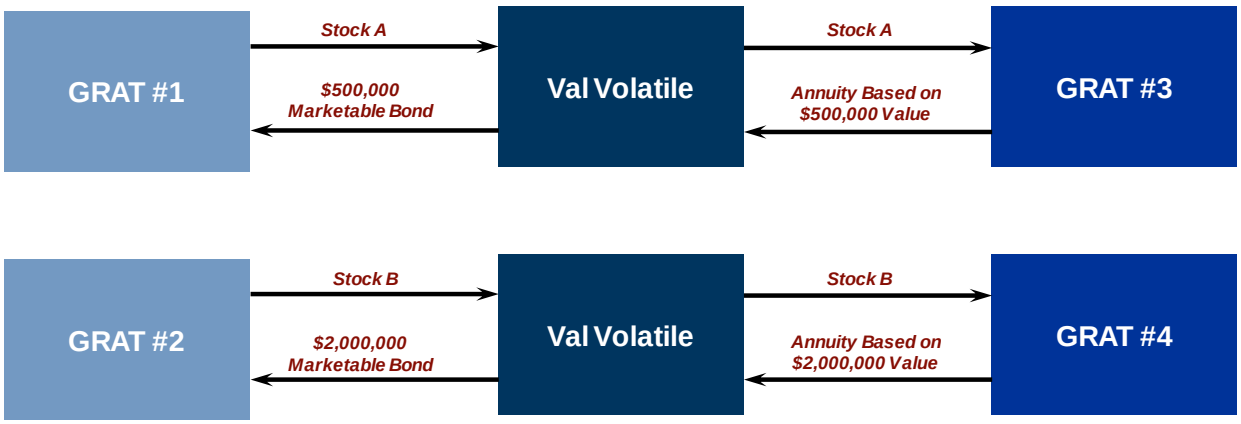
1. The Technique.

If the grantor owns an asset outside of the GRAT that is not volatile and is easily valued, that asset could be substituted for the assets of the current GRAT in a situation where the current GRAT is substantially underwater or when the grantor desires to lock in the gains of a successful GRAT. For instance, if a grantor owns a marketable note or bond, and if the marketable note or bond is of sufficient value, that note or bond could be substituted for the asset of the GRAT. The grantor could then contribute that swapped asset of the current GRAT to a new GRAT. The concept is illustrated below:

Example 10: Grantor Substitutes Assets With GRAT and Creates New GRAT With Substituted Asset

Val Volatile creates two three year GRATs in year one. One GRAT (GRAT #1) holds Stock A. The other GRAT (GRAT #2) holds Stock B. Each stock is worth $1,000,000 upon creation of the GRATs. At the end of year two, Stock A is worth $500,000. At the end of year two, Stock B is worth $2,000,000. Val substitutes the stock from each GRAT with a marketable bond of equal value and creates new GRATs (GRAT #3 and GRAT #4) at the end of year two as illustrated below:

[66] *See* United States v. Bess, 357 U.S. 51 (1958); Morgan v. Commissioner, 309 U.S. 78 (1940).



2. Advantages.

The technique is relatively simple. There should not be any valuation considerations like there may be with a note that pays an AFR rate.

3. Considerations.

A consideration of the technique is that if the asset of a successful GRAT continues to grow, less will be transferred to the grantor's beneficiaries because of the additional Statutory Rate of the new GRAT that must be satisfied.

The technique may not work with a hard to value asset in a GRAT because the valuation on which the swap is based may not be accurate. If the value is not accurate, the substitution of the marketable bond may be treated as a prohibited additional contribution[67] by the grantor (if the valuation is too high) or as a prohibited commutation [68] of the grantor's retained annuity interest (if the valuation is too low). In either event, the Internal Revenue Service could take the position that the purchase disqualifies the GRAT and the retained interest by the grantor is no longer a qualified interest under the *Atkinson*[69] and the retained interest of the grantor is worth zero for gift tax purposes.

[67] *See* Treas. Reg. Section 25.2702-3(b)(4).

[68] *See* Treas. Reg. Section 25.2702-3(d)(5).

[69] *See* the analysis in Section III B 1 of this paper.

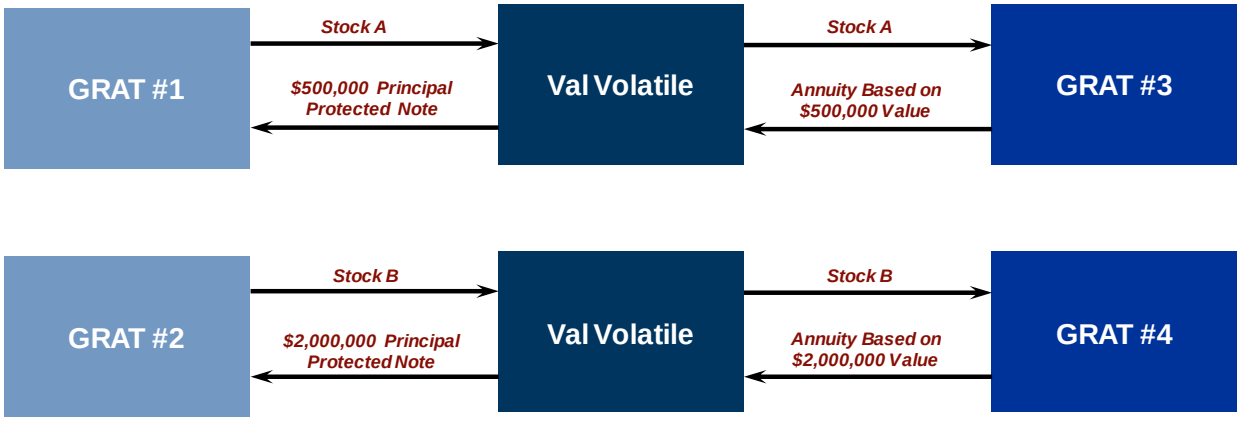
D. Third Technique: Substituting the Assets of the GRAT With a Derivative Purchased From an Investment Bank.

1. The Technique.

The grantor could invest in a principal protected note. The principal protected note is a derivative product in which the investor has complete downside protection and some upside participation in an index or in a particular stock. The investment bank in designing the product essentially combines a zero coupon bond with a call spread (or a put spread) based on an index or a particular stock. The concept is illustrated below:

Example 11: Grantor Purchases Assets Out of GRATs With a Principal Protected Note and Creates New GRATs With Purchased Assets

Val Volatile creates two three year GRATs in year one. One GRAT (GRAT #1) holds Stock A. The other GRAT (GRAT #2) holds Stock B. Each stock is worth $1,000,000 upon creation of the GRATs. At the end of year two, Stock A is worth $500,000. At the end of year two, Stock B is worth $2,000,000. Val purchases the stock from each GRAT in exchange for a one year principal protected note (that was originally issued by an independent investment bank) and creates new GRATs (GRAT #3 and GRAT #4) at the end of year two as illustrated below:



2. Advantages.

The advantage of the technique of swapping assets for a principal protected note issued by an independent investment bank is primarily for the successful GRAT in which a grantor wishes to lock in the gain. Unlike a substitution for a note or a marketable bond, significant upside could occur (even though the downside is protected). Another advantage of using a principal protected note issued by an independent investment bank, or some other similar derivative, for GRAT annuitants who do not own marketable assets that are not volatile of sufficient quantity to do the swap, is that the principal protected note could be purchased by borrowing against the annuitant's assets that are volatile.

3. Considerations.

A consideration of the technique is that if the asset of a successful GRAT continues to grow, less will be transferred to the grantor's beneficiaries because of the additional Statutory Rate of the new GRAT that must be satisfied.

The technique may not work with a hard to value asset in a GRAT because the valuation on which the swap is based may not be accurate. If the value is not accurate the substitution of the principal protected note may be treated as a prohibited additional contribution[70] by the grantor (if the valuation is too high) or as a prohibited commutation[71] of the grantor's retained annuity interest (if the valuation is too low). In either event, the Internal Revenue Service could take the position that the substitution disqualifies the GRAT and the retained interest by the grantor is no longer a qualified interest under the rationale of the *Atkinson* case.[72]

E. Fourth Technique: Grantor Contributes His or Her Remaining Retained Annuity in the Current GRAT to a New GRAT.

1. The Technique.

The grantor of a current GRAT that is underwater could contribute the retained annuity of the current GRAT to a new GRAT. Treas. Reg. Section 20.7520-3(b)(1)(iii) provides that if an annuity cannot be determined under IRC Section 7520 because the assets of the trust are inadequate to support the annuity:

> . . . the actual fair market value of the interest (determined without regard to Section 7520) is based on all of the facts and circumstances if and to the extent permitted by the Internal Revenue Code provision applicable to the property interest.

Under the hypothetical willing buyer/willing seller test, an appraiser may find that the retained annuity at the time of the contribution to the new GRAT is not worth more than the then value of the underlying assets of the current GRAT.

Thus, if the retained annuity becomes more valuable because the assets of the current GRAT increase, there will be an inherent reduced future hurdle for that increase, as illustrated below:

Example 12: Grantor Contributes His Retained Annuity Received to a New GRAT

Val Volatile creates one three year GRAT in year one. The GRAT (GRAT #1) holds Stock A. The stock is worth $1,000,000 upon creation of the GRAT. At the end of year two, Stock A is

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[70] *See* Treas. Reg. Section 25.2702-3(b)(4).

[71] *See* Treas. Reg. Section 25.2702-3(d)(5).

[72] *See* the analysis in Section III B 1 of this paper.

worth $500,000. Val contributes his retained annuity to a new GRAT (GRAT #2) at the end of year two as illustrated below:

2. Advantages.

This technique is particularly advantageous if the assets of the current GRAT are hard to value assets. Dangers inherent in substituting assets or in purchasing assets of the GRAT, because the substitution or purchase may be a deemed contribution or commutation, should be avoided.

3. Considerations.

The Internal Revenue Service may take the view that the retained annuity of the current GRAT, for purposes of transferring it to a new GRAT, will be valued at what a hypothetical willing buyer would pay a hypothetical willing seller for that annuity, and there should be an additional value associated with the retained annuity above the current value of the old GRAT assets, because of the option value inherent in any asset. Under these circumstances, because of the revaluation clause of the new GRAT, there would not be any substantial gift associated with the transfer to a new zeroed out GRAT. However, if such a position by the IRS is supportable, the new hurdle of the new Statutory Rate of the new GRAT may be higher than with the other techniques.

Schedule 1
LEVERAGE FAMILY
HYPOTHETICAL INTEGRATED INCOME AND ESTATE TAX PLAN COMPARISONS - 20 YEAR TERM SCENARIO

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

Goldman, Sachs & Co. does not provide tax and/or legal advice to its clients and all investors are strongly urged to consult with their own advisors regarding any potential investment or strategy. This material is intended for educational purposes only. While it is based on information believed to be reliable, no representation or warranty is given as to its accuracy or completeness, and it should not be relied on as such.

NO FURTHER PLANNING; BEQUEATHS ESTATE TO FAMILY	**Pre-Death**	**Post-Death**	**Present Value (Discounted at 3%)**	**Percentage of Total**
Lenny Leverage	100,513,787	-	-	0.00%
Leverage Children	-	55,282,583	30,608,626	34.52%
Leverage GST Trust	13,317,021	13,317,021	7,373,312	8.32%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,916,430	20,916,430	11,580,920	13.06%
IRS - Investment Opportunity Costs	19,680,241	19,680,241	10,896,472	12.29%
IRS - Estate Tax (at 45%)	-	45,231,204	25,043,421	28.25%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%

HYPOTHETICAL INTEGRATED INCOME & ESTATE TAX PLAN WITH A PARTNERSHIP; BEQUEATHS REMAINING ESTATE TO FAMILY				
Lenny Leverage	17,613,195	-	-	0.00%
Leverage Children	-	9,687,257	5,363,600	6.05%
Leverage GST Trust	98,772,116	98,772,116	54,687,726	61.68%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,778,989	20,778,989	11,504,822	12.98%
IRS - Investment Opportunity Costs	17,263,179	17,263,179	9,558,204	10.78%
IRS - Estate Tax (at 45%)	-	7,925,938	4,388,400	4.95%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%

Schedule 1
LEVERAGE FAMILY
ASSET PAGE

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FLP	
Asset: Miscellaneous Investments	$30,000,000
Basis: Miscellaneous Investments	$30,000,000
GST Trust	
Asset: Cash	$2,857,143
Basis: Cash	$2,857,143
Other Miscellaneous Assets	
Asset: Cash	$1,500,000
Basis: Cash	$1,500,000
Total Assets*	**$34,357,143**
Total Basis	**$34,357,143**

* There is not any proposed planning for Lenny Leverage's other assets

Schedule 1
LEVERAGE FAMILY
NO FURTHER PLANNING; BEQUEATHS ESTATE TO FAMILY

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Assumptions:	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Lenny Leverage

	Beg. of Year	Income	Growth	Income Taxes	Consumption	End of Year
Year 1	31,500,000	630,000	1,890,000	(375,695)	(100,000)	33,544,305
Year 2	33,544,305	670,886	2,012,658	(479,554)	(103,000)	35,645,296
Year 3	35,645,296	712,906	2,138,718	(565,757)	(106,090)	37,825,072
Year 4	37,825,072	756,501	2,269,504	(640,277)	(109,273)	40,101,528
Year 5	40,101,528	802,031	2,406,092	(707,383)	(112,551)	42,489,716
Year 6	42,489,716	849,794	2,549,383	(770,140)	(115,927)	45,002,826
Year 7	45,002,826	900,057	2,700,170	(830,769)	(119,405)	47,652,878
Year 8	47,652,878	953,058	2,859,173	(890,898)	(122,987)	50,451,223
Year 9	50,451,223	1,009,024	3,027,073	(951,739)	(126,677)	53,408,905
Year 10	53,408,905	1,068,178	3,204,534	(1,014,212)	(130,477)	56,536,928
Year 11	56,536,928	1,130,739	3,392,216	(1,079,042)	(134,392)	59,846,449
Year 12	59,846,449	1,196,929	3,590,787	(1,146,810)	(138,423)	63,348,931
Year 13	63,348,931	1,266,979	3,800,936	(1,218,011)	(142,576)	67,056,258
Year 14	67,056,258	1,341,125	4,023,376	(1,293,075)	(146,853)	70,980,831
Year 15	70,980,831	1,419,617	4,258,850	(1,372,398)	(151,259)	75,135,641
Year 16	75,135,641	1,502,713	4,508,138	(1,456,353)	(155,797)	79,534,342
Year 17	79,534,342	1,590,687	4,772,061	(1,545,306)	(160,471)	84,191,313
Year 18	84,191,313	1,683,826	5,051,479	(1,639,622)	(165,285)	89,121,712
Year 19	89,121,712	1,782,434	5,347,303	(1,739,674)	(170,243)	94,341,532
Year 20	94,341,532	1,886,831	5,660,492	(1,199,716)	(175,351)	100,513,787

Schedule 1
LEVERAGE FAMILY
NO FURTHER PLANNING; BEQUEATHS ESTATE TO FAMILY

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Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Leverage GST Trust

	Beg. of Year	Income	Growth	Income Taxes	End of Year
Year 1	2,857,143	57,143	171,429	-	3,085,714
Year 2	3,085,714	61,714	185,143	-	3,332,572
Year 3	3,332,572	66,651	199,954	-	3,599,177
Year 4	3,599,177	71,984	215,951	-	3,887,112
Year 5	3,887,112	77,742	233,227	-	4,198,080
Year 6	4,198,080	83,962	251,885	-	4,533,927
Year 7	4,533,927	90,679	272,036	-	4,896,641
Year 8	4,896,641	97,933	293,798	-	5,288,372
Year 9	5,288,372	105,767	317,302	-	5,711,442
Year 10	5,711,442	114,229	342,687	-	6,168,357
Year 11	6,168,357	123,367	370,101	-	6,661,826
Year 12	6,661,826	133,237	399,710	-	7,194,772
Year 13	7,194,772	143,895	431,686	-	7,770,354
Year 14	7,770,354	155,407	466,221	-	8,391,982
Year 15	8,391,982	167,840	503,519	-	9,063,341
Year 16	9,063,341	181,267	543,800	-	9,788,408
Year 17	9,788,408	195,768	587,304	-	10,571,481
Year 18	10,571,481	211,430	634,289	-	11,417,199
Year 19	11,417,199	228,344	685,032	-	12,330,575
Year 20	12,330,575	246,612	739,835	-	13,317,021

Schedule 1
LEVERAGE FAMILY
HYPOTHETICAL INTEGRATED INCOME & ESTATE TAX PLAN WITH A PARTNERSHIP; BEQUEATHS REMAINING ESTATE TO FAMILY

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Leverage FLP

	Beginning of Year	Income	Growth	Distributions	End of Year
Year 1	32,857,143	657,143	1,971,429	(1,961,571)	33,524,143
Year 2	33,524,143	670,483	2,011,449	(2,063,491)	34,142,583
Year 3	34,142,583	682,852	2,048,555	(2,145,143)	34,728,847
Year 4	34,728,847	694,577	2,083,731	(2,212,623)	35,294,532
Year 5	35,294,532	705,891	2,117,672	(2,270,239)	35,847,855
Year 6	35,847,855	716,957	2,150,871	(2,321,032)	36,394,652
Year 7	36,394,652	727,893	2,183,679	(2,367,154)	36,939,070
Year 8	36,939,070	738,781	2,216,344	(2,410,124)	37,484,072
Year 9	37,484,072	749,681	2,249,044	(2,451,017)	38,031,781
Year 10	38,031,781	760,636	2,281,907	(2,490,595)	38,583,729
Year 11	38,583,729	771,675	2,315,024	(2,529,397)	39,141,030
Year 12	39,141,030	782,821	2,348,462	(2,567,806)	39,704,506
Year 13	39,704,506	794,090	2,382,270	(2,606,096)	40,274,771
Year 14	40,274,771	805,495	2,416,486	(2,644,461)	40,852,291
Year 15	40,852,291	817,046	2,451,137	(2,683,041)	41,437,432

Schedule 1
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Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

GRAT

	Undiscounted Beg. of Year Value	Income	Growth	Distribution from Partnership	Cash Portion of Annuity Payment	Partnership Share Portion of Annuity Payment (Pre-discount)	Undiscounted End of Year Value	Percentage Ownership of FLP by GRAT At End of Year	Percentage Ownership of FLP by Lenny Leverage At End of Year
Year 1	30,000,000	-	-	1,791,000	(146,297)	-	32,253,703	91.30%	8.70%
Year 2	32,253,703	32,894	98,682	1,884,057	(175,556)	-	34,658,443	91.30%	8.70%
Year 3	34,658,443	69,696	209,087	1,958,609	(210,668)	-	37,220,451	91.30%	8.70%
Year 4	37,220,451	110,230	330,690	2,020,221	(252,801)	-	39,945,285	91.30%	8.70%
Year 5	39,945,285	154,397	463,191	2,072,827	(303,361)	-	42,837,547	91.30%	8.70%
Year 6	42,837,547	202,138	606,414	2,119,203	(364,034)	-	45,900,517	91.30%	8.70%
Year 7	45,900,517	253,412	760,237	2,161,314	(436,841)	-	49,135,718	91.30%	8.70%
Year 8	49,135,718	308,175	924,524	2,200,548	(524,209)	-	52,542,366	91.30%	8.70%
Year 9	52,542,366	366,356	1,099,067	2,237,885	(629,050)	-	56,116,705	91.30%	8.70%
Year 10	56,116,705	427,841	1,283,522	2,274,021	(754,860)	-	59,851,181	91.30%	8.70%
Year 11	59,851,181	492,451	1,477,354	2,309,449	(905,832)	-	63,733,444	91.30%	8.70%
Year 12	63,733,444	559,920	1,679,759	2,344,519	(1,086,999)	-	67,745,120	91.30%	8.70%
Year 13	67,745,120	629,864	1,889,591	2,379,479	(1,304,399)	-	71,860,331	91.30%	8.70%
Year 14	71,860,331	701,754	2,105,263	2,414,508	(1,565,278)	-	76,043,879	91.30%	8.70%
Year 15	76,043,879	774,879	2,324,638	2,449,733	(1,878,334)	-	80,249,055	91.30%	8.70%
Year 16	80,249,055	1,604,981	4,814,943	-	(2,254,001)	-	84,414,978	-	-
Year 17	84,414,978	1,688,300	5,064,899	-	(2,704,801)	-	88,463,375	-	-
Year 18	88,463,375	1,769,268	5,307,803	-	(3,245,761)	-	92,294,684	-	-
Year 19	92,294,684	1,845,894	5,537,681	-	(3,894,914)	-	95,783,345	-	-
Year 20	95,783,345	1,915,667	5,747,001	-	(4,673,897)	-	98,772,116	-	-

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Lenny Leverage

	Beginning of Year*	Income	Growth	Distribution from Partnership	Cash Annuity Payment	Income Taxes	Consumption	End of Year
Year 1	1,500,000	30,000	90,000	170,571	146,297	(333,264)	(100,000)	1,503,604
Year 2	1,503,604	30,072	90,216	179,434	175,556	(420,658)	(103,000)	1,455,225
Year 3	1,455,225	29,105	87,314	186,534	210,668	(493,867)	(106,090)	1,368,888
Year 4	1,368,888	27,378	82,133	192,402	252,801	(557,812)	(109,273)	1,256,519
Year 5	1,256,519	25,130	75,391	197,412	303,361	(616,010)	(112,551)	1,129,252
Year 6	1,129,252	22,585	67,755	201,829	364,034	(670,995)	(115,927)	998,533
Year 7	998,533	19,971	59,912	205,839	436,841	(724,604)	(119,405)	877,087
Year 8	877,087	17,542	52,625	209,576	524,209	(778,191)	(122,987)	779,859
Year 9	779,859	15,597	46,792	213,132	629,050	(832,775)	(126,677)	724,979
Year 10	724,979	14,500	43,499	216,573	754,860	(889,135)	(130,477)	734,798
Year 11	734,798	14,696	44,088	219,948	905,832	(947,894)	(134,392)	837,077
Year 12	837,077	16,742	50,225	223,288	1,086,999	(1,009,563)	(138,423)	1,066,343
Year 13	1,066,343	21,327	63,981	226,617	1,304,399	(1,074,582)	(142,576)	1,465,508
Year 14	1,465,508	29,310	87,930	229,953	1,565,278	(1,143,345)	(146,853)	2,087,781
Year 15	2,087,781	41,756	125,267	233,308	1,878,334	(1,216,220)	(151,259)	2,998,967
Year 16	6,602,222	132,044	396,133	-	2,254,001	(1,293,559)	(155,797)	7,935,045
Year 17	7,935,045	158,701	476,103	-	2,704,801	(1,375,716)	(160,471)	9,738,464
Year 18	9,738,464	194,769	584,308	-	3,245,761	(1,463,044)	(165,285)	12,134,974
Year 19	12,134,974	242,699	728,098	-	3,894,914	(1,555,909)	(170,243)	15,274,533
Year 20	15,274,533	305,491	916,472	-	4,673,897	(3,381,846)	(175,351)	17,613,195

* Assumes $2.86 million of LP interests is paid from Leverage GST Trust for purchase of remainder interest

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Leverage GST Trust

	Beginning of Year	Income	Growth	Remainder Interest from GRAT	Income Taxes	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	98,772,116	-	98,772,116

Schedule 1a
LEVERAGE FAMILY
HYPOTHETICAL INTEGRATED INCOME AND ESTATE TAX PLAN COMPARISONS - SHORTER OF LENNY LEVERAGE'S DEATH OR 20 YEARS SCENARIO

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NO FURTHER PLANNING; BEQUEATHS ESTATE TO FAMILY	Pre-Death	Post-Death	Present Value (Discounted at 3%)	Percentage of Total
Lenny Leverage	100,513,787	-	-	0.00%
Leverage Children	-	55,282,583	30,608,626	34.52%
Leverage GST Trust	13,317,021	13,317,021	7,373,312	8.32%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,916,430	20,916,430	11,580,920	13.06%
IRS - Investment Opportunity Costs	19,680,241	19,680,241	10,896,472	12.29%
IRS - Estate Tax (at 45%)	-	45,231,204	25,043,421	28.25%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%

HYPOTHETICAL INTEGRATED INCOME & ESTATE TAX PLAN WITH A PARTNERSHIP; BEQUEATHS REMAINING ESTATE TO FAMILY				
Lenny Leverage	34,976,018	-	-	0.00%
Leverage Children	-	19,236,810	10,650,955	12.01%
Leverage GST Trust	81,703,110	81,703,110	45,237,031	51.02%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,485,173	20,485,173	11,342,144	12.79%
IRS - Investment Opportunity Costs	17,263,179	17,263,179	9,558,204	10.78%
IRS - Estate Tax (at 45%)	-	15,739,208	8,714,418	9.83%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%

Schedule 1a
LEVERAGE FAMILY
ASSET PAGE

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FLP	
Asset: Miscellaneous Investments	$30,000,000
Basis: Miscellaneous Investments	$30,000,000
GST Trust	
Asset: Cash	$2,857,143
Basis: Cash	$2,857,143
Other Miscellaneous Assets	
Asset: Cash	$1,500,000
Basis: Cash	$1,500,000
Total Assets*	**$34,357,143**
Total Basis	**$34,357,143**

* There is not any proposed planning for Lenny Leverage's other assets

Schedule 1a
LEVERAGE FAMILY
NO FURTHER PLANNING; BEQUEATHS ESTATE TO FAMILY

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Assumptions:	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Lenny Leverage

	Beg. of Year	Income	Growth	Income Taxes	Consumption	End of Year
Year 1	31,500,000	630,000	1,890,000	(375,695)	(100,000)	33,544,305
Year 2	33,544,305	670,886	2,012,658	(479,554)	(103,000)	35,645,296
Year 3	35,645,296	712,906	2,138,718	(565,757)	(106,090)	37,825,072
Year 4	37,825,072	756,501	2,269,504	(640,277)	(109,273)	40,101,528
Year 5	40,101,528	802,031	2,406,092	(707,383)	(112,551)	42,489,716
Year 6	42,489,716	849,794	2,549,383	(770,140)	(115,927)	45,002,826
Year 7	45,002,826	900,057	2,700,170	(830,769)	(119,405)	47,652,878
Year 8	47,652,878	953,058	2,859,173	(890,898)	(122,987)	50,451,223
Year 9	50,451,223	1,009,024	3,027,073	(951,739)	(126,677)	53,408,905
Year 10	53,408,905	1,068,178	3,204,534	(1,014,212)	(130,477)	56,536,928
Year 11	56,536,928	1,130,739	3,392,216	(1,079,042)	(134,392)	59,846,449
Year 12	59,846,449	1,196,929	3,590,787	(1,146,810)	(138,423)	63,348,931
Year 13	63,348,931	1,266,979	3,800,936	(1,218,011)	(142,576)	67,056,258
Year 14	67,056,258	1,341,125	4,023,376	(1,293,075)	(146,853)	70,980,831
Year 15	70,980,831	1,419,617	4,258,850	(1,372,398)	(151,259)	75,135,641
Year 16	75,135,641	1,502,713	4,508,138	(1,456,353)	(155,797)	79,534,342
Year 17	79,534,342	1,590,687	4,772,061	(1,545,306)	(160,471)	84,191,313
Year 18	84,191,313	1,683,826	5,051,479	(1,639,622)	(165,285)	89,121,712
Year 19	89,121,712	1,782,434	5,347,303	(1,739,674)	(170,243)	94,341,532
Year 20	94,341,532	1,886,831	5,660,492	(1,199,716)	(175,351)	100,513,787

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Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Leverage GST Trust

	Beg. of Year	Income	Growth	Income Taxes	End of Year
Year 1	2,857,143	57,143	171,429	-	3,085,714
Year 2	3,085,714	61,714	185,143	-	3,332,572
Year 3	3,332,572	66,651	199,954	-	3,599,177
Year 4	3,599,177	71,984	215,951	-	3,887,112
Year 5	3,887,112	77,742	233,227	-	4,198,080
Year 6	4,198,080	83,962	251,885	-	4,533,927
Year 7	4,533,927	90,679	272,036	-	4,896,641
Year 8	4,896,641	97,933	293,798	-	5,288,372
Year 9	5,288,372	105,767	317,302	-	5,711,442
Year 10	5,711,442	114,229	342,687	-	6,168,357
Year 11	6,168,357	123,367	370,101	-	6,661,826
Year 12	6,661,826	133,237	399,710	-	7,194,772
Year 13	7,194,772	143,895	431,686	-	7,770,354
Year 14	7,770,354	155,407	466,221	-	8,391,982
Year 15	8,391,982	167,840	503,519	-	9,063,341
Year 16	9,063,341	181,267	543,800	-	9,788,408
Year 17	9,788,408	195,768	587,304	-	10,571,481
Year 18	10,571,481	211,430	634,289	-	11,417,199
Year 19	11,417,199	228,344	685,032	-	12,330,575
Year 20	12,330,575	246,612	739,835	-	13,317,021

Schedule 1a
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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Leverage FLP

	Beginning of Year	Income	Growth	Distributions	End of Year
Year 1	32,857,143	657,143	1,971,429	(1,961,571)	33,524,143
Year 2	33,524,143	670,483	2,011,449	(2,063,491)	34,142,583
Year 3	34,142,583	682,852	2,048,555	(2,145,143)	34,728,847
Year 4	34,728,847	694,577	2,083,731	(2,212,623)	35,294,532
Year 5	35,294,532	705,891	2,117,672	(2,270,239)	35,847,855
Year 6	35,847,855	716,957	2,150,871	(2,321,032)	36,394,652
Year 7	36,394,652	727,893	2,183,679	(2,367,154)	36,939,070
Year 8	36,939,070	738,781	2,216,344	(2,410,124)	37,484,072
Year 9	37,484,072	749,681	2,249,044	(2,451,017)	38,031,781
Year 10	38,031,781	760,636	2,281,907	(2,490,595)	38,583,729
Year 11	38,583,729	771,675	2,315,024	(2,529,397)	39,141,030
Year 12	39,141,030	782,821	2,348,462	(2,567,806)	39,704,506
Year 13	39,704,506	794,090	2,382,270	(2,606,096)	40,274,771
Year 14	40,274,771	805,495	2,416,486	(2,644,461)	40,852,291
Year 15	40,852,291	817,046	2,451,137	(2,683,041)	41,437,432

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Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

GRAT

	Undiscounted Beg. of Year Value	Income	Growth	Distribution from Partnership	Cash Portion of Annuity Payment	Partnership Share Portion of Annuity Payment (Pre-discount)	Undiscounted End of Year Value	Percentage Ownership of FLP by GRAT At End of Year	Percentage Ownership of FLP by Lenny Leverage At End of Year
Year 1	30,000,000	-	-	1,791,000	(207,119)	-	32,192,881	91.30%	8.70%
Year 2	32,192,881	31,678	95,033	1,884,057	(248,543)	-	34,519,769	91.30%	8.70%
Year 3	34,519,769	66,922	200,766	1,958,609	(298,251)	-	36,983,099	91.30%	8.70%
Year 4	36,983,099	105,483	316,449	2,020,221	(357,902)	-	39,583,845	91.30%	8.70%
Year 5	39,583,845	147,168	441,504	2,072,827	(429,482)	-	42,321,071	91.30%	8.70%
Year 6	42,321,071	191,808	575,425	2,119,203	(515,378)	-	45,191,378	91.30%	8.70%
Year 7	45,191,378	239,230	717,689	2,161,314	(618,454)	-	48,188,234	91.30%	8.70%
Year 8	48,188,234	289,225	867,675	2,200,548	(742,145)	-	51,301,148	91.30%	8.70%
Year 9	51,301,148	341,531	1,024,594	2,237,885	(890,574)	-	54,514,666	91.30%	8.70%
Year 10	54,514,666	395,800	1,187,400	2,274,021	(1,068,689)	-	57,807,151	91.30%	8.70%
Year 11	57,807,151	451,571	1,354,712	2,309,449	(1,282,426)	-	61,149,297	91.30%	8.70%
Year 12	61,149,297	508,237	1,524,710	2,344,519	(1,538,912)	-	64,502,329	91.30%	8.70%
Year 13	64,502,329	565,008	1,695,023	2,379,479	(1,846,694)	-	67,815,822	91.30%	8.70%
Year 14	67,815,822	620,864	1,862,592	2,414,508	(2,216,033)	-	71,025,055	91.30%	8.70%
Year 15	71,025,055	674,503	2,023,508	2,449,733	(2,659,239)	-	74,047,820	91.30%	8.70%
Year 16	74,047,820	1,480,956	4,442,869	-	(3,191,087)	-	76,780,559	-	-
Year 17	76,780,559	1,535,611	4,606,834	-	(3,829,304)	-	79,093,699	-	-
Year 18	79,093,699	1,581,874	4,745,622	-	(4,595,165)	-	80,826,030	-	-
Year 19	80,826,030	1,616,521	4,849,562	-	(5,514,198)	-	81,777,914	-	-
Year 20	81,777,914	1,635,558	4,906,675	-	(6,617,038)	-	81,703,110	-	-

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Lenny Leverage

	Beginning of Year*	Income	Growth	Distribution from Partnership	Cash Annuity Payment	Income Taxes	Consumption	End of Year
Year 1	1,500,000	30,000	90,000	170,571	207,119	(333,264)	(100,000)	1,564,426
Year 2	1,564,426	31,289	93,866	179,434	248,543	(420,658)	(103,000)	1,593,899
Year 3	1,593,899	31,878	95,634	186,534	298,251	(493,867)	(106,090)	1,606,240
Year 4	1,606,240	32,125	96,374	192,402	357,902	(557,812)	(109,273)	1,617,959
Year 5	1,617,959	32,359	97,078	197,412	429,482	(616,010)	(112,551)	1,645,728
Year 6	1,645,728	32,915	98,744	201,829	515,378	(670,995)	(115,927)	1,707,672
Year 7	1,707,672	34,153	102,460	205,839	618,454	(724,604)	(119,405)	1,824,570
Year 8	1,824,570	36,491	109,474	209,576	742,145	(778,191)	(122,987)	2,021,078
Year 9	2,021,078	40,422	121,265	213,132	890,574	(832,775)	(126,677)	2,327,018
Year 10	2,327,018	46,540	139,621	216,573	1,068,689	(889,135)	(130,477)	2,778,829
Year 11	2,778,829	55,577	166,730	219,948	1,282,426	(947,894)	(134,392)	3,421,223
Year 12	3,421,223	68,424	205,273	223,288	1,538,912	(1,009,563)	(138,423)	4,309,134
Year 13	4,309,134	86,183	258,548	226,617	1,846,694	(1,074,582)	(142,576)	5,510,017
Year 14	5,510,017	110,200	330,601	229,953	2,216,033	(1,143,345)	(146,853)	7,106,605
Year 15	7,106,605	142,132	426,396	233,308	2,659,239	(1,216,220)	(151,259)	9,200,202
Year 16	12,803,457	256,069	768,207	-	3,191,087	(1,293,559)	(155,797)	15,569,465
Year 17	15,569,465	311,389	934,168	-	3,829,304	(1,375,716)	(160,471)	19,108,140
Year 18	19,108,140	382,163	1,146,488	-	4,595,165	(1,463,044)	(165,285)	23,603,628
Year 19	23,603,628	472,073	1,416,218	-	5,514,198	(1,555,909)	(170,243)	29,279,964
Year 20	29,279,964	585,599	1,756,798	-	6,617,038	(3,088,030)	(175,351)	34,976,018

* Assumes $2.86 million of LP interests is paid from Leverage GST Trust for purchase of remainder interest

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	* based on nominal amount of $21,000,000 [$30,000,000 * (1-
Leverage FLP Valuation Discount	30.00%	30%)]

Leverage GST Trust

	Beginning of Year	Income	Growth	Remainder Interest from GRAT	Income Taxes	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	81,703,110	-	81,703,110

Schedule #2

Alternative DOW GRAT Strategies on 2/6/2009 using EPSS

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Percentage of Beginning GRAT Assets to Remainderman at the End of One Year

Stock Value	Percentage Increase or Decrease in Value of Stock	Strategy #1	Strategy #2	Strategy #3
$9.38	-13.79%	0.00%	0.00%	0.00%
$9.63	-11.49%	0.00%	0.00%	0.28%
$10.88	0.00%	0.00%	0.00%	11.77%
$11.13	2.30%	0.30%	2.60%	14.07%
$12.38	13.79%	11.79%	25.57%	25.57%
$13.88	27.57%	25.57%	52.00%	52.00%
$16.63	52.85%	50.85%	52.00%	52.00%
$16.88	55.15%	53.15%	52.00%	52.00%

Strategy #1: Conventional GRAT Funded With Stock
Strategy #2: GRAT Funded With Stock and EPSS Strategy*
Strategy #3: 2-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread)

* EPSS: This derivative strategy involves a "cashless" purchase of one at the money call. The purchase is funded by a sale of two out of the money calls. More specifically, two 53 week out of the money (27.00% above current market price) calls are sold. The proceeds of that sale are used to purchase one 53 week at the money call.

Schedule #3

Strategy #1: Conventional GRAT Funded With Stock

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Value of Stock at Time of Funding:	$10.88
7520 Rate	2.00%

		Net Dollar Return on GRAT Assets			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen**	**Percentage of Beginning GRAT Assets**
$9.38	-13.79%	($1.50)	-13.79%	($11.10)	$0.00	**0.00%**
$9.63	-11.49%	($1.25)	-11.49%	($11.10)	$0.00	**0.00%**
$10.88	0.00%	$0.00	0.00%	($11.10)	$0.00	**0.00%**
$11.13	2.30%	$0.25	2.30%	($11.10)	$0.03	**0.30%**
$12.38	13.79%	$1.50	13.79%	($11.10)	$1.28	**11.79%**
$13.88	27.57%	$3.00	27.57%	($11.10)	$2.78	**25.57%**
$16.63	52.85%	$5.75	52.85%	($11.10)	$5.53	**50.85%**
$16.88	55.15%	$6.00	55.15%	($11.10)	$5.78	**53.15%**

Schedule #4

Strategy #2: GRAT Funded With Stock and EPSS Strategy*

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$10.88
7520 Rate	2.00%
Upper Call Strike	127.00%

		Net Dollar Return on GRAT Assets			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen**	**Percentage of Beginning GRAT Assets**
$9.38	-13.79%	($1.50)	-13.79%	($11.10)	$0.00	**0.00%**
$9.63	-11.49%	($1.25)	-11.49%	($11.10)	$0.00	**0.00%**
$10.88	0.00%	$0.00	0.00%	($11.10)	$0.00	**0.00%**
$11.13	2.30%	$0.50	4.60%	($11.10)	$0.28	**2.60%**
$12.38	13.79%	$3.00	27.57%	($11.10)	$2.78	**25.57%**
$13.88	27.57%	$5.88	54.00%	($11.10)	$5.66	**52.00%**
$16.63	52.85%	$5.88	54.00%	($11.10)	$5.66	**52.00%**
$16.88	55.15%	$5.88	54.00%	($11.10)	$5.66	**52.00%**

Schedule #5

Strategy #3: 2-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$10.88
GRAT #1	$9.41
GRAT #2	$1.47
7520 Rate	2.00%
Upper Call Strike	127.00%
Value of Call Spread as a Percentage of the Stock	13.50%
Value of Out-of-the-Money Call as a Percentage of the Stock	13.50%
Value of At-the-Money Call as a Percentage of the Stock	27.00%

		Net Dollar Return on GRAT Assets - GRAT #1			Net Dollar Return on GRAT Assets - GRAT #2			GRAT Remainderman's Return at the End of One Year		
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen - GRAT #1**	**Profit Dollar Amount to Remaindermen - GRAT #2**	**Percentage of Beginning GRAT Assets**
$9.38	-13.79%	($1.50)	-13.79%	($9.60)	$0.00	0.00%	($1.50)	$0.00	$0.00	**0.00%**
$9.63	-11.49%	$0.22	2.01%	($9.60)	$0.00	0.00%	($1.50)	$0.03	$0.00	**0.28%**
$10.88	0.00%	$1.47	13.50%	($9.60)	$0.00	0.00%	($1.50)	$1.28	$0.00	**11.77%**
$11.13	2.30%	$1.72	15.80%	($9.60)	$0.25	2.30%	($1.50)	$1.53	$0.00	**14.07%**
$12.38	13.79%	$2.97	27.29%	($9.60)	$1.50	13.79%	($1.50)	$2.78	$0.00	**25.57%**
$13.88	27.57%	$4.41	40.50%	($9.60)	$2.94	27.00%	($1.50)	$4.22	$1.44	**52.00%**
$16.63	52.85%	$4.41	40.50%	($9.60)	$2.94	27.00%	($1.50)	$4.22	$1.44	**52.00%**
$16.88	55.15%	$4.41	40.50%	($9.60)	$2.94	27.00%	($1.50)	$4.22	$1.44	**52.00%**

Schedule #6

Alternative DOW GRAT Strategies on 2/6/2009 using Twin-Win

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Stock Value	Percentage Increase or Decrease in Value of Stock	Percentage of Beginning GRAT Assets to Remainderman at the End of One Year		
		Strategy #1	Strategy #2	Strategy #3
$8.13	-25.28%	0.00%	0.00%	0.00%
$8.38	-22.98%	0.00%	20.98%	44.43%
$10.63	-2.30%	0.00%	0.30%	13.30%
$10.88	0.00%	0.00%	0.00%	12.54%
$11.13	2.30%	0.30%	2.60%	14.83%
$13.38	22.98%	20.98%	43.96%	45.49%
$13.63	25.28%	23.28%	45.00%	46.53%
$16.13	48.25%	46.25%	45.00%	46.53%
$16.38	50.55%	48.55%	45.00%	46.53%

Strategy #1: Conventional GRAT Funded With Stock

Strategy #2: GRAT Funded With Stock and Twin-Win* Derivatives

Strategy #3: 3-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread; GRAT #3 - 2 Puts)

* Twin-Win: This derivative strategy involves a "cashless" purchase of one at the money call and two modified at the money puts. The purchases are funded by a sale of two out of the money calls. More specifically, two 13 month out of the money (23.50% above current market price) calls are sold. The proceeds of that sale are used to purchase one 13 month at the money call and two 13 month at the money puts. However, the puts are designed to have no value if the stock declines by more than 25%.

Schedule #7
Strategy #1: Conventional GRAT Funded With Stock

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$10.88
7520 Rate	2.00%

		Net Dollar Return on GRAT Assets			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen**	**Percentage of Beginning GRAT Assets**
$8.13	-25.28%	($2.75)	-25.28%	($11.10)	$0.00	**0.00%**
$8.38	-22.98%	($2.50)	-22.98%	($11.10)	$0.00	**0.00%**
$10.63	-2.30%	($0.25)	-2.30%	($11.10)	$0.00	**0.00%**
$10.88	0.00%	$0.00	0.00%	($11.10)	$0.00	**0.00%**
$11.13	2.30%	$0.25	2.30%	($11.10)	$0.03	**0.30%**
$13.38	22.98%	$2.50	22.98%	($11.10)	$2.28	**20.98%**
$13.63	25.28%	$2.75	25.28%	($11.10)	$2.53	**23.28%**
$16.13	48.25%	$5.25	48.25%	($11.10)	$5.03	**46.25%**
$16.38	50.55%	$5.50	50.55%	($11.10)	$5.28	**48.55%**

Schedule #8

Strategy #2: GRAT Funded With Stock and Twin-Win* Derivatives

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$10.88
7520 Rate	2.00%
Upper Call Strike	123.50%
Downside KO Level (continuous)	75.00%

		Net Dollar Return on GRAT Assets			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen**	**Percentage of Beginning GRAT Assets**
$8.13	-25.28%	($2.75)	-25.28%	($11.10)	$0.00	**0.00%**
$8.38	-22.98%	$2.50	22.98%	($11.10)	$2.28	**20.98%**
$10.63	-2.30%	$0.25	2.30%	($11.10)	$0.03	**0.30%**
$10.88	0.00%	$0.00	0.00%	($11.10)	$0.00	**0.00%**
$11.13	2.30%	$0.50	4.60%	($11.10)	$0.28	**2.60%**
$13.38	22.98%	$5.00	45.96%	($11.10)	$4.78	**43.96%**
$13.63	25.28%	$5.11	47.00%	($11.10)	$4.90	**45.00%**
$16.13	48.25%	$5.11	47.00%	($11.10)	$4.90	**45.00%**
$16.38	50.55%	$5.11	47.00%	($11.10)	$4.90	**45.00%**

Schedule #9

Strategy #3: 3-GRAT Strategy (GRAT #1 - Stock Subject to Call; GRAT #2 - Call Spread; GRAT #3 - 2 Puts)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$10.88
GRAT #1	$9.33
GRAT #2	$1.39
GRAT #3	$0.16
7520 Rate	2.00%
Upper Call Strike	123.50%
Downside KO Level (continuous)	75.00%
Value of Call Spread as a Percentage of the Stock	12.75%
Value of Out-of-the-Money Call as a Percentage of the Stock	14.25%
Value of At-the-Money Call as a Percentage of the Stock	27.00%
Value of At-the-Money KO Puts as a Percentage of the Stock	0.75%

		Net Dollar Return on GRAT Assets - GRAT #1			Net Dollar Return on GRAT Assets - GRAT #2			Net Dollar Return on GRAT Assets - GRAT #3			GRAT Remainderman's Return at the End of One Year			
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen - GRAT #1**	**Profit Dollar Amount to Remaindermen - GRAT #2**	**Profit Dollar Amount to Remaindermen - GRAT #3**	**Percentage of Beginning GRAT Assets**
$8.13	-25.28%	($2.75)	-25.28%	($9.52)	$0.00	0.00%	($1.41)	$0.00	0.00%	($0.17)	$0.00	$0.00	$0.00	**0.00%**
$8.38	-22.98%	($2.50)	-22.98%	($9.52)	$0.00	0.00%	($1.41)	$5.00	45.96%	($0.17)	$0.00	$0.00	$4.83	**44.43%**
$10.63	-2.30%	$1.30	11.95%	($9.52)	$0.00	0.00%	($1.41)	$0.50	4.60%	($0.17)	$1.11	$0.00	$0.33	**13.30%**
$10.88	0.00%	$1.55	14.25%	($9.52)	$0.00	0.00%	($1.41)	$0.00	0.00%	($0.17)	$1.36	$0.00	$0.00	**12.54%**
$11.13	2.30%	$1.80	16.55%	($9.52)	$0.25	2.30%	($1.41)	$0.00	0.00%	($0.17)	$1.61	$0.00	$0.00	**14.83%**
$13.38	22.98%	$4.05	37.23%	($9.52)	$2.50	22.98%	($1.41)	$0.00	0.00%	($0.17)	$3.86	$1.09	$0.00	**45.49%**
$13.63	25.28%	$4.11	37.75%	($9.52)	$2.56	23.50%	($1.41)	$0.00	0.00%	($0.17)	$3.92	$1.14	$0.00	**46.53%**
$16.13	48.25%	$4.11	37.75%	($9.52)	$2.56	23.50%	($1.41)	$0.00	0.00%	($0.17)	$3.92	$1.14	$0.00	**46.53%**
$16.38	50.55%	$4.11	37.75%	($9.52)	$2.56	23.50%	($1.41)	$0.00	0.00%	($0.17)	$3.92	$1.14	$0.00	**46.53%**

Schedule 10
Comparison of Alternative SPY Strategies on 3/2/2009

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Status Quo with Grantor Trust Holding One Share of ETF		Hypothetical Plan With Grantor Trust Holding Derivatives Strategy and a GRAT Funded with 2 Out-of-the-Money Calls		
Estimated Stock Value	**Percentage Increase or Decrease in Value of ETF**	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust (Holding 1 Share of Stock)	**ESTIMATED TOTAL ASSETS TO BENEFICIARIES** **Trust Total ($)**	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust #1 (Derivatives Grantor Trust)	Estimated Profit/(Loss) Realized at the End of One Year Grantor Trust #2 (2 OTM Call GRAT Beneficiary)	**ESTIMATED TOTAL ASSETS TO BENEFICIARIES** **Trust Total ($)**
$56.10	-20.54%	($14.50)	**$56.10**	($14.50)	$0.00	**$56.10**
$56.60	-19.83%	($14.00)	**$56.60**	$14.00	$0.00	**$84.60**
$70.10	-0.71%	($0.50)	**$70.10**	$0.50	$0.00	**$71.10**
$70.60	0.00%	$0.00	**$70.60**	$0.00	$0.00	**$70.60**
$71.10	0.71%	$0.50	**$71.10**	$1.00	$0.00	**$71.60**
$79.60	12.75%	$9.00	**$79.60**	$18.00	$0.00	**$88.60**
$80.10	13.46%	$9.50	**$80.10**	$18.36	$0.00	**$88.96**
$85.60	21.25%	$15.00	**$85.60**	$18.36	$0.08	**$89.03**
$89.10	26.20%	$18.50	**$89.10**	$18.36	$7.08	**$96.03**
$91.10	29.04%	$20.50	**$91.10**	$18.36	$11.08	**$100.03**
$91.60	29.75%	$21.00	**$91.60**	$18.36	$12.08	**$101.03**
$94.10	33.29%	$23.50	**$94.10**	$18.36	$17.08	**$106.03**
$94.60	33.99%	$24.00	**$94.60**	$18.36	$18.08	**$107.03**
$111.60	58.07%	$41.00	**$111.60**	$18.36	$52.08	**$141.03**

* This derivative strategy involves a "cashless" purchase of one at the money call and two modified at the money puts. The purchases are funded by a sale of two out of the money calls. More specifically, two 53 week out of the money (13% above current market price) calls are sold. The proceeds of that sale are used to purchase one 53 week at the money call and two 53 week at the money puts. However, the puts are designed to have no value if the stock declines by more than 20%.

Schedule 11
Alternative SPY Strategy on 3/2/2009 using Derivatives Strategy

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Estimated Stock Value	Percentage Increase or Decrease in Value of Stock	Profit/(Loss) Realized at the End of One Year ($)	Profit/(Loss) Realized at the End of One Year (%)
$56.10	-20.54%	($14.50)	-20.54%
$56.60	-19.83%	$14.00	19.83%
$70.10	-0.71%	$0.50	0.71%
$70.60	0.00%	$0.00	0.00%
$71.10	0.71%	$1.00	1.42%
$79.60	12.75%	$18.00	25.50%
$80.10	13.46%	$18.36	26.00%
$85.60	21.25%	$18.36	26.00%
$89.10	26.20%	$18.36	26.00%
$91.10	29.04%	$18.36	26.00%
$91.60	29.75%	$18.36	26.00%
$94.10	33.29%	$18.36	26.00%
$94.60	33.99%	$18.36	26.00%
$111.60	58.07%	$18.36	26.00%

Strategy: Grantor Trust Funded With Derivatives Strategy*

* This derivative strategy involves a "cashless" purchase of one at the money call and two modified at the money puts. The purchases are funded by a sale of two out of the money calls. More specifically, two 53 week out of the money (13% above current market price) calls are sold. The proceeds of that sale are used to purchase one 53 week at the money call and two 53 week at the money puts. However, the puts are designed to have no value if the stock declines by more than 20%.

Schedule 12

Strategy: Grantor Trust Funded With Derivatives Strategy*

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$70.60
Upper Call Strike	113.00%
Downside KO Level (continuous)	80.00%

Net Dollar Return on Assets

Stock Value	Percentage Increase or Decrease in Value of Stock	Profit (Loss)	Return %
$56.10	-20.54%	($14.50)	-20.54%
$56.60	-19.83%	$14.00	19.83%
$70.10	-0.71%	$0.50	0.71%
$70.60	0.00%	$0.00	0.00%
$71.10	0.71%	$1.00	1.42%
$79.60	12.75%	$18.00	25.50%
$80.10	13.46%	$18.36	26.00%
$85.60	21.25%	$18.36	26.00%
$89.10	26.20%	$18.36	26.00%
$91.10	29.04%	$18.36	26.00%
$91.60	29.75%	$18.36	26.00%
$94.10	33.29%	$18.36	26.00%
$94.60	33.99%	$18.36	26.00%
$111.60	58.07%	$18.36	26.00%

Schedule 13
Alternative SPY GRAT Strategy on 3/2/2009 using GRAT Funded with 2 OTM Calls

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Estimated Stock Value	Percentage Increase or Decrease in Value of Stock	Percentage of Beginning GRAT Assets to Remainderman at the End of One Year ($)	Percentage of Beginning GRAT Assets to Remainderman at the End of One Year (%)
$56.10	-20.54%	$0.00	0.00%
$56.60	-19.83%	$0.00	0.00%
$70.10	-0.71%	$0.00	0.00%
$70.60	0.00%	$0.00	0.00%
$71.10	0.71%	$0.00	0.00%
$79.60	12.75%	$0.00	0.00%
$80.10	13.46%	$0.00	0.00%
$85.60	21.25%	$0.08	0.68%
$89.10	26.20%	$7.08	62.65%
$91.10	29.04%	$11.08	98.06%
$91.60	29.75%	$12.08	106.91%
$94.10	33.29%	$17.08	151.18%
$94.60	33.99%	$18.08	160.03%
$111.60	58.07%	$52.08	461.02%

Strategy : GRAT Funded with 2 Out-of-the-Money Calls

Schedule 14

Strategy : GRAT Funded with 2 Out-of-the-Money Calls

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Value of Stock at Time of Funding:	$70.60
GRAT #1	$11.30
7520 Rate	2.40%
Upper Call Strike	113.00%
Value of Out-of-the-Money Call as a Percentage of the Stock	8.00%

		Net Dollar Return on GRAT Assets			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Percentage Increase or Decrease in Value of Stock**	**Profit (Loss)**	**Return %**	**Dollar Payout Amount to Grantor**	**Profit Dollar Amount to Remaindermen**	**Percentage of Beginning GRAT Assets**
$56.10	-20.54%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$56.60	-19.83%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$70.10	-0.71%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$70.60	0.00%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$71.10	0.71%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$79.60	12.75%	$0.00	0.00%	($11.57)	$0.00	**0.00%**
$80.10	13.46%	$0.64	0.91%	($11.57)	$0.00	**0.00%**
$85.60	21.25%	$11.64	16.49%	($11.57)	$0.08	**0.68%**
$89.10	26.20%	$18.64	26.41%	($11.57)	$7.08	**62.65%**
$91.10	29.04%	$22.64	32.07%	($11.57)	$11.08	**98.06%**
$91.60	29.75%	$23.64	33.49%	($11.57)	$12.08	**106.91%**
$94.10	33.29%	$28.64	40.57%	($11.57)	$17.08	**151.18%**
$94.60	33.99%	$29.64	41.99%	($11.57)	$18.08	**160.03%**
$111.60	58.07%	$63.64	90.15%	($11.57)	$52.08	**461.02%**

Schedule 15

GRAT Remainderman's Return at the End of One Year as a Percentage the Initial Contribution

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

Goldman, Sachs & Co. does not provide tax and/or legal advice to its clients and all investors are strongly urged to consult with their own advisors regarding any potential investment or strategy. This material is intended for educational purposes only. While it is based on information believed to be reliable, no representation or warranty is given as to its accuracy or completeness, and it should not be relied on as such.

Stock Price	Increase (Decrease) in the Value of GE Stock	Transaction 1 Traditional GRAT With Stock	Transaction 2 GRAT With Call Spread	Transaction 3 GRAT With Put Spread
$10.00	-69.41%	0.00%	0.00%	196.44%
$15.00	-54.11%	0.00%	0.00%	196.44%
$20.00	-38.82%	0.00%	0.00%	196.44%
$25.00	-23.52%	0.00%	0.00%	196.44%
$27.00	-17.41%	0.00%	0.00%	196.44%
$28.00	-14.35%	0.00%	0.00%	196.44%
$29.00	-11.29%	0.00%	0.00%	196.44%
$30.00	-8.23%	0.00%	0.00%	196.44%
$30.80	-5.78%	0.00%	0.00%	196.44%
$31.00	-5.17%	0.00%	0.00%	164.42%
$32.00	-2.11%	0.00%	0.00%	4.29%
$33.00	0.95%	0.00%	0.00%	0.00%
$35.00	7.07%	0.87%	140.99%	0.00%
$35.10	7.37%	1.17%	151.69%	0.00%
$41.00	25.42%	19.22%	151.69%	0.00%
$50.00	52.95%	46.75%	151.69%	0.00%
$55.00	68.25%	62.05%	151.69%	0.00%
$60.00	83.54%	77.34%	151.69%	0.00%

Transactions are assumed to take place on July 31, 2006.

Schedule 16

Transaction 1: Purchase a Share for $32.69 (Utilize One GRAT) on July 31, 2006

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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GRAT # 1

Assumptions:	
Value of Stock at Time of Funding:	$32.69
7520 Rate	6.20%

	Net Return on Stock			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate*Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets**
$10.00	($22.69)	-69.41%	($34.72)	$0.00	**0.00%**
$11.00	($21.69)	-66.35%	($34.72)	$0.00	**0.00%**
$12.00	($20.69)	-63.29%	($34.72)	$0.00	**0.00%**
$13.00	($19.69)	-60.23%	($34.72)	$0.00	**0.00%**
$14.00	($18.69)	-57.17%	($34.72)	$0.00	**0.00%**
$15.00	($17.69)	-54.11%	($34.72)	$0.00	**0.00%**
$16.00	($16.69)	-51.06%	($34.72)	$0.00	**0.00%**
$17.00	($15.69)	-48.00%	($34.72)	$0.00	**0.00%**
$18.00	($14.69)	-44.94%	($34.72)	$0.00	**0.00%**
$19.00	($13.69)	-41.88%	($34.72)	$0.00	**0.00%**
$20.00	($12.69)	-38.82%	($34.72)	$0.00	**0.00%**
$21.00	($11.69)	-35.76%	($34.72)	$0.00	**0.00%**
$22.00	($10.69)	-32.70%	($34.72)	$0.00	**0.00%**
$23.00	($9.69)	-29.64%	($34.72)	$0.00	**0.00%**
$24.00	($8.69)	-26.58%	($34.72)	$0.00	**0.00%**
$25.00	($7.69)	-23.52%	($34.72)	$0.00	**0.00%**
$26.00	($6.69)	-20.46%	($34.72)	$0.00	**0.00%**
$27.00	($5.69)	-17.41%	($34.72)	$0.00	**0.00%**
$28.00	($4.69)	-14.35%	($34.72)	$0.00	**0.00%**
$29.00	($3.69)	-11.29%	($34.72)	$0.00	**0.00%**
$30.00	($2.69)	-8.23%	($34.72)	$0.00	**0.00%**
$30.80	($1.89)	-5.78%	($34.72)	$0.00	**0.00%**
$31.00	($1.69)	-5.17%	($34.72)	$0.00	**0.00%**
$32.00	($0.69)	-2.11%	($34.72)	$0.00	**0.00%**
$33.00	$0.31	0.95%	($34.72)	$0.00	**0.00%**
$34.00	$1.31	4.01%	($34.72)	$0.00	**0.00%**
$35.00	$2.31	7.07%	($34.72)	$0.28	**0.81%**
$35.10	$2.41	7.37%	($34.72)	$0.38	**1.09%**
$36.00	$3.31	10.13%	($34.72)	$1.28	**3.56%**
$37.00	$4.31	13.18%	($34.72)	$2.28	**6.17%**
$38.00	$5.31	16.24%	($34.72)	$3.28	**8.64%**
$39.00	$6.31	19.30%	($34.72)	$4.28	**10.98%**
$40.00	$7.31	22.36%	($34.72)	$5.28	**13.21%**
$41.00	$8.31	25.42%	($34.72)	$6.28	**15.32%**
$42.00	$9.31	28.48%	($34.72)	$7.28	**17.34%**
$43.00	$10.31	31.54%	($34.72)	$8.28	**19.26%**
$44.00	$11.31	34.60%	($34.72)	$9.28	**21.10%**
$45.00	$12.31	37.66%	($34.72)	$10.28	**22.85%**
$46.00	$13.31	40.72%	($34.72)	$11.28	**24.53%**
$47.00	$14.31	43.77%	($34.72)	$12.28	**26.13%**
$48.00	$15.31	46.83%	($34.72)	$13.28	**27.67%**
$49.00	$16.31	49.89%	($34.72)	$14.28	**29.15%**
$50.00	$17.31	52.95%	($34.72)	$15.28	**30.57%**
$51.00	$18.31	56.01%	($34.72)	$16.28	**31.93%**
$52.00	$19.31	59.07%	($34.72)	$17.28	**33.24%**
$53.00	$20.31	62.13%	($34.72)	$18.28	**34.50%**
$54.00	$21.31	65.19%	($34.72)	$19.28	**35.71%**
$55.00	$22.31	68.25%	($34.72)	$20.28	**36.88%**
$56.00	$23.31	71.31%	($34.72)	$21.28	**38.01%**
$57.00	$24.31	74.37%	($34.72)	$22.28	**39.09%**
$58.00	$25.31	77.42%	($34.72)	$23.28	**40.14%**
$59.00	$26.31	80.48%	($34.72)	$24.28	**41.16%**
$60.00	$27.31	83.54%	($34.72)	$25.28	**42.14%**

Schedule 17

Transaction 2: Contribute $32.69 Cash, Purchase 17.49 at the Money Calls for $1.87 Each, Sell 34.98 Calls at $35.10 for $0.93 Each, and Invest in 17.49 at the Money Calls (Utilize One GRAT) on July 31, 2006

GRAT # 1*

Assumptions:			
Cash Contributed:			$32.69
(1) Purchased 17.49 Calls at:	$32.69	for	($1.87) each
(2) Sold 34.98 Calls at:	$35.10	for	$0.93 each
(3) Purchased 17.49 Calls at:	$32.69	for	($1.87) each
7520 Rate			6.20%

	Return on Calls Purchased (1)		Return on Calls Sold (2)		Return on Calls Purchased (3)		Net Return			GRAT Remainderman's Return at End of One Year †	
Stock Value	**Profit (Loss)**	**Return %**	**Net Profit (Loss) (Gain - Cost)**	**Return %**	**Net Profit (Loss) (Proceeds -Gain)**	**Return %**	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate * Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets ~**
$10.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$11.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$12.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$13.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$14.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$15.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$16.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$17.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$18.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$19.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$20.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$21.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$22.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$23.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$24.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$25.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$26.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$27.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$28.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$29.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$30.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$30.80	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$31.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$32.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$33.00	($27.27)	-83.41%	$32.69	100.00%	($27.27)	-83.41%	($21.85)	-22.28%	($34.72)	$0.00	**0.00%**
$34.00	($9.78)	-29.91%	$32.69	100.00%	($9.78)	-29.91%	$13.14	13.39%	($34.72)	$11.11	**24.24%**
$35.00	$7.71	23.60%	$32.69	100.00%	$7.71	23.60%	$48.12	49.06%	($34.72)	$46.09	**57.04%**
$35.10	$9.46	28.95%	$32.69	100.00%	$9.46	28.95%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$36.00	$25.20	77.10%	$1.21	3.69%	$25.20	77.10%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$37.00	$42.69	130.60%	($33.77)	-103.32%	$42.69	130.60%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$38.00	$60.19	184.11%	($68.76)	-210.33%	$60.19	184.11%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$39.00	$77.68	237.61%	($103.74)	-317.34%	$77.68	237.61%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$40.00	$95.17	291.12%	($138.72)	-424.34%	$95.17	291.12%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$41.00	$112.66	344.62%	($173.70)	-531.35%	$112.66	344.62%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$42.00	$130.15	398.13%	($208.68)	-638.36%	$130.15	398.13%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$43.00	$147.64	451.63%	($243.66)	-745.37%	$147.64	451.63%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$44.00	$165.13	505.14%	($278.64)	-852.38%	$165.13	505.14%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$45.00	$182.62	558.64%	($313.62)	-959.39%	$182.62	558.64%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$46.00	$200.11	612.15%	($348.61)	-1066.40%	$200.11	612.15%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$47.00	$217.60	665.65%	($383.59)	-1173.41%	$217.60	665.65%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$48.00	$235.09	719.15%	($418.57)	-1280.42%	$235.09	719.15%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$49.00	$252.58	772.66%	($453.55)	-1387.43%	$252.58	772.66%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$50.00	$270.07	826.16%	($488.53)	-1494.44%	$270.07	826.16%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$51.00	$287.56	879.67%	($523.51)	-1601.44%	$287.56	879.67%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$52.00	$305.05	933.17%	($558.49)	-1708.45%	$305.05	933.17%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$53.00	$322.54	986.68%	($593.47)	-1815.46%	$322.54	986.68%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$54.00	$340.04	1040.18%	($628.46)	-1922.47%	$340.04	1040.18%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$55.00	$357.53	1093.69%	($663.44)	-2029.48%	$357.53	1093.69%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$56.00	$375.02	1147.19%	($698.42)	-2136.49%	$375.02	1147.19%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$57.00	$392.51	1200.70%	($733.40)	-2243.50%	$392.51	1200.70%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$58.00	$410.00	1254.20%	($768.38)	-2350.51%	$410.00	1254.20%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$59.00	$427.49	1307.70%	($803.36)	-2457.52%	$427.49	1307.70%	$51.61	52.63%	($34.72)	$49.59	**58.82%**
$60.00	$444.98	1361.21%	($838.34)	-2564.53%	$444.98	1361.21%	$51.61	52.63%	($34.72)	$49.59	**58.82%**

*** Owns: 34.98 at the money calls, but assets are subject to 34.98 calls at $35.10**
† Profit/Loss tracking is all within the family
~ Any excess return over 100% implies reduction of non-GRAT assets

Schedule 18

Transaction 3: Contribute $32.69 Cash, Purchase 26.17 at the Money Puts for $1.25 Each, Sell 52.34 Puts at $30.80 for $0.62 Each, and Invest in 26.17 at the Money Puts (Utilize One GRAT) on July 31, 2006

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

GRAT # 1*

Assumptions:			
Cash Contributed:			$32.69
Purchased 26.17 Puts at:	$32.69	for	($1.25) each
Sold 52.34 Puts at:	$30.80	for	$0.62 each
Purchased 26.17 Puts at:	$32.69	for	($1.25) each
7520 Rate			6.20%

	Return on Puts Purchased (1)		Return on Puts Sold (2)		Return on Puts Purchased (3)		Net Return			GRAT Remainderman's Return at End of One Year †	
Stock Value	**Profit (Loss)**	**Return %**	**Net Profit (Loss) (Gain - Cost)**	**Return %**	**Net Profit (Loss) (Proceeds -Gain)**	**Return %**	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate * Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets ~**
$10.00	$561.17	1716.65%	($1,056.10)	-3230.66%	$561.17	1716.65%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$11.00	$535.00	1636.59%	($1,003.76)	-3070.54%	$535.00	1636.59%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$12.00	$508.83	1556.53%	($951.41)	-2910.41%	$508.83	1556.53%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$13.00	$482.66	1476.46%	($899.07)	-2750.28%	$482.66	1476.46%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$14.00	$456.48	1396.40%	($846.72)	-2590.15%	$456.48	1396.40%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$15.00	$430.31	1316.33%	($794.37)	-2430.02%	$430.31	1316.33%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$16.00	$404.14	1236.27%	($742.03)	-2269.90%	$404.14	1236.27%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$17.00	$377.96	1156.20%	($689.68)	-2109.77%	$377.96	1156.20%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$18.00	$351.79	1076.14%	($637.34)	-1949.64%	$351.79	1076.14%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$19.00	$325.62	996.08%	($584.99)	-1789.51%	$325.62	996.08%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$20.00	$299.44	916.01%	($532.65)	-1629.38%	$299.44	916.01%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$21.00	$273.27	835.95%	($480.30)	-1469.26%	$273.27	835.95%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$22.00	$247.10	755.88%	($427.95)	-1309.13%	$247.10	755.88%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$23.00	$220.93	675.82%	($375.61)	-1149.00%	$220.93	675.82%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$24.00	$194.75	595.76%	($323.26)	-988.87%	$194.75	595.76%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$25.00	$168.58	515.69%	($270.92)	-828.74%	$168.58	515.69%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$26.00	$142.41	435.63%	($218.57)	-668.61%	$142.41	435.63%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$27.00	$116.23	355.56%	($166.22)	-508.49%	$116.23	355.56%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$28.00	$90.06	275.50%	($113.88)	-348.36%	$90.06	275.50%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$29.00	$63.89	195.44%	($61.53)	-188.23%	$63.89	195.44%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$30.00	$37.72	115.37%	($9.19)	-28.10%	$37.72	115.37%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$30.80	$16.78	51.32%	$32.69	100.00%	$16.78	51.32%	$66.24	67.55%	($34.72)	$64.22	**64.91%**
$31.00	$11.54	35.31%	$32.69	100.00%	$11.54	35.31%	$55.77	56.87%	($34.72)	$53.75	**60.76%**
$32.00	($14.63)	-44.76%	$32.69	100.00%	($14.63)	-44.76%	$3.43	3.50%	($34.72)	$1.40	**3.88%**
$33.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$34.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$35.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$35.10	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$36.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$37.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$38.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$39.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$40.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$41.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$42.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$43.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$44.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$45.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$46.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$47.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$48.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$49.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$50.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$51.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$52.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$53.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$54.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$55.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$56.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$57.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$58.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$59.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**
$60.00	($32.69)	-100.00%	$32.69	100.00%	($32.69)	-100.00%	($32.69)	-33.33%	($34.72)	$0.00	**0.00%**

*** Owns: 52.34 at the money puts, but assets are subject to 52.34 puts at $30.80**
† Profit/Loss tracking is all within the family
~ Any excess return over 100% implies reduction of non-GRAT assets

Schedule 19

GRAT Remainderman's Return at the End of One Year as a Percentage of the Initial Contribution

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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Stock Price	Increase (Decrease) in the Value of Stock	Transaction 1 Traditional GRAT With Stock	Transaction 2 GRAT With Call Spread	Transaction 3 GRAT With Put Spread
$10.00	-58.45%	0.00%	0.00%	136.20%
$15.00	-37.68%	0.00%	0.00%	136.12%
$20.00	-16.91%	0.00%	0.00%	136.04%
$21.00	-12.75%	0.00%	0.00%	78.79%
$22.00	-8.60%	0.00%	0.00%	18.53%
$23.00	-4.45%	0.00%	0.00%	0.00%
$24.00	-0.29%	0.00%	0.00%	0.00%
$25.00	3.86%	0.00%	0.00%	0.00%
$26.00	8.02%	1.82%	0.00%	0.00%
$27.00	12.17%	5.97%	24.02%	0.00%
$29.00	20.48%	14.28%	112.91%	0.00%
$31.00	28.79%	22.59%	201.80%	0.00%
$31.35	30.25%	24.05%	217.36%	0.00%
$32.00	32.95%	26.75%	217.36%	0.00%
$41.00	70.34%	64.14%	217.36%	0.00%
$42.00	74.49%	68.29%	217.36%	0.00%
$50.00	107.73%	101.53%	217.36%	0.00%

Transactions are assumed to take place on July 31, 2006.

Schedule 20

Transaction 1: Purchase a Share for $24.07 (Utilize One GRAT) on July 31, 2006

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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GRAT # 1

Assumptions:	
Value of Stock at Time of Funding:	$24.070
7520 Rate	6.20%

	Return on Stock			GRAT Remainderman's Return at the End of One Year	
Stock Value	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate*Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets**
$10.00	($14.07)	-58.45%	($25.56)	$0.00	**0.00%**
$11.00	($13.07)	-54.30%	($25.56)	$0.00	**0.00%**
$12.00	($12.07)	-50.15%	($25.56)	$0.00	**0.00%**
$13.00	($11.07)	-45.99%	($25.56)	$0.00	**0.00%**
$14.00	($10.07)	-41.84%	($25.56)	$0.00	**0.00%**
$15.00	($9.07)	-37.68%	($25.56)	$0.00	**0.00%**
$16.00	($8.07)	-33.53%	($25.56)	$0.00	**0.00%**
$17.00	($7.07)	-29.37%	($25.56)	$0.00	**0.00%**
$18.00	($6.07)	-25.22%	($25.56)	$0.00	**0.00%**
$19.00	($5.07)	-21.06%	($25.56)	$0.00	**0.00%**
$20.00	($4.07)	-16.91%	($25.56)	$0.00	**0.00%**
$21.00	($3.07)	-12.75%	($25.56)	$0.00	**0.00%**
$22.00	($2.07)	-8.60%	($25.56)	$0.00	**0.00%**
$23.00	($1.07)	-4.45%	($25.56)	$0.00	**0.00%**
$24.00	($0.07)	-0.29%	($25.56)	$0.00	**0.00%**
$25.00	$0.93	3.86%	($25.56)	$0.00	**0.00%**
$26.00	$1.93	8.02%	($25.56)	$0.44	**1.68%**
$27.00	$2.93	12.17%	($25.56)	$1.44	**5.32%**
$28.00	$3.93	16.33%	($25.56)	$2.44	**8.71%**
$29.00	$4.93	20.48%	($25.56)	$3.44	**11.85%**
$30.00	$5.93	24.64%	($25.56)	$4.44	**14.79%**
$31.00	$6.93	28.79%	($25.56)	$5.44	**17.54%**
$31.35	$7.28	30.25%	($25.56)	$5.79	**18.46%**
$32.00	$7.93	32.95%	($25.56)	$6.44	**20.12%**
$33.00	$8.93	37.10%	($25.56)	$7.44	**22.54%**
$34.00	$9.93	41.25%	($25.56)	$8.44	**24.82%**
$35.00	$10.93	45.41%	($25.56)	$9.44	**26.96%**
$36.00	$11.93	49.56%	($25.56)	$10.44	**28.99%**
$37.00	$12.93	53.72%	($25.56)	$11.44	**30.91%**
$38.00	$13.93	57.87%	($25.56)	$12.44	**32.73%**
$39.00	$14.93	62.03%	($25.56)	$13.44	**34.46%**
$40.00	$15.93	66.18%	($25.56)	$14.44	**36.09%**
$41.00	$16.93	70.34%	($25.56)	$15.44	**37.65%**
$42.00	$17.93	74.49%	($25.56)	$16.44	**39.14%**
$43.00	$18.93	78.65%	($25.56)	$17.44	**40.55%**
$44.00	$19.93	82.80%	($25.56)	$18.44	**41.90%**
$45.00	$20.93	86.95%	($25.56)	$19.44	**43.19%**
$46.00	$21.93	91.11%	($25.56)	$20.44	**44.43%**
$47.00	$22.93	95.26%	($25.56)	$21.44	**45.61%**
$48.00	$23.93	99.42%	($25.56)	$22.44	**46.75%**
$49.00	$24.93	103.57%	($25.56)	$23.44	**47.83%**
$50.00	$25.93	107.73%	($25.56)	$24.44	**48.88%**

Schedule 21

Transaction 2: Contribute $24.07 Cash, Purchase 5.35 at the Money Calls for $4.50 Each, Sell 10.70 Calls at $31.35 for $2.25 Each, and Invest in 5.35 at the Money Calls (Utilize One GRAT) on July 31, 2006

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GRAT # 1*

Assumptions:

Cash Contributed:			$24.07
(1) Purchased 5.35 Calls at:	$24.07	for	($4.50) each
(2) Sold 10.70 Calls at:	$31.35	for	$2.25 each
(3) Purchased 5.35 Calls at:	$24.07	for	($4.50) each
7520 Rate			6.20%

	Return on Calls Purchased (1)		Return on Calls Sold (2)		Return on Calls Purchased (3)		Net Return			GRAT Remainderman's Return at End of One Year †	
Stock Value	**Profit (Loss)**	**Return %**	**Net Profit (Loss) (Gain - Cost)**	**Return %**	**Net Profit (Loss) (Proceeds -Gain)**	**Return %**	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate * Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets ~**
$10.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$11.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$12.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$13.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$14.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$15.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$16.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$17.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$18.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$19.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$20.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$21.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$22.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$23.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$24.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$25.00	($19.10)	-79.33%	$24.07	100.00%	($19.10)	-79.33%	($14.12)	-19.56%	($25.56)	$0.00	**0.00%**
$26.00	($13.75)	-57.11%	$24.07	100.00%	($13.75)	-57.11%	($3.42)	-4.74%	($25.56)	$0.00	**0.00%**
$27.00	($8.40)	-34.89%	$24.07	100.00%	($8.40)	-34.89%	$7.27	10.07%	($25.56)	$5.78	**18.45%**
$28.00	($3.05)	-12.67%	$24.07	100.00%	($3.05)	-12.67%	$17.97	24.89%	($25.56)	$16.48	**39.20%**
$29.00	$2.30	9.56%	$24.07	100.00%	$2.30	9.56%	$28.67	39.70%	($25.56)	$27.18	**51.53%**
$30.00	$7.65	31.78%	$24.07	100.00%	$7.65	31.78%	$39.37	54.52%	($25.56)	$37.88	**59.70%**
$31.00	$13.00	54.00%	$24.07	100.00%	$13.00	54.00%	$50.07	69.33%	($25.56)	$48.57	**65.52%**
$31.35	$14.87	61.78%	$24.07	100.00%	$14.87	61.78%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$32.00	$18.35	76.22%	$17.12	71.11%	$18.35	76.22%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$33.00	$23.70	98.44%	$6.42	26.67%	$23.70	98.44%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$34.00	$29.04	120.67%	($4.28)	-17.78%	$29.04	120.67%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$35.00	$34.39	142.89%	($14.98)	-62.22%	$34.39	142.89%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$36.00	$39.74	165.11%	($25.67)	-106.67%	$39.74	165.11%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$37.00	$45.09	187.33%	($36.37)	-151.11%	$45.09	187.33%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$38.00	$50.44	209.56%	($47.07)	-195.56%	$50.44	209.56%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$39.00	$55.79	231.78%	($57.77)	-240.00%	$55.79	231.78%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$40.00	$61.14	254.00%	($68.47)	-284.44%	$61.14	254.00%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$41.00	$66.49	276.22%	($79.16)	-328.89%	$66.49	276.22%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$42.00	$71.84	298.44%	($89.86)	-373.33%	$71.84	298.44%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$43.00	$77.18	320.67%	($100.56)	-417.78%	$77.18	320.67%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$44.00	$82.53	342.89%	($111.26)	-462.22%	$82.53	342.89%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$45.00	$87.88	365.11%	($121.95)	-506.67%	$87.88	365.11%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$46.00	$93.23	387.33%	($132.65)	-551.11%	$93.23	387.33%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$47.00	$98.58	409.56%	($143.35)	-595.56%	$98.58	409.56%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$48.00	$103.93	431.78%	($154.05)	-640.00%	$103.93	431.78%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$49.00	$109.28	454.00%	($164.75)	-684.44%	$109.28	454.00%	$53.81	74.52%	($25.56)	$52.32	**67.18%**
$50.00	$114.63	476.22%	($175.44)	-728.89%	$114.63	476.22%	$53.81	74.52%	($25.56)	$52.32	**67.18%**

*** Owns: 10.70 at the money calls, but assets are subject to 10.70 calls at $31.35**
† Profit/Loss tracking is all within the family
~ Any excess return over 100% implies reduction of non-GRAT assets

Schedule 22

Transaction 3: Contribute $24.07 Cash, Purchase 7.25 at the Money Puts for $3.32 Each, Sell 14.50 Puts at $20.05 for $1.66 Each, and Invest in 7.25 at the Money Puts (Utilize One GRAT) on July 31, 2006

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GRAT # 1*

Assumptions:			
Cash Contributed:			$24.07
Purchased 7.25 Puts at:	$24.07	for	($3.32) each
Sold 14.50 Puts at:	$20.05	for	$1.66 each
Purchased 7.25 Puts at:	$24.07	for	($3.32) each
7520 Rate			6.20%

	Return on Puts Purchased (1)		Return on Puts Sold (2)		Return on Puts Purchased (3)		Net Return			GRAT Remainderman's Return at End of One Year †	
Stock Value	**Profit (Loss)**	**Return %**	**Net Profit (Loss) (Gain - Cost)**	**Return %**	**Net Profit (Loss) (Proceeds -Gain)**	**Return %**	**Profit (Loss)**	**Return %**	**Payout Amount = (7520 Rate * Initial Investment) + Initial Investment**	**Dollar Amount**	**Percentage of Overall Family Assets ~**
$10.00	$77.97	323.91%	($121.66)	-505.42%	$77.97	323.91%	$34.28	47.47%	($25.56)	$32.78	**56.19%**
$11.00	$70.71	293.78%	($107.16)	-445.18%	$70.71	293.78%	$34.27	47.46%	($25.56)	$32.78	**56.19%**
$12.00	$63.46	263.65%	($92.66)	-384.94%	$63.46	263.65%	$34.27	47.46%	($25.56)	$32.78	**56.18%**
$13.00	$56.21	233.53%	($78.16)	-324.70%	$56.21	233.53%	$34.26	47.45%	($25.56)	$32.77	**56.18%**
$14.00	$48.96	203.40%	($63.66)	-264.46%	$48.96	203.40%	$34.26	47.45%	($25.56)	$32.77	**56.18%**
$15.00	$41.71	173.27%	($49.16)	-204.22%	$41.71	173.27%	$34.26	47.44%	($25.56)	$32.76	**56.17%**
$16.00	$34.45	143.14%	($34.66)	-143.98%	$34.45	143.14%	$34.25	47.43%	($25.56)	$32.76	**56.17%**
$17.00	$27.20	113.01%	($20.16)	-83.73%	$27.20	113.01%	$34.25	47.43%	($25.56)	$32.76	**56.17%**
$18.00	$19.95	82.88%	($5.66)	-23.49%	$19.95	82.88%	$34.24	47.42%	($25.56)	$32.75	**56.16%**
$19.00	$12.70	52.75%	$8.84	36.75%	$12.70	52.75%	$34.24	47.42%	($25.56)	$32.75	**56.16%**
$20.00	$5.45	22.62%	$23.35	96.99%	$5.45	22.62%	$34.24	47.41%	($25.56)	$32.74	**56.16%**
$21.00	($1.81)	-7.50%	$24.07	100.00%	($1.81)	-7.50%	$20.46	28.33%	($25.56)	$18.96	**42.59%**
$22.00	($9.06)	-37.63%	$24.07	100.00%	($9.06)	-37.63%	$5.95	8.24%	($25.56)	$4.46	**14.86%**
$23.00	($16.31)	-67.76%	$24.07	100.00%	($16.31)	-67.76%	($8.55)	-11.84%	($25.56)	$0.00	**0.00%**
$24.00	($23.56)	-97.89%	$24.07	100.00%	($23.56)	-97.89%	($23.05)	-31.93%	($25.56)	$0.00	**0.00%**
$25.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$26.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$27.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$28.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$29.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$30.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$31.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$31.35	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$32.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$33.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$34.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$35.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$36.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$37.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$38.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$39.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$40.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$41.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$42.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$43.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$44.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$45.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$46.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$47.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$48.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$49.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**
$50.00	($24.07)	-100.00%	$24.07	100.00%	($24.07)	-100.00%	($24.07)	-33.33%	($25.56)	$0.00	**0.00%**

*** Owns: 14.50 at the money puts, but assets are subject to 14.50 puts at $20.05**
† Profit/Loss tracking is all within the family
~ Any excess return over 100% implies reduction of non-GRAT assets

Schedule 23
Grant Gratuitous
Hypothetical Integrated Income and Estate Tax Plan Comparisons

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Table 9

	Beginning of Year Value	Annuity	Amount before Appreciation	Growth	End of Year Value
Year 1	$1,001,000	($354,532)	$646,468	$648,705	$1,295,173
Year 2	$1,295,173	($354,532)	$940,641	$943,896	$1,884,536
Year 3	$1,884,536	($354,532)	$1,530,004	$1,535,298	$3,065,303

Table 10

Comparison of Various Partnership Scenarios in which Partnership Units with a Liquidation Value of $10mm are Transferred to a GRAT	Grant Gratuitous	Grantor Trust for Beneficiaries	Estimated Income Taxes	Estimated Gift Taxes	Total
Scenario #1: Creation of a 90% Mortgaged Preferred Interest with the Contribution of the Mortgaged Preferred to a GRAT	$33,269,422	$3,065,303	$1,456,635	$0	$37,791,360
Scenario #2: The Contribution of the Preferred to a GRAT Without any Leverage	$34,519,083	$1,815,642	$1,456,635	$0	$37,791,360
Scenario #3: Creation of a 90% Mortgaged 33.33% Pro-Rata Partnership Interest, with the Contribution of the Mortgaged Pro-Rata Partnership Interest to a GRAT	$33,553,004	$2,781,721	$1,456,635	$0	$37,791,360
Scenario #4: The Contribution of the 33.33% Interest in a Pro-Rata Partnership to a GRAT Without Any Leverage	$34,865,173	$1,469,552	$1,456,635	$0	$37,791,360

Schedule 23

Scenario #1: Creation of a 90% Mortgaged Preferred Interest with the Contribution of the Mortgaged Preferred to a GRAT

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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General Assumptions:	
Trust Term	3
Initial Gross Assets of Trust	$10,000,000
Sale Amount to GRAT	$8,999,000
Initial Net Assets of Trust (net of debt)	$1,001,000
GRAT Gift	$1,000
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

General Assumptions (continued):	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recogniz	30.00%
Preferred Interest	$10,000,000
Preferred Coupon	11.00%
Annuity Payment	$354,532
Intra-Family Note Interest Percentage (short-term)	0.69%
IRS 7520 Rate	3.20%

Grant Gratuitous Family Limited Partnership (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Distributions	End of Year - Financial Assets
Year 1	30,000,000	900,000	1,500,000	(1,100,000)	31,300,000
Year 2	31,300,000	939,000	1,565,000	(1,100,000)	32,704,000
Year 3	32,704,000	981,120	1,635,200	(1,100,000)	34,220,320

Grant Gratuitous (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Annuity Payments	Cash Payments	Income Taxes	End of Year - Financial Assets	Beginning of Year - Preferred	In-Kind Payments of Preferred	End of Year - Preferred	End of Year - Total Assets
Year 1	-	-	-	354,532	745,468	(382,500)	717,500	-	-	-	717,500
Year 2	717,500	21,525	35,875	354,532	745,468	(455,473)	1,419,427	-	-	-	1,419,427
Year 3	1,419,427	42,583	70,971	354,532	745,468	(518,576)	2,114,405	-	6,934,697	6,934,697	9,049,102

Gratuitous Holdco, LLC

	Beginning of Year - Financial Assets	Income	Growth	Preferred Partnership Interest Distribution	Annuity Payments	Cash Note Payments	End of Year - Financial Assets	Beginning of Year - Preferred	In-Kind Payments	GRAT Terminates	End of Year - Preferred	End of Year - Total Assets
Year 1	-	-	-	1,100,000	(354,532)	(745,468)	-	10,000,000	-	-	10,000,000	10,000,000
Year 2	-	-	-	1,100,000	(354,532)	(745,468)	-	10,000,000	-	-	10,000,000	10,000,000
Year 3	-	-	-	1,100,000	(354,532)	(745,468)	-	10,000,000	(6,934,697)	(3,065,303)	-	-

Schedule 23

Scenario #1: Creation of a 90% Mortgaged Preferred Interest with the Contribution of the Mortgaged Preferred to a GRAT

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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General Assumptions:	
Trust Term	3
Initial Gross Assets of Trust	$10,000,000
Sale Amount to GRAT	$8,999,000
Initial Net Assets of Trust (net of debt)	$1,001,000
GRAT Gift	$1,000
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

General Assumptions (continued):	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recogniz	30.00%
Preferred Interest	$10,000,000
Preferred Coupon	11.00%
Annuity Payment	$354,532
Intra-Family Note Interest Percentage (short-term)	0.69%
IRS 7520 Rate	3.20%

Gratuitous Holdco, LLC

	Beginning of Year - Financial Assets	Income	Growth	Preferred Partnership Interest Distribution	Annuity Payments	Cash Note Payments	End of Year - Financial Assets	Beginning of Year - Preferred	In-Kind Payments	GRAT Terminates	End of Year - Preferred	End of Year - Total Assets
Year 1	-	-	-	-	(354,532)	354,532	-	10,000,000	-	-	10,000,000	10,000,000
Year 2	-	-	-	-	(354,532)	354,532	-	10,000,000	-	-	10,000,000	10,000,000
Year 3	-	-	-	-	(354,532)	354,532	-	10,000,000	-	(10,000,000)	-	-

Grantor Trust for Beneficiaries (all amounts estimated)

	Beginning of Year - Preferred	GRAT Terminates - Preferred	End of Year - Preferred
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	3,065,303	3,065,303

Note Between Grant Gratuitous and GRAT (all amounts estimated)

	Beginning of Year	Interest	Cash Note Payment	In-Kind Note Payments	End of Year
Year 1	8,999,000	62,093	(745,468)	-	8,315,625
Year 2	8,315,625	57,378	(745,468)	-	7,627,535
Year 3	7,627,535	52,630	(745,468)	(6,934,697)	-

Schedule 23

Scenario #2: The Contribution of the Preferred to a GRAT Without any Leverage

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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General Assumptions:	
Trust Term	3
Initial Gross Assets of Trust	$10,000,000
Sale Amount to GRAT	$10,000,000
Initial Net Assets of Trust (net of debt)	$0
GRAT Gift	$0
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

General Assumptions (continued):	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Preferred Interest	$10,000,000
Preferred Coupon	11.00%
Annuity Payment	$3,548,867
Intra-Family Note Interest Percentage (short-term)	0.69%
IRS 7520 Rate	3.20%

Grant Gratuitous Family Limited Partnership (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Distributions	End of Year - Financial Assets
Year 1	30,000,000	900,000	1,500,000	(1,100,000)	31,300,000
Year 2	31,300,000	939,000	1,565,000	(1,100,000)	32,704,000
Year 3	32,704,000	981,120	1,635,200	(1,100,000)	34,220,320

Grant Gratuitous GRAT (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Preferred Partnership Interest Distribution	Cash Payments	End of Year - Financial Assets	Beginning of Year - Preferred	In-Kind Payments	GRAT Terminates	End of Year - Preferred	End of Year Financial Assets & Preferred
Year 1	-	-	-	1,100,000	(1,100,000)	-	10,000,000	(2,448,867)	-	7,551,133	7,551,133
Year 2	-	-	-	830,625	(830,625)	-	7,551,133	(2,718,242)	-	4,832,891	4,832,891
Year 3	-	-	-	531,618	(531,618)	-	4,832,891	(3,017,249)	(1,815,642)	-	-

Grant Gratuitous (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Preferred Partnership Interest Distribution	Cash Payments	Income Taxes	End of Year - Financial Assets	Beginning of Year - Preferred	In-Kind Payments of Preferred	End of Year - Preferred	End of Year Financial Assets & Preferred
Year 1	-	-	-	-	1,100,000	(382,500)	717,500	-	2,448,867	2,448,867	3,166,367
Year 2	717,500	21,525	35,875	269,375	830,625	(455,473)	1,419,427	2,448,867	2,718,242	5,167,109	6,586,536
Year 3	1,419,427	42,583	70,971	568,382	531,618	(518,576)	2,114,405	5,167,109	3,017,249	8,184,358	10,298,763

Schedule 23

Scenario #2: The Contribution of the Preferred to a GRAT Without any Leverage

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General Assumptions:	
Trust Term	3
Initial Gross Assets of Trust	$10,000,000
Sale Amount to GRAT	$10,000,000
Initial Net Assets of Trust (net of debt)	$0
GRAT Gift	$0
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

General Assumptions (continued):	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Preferred Interest	$10,000,000
Preferred Coupon	11.00%
Annuity Payment	$3,548,867
Intra-Family Note Interest Percentage (short-term)	0.69%
IRS 7520 Rate	3.20%

Grantor Trust for Beneficiaries *(all amounts estimated)*

	Beginning of Year - Preferred	**GRAT Terminates - Preferred**	**End of Year - Preferred**
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	1,815,642	1,815,642

Schedule 23

Scenario #3: Creation of a 90% Mortgaged 33.33% Pro-Rata Partnership Interest, with the Contribution of the Mortgaged Pro-Rata Partnership Interest to a GRAT

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Intra-Family Note Interest Rate	0.69%
Partnership Distributions	3.00%
Partnership Valuation Discount	35.00%
Annual Annuity Payment	$230,321
IRS 7520 Rate	3.20%

Grant Gratuitous Family Limited Partnership (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	End of Year - Financial Assets
Year 1	30,000,000	900,000	1,500,000	(900,000)	31,500,000
Year 2	31,500,000	945,000	1,575,000	(945,000)	33,075,000
Year 3	33,075,000	992,250	1,653,750	(992,250)	34,728,750

	Ownership (at end of year)		
	Grant Gratuitous	GRAT	Grantor Trust for Beneficiaries
Year 1	66.67%	33.33%	0.00%
Year 2	66.67%	33.33%	0.00%
Year 3	91.99%	0.00%	8.01%

Grant Gratuitous (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	GRAT Annuity	Cash Note Payments	Income Taxes	End of Year - Financial Assets	Partnership Units (Valued on an Undiscounted Basis): Beginning Value of Partnership	In-Kind Note Payments and Annuity Payments	End of Year - Value of Partnership	End of Year - Financial Assets and Partnership Units
Year 1	-	-	-	600,030	230,321	69,649	(382,500)	517,500	21,001,050	-	21,001,050	21,518,550
Year 2	517,500	15,525	25,875	630,032	230,321	84,648	(455,473)	1,048,427	22,051,103	-	22,051,103	23,099,529
Year 3	1,048,427	31,453	52,421	661,533	230,321	100,396	(518,576)	1,605,975	23,153,658	8,793,372	31,947,029	33,553,004

Gratuitous Holdco, LLC (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	Distributions	Cash Note Payments	End of Year - Financial Assets	Partnership Units (Valued on an Undiscounted Basis): Beginning Value of Partnership	In-Kind Annuity & Note Payments	GRAT Terminates	End of Year - Value of Partnership	End of Year - Financial Assets and Partnership Units
Year 1	-	-	-	299,970	(230,321)	(69,649)	-	10,498,950	-	-	10,498,950	10,498,950
Year 2	-	-	-	314,969	(230,321)	(84,648)	-	11,023,898	-	-	11,023,898	11,023,898
Year 3	-	-	-	330,717	(230,321)	(100,396)	-	11,575,092	(8,793,372)	(2,781,721)	-	-

Schedule 23

Scenario #3: Creation of a 90% Mortgaged 33.33% Pro-Rata Partnership Interest, with the Contribution of the Mortgaged Pro-Rata Partnership Interest to a GRAT

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Intra-Family Note Interest Rate	0.69%
Partnership Distributions	3.00%
Partnership Valuation Discount	35.00%
Annual Annuity Payment	$230,321
IRS 7520 Rate	3.20%

Gratuitous GRAT (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	LLC Distributions	Annuity Payments	GRAT Terminates	End of Year - Financial Assets
Year 1	-	-	-	230,321	(230,321)	-	-
Year 2	-	-	-	230,321	(230,321)	-	-
Year 3	-	-	-	230,321	(230,321)	-	-

Grantor Trust for Beneficiaries *(all amounts estimated)*

						Partnership Units (Valued on an Undiscounted Basis	
	Beginning of Year - Financial Assets	Income	Growth	GRAT Terminates	End of Year - Financial Assets	Value of Partnership Units	End of Year - Financial Assets and Partnership Units
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	2,781,721	2,781,721

Note Between GRAT and Grant Gratuitous for the Purchase of Partnership Interests
(all amounts estimated)

			Note Payments		
	Beginning of Year - Principal	Interest	Cash Note Payment	In-Kind Note Payments (Partnership Units Valued on a Discounted Basis)	End of Year - Principal
Year 1	5,850,000	40,365	(69,649)	0	5,820,716
Year 2	5,820,716	40,163	(84,648)	0	5,776,231
Year 3	5,776,231	39,856	(100,396)	(5,715,692)	0

Schedule 23
Scenario #4: The Contribution of the 33.33% Interest in a Pro-Rata Partnership to a GRAT Without Any Leverage

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Distributions	3.00%
Partnership Valuation Discount	35.00%
Annuity Payment (on an Undiscounted Basis)	$2,306,408
IRS 7520 Rate	3.20%

Grant Gratuitous Family Limited Partnership (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	End of Year - Financial Assets
Year 1	30,000,000	900,000	1,500,000	(900,000)	31,500,000
Year 2	31,500,000	945,000	1,575,000	(945,000)	33,075,000
Year 3	33,075,000	992,250	1,653,750	(992,250)	34,728,750

	Ownership (at end of year)		
	Grant Gratuitous	GRAT	Grantor Trust for Beneficiaries
Year 1	76.47%	23.53%	0.00%
Year 2	86.16%	13.84%	0.00%
Year 3	95.77%	0.00%	4.23%

Grant Gratuitous (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	GRAT Annuity	Income Taxes	End of Year - Financial Assets	Partnership Units (Valued on an Undiscounted Basis): Beginning of Year - Value of Partnership	Change in Partnership Value	In-Kind Annuity Payments	End of Year - Value of Partnership	End of Year - Financial Assets and Partnership Units
Year 1	-	-	-	600,000	300,000	(382,500)	517,500	20,000,000	1,000,000	3,086,782	24,086,782	24,604,282
Year 2	517,500	15,525	25,875	722,603	222,397	(455,473)	1,048,427	24,086,782	1,204,339	3,206,171	28,497,292	29,545,719
Year 3	1,048,427	31,453	52,421	854,919	137,331	(518,576)	1,605,975	28,497,292	1,424,865	3,337,041	33,259,198	34,865,173

Grant Gratuitous GRAT (all amounts estimated)

	Beginning of Year - Financial Assets	Partnership Distributions	Cash Annuity Payment	End of Year - Financial Assets	Partnership Units (Valued on an Undiscounted Basis): Beginning of Year - Value of Partnership	Beginning of Year - Value of Partnership	In-Kind Annuity Payments	GRAT Terminates	End of Year - Value of Partnership	End of Year - Financial Assets and Partnership Units
Year 1	-	300,000	(300,000)	-	10,000,000	500,000	(3,086,782)	-	7,413,218	7,413,218
Year 2	-	222,397	(222,397)	-	7,413,218	370,661	(3,206,171)	-	4,577,708	4,577,708
Year 3	-	137,331	(137,331)	-	4,577,708	228,885	(3,337,041)	(1,469,552)	-	-

Schedule 23
Scenario #4: The Contribution of the 33.33% Interest in a Pro-Rata Partnership to a GRAT Without Any Leverage

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Distributions	3.00%
Partnership Valuation Discount	35.00%
Annuity Payment (on an Undiscounted Basis)	$2,306,408
IRS 7520 Rate	3.20%

Grantor Trust for Beneficiaries *(all amounts estimated)*

	Beginning of Year - Financial Assets	Income	Growth	GRAT Terminates	End of Year - Financial Assets	Value of Partnership on an Undiscounted Basis	End of Year - Financial Assets and Partnership Units (Valued on an Undiscounted Basis)
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	1,469,552	1,469,552

Schedule 24
Grant Gratuitous
Hypothetical Integrated Income and Estate Tax Plan Comparisons

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Table 11

Comparison of Various Partnership Scenarios in which Partnership Units are Transferred to a 10-Year GRAT	Grant Gratuitous	Grantor Trust for Beneficiaries	IRS - Income Taxes	IRS - Investment Opporutnity Costs	Total
No Further Planning	58,545,204	-	8,287,317	3,116,649	69,949,170
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT	18,878,855	39,666,348	8,287,317	3,116,649	69,949,170
Scenario #2: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Limited Partnership Interests to a 10-Year GRAT (No Leverage)	43,110,792	15,434,412	8,287,317	3,116,649	69,949,170

Schedule 24
Grant Gratuitous
Hypothetical Integrated Income and Estate Tax Plan Comparisons

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	Pre-Death	Post Death	Present Values (Discounted at 3%)	Percentage of Total
No Further Planning				
Grant Gratuitous	58,545,204	-	-	0.00%
Gratuitous Children	-	32,199,862	23,261,865	46.03%
IRS - Income Tax	8,287,317	8,287,317	5,986,934	11.85%
IRS - Investment Opportunity Costs	3,116,649	3,116,649	2,251,533	4.46%
IRS - Estate Tax (at 45%)	-	26,345,342	19,032,435	37.66%
Total:	69,949,170	69,949,170	50,532,769	100.00%
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT				
Grant Gratuitous	18,878,855	-	-	0.00%
Gratuitous Children	39,666,348	50,049,719	36,156,982	71.55%
IRS - Income Tax	8,287,317	8,287,317	5,986,934	11.85%
IRS - Investment Opportunity Costs	3,116,649	3,116,649	2,251,533	4.46%
IRS - Estate Tax (at 45%)		8,495,485	6,137,319	12.15%
Total:	69,949,170	69,949,170	50,532,769	100.00%
Scenario #2: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Limited Partnership Interests to a 10-Year GRAT (No Leverage)				
Grant Gratuitous	43,110,792	-	-	0.00%
Gratuitous Children	15,434,412	39,145,348	28,279,432	55.96%
IRS - Income Tax	8,287,317	8,287,317	5,986,934	11.85%
IRS - Investment Opportunity Costs	3,116,649	3,116,649	2,251,533	4.46%
IRS - Estate Tax (at 45%)	-	19,399,856	14,014,869	27.73%
Total:	69,949,170	69,949,170	50,532,769	100.00%

Schedule 24
Grant Gratuitous
No Further Planning

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Assumptions:	
Trust Term	9
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Grant Gratuitous (all amounts estimated)

	Beginning of Year - Financial Assets	Income	Growth	Income Taxes	End of Year - Financial Assets
Year 1	30,000,000	900,000	1,500,000	(382,500)	32,017,500
Year 2	32,017,500	960,525	1,600,875	(455,473)	34,123,427
Year 3	34,123,427	1,023,703	1,706,171	(518,576)	36,334,725
Year 4	36,334,725	1,090,042	1,816,736	(575,464)	38,666,039
Year 5	38,666,039	1,159,981	1,933,302	(628,757)	41,130,565
Year 6	41,130,565	1,233,917	2,056,528	(680,349)	43,740,662
Year 7	43,740,662	1,312,220	2,187,033	(731,628)	46,508,287
Year 8	46,508,287	1,395,249	2,325,414	(783,626)	49,445,323
Year 9	49,445,323	1,483,360	2,472,266	(837,130)	52,563,819
Year 10	52,563,819	1,576,915	2,628,191	(892,757)	55,876,167
Year 11	55,876,167	1,676,285	2,793,808	(1,801,057)	58,545,204

Schedule 24
Grant Gratuitous
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Valuation Discount	35.00%
Partnership Distribution	3.00%
Intra-Family Note Interest Rate - Mid-Term Rate	2.45%
Annual Annuity Payment	$228,504
IRS 7520 Rate	3.20%

Grant Gratuitous

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	GRAT Annuity	Cash Note Payments	Income Taxes	End of Year - Financial Assets
Year 1	-	-	-	9,000	228,504	662,496	(382,500)	517,500
Year 2	517,500	15,525	25,875	9,450	228,504	707,046	(455,473)	1,048,427
Year 3	1,048,427	31,453	52,421	9,923	228,504	753,824	(518,576)	1,605,975
Year 4	1,605,975	48,179	80,299	10,419	228,504	802,940	(575,464)	2,200,851
Year 5	2,200,851	66,026	110,043	10,940	228,504	854,512	(628,757)	2,842,119
Year 6	2,842,119	85,264	142,106	11,487	228,504	908,663	(680,349)	3,537,793
Year 7	3,537,793	106,134	176,890	12,061	228,504	965,521	(731,628)	4,295,274
Year 8	4,295,274	128,858	214,764	12,664	228,504	1,025,222	(783,626)	5,121,660
Year 9	5,121,660	153,650	256,083	13,297	228,504	1,087,909	(837,130)	6,023,972
Year 10	6,023,972	180,719	301,199	13,962	228,504	1,153,729	(892,757)	7,009,328
Year 11	7,009,328	210,280	350,466	129,497	-	12,582,076	(1,801,057)	18,480,591

Gratuitous Family Limited Partnership

	Beginning of Year - Financial	Income	Growth	Partnership Distributions	End of Year - Financial
Year 1	30,000,000	900,000	1,500,000	(900,000)	31,500,000
Year 2	31,500,000	945,000	1,575,000	(945,000)	33,075,000
Year 3	33,075,000	992,250	1,653,750	(992,250)	34,728,750
Year 4	34,728,750	1,041,863	1,736,438	(1,041,863)	36,465,188
Year 5	36,465,188	1,093,956	1,823,259	(1,093,956)	38,288,447
Year 6	38,288,447	1,148,653	1,914,422	(1,148,653)	40,202,869
Year 7	40,202,869	1,206,086	2,010,143	(1,206,086)	42,213,013
Year 8	42,213,013	1,266,390	2,110,651	(1,266,390)	44,323,663
Year 9	44,323,663	1,329,710	2,216,183	(1,329,710)	46,539,846
Year 10	46,539,846	1,396,195	2,326,992	(1,396,195)	48,866,839
Year 11	48,866,839	1,466,005	2,443,342	(12,949,712)	39,826,474

	Partnership Ownership (at end of year)		
	Grant Gratuitous	Gratuitous GRAT	Gratuitous Grantor Trust
Year 1	1.00%	99.00%	0.00%
Year 2	1.00%	99.00%	0.00%
Year 3	1.00%	99.00%	0.00%
Year 4	1.00%	99.00%	0.00%
Year 5	1.00%	99.00%	0.00%
Year 6	1.00%	99.00%	0.00%
Year 7	1.00%	99.00%	0.00%
Year 8	1.00%	99.00%	0.00%
Year 9	1.00%	99.00%	0.00%
Year 10	1.00%	0.00%	99.00%
Year 11	1.00%	0.00%	99.00%

Schedule 24
Grant Gratuitous
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Valuation Discount	35.00%
Partnership Distribution	3.00%
Intra-Family Note Interest Rate - Mid-Term Rate	2.45%
Annual Annuity Payment	$228,504
IRS 7520 Rate	3.20%

Gratuitous Holdco, LLC

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	Distributions	Note Payments	LLC Terminates	End of Year - Financial Assets
Year 1	-	-	-	891,000	(228,504)	(662,496)	-	-
Year 2	-	-	-	935,550	(228,504)	(707,046)	-	-
Year 3	-	-	-	982,328	(228,504)	(753,824)	-	-
Year 4	-	-	-	1,031,444	(228,504)	(802,940)	-	-
Year 5	-	-	-	1,083,016	(228,504)	(854,512)	-	-
Year 6	-	-	-	1,137,167	(228,504)	(908,663)	-	-
Year 7	-	-	-	1,194,025	(228,504)	(965,521)	-	-
Year 8	-	-	-	1,253,726	(228,504)	(1,025,222)	-	-
Year 9	-	-	-	1,316,413	(228,504)	(1,087,909)	-	-
Year 10				1,382,233	(228,504)	(1,153,729)	-	-
Year 11	-	-	-	-	-	-	-	-

Gratuitous GRAT

	Beginning of Year - Financial Assets	Income	Growth	Gratuitous Holdco, LLC Distributions	Annuity Payments	GRAT Terminates	End of Year - Financial Assets
Year 1	-	-	-	228,504	(228,504)	-	-
Year 2	-	-	-	228,504	(228,504)	-	-
Year 3	-	-	-	228,504	(228,504)	-	-
Year 4	-	-	-	228,504	(228,504)	-	-
Year 5	-	-	-	228,504	(228,504)	-	-
Year 6	-	-	-	228,504	(228,504)	-	-
Year 7	-	-	-	228,504	(228,504)	-	-
Year 8	-	-	-	228,504	(228,504)	-	-
Year 9	-	-	-	228,504	(228,504)	-	-
Year 10	-	-	-	228,504	(228,504)	-	-
Year 11	-	-	-	-	-	-	-

Schedule 24
Grant Gratuitous
Scenario #1: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Leveraged Limited Partnership Interests to a 10-Year GRAT

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Valuation Discount	35.00%
Partnership Distribution	3.00%
Intra-Family Note Interest Rate - Mid-Term Rate	2.45%
Annual Annuity Payment	$228,504
IRS 7520 Rate	3.20%

Gratuitous Grantor Trust

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	GRAT Terminates	Note Payments	End of Year - Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-
Year 11	-	-	-	12,820,215	-	(12,582,076)	238,140

Note Between Gratuitous Holdco, LLC and Grant Gratuitous for the Purchase of Partnership Interests

			Note Payments		
	Beginning of Year - Principal	Interest	Cash Note Payment	In-Kind Note Payments (Partnership Units Valued on a Discounted Basis)	End of Year - Principal
Year 1	17,374,500	425,675	(662,496)	-	17,137,679
Year 2	17,137,679	419,873	(707,046)	-	16,850,506
Year 3	16,850,506	412,837	(753,824)	-	16,509,520
Year 4	16,509,520	404,483	(802,940)	-	16,111,064
Year 5	16,111,064	394,721	(854,512)	-	15,651,273
Year 6	15,651,273	383,456	(908,663)	-	15,126,066
Year 7	15,126,066	370,589	(965,521)	-	14,531,133
Year 8	14,531,133	356,013	(1,025,222)	-	13,861,924
Year 9	13,861,924	339,617	(1,087,909)	-	13,113,632
Year 10	13,113,632	321,284	(1,153,729)	-	12,281,187
Year 11	12,281,187	300,889	(12,582,076)	-	0

Schedule 24
Grant Gratuitous
Scenario #2: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Limited Partnership Interests to a 10-Year GRAT (No

Simulated, modeled, or hypothetical performance results have certain inherent limitations. Simulated results are hypothetical and do not represent actual trading, such as liquidity constraints, that may have had an impact on actual decision-making. Simulated results are also achieved through retroactive application of a model designed with the benefit of hindsight. The results shown reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown.

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Valuation Discount	35.00%
Partnership Distribution	3.00%
Intra-Family Note Interest Rate - Mid-Term Rate	2.45%
Annual Annuity Payment	$2,286,291
IRS 7520 Rate	3.20%

Grant Gratuitous

	Beginning of Year - Financial Assets	Income	Growth	Partnership Distributions	Cash Annuity Payments	Income Taxes	End of Year - Financial Assets	Partnership Units (Valued on an Undiscounted Basis): Beginning Value of Partnership	Change in Value	In-Kind Annuity Payments	End of Year - Value of Partnership	End of Year - Financial Assets and Partnership Units
Year 1	-	-	-	9,000	891,000	(382,500)	517,500	300,000	15,000	2,443,720	2,758,720	3,276,220
Year 2	517,500	15,525	25,875	82,762	862,238	(455,473)	1,048,427	2,758,720	137,936	2,487,969	5,384,625	6,433,051
Year 3	1,048,427	31,453	52,421	161,539	830,711	(518,576)	1,605,975	5,384,625	269,231	2,536,472	8,190,328	9,796,303
Year 4	1,605,975	48,179	80,299	245,710	796,153	(575,464)	2,200,851	8,190,328	409,516	2,589,639	11,189,483	13,390,334
Year 5	2,200,851	66,026	110,043	335,684	758,271	(628,757)	2,842,119	11,189,483	559,474	2,647,918	14,396,876	17,238,994
Year 6	2,842,119	85,264	142,106	431,906	716,747	(680,349)	3,537,793	14,396,876	719,844	2,711,801	17,828,521	21,366,313
Year 7	3,537,793	106,134	176,890	534,856	671,230	(731,628)	4,295,274	17,828,521	891,426	2,781,827	21,501,774	25,797,048
Year 8	4,295,274	128,858	214,764	645,053	621,337	(783,626)	5,121,660	21,501,774	1,075,089	2,858,586	25,435,448	30,557,108
Year 9	5,121,660	153,650	256,083	763,063	566,646	(837,130)	6,023,972	25,435,448	1,271,772	2,942,725	29,649,946	35,673,918
Year 10	6,023,972	180,719	301,199	889,498	506,697	(892,757)	7,009,328	29,649,946	1,482,497	3,034,955	34,167,399	41,176,727
Year 11	7,009,328	210,280	350,466	1,466,005	-	(1,801,057)	7,235,023	34,167,399	1,708,370	-	35,875,769	43,110,792

Gratuitous Family Limited Partnership

	Beginning of Year - Financial	Income	Growth	Partnership Distributions	End of Year - Financial
Year 1	30,000,000	900,000	1,500,000	(900,000)	31,500,000
Year 2	31,500,000	945,000	1,575,000	(945,000)	33,075,000
Year 3	33,075,000	992,250	1,653,750	(992,250)	34,728,750
Year 4	34,728,750	1,041,863	1,736,438	(1,041,863)	36,465,188
Year 5	36,465,188	1,093,956	1,823,259	(1,093,956)	38,288,447
Year 6	38,288,447	1,148,653	1,914,422	(1,148,653)	40,202,869
Year 7	40,202,869	1,206,086	2,010,143	(1,206,086)	42,213,013
Year 8	42,213,013	1,266,390	2,110,651	(1,266,390)	44,323,663
Year 9	44,323,663	1,329,710	2,216,183	(1,329,710)	46,539,846
Year 10	46,539,846	1,396,195	2,326,992	(1,396,195)	48,866,839
Year 11	48,866,839	1,466,005	2,443,342	(1,466,005)	51,310,181

Partnership Ownership (at end of year)			
	Grant Gratuitous	Gratuitous GRAT	Gratuitous Grantor Trust
Year 1	8.76%	91.24%	0.00%
Year 2	16.28%	83.72%	0.00%
Year 3	23.58%	76.42%	0.00%
Year 4	30.69%	69.31%	0.00%
Year 5	37.60%	62.40%	0.00%
Year 6	44.35%	55.65%	0.00%
Year 7	50.94%	49.06%	0.00%
Year 8	57.39%	42.61%	0.00%
Year 9	63.71%	36.29%	0.00%
Year 10	69.92%	0.00%	30.08%
Year 11	69.92%	0.00%	30.08%

Schedule 24
Grant Gratuitous
Scenario #2: Hypothetical Integrated Income & Estate Tax Plan with the Creation of a Family Limited Partnership and the Contribution of Limited Partnership Interests to a 10-Year GRAT (No

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Assumptions:	
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	5.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%

Assumptions (continued):	
Partnership Valuation Discount	35.00%
Partnership Distribution	3.00%
Intra-Family Note Interest Rate - Mid-Term Rate	2.45%
Annual Annuity Payment	$2,286,291
IRS 7520 Rate	3.20%

Gratuitous GRAT

								Partnership Units (Valued on an Undiscounted Basis)					
	Beginning of Year - Financial Assets	**Income**	**Growth**	**Partnership Distributions**	**Annuity Payments**	**GRAT Terminates**	**End of Year - Financial Assets**	**Beginning of Year - Value of Partnership**	**Change in Value**	**In-Kind Annuity Payments**	**GRAT Terminates**	**End of Year - Value of Partnership**	**End of Year - Financial and Other Assets**
Year 1	-	-	-	891,000	(891,000)	-	-	29,700,000	1,485,000	(2,443,720)	-	28,741,280	28,741,280
Year 2	-	-	-	862,238	(862,238)	-	-	28,741,280	1,437,064	(2,487,969)	-	27,690,375	27,690,375
Year 3	-	-	-	830,711	(830,711)	-	-	27,690,375	1,384,519	(2,536,472)	-	26,538,422	26,538,422
Year 4	-	-	-	796,153	(796,153)	-	-	26,538,422	1,326,921	(2,589,639)	-	25,275,704	25,275,704
Year 5	-	-	-	758,271	(758,271)	-	-	25,275,704	1,263,785	(2,647,918)	-	23,891,571	23,891,571
Year 6	-	-	-	716,747	(716,747)	-	-	23,891,571	1,194,579	(2,711,801)	-	22,374,349	22,374,349
Year 7	-	-	-	671,230	(671,230)	-	-	22,374,349	1,118,717	(2,781,827)	-	20,711,239	20,711,239
Year 8	-	-	-	621,337	(621,337)	-	-	20,711,239	1,035,562	(2,858,586)	-	18,888,215	18,888,215
Year 9	-	-	-	566,646	(566,646)	-	-	18,888,215	944,411	(2,942,725)	-	16,889,900	16,889,900
Year 10	-	-	-	506,697	(506,697)	-	-	16,889,900	844,495	(3,034,955)	(14,699,440)	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-	-	-

Gratuitous Grantor Trust

				Partnership Units (Valued on an Undiscounted Basis)				
	Beginning of Year - Financial Assets	**GRAT Terminates**	**End of Year - Financial Assets**	**Beginning of Year - Partnership Interest**	**Change in Value**	**GRAT Terminates**	**End of Year - Partnership Interest**	**End of Year - Financial and Other Assets**
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	14,699,440	14,699,440	14,699,440
Year 11	-	-	-	14,699,440	734,972	-	15,434,412	15,434,412

Schedule 25
Carrier Family
Hypothetical Integrated Income and Estate Tax Plan Comparisons

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	Pre-Death	Post Death	Percentage of Total
No Further Planning; Transfers Estate to Family at the End of 8 Years			
Iam A. Carrier	25,622,807	-	0.00%
Carrier Family	-	14,092,544	47.86%
IRS - Income Tax	3,755,759	3,755,759	12.75%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	11,530,263	39.16%
Total	$29,447,164	$29,447,164	100.00%
Planning Scenario #1: Iam A. Carrier Creates a Family Partnership and Contributes $1,000,000 Cash, Carried Interest and a $2,000,000 Investment Interest in a Private Equity Fund that he Co-Manages; and the Partnership Issues $3,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier then Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years			
Iam A. Carrier	1,606,183	-	0.00%
Carrier Family	24,003,226	24,886,627	84.51%
IRS - Income Tax	3,769,157	3,769,157	12.80%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	722,783	2.45%
Total	$29,447,164	$29,447,164	100.00%
***Planning Scenario #2: Iam A. Carrier Creates a Partnership and Contributes $1,000,000 Cash and the Carried Interest; Iam A. Carrier Returns the Investment Interest in the Private Equity Fund; the Partnership Issues $1,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years**			
Iam A. Carrier	3,186,821	-	0.00%
Carrier Family	22,694,516	24,447,268	83.02%
IRS - Income Tax	3,497,229	3,497,229	11.88%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	1,434,069	4.87%
Total	$29,447,164	$29,447,164	100.00%

* May be subject to IRS Section 2701 valuation considerations

Schedule 25
Carrier Family
Asset Page

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Iam A. Carrier

FMV: Carried Interest*	$1,500,000
Basis: Carried Interest	$0
FMV: Private Equity Investment**	$2,000,000
Basis: Private Equity Investment	$2,000,000
Asset: Cash	$1,000,000
Basis: Cash	$1,000,000
Total Assets* **	**$4,500,000**
Total Basis	**$3,000,000**

* $1,500,000 represents 10% of the fund's total carried interest
** $2,000,000 represents 0.20% of the funds total initial investment interests
*** There is no proposed planning for Iam A. Carrier's other assets
**** Private Equity's hypothetical growth performance is detailed below. Profits are distributed as follows: first, to the investment interest parties until all capital contributions have been returned; second, to the investment interest parties until they have received an 8% cumulative annual compounded return on unreturned capital contribution amounts; third, to the carried interest portion until the carried interest has received distributions totaling 20% of the total profits of the private equity fund on a cumulative basis; fourth, the residual profits and cash flow will pass 20% to the carried interest portions and 80% to the investment interest portions.

Private Equity Fund**

	Beginning of Year	Distributed Income	Unrealized Growth*	End of Year
Year 1	1,000,000,000	20,000,000	101,353,392	1,101,353,392
Year 2	1,101,353,392	22,027,068	111,625,902	1,212,979,294
Year 3	1,212,979,294	24,259,586	122,939,566	1,335,918,860
Year 4	1,335,918,860	26,718,377	135,399,908	1,471,318,768
Year 5	1,471,318,768	29,426,375	149,123,148	1,620,441,915
Year 6	1,620,441,915	32,408,838	164,237,285	1,784,679,200
Year 7	1,784,679,200	35,693,584	180,883,290	1,965,562,490
Year 8	1,965,562,490	39,311,250	199,216,425	2,164,778,916

* Realized at the end of the 8th year

Schedule 25
Carrier Family
No Further Planning; Transfers Estate to Family at the End of 8 Years

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Iam A. Carrier

	Beginning of Year - Cash	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Private Equity Investment	Realized Growth of Carried Interest	Income Taxes	End of Year - Cash	Private Equity Investment Interest	End of Year - Total Assets
Year 1	1,000,000	20,000	50,000	40,000	-	-	(23,250)	1,086,750	2,000,000	3,086,750
Year 2	1,086,750	21,735	54,338	44,054	-	-	(27,046)	1,179,830	2,000,000	3,179,830
Year 3	1,179,830	23,597	58,992	48,519	-	-	(30,709)	1,280,228	2,000,000	3,280,228
Year 4	1,280,228	25,605	64,011	53,437	-	-	(34,373)	1,388,908	2,000,000	3,388,908
Year 5	1,388,908	27,778	69,445	58,853	-	-	(38,142)	1,506,842	2,000,000	3,506,842
Year 6	1,506,842	30,137	75,342	64,818	-	-	(42,099)	1,635,040	2,000,000	3,635,040
Year 7	1,635,040	32,701	81,752	71,387	-	-	(46,315)	1,774,564	2,000,000	3,774,564
Year 8	1,774,564	35,491	88,728	78,622	1,863,646	23,295,578	(3,513,824)	23,622,807	2,000,000	25,622,807

* Assumes Private Equity growth profits are realized year 8

Schedule 25
Carrier Family
Planning Scenario #1: Iam A. Carrier Creates a Family Partnership and Contributes $1,000,000 Cash, Carried Interest and a $2,000,000 Investment Interest in a Private Equity Fund that he Co-Manages; and the Partnership Issues $3,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier then Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note from Holdco to Iam Carrier Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco LLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier LLC	1.00%
GRAT Ownership in Carrier LLC	99.00%
Holdco LLC Valuation Discount	35.00%

Holdco LLC

	Beginning of Year	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Private Equity Investment	Realized Growth of Carried Interest	Distributions	Note Payments	End of Year	Private Equity Investment Interest	End of Year - Total Assets
Year 1	1,000,000	20,000	50,000	40,000	-	-	(69,939)	(79,200)	960,861	2,000,000	2,960,861
Year 2	960,861	19,217	48,043	44,054	-	-	(83,927)	(79,200)	909,048	2,000,000	2,909,048
Year 3	909,048	18,181	45,452	48,519	-	-	(100,713)	(79,200)	841,287	2,000,000	2,841,287
Year 4	841,287	16,826	42,064	53,437	-	-	(120,855)	(79,200)	753,559	2,000,000	2,753,559
Year 5	753,559	15,071	37,678	58,853	-	-	(145,026)	(79,200)	640,935	2,000,000	2,640,935
Year 6	640,935	12,819	32,047	64,818	-	-	(174,032)	(79,200)	497,386	2,000,000	2,497,386
Year 7	497,386	9,948	24,869	71,387	-	-	(208,838)	(79,200)	315,552	2,000,000	2,315,552
Year 8	315,552	6,311	15,778	78,622	1,863,646	23,295,578	(250,605)	(3,079,200)	22,245,683	2,000,000	24,245,683

* Assumes Private Equity growth profits are realized year 8

Iam A. Carrier

	Beginning of Year	Income	Growth	Distribution from LLC	Note Payments	Annuity Payments	Income Taxes	End of Year
Year 1	-	-	-	699	79,200	69,240	(23,250)	125,889
Year 2	125,889	2,518	6,294	839	79,200	83,088	(27,046)	270,783
Year 3	270,783	5,416	13,539	1,007	79,200	99,706	(30,709)	438,941
Year 4	438,941	8,779	21,947	1,209	79,200	119,647	(34,373)	635,349
Year 5	635,349	12,707	31,767	1,450	79,200	143,576	(38,142)	865,908
Year 6	865,908	17,318	43,295	1,740	79,200	172,291	(42,099)	1,137,654
Year 7	1,137,654	22,753	56,883	2,088	79,200	206,750	(46,315)	1,459,012
Year 8	1,459,012	29,180	72,951	2,506	3,079,200	248,099	(3,527,222)	1,363,727

Schedule 25
Carrier Family

Planning Scenario #1: Iam A. Carrier Creates a Family Partnership and Contributes $1,000,000 Cash, Carried Interest and a $2,000,000 Investment Interest in a Private Equity Fund that he Co-Manages; and the Partnership Issues $3,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier then Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note from Holdco to Iam Carrier Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco LLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier LLC	1.00%
GRAT Ownership in Carrier LLC	99.00%
Holdco LLC Valuation Discount	35.00%

Carrier GRAT

	Beginning of Year	Income	Growth	Distribution from LLC	Annuity Payments	Income Taxes	End of Year
Year 1	-	-	-	69,240	(69,240)	-	-
Year 2	-	-	-	83,088	(83,088)	-	-
Year 3	-	-	-	99,706	(99,706)	-	-
Year 4	-	-	-	119,647	(119,647)	-	-
Year 5	-	-	-	143,576	(143,576)	-	-
Year 6	-	-	-	172,291	(172,291)	-	-
Year 7	-	-	-	206,750	(206,750)	-	-
Year 8	-	-	-	248,099	(248,099)	-	-

Note #1 Between Iam A. Carrier and Holdco LLC for the Purchase of Private Equity Fund Interests

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	2,000,000	52,800	(52,800)	2,000,000
Year 2	2,000,000	52,800	(52,800)	2,000,000
Year 3	2,000,000	52,800	(52,800)	2,000,000
Year 4	2,000,000	52,800	(52,800)	2,000,000
Year 5	2,000,000	52,800	(52,800)	2,000,000
Year 6	2,000,000	52,800	(52,800)	2,000,000
Year 7	2,000,000	52,800	(52,800)	2,000,000
Year 8	2,000,000	52,800	(2,052,800)	-

Note #2 Between Iam A. Carrier and Holdco LLC for the Purchase of Financial Assets

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	1,000,000	26,400	(26,400)	1,000,000
Year 2	1,000,000	26,400	(26,400)	1,000,000
Year 3	1,000,000	26,400	(26,400)	1,000,000
Year 4	1,000,000	26,400	(26,400)	1,000,000
Year 5	1,000,000	26,400	(26,400)	1,000,000
Year 6	1,000,000	26,400	(26,400)	1,000,000
Year 7	1,000,000	26,400	(26,400)	1,000,000
Year 8	1,000,000	26,400	(1,026,400)	-

Schedule 25
Carrier Family

***Planning Scenario #2: Iam A. Carrier Creates a Partnership and Contributes $1,000,000 Cash and the Carried Interest; Iam A. Carrier Returns the Investment Interest in the Private Equity Fund; the Partnership Issues $1,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years**

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco LLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier LLC	1.00%
GRAT Ownership in Carrier LLC	99.00%
Holdco LLC Valuation Discount	35.00%

Holdco LLC

	Beginning of Year	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Carried Interest	Note Payments	Distributions	End of Year
Year 1	1,000,000	20,000	50,000	40,000	-	(26,400)	(69,939)	1,013,661
Year 2	1,013,661	20,273	50,683	44,054	-	(26,400)	(83,927)	1,018,344
Year 3	1,018,344	20,367	50,917	48,519	-	(26,400)	(100,713)	1,011,034
Year 4	1,011,034	20,221	50,552	53,437	-	(26,400)	(120,855)	987,988
Year 5	987,988	19,760	49,399	58,853	-	(26,400)	(145,026)	944,574
Year 6	944,574	18,891	47,229	64,818	-	(26,400)	(174,032)	875,080
Year 7	875,080	17,502	43,754	71,387	-	(26,400)	(208,838)	772,485
Year 8	772,485	15,450	38,624	78,622	23,295,578	(1,026,400)	(250,605)	22,923,754

* Assumes Private Equity growth profits are realized year 8

Iam A. Carrier

	Beginning of Year	Income	Growth	Distribution from LLC	Note Payments	Annuity Payments	Realized Growth of Private Equity Investment	Income Taxes	End of Year	Private Equity Investment Interest	End of Year - Total Assets
Year 1	-	-	-	699	26,400	69,240	-	(23,250)	73,089	2,000,000	2,073,089
Year 2	73,089	1,462	3,654	839	26,400	83,088	-	(27,046)	161,487	2,000,000	2,161,487
Year 3	161,487	3,230	8,074	1,007	26,400	99,706	-	(30,709)	269,194	2,000,000	2,269,194
Year 4	269,194	5,384	13,460	1,209	26,400	119,647	-	(34,373)	400,920	2,000,000	2,400,920
Year 5	400,920	8,018	20,046	1,450	26,400	143,576	-	(38,142)	562,269	2,000,000	2,562,269
Year 6	562,269	11,245	28,113	1,740	26,400	172,291	-	(42,099)	759,960	2,000,000	2,759,960
Year 7	759,960	15,199	37,998	2,088	26,400	206,750	-	(46,315)	1,002,080	2,000,000	3,002,080
Year 8	1,002,080	20,042	50,104	2,506	1,026,400	248,099	1,863,646	(3,255,294)	957,583	2,000,000	2,957,583

* Assumes Private Equity growth profits are realized year 8

Schedule 25
Carrier Family

***Planning Scenario #2: Iam A. Carrier Creates a Partnership and Contributes $1,000,000 Cash and the Carried Interest; Iam A. Carrier Returns the Investment Interest in the Private Equity Fund; the Partnership Issues $1,000,000 in Notes to Iam A. Carrier with an Interest Rate Equal to the Federal Mid-Term Rate; Iam A. Carrier Contributes Partnership Units to a GRAT; Iam A. Carrier Gives His Remaining Assets to His Family in 8 Years**

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco LLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier LLC	1.00%
GRAT Ownership in Carrier LLC	99.00%
Holdco LLC Valuation Discount	35.00%

Carrier GRAT

	Beginning of Year	Income	Growth	Distribution from LLC	Note Payments	Income Taxes	End of Year
Year 1	-	-	-	69,240	(69,240)	-	-
Year 2	-	-	-	83,088	(83,088)	-	-
Year 3	-	-	-	99,706	(99,706)	-	-
Year 4	-	-	-	119,647	(119,647)	-	-
Year 5	-	-	-	143,576	(143,576)	-	-
Year 6	-	-	-	172,291	(172,291)	-	-
Year 7	-	-	-	206,750	(206,750)	-	-
Year 8	-	-	-	248,099	(248,099)	-	-

Note #1 Between Iam A Carrier and Holdco, LLC for the Purchase of Financial Assets

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	1,000,000	26,400	(26,400)	1,000,000
Year 2	1,000,000	26,400	(26,400)	1,000,000
Year 3	1,000,000	26,400	(26,400)	1,000,000
Year 4	1,000,000	26,400	(26,400)	1,000,000
Year 5	1,000,000	26,400	(26,400)	1,000,000
Year 6	1,000,000	26,400	(26,400)	1,000,000
Year 7	1,000,000	26,400	(26,400)	1,000,000
Year 8	1,000,000	26,400	(1,026,400)	-