

An Entrepreneur's Guide

RISK MANAGEMENT AND INSURANCE

Edgewood Partners Insurance Center



PROTECTION TO THE EDGE AND BEYOND

www.edgewoodins.com
CA License 0B29370

TABLE OF CONTENTS

Risk Management and Insurance 3

Selecting the Right Risk Management / Insurance Advisor 4

Development of risk management program 6

Phase I 6

Phase II 7

Phase III 7

Property Insurance 8

Liability Insurance 10

Workers’ Compensation 13

Transportation Insurance 13

Crime Coverage 14

Intellectual Property 15

International Insurance 16

Employee and Executive Benefits 16

About EPIC 19

AN ENTREPRENEUR'S GUIDE TO RISK MANAGEMENT AND INSURANCE:

What is Risk Management?

It is critical to protect the assets of your business, both people and property, from a wide range of exposures to maximize productivity and to strengthen business performance. "Risk Management" is a systematic process for identifying business risks; outlining and analyzing options for eliminating, controlling, transferring or funding these risks; and for putting the best programs and protection in place. Insurance (a form of risk transfer) is frequently used to address and manage many of the most common exposures to risk.

Why is it important?

A deliberate and disciplined risk management and insurance purchasing process protects the organization and its people from financial loss and (when using insurance) transfers certain risks you face to a third party. This provides protection and peace of mind, knowing that payment or indemnification will be received in the event of covered losses. You are able to "trade" uncertain exposures (the risk of loss) for greater predictability (the payments of insurance premiums). Good Risk Management practices along with strong employee and executive benefit programs also help you to attract and retain capable people. In addition, Risk Management helps the entrepreneur/business owner plan for (and finance) business perpetuation needs and strategies. And in some instances (e.g. workers' compensation insurance), coverage is required to comply with state and / or federal laws.

So where do you start?

Hire the best qualified insurance brokers, employee benefits and risk management consultants you can find. No entrepreneur / business owner can spend the time needed to thoroughly understand and stay current with these specialized disciplines. Having experienced, professional counsel is critical. Don't believe that risk and insurance can be simplified and don't make the mistake of trying to do it on your own. Understanding and managing risk is a complex, highly technical field and every business venture (particularly a start up or emerging growth company) needs the direction, advice, and advocacy of professionals. So where do you start?

EPIC is pleased to provide this overview of risk management and insurance to guide you through the process.

SELECTING THE RIGHT RISK MANAGEMENT / INSURANCE ADVISOR

Risk management and Insurance can be complicated and confusing. At the same time, they are essential elements in the protection, growth and ultimate success of your business. Developing the right programs takes time, attention to detail and experience. As noted, this means finding and hiring top professionals. It's every bit as important as selecting the right legal, investment, banking and/or accounting advisors.

In general, insurance representation is provided by either "agents" or "brokers" and the distinction is an important one. Agents legally represent the insurance company. Brokers represent you.

Insurance Agent

The representative of an insurance company, responsible for selling insurance products and providing services to policyholders. Agents have responsibilities in such areas as acceptance and binding of risks, notice, and other situations where they act on behalf of the insurance company.

Insurance Broker

An individual or entity that represents the consumer in negotiating, servicing or obtaining insurance coverage. The broker negotiates contracts of insurance on behalf of an insured for a fee or commission from an insurer. Unlike agents, who typically represent a single company, brokers have access to multiple insurance carriers.

Where Do I Look for the Best Broker?

Start by asking other trusted advisors and business partners for their recommendations. VCs, law firms, bankers, accountants, HR Consultants and others generally have a network of professionals who have worked successfully with their clients. If you ask people specializing in serving your industry, common denominators in their recommendations should emerge. Do the same with other entrepreneurs who run businesses like yours, as well as your strategic partners. There is no substitute for reputation and results in a service business like insurance broking, risk management and employee benefits consulting. The advice and suggestions of others can help you to identify the best (and the worst) of potential partners.

Avoid Some Common Mistakes

Don't assume that the people who have handled your personal insurance can adequately understand and manage your business insurance needs. In fact, the odds are very much against it unless they are part of a larger organization that has successful property & casualty and employee / executive benefits practices. The agent who handles your personal auto and homeowners insurance can probably put a very basic "entry level" business program in place but you're likely to outgrow their capabilities almost immediately. Do it right the first time by finding someone who knows your business and has the experience and resources to grow with you.

Don't ask multiple brokers / agents to "quote" your insurance. The ones who say "yes" won't be the best our industry has to offer and you will be hurting yourself in the process. Insurance companies like to see that one broker controls the marketing process, particularly if it's a firm that is well regarded and respected in the marketplace. They will be most aggressive and creative in their offerings and pricing when this is true. Insurance companies know they have a better chance of

competing successfully for the business when a single broker represents the account and manages the marketing process.

Instead, go through a “broker selection” process. Consider several brokers based on their products and services, experience with like firms and your industry, the qualifications of their staff, services standards and practices, business philosophy and values, references from other clients and professionals, etc. Choose the broker you believe best offers what you want and need. Appoint them as your “broker of record” and have them work with you on the design, marketing and ongoing management of your programs.

What to Expect from Your Insurance Broker

An insurance broker participates in the insurance transaction as your consultant, advocate and representative. The broker represents you in the insurance marketplace, assembling and understanding the information and specifications that are used to market and ultimately place your insurance programs. The broker negotiates policy terms, underwriting conditions and premium pricing and is responsible for delivering, explaining and analyzing insurance company quotations and proposals. Good brokers will design programs that meet your individual needs & buying style as well as your appetite for risk. This should be a very individualized process as “one size” does not fit all.

Without the advice, advocacy and leverage of an experienced, professional insurance broker, you will not have access to significant segments of the insurance marketplace, your programs will lack important features and benefits and you will pay more than is necessary for coverage.

But beyond the marketing and transactional aspects of insurance, the best brokers have become true insurance and risk management consultants. They understand their clients’ businesses and are able to effectively advise them on multiple areas of risk (immediate and potential) as well as alternative strategies for managing these risks (not always insurance, by the way, which is really just one form of risk transfer).

Risk Management

The Risk Management Process is a series of steps focused on identifying and managing business risk.

These steps are:

- Identifying and analyzing loss exposures
- Measuring loss exposures
- Examining alternatives and selecting the technique or combination of techniques to be used to manage each exposure
- Implementing the chosen technique(s)
- Monitoring the decisions made and the results produced and making appropriate changes.

Insurance

A form of “Risk Transfer” where an insurance company contractually agrees to assume all or part of a business risk, indemnifying or guaranteeing another against loss by specified contingencies or perils, in exchange for the payment of insurance premiums. Rather than retaining the risk, it is transferred to the insurance company.

DEVELOPMENT OF RISK MANAGEMENT PROGRAM

PHASE I:

Start-up Company

(R&D Office - no products to market)

A. Risk Review

- Evaluate real estate, equipment and furniture, and lease requirements for insurance implications.
- Lender or investor insurance requirements (i.e., Key Person Life)
- Review Business Plan

B. Insurance Program Design - typical coverage at this stage

- Group Medical, Life and Disability
- Key Person Life and Disability
- Property at the Office Location
- General Liability - Minimum to satisfy lease requirements
- Loss of R&D Project Documentation / Valuable Papers
- Extra Expense
- Non-owned and Hired Automobile Liability
- Workers' Compensation
- Other coverages as required by investors and contractual agreements

PHASE II:

Emerging Growth Company

(Manufacturing Operations Have Begun)

A. Risk Review

- Set Service Calendar including quarterly meetings
- Continue items listed in Stage IA
- Review Third Party contracts - including terms of sale or purchase (equipment providers, service, distribution)
- Review financial statements
- Inspect facilities - Loss Control Services

B. Insurance Program Design

- Travel Accident Insurance
- Property in Transit
- Trade Shows/Exhibitions
- Foreign Program (if needed)
- Business Interruption Coverage
- Employee Fidelity (Crime)
- Products Liability & Clinical Trials liability
- Additional General Liability Limits (umbrella / excess liability)
- Auto Liability and Physical Damage (if needed)
- Patent Infringement/Intellectual Property
- Boiler & Machinery
- Fiduciary Liability
- Employment Practices Liability
- Employed Attorneys Errors and Omissions
- Electronic Errors and Omissions & Internet liability
- Kidnap and Ransom - Extortion coverage
- Earthquake
- Flood
- Directors' and Officers' Liability

PHASE III:

Initial Public Offering

A. Risk Assessment conducted by D&O Department

B. Insurance design and placement

C. Professional Liability (Electronics E&O or Software E&O)

D. Continue IIA and IIB.

Insurance Protection for Common Exposures:

An Overview

Circumstances, an appetite for risk and the resulting program specifics will vary markedly from company-to-company. It would be impossible (and frankly very misleading and potentially dangerous) to try and provide anyone with a “how to manual” when it comes to program structure, insurance coverage, limits of liability, etc.

However, an overview of some common areas of exposure that are frequently managed via insurance should be useful in understanding many of the business risks you face. Such an overview follows.

PROPERTY INSURANCE

First party coverage for real or personal property lost or damaged by a covered peril (and, in some instances, the consequential financial loss arising from damage to property).

Personal Property

Property other than real property (real estate) or property that is movable or separable from real property. For insurance purposes, tangible property (often called “contents”).

Personal property may be used for business purposes and, if so, may be covered by a commercial policy, while personal property not used for business purposes is generally covered by personal lines policies (e.g. homeowners or renters' insurance).

Real Property

Land and immovable structures attached to the land.

Business Income (formerly Business Interruption)

Commercial property coverage (which excludes extra expenses) that reimburses lost earnings when normal business operations are temporarily suspended because of a property loss caused by insured perils. Coverage usually includes salaries, taxes, rents, net profits, and necessary operating expenses during the period required to restore operations with due diligence. This policy replaced previous “business interruption” forms.

As you might expect, this is a critical coverage – and one that can be quite complex. Unfortunately, it is sometimes misunderstood and poorly structured by even “experienced” insurance agents and brokers. Make certain this is an area your broker understands well! They should be working with you to develop proper limits; to understand your revenue stream and your vulnerabilities; and to identify single source suppliers.

Extra Expense

Property insurance coverage for necessary additional expenses of continuing business operations after damage to insured premises from a covered cause of loss. For example, if a covered fire to your premises requires you to rent / lease comparable (but more expensive) space in which to continue your operations, extra expense coverage can provide funds to cover the difference in costs.

Business Income and Extra Expense are frequently written in combination, rather than separately.

Earthquake

Coverage for property damage caused by the earthquake or volcanic eruption, generally subject to a large deductible (see “Percentage of Value Deductible,” below). The coverage is limited to direct damage caused by an earthquake and excludes losses resulting from another cause of loss, even if triggered by the earthquake (e.g. fire, explosion, flood or tidal wave). Any earth tremors or aftershocks following within 168 hours of an initial occurrence are considered the same event for claims purposes. Most policies provide earthquake coverage as “earth movement” coverage.

Flood

Insurance that reimburses the policyholder for damage to property caused by flood, as defined in the policy (generally an overflowing of a body of water onto normally dry land or an unusual rise in the level of inland or tidal waters). The National Flood Insurance Program (administered by the Federal Insurance Administration) is one source of coverage, providing flood insurance under the National Flood Insurance Act of 1968. A number of private insurers are under contract to the NFIP to administer the program. These insurers issue the program's Standard Flood Insurance Policy and are fully “reinsured” for any flood losses by the federal government. The carriers collect the premium and adjust any claims, receiving a percentage of the premium for commissions, taxes, and other expenses.

Percentage of Value Deductible

A deductible based on some percentage of the value of the property insured property. Most earthquake and some flood insurance policies are written with this type of deductible. For example, a building valued at \$2 million with a 10% deductible at the time of loss would mean that the insured is responsible for the first \$200,000 of loss.

Difference in Conditions Policy (DIC)

A property insurance policy, usually written on a large risk, to supplement a named-perils policy. A bit like excess property coverage, it provides all-risk coverage (often including flood and earthquake, it is frequently written primarily to provide these coverages) but excludes the “named perils” provided by a standard fire policy. The policy is written for a specific limit (\$5 million or \$10 million, for example) without a coinsurance provision.

Boiler and Machinery Insurance

Coverage specifically designed for the failure of a boiler, machinery and/or electrical equipment. The coverage can be extended to include consequential damage and business interruption losses.

“Boiler and Machinery” typically refers to any refrigeration or air conditioning system; any piping and accessory equipment; any compressor, pump, engine, turbine, motor, generator, gear set, fan or blower, including any shaft forming a part of the object, together with any coupling, clutch, wheel or bearing on that shaft; any transformer or electrical distribution equipment; and any other mechanical or electrical equipment used for the service or maintenance of premises.

Valuable Papers and Records

An inland marine policy covering property such as blueprints, manuscripts, maps, historical documents, and business records on an all-risk basis, which reimburses the insured for the costs to reconstruct the documents.

LIABILITY INSURANCE

Insurance providing indemnity or compensation for a harm or wrong to a third party for which the insured is legally obligated to pay. In most cases, the injury or damage is the result of negligent acts or omissions, but in some situations the law imposes strict liability without regard to negligence (this may also be covered by liability insurance).

Commercial General Liability

The Commercial General Liability policy is a modular policy that can provide several coverages in combination: bodily injury and property damage liability; personal injury and advertising injury liability; medical payments; and (as applicable) products / completed operations coverage. Coverage is provided for most of the premises, products, completed operations, personal injury, advertising, and contractual liability exposures of an organization. The CGL provides very broad coverage that can be narrowed by endorsement, when necessary.

Products Liability

Coverage of a manufacturer's or seller's liability for losses or injuries to a buyer, user or bystander caused by a defect or malfunction of the product. When part of a commercial general liability policy (above), the coverage is commonly called products / completed operations insurance.

Completed Operations

Liability insurance for injury or damage resulting from real or alleged faults in work completed by the insured. Completed operations insurance is purchased by those who provide services, where manufacturers require product liability insurance. In most commercial liability forms (as noted) products and completed operations coverages are combined.

Automobile Liability and Physical Damage

Insurance that provides liability coverage for bodily injury and property damage to others arising out of the insured's operation of a vehicle, coverage for physical damage to the insured's vehicle, and coverage for medical treatment of the insured's or operator's own injuries.

Non- owned and Hired Automobile Liability

Liability coverage for an employer when employees or agents of the employer use their own vehicles on behalf of the employer, and coverage for liability arising out of the use of automobiles that are leased, rented or borrowed by the insured or its employees for business purposes. The coverage can be provided as part of a commercial auto policy.

Directors and Officers Liability (D&O)

A specialized form of professional liability coverage for legal expenses and liability to shareholders, bondholders, creditors or others due to actions or omissions by a director or officer of a corporation or nonprofit organization. Directors and officers are not liable for honest mistakes of business judgment made with reasonable care; but officers and directors may be held personally liable for actions or omissions made with negligence, recklessness, or bad faith. Most D&O policies have two parts: Coverage A provides direct reimbursement to the directors and officers for third-party claims; Coverage B reimburses the corporation if it is required or permitted, under state law or the corporate charter or by-laws, to indemnify the directors and officers.

Employment Practices Liability (EPLI)

Professional liability insurance that covers wrongful termination, discrimination, or sexual harassment toward employees or former employees. Many policies include coverage for claims by job applicants. Some policies provide very specific coverage, such as for claims brought under the Americans with Disabilities Act or the Civil Rights Act. This protection is generally provided in a separate policy, though coverage can be added to a business liability policy or a directors' and officers' liability policy in some instances. One of the most valuable aspects of this and other liability coverages is payment / reimbursement for the legal defense of even ungrounded allegations.

Fiduciary Liability

Professional liability coverage for people and organizations who act as a fiduciary under the provisions of the Employee Retirement Income Security Act (ERISA). Fiduciaries include anyone responsible for the investment, control or disposition of assets held by any plan covered under the Act. Coverage is sometimes included for administrative errors and omissions liability (which is the same as the employee benefit plan liability coverage, discussed below, that can be added to a general liability policy).

Employee Benefit Plan Liability

Insurance coverage for claims by employees or former employees alleging negligent acts, errors or omissions in the administration of employee benefit programs. As noted above, this coverage can be endorsed to a general liability policy, written as a separate policy, or included in a financial liability policy.

Errors and Omissions

Coverage for damages arising out of the insured's negligence, mistakes, or failure to take appropriate action in the performance of business or professional duties. The coverage frequently carries a high deductible (\$1,000 or more) and usually does not require the insured's consent to settle claims (unlike professional liability insurance - a term sometimes used interchangeably with errors and omissions). There are a wide variety of errors and omissions coverage forms including those designed for software and hardware developers as well as Internet liability exposures.

Employed Attorney's Errors and Omissions

Insurance for in-house attorneys employed by organizations other than law firms, covering claims for losses arising from legal services rendered on behalf of their employers and extended to cover legal services performed outside the scope of their employment.

Excess Liability

Insurance coverage that is written in "excess" of primary insurance. It is intended to increase the total limits of liability, providing a form of catastrophe coverage. Excess liability coverage does not respond to a loss until the amount of the loss exhausts or exceeds the policy limits of any existing primary policies. For example, a primary liability policy with a limit of \$750,000 is written, and excess insurance is written for \$3 million, excess of the primary. The primary policy would pay all losses within \$750,000 and the excess policy would pay losses in excess of the primary coverage, up to the excess policy limit of \$3 million.

Umbrella Liability

A specific type of excess liability policy that serves three main functions: provide high excess coverage over primary or underlying liability policies; offers broader coverage than the primary liability policy (usually in excess of a self-insured retention) and provide a "drop-down" feature that automatically replaces coverage provided by underlying policies when they are reduced or exhausted by insured losses. Ordinarily used for commercial risks, umbrellas have also been developed for personal insurance uses.

Note: "Umbrella" is often used interchangeably with "excess," even by many insurance people. Be careful! Most excess liability policies do not offer the broader features of a true umbrella policy. Know the difference and what you're really purchasing.

WORKERS' COMPENSATION

All states legally require employers to provide workers' compensation benefits to employees with injuries or illnesses "arising out of and in the course of employment" (except for a few designated categories of employees). Benefits are scheduled in the laws, which also generally prohibit an employee from suing their employer civilly for common law damages.

Workers' compensation laws ensure that employees receive adequate medical care, a partial wage replacement while recovering and some compensation for any residual permanent disability. In return for prompt, "no-fault" provision of these benefits, the liability of employers is limited.

While workers' compensation laws and benefits vary somewhat from state-to-state, the basic categories of benefits are: medical treatment, partial reimbursement for income lost during recovery (temporary disability indemnity), compensation for any reduced ability to compete favorably in the labor market (permanent disability), vocational rehabilitation and / or retraining, and survivors' benefits / burial expense in cases of work related employee death.

TRANSPORTATION INSURANCE

Insurance that covers goods or merchandise or while being transported by air, rail, truck, barge or ship, from a starting location to a final destination.

Ocean Marine Coverage

Insurance for ocean transportation exposures including ships or hulls; goods or cargo; earnings (such as freight, passage money, commissions, or profit); and liability (known as protection and indemnity). Coverage may be purchased by the vessel owner or any party with an interest in or responsible for insurable property exposed maritime perils.

Inland Marine Coverage

Coverage for property that generally involves an element of transportation. The property must be actually in transit, held by a bailee, at a fixed location that is an instrument of transportation, or be a movable type of goods, frequently at different locations.

Domestic Goods in Transit

Domestic shipments exposed to loss while being transported by aircraft, rail, truck, or while in the custody of the U.S. Postal Service. (Imports and exports of non-domestic goods are not within the scope of inland marine insurance – see Cargo Insurance, below).

Trip Transit Insurance

Protects a single shipment of property for a specific trip on a common carrier. Trip Transit specifically excludes shipments by the U.S. Postal Service (not a common carrier).

Exhibition Floater

A trip transit policy that covers property during transit, from the original location to the place of exhibit, while the property is on exhibition, and during the return trip to the original location. Coverage is usually written on an all-risk basis.

Parcel Post Insurance

Protects the interest of a shipper against damage to or loss of property being transported by the U.S. Postal Service via parcel post, first class registered mail, registered air mail, certified mail or ordinary first class mail. Coverage can be provided either by the U.S. Postal Service or through private insurers.

Cargo Insurance

A general term for a marine insurance policy that covers goods being transported by ship, truck, railroad, or airplane. This coverage insures against most perils to which the property may be subject.

Motor Truck Cargo Insurance

Inland marine insurance covering cargo while being transported in a truck. There are two basic forms: (1) the carrier's form which covers a common carrier's liability for damage to or destruction of a customer's property when that property is being transported (a truck is legally required to carry a minimum amount of coverage) and (2) the owner's form which covers truck owners against loss or damage to their own property while being transported.

Open Cargo Policy

A cargo policy that remains in force until canceled by either party, once the policy has been issued. The policy normally indicates the types of goods to be insured, sets geographic limits, establishes a maximum limit of liability for any one shipment, and outlines the perils insured against. Certificates of insurance can be issued by the insured, based upon the master policy. A monthly report of shipments is provided to the insurer, which forms the basis for calculating the premium.

Warehouse-to-warehouse coverage

Both inland and ocean marine policies can be broadened by adding this coverage, which extends the policy to cover property in transit from the shipper's warehouse to the consignee's warehouse.

CRIME COVERAGE

A broad term that applies to insurance for the taking of money, securities and other property. Employee dishonesty, forgery, theft, robbery, burglary and fraud are all included among crime coverages.

Employee Dishonesty

Coverage for loss of or damage to money, securities and property other than money and securities caused directly by employee dishonesty.

Forgery / Alteration

Loss involving checks, drafts, promissory notes, bills of exchange, and similar documents due to forgery or alteration of a covered document / instrument.

Blanket Crime Policy

A policy with the broadest crime coverage possible, written on a package basis under a single limit of liability. It covers the same hazards available on an optional basis under a comprehensive dishonesty, disappearance and destruction policy (e.g., employee dishonesty, loss inside and outside the premises, lost money orders and counterfeit paper currency and depositor's forgery).

Fidelity Bond / Blanket Fidelity Bond

A bond covering an employer for a loss resulting from an employee's dishonest acts. A blanket fidelity bond covers loss of money, merchandise or other property owned by the insured, when the loss is due to employee dishonesty. The bond covers all employees unless any are specifically excluded.

Kidnap / Ransom / Extortion Coverage

Developed originally an insurance policy for financial institutions; the coverage has been expanded for corporate executives and other wealthy persons or celebrities. Written on a worldwide basis, the policy reimburses the insured for the amount of any ransom paid. The insurer may provide the assistance of professional negotiators to deal with the kidnapers.

INTELLECTUAL PROPERTY

A type of intangible property consisting mainly of documented, written or recorded knowledge, ideas, discoveries, product names, problem-solving techniques and processes. Ownership is generally established via copyright, patent, or trademark.

Patent Insurance

Insurance that protects a patent holder against loss due to infringement of a patent. Also liability insurance that protects the insured against infringement claims by a patent holder.

Patent Enforcement Litigation Insurance

Insurance for a holder of a patent against infringement by another person. Coverage is written on a claims-made basis and includes the cost of legal defense to enforce the patent. The policy includes a co-payment provision, usually 25%. Excluded are liability for compensatory or consequential damages, fines, punitive damages, exemplary damages, and multiple damages.

Intellectual Property Coverage

A broadened form of patent enforcement litigation insurance that expands coverage to include trademarks, copyrights, and computer software design. Exclusions from coverage include liability for compensatory or consequential damages, fines, punitive damages, exemplary damages and multiple damages.

INTERNATIONAL INSURANCE

Insurance of businesses or properties located in other countries. Many insurance brokers have their own international departments and networks of foreign brokers who work directly with the international divisions and subsidiaries of clients based in the United States.

Global Insurance Program

A centralized and uniform insurance program that combines the parent company's domestic insurance with the foreign locations' international insurance. A single master global insurance policy is usually issued, with local "underlier" policies placed in those countries that require admitted insurance.

Controlled Master Insurance Program

A centralized international insurance program written by a single international insurer, providing coverage to all of a company's foreign locations. The insurance is replicated in each country by issuing locally admitted policies that provide coverage as similar as possible. A master insurance policy is issued to the parent organization to fill coverage gaps and to provide additional limits that can't be obtained in the local admitted policies.

Local Underlier Policy

An admitted insurance policy issued in the country where the risk exposure exists, supporting a controlled master or global insurance program. The policy complies with admitted insurance requirements and duplicates portions of the coverage provided by the master policy.

EMPLOYEE AND EXECUTIVE BENEFITS

Plans created or maintained by an employer or employee organization, providing benefits to employees. The two main types of plans are employee welfare plans (for benefits such as life insurance, health and dental insurance, and disability income insurance) and 401 (k) plans for retirement benefits. A plan's cost can be completely paid by the employer or shared by the employer and employees. A plan can also provide advantages or benefits to employees whether or not they are insured, including sick leave, disability, profit sharing or a stock purchase program.

Group Insurance (medical, life, disability)

Insurance provided by an employer, association or other group to its employees or members by purchasing a master insurance contract under which individual certificates are issued. The cost of insurance under a group plan is usually lower than for individual policies because of lower acquisition and administrative expenses.

Generally, with **group medical insurance**, each participating employee is responsible for an annual deductible and some coinsurance portions of medical costs incurred, unless the plan uses a health maintenance organization or preferred provider organization.

Under **group life insurance** plans, annually renewable term life policies are usually issued to employee participants, but some plans provide permanent life insurance policies.

Group disability insurance coverage consists of the payment of a percentage of the plan participant's wages lost due to an illness or accident, subject to a maximum monthly payment. Disability insurance consists of both short-term disability (STD) and long-term disability (LTD) coverage.

Health Maintenance Organization (HMO)

A medical group practice plan that acts as both an insurer and health care provider. Group participants are entitled to services from participating physicians, clinics and hospitals for a flat monthly or quarterly fee.

Preferred Provider Organization (PPO)

A health benefit plan with contracts between the sponsor and health care providers to treat plan members. A PPO can also be a group of health care providers who contract with an insurer to treat policyholders according to a predetermined fee schedule. PPOs can range from a single hospital and its physicians to a national network of physicians, hospitals and labs. PPO contracts typically provide discounts from standard fees, incentives for plan enrollees to use the contracting providers, and other managed care cost containment features.

Exclusive Provider Organization (EPO)

A preferred provider organization that does not provide coverage for care performed outside the PPO's network or facilities.

Dental Insurance

Coverage for dental services under an employee benefit plan or as part of a health insurance policy or via a separate dental policy. Dental plans typically contain a coinsurance provision and may stress preventative care (e.g. fully paying for cleanings and check-ups twice a year).

Accidental death and dismemberment (AD&D)

Insurance coverage that pays either a specified amount, or a specified number of weekly disability benefit payments, when the insured dies, loses sight, or loses limbs as the result of an accident.

Travel Accident Insurance

A form of accidental death, dismemberment and disability insurance commonly sold at airports. Coverage is issued in conjunction with a common carrier (airline, train) ticket and is limited to travel periods during the trip.

Business Travel Accident Insurance is a form of travel accident insurance that covers accidents that occur while away from home for business purposes. Coverage usually includes all accidents occurring while on a business trip (not just those occurring while in transit).

Key Employee Insurance

A disability and life insurance program designed to protect an employer from the loss of an individual employee whose special skills or experience are vital to the firm. Policy proceeds

are used to cover the firm's lost income and to locate and hire a replacement for the key employee.

Stock Redemption or Cross Purchase Plan

A plan where each partner or stockholder in a closely held corporation purchases life and disability insurance policies on each of the other partners or stockholders, in amounts sufficient to purchase the partners' or stockholders' interests in the event of their death or permanent disability. This guarantees continuity of the business at the death or disability of an owner.

Cafeteria benefit plan

An employee benefit program under which employees may select the benefits that best meet their needs, based on the individual's marital status, age, dependents, and income level. A company typically allocates a stipulated amount of money and permits the employee (subject to certain limits) to assemble the program that best fits their needs. Such a program is similar to a flexible benefit plan, but usually more limited.

Flexible spending account (FSA)

A flexible benefit plan allowing employees a tax exemption from federal and most state taxes to pay for approved expenses out of an account managed by the employer. Employees may make payroll deductions into such an account during the year to be reimbursed at year's end for out-of-pocket medical, dental, and day-care expenses. Since qualified expenses are paid with pre-tax funds, they are less costly to the employee; however, unused funds in the account are forfeited to the government, making it important for participating employees to carefully estimate their expenses.

401(k) Plan

An employer-sponsored retirement savings plan, authorized under Federal tax statute, allowing employees to invest pretax dollars that an employer can match on a proportional basis.

Non-qualified Deferred Compensation

A plan that allows highly compensated executives to defer compensation amounts in excess of profit sharing, pension and 401 (k) limitations.

ABOUT EPIC



Edgewood Partners Insurance Center

Founded in 2007, EPIC is a new and innovative California-based retail property & casualty and employee benefits insurance brokerage firm. The company provides a unique equity ownership opportunity and has created a values-based culture that attracts and retains top talent, fosters employee satisfaction and loyalty and sustains a high level of customer service excellence.

The fastest growing brokerage in the state, EPIC now has nearly 300 team members operating from seven offices across Northern and Southern California (Los Angeles, Orange, Irvine, Folsom, San Francisco, San Mateo and San Ramon) and in Baltimore, MD and Atlanta, GA. With nearly \$60 million in revenues, EPIC ranks among the top 50 retail insurance brokers in the United States and is the 5th largest privately-held broker in California. For additional information, please contact Dave Hock in our San Mateo headquarters (650.295.4608 | dhock@edgewoodins.com) or visit our web site at www.edgewoodins.com

Locations

Atlanta

3455 Peachtree Road NE, 5th Floor | Atlanta, GA 30326 | 404.995.6943

Baltimore

36 South Charles Street, Suite 2204 | Baltimore, MD 21201 | 410.752.7797

Irvine

19000 MacArthur Blvd., Penthouse Floor | Irvine, CA 92612 | 877.674.3742

Los Angeles

555 West 5th Street, 31st Floor | Los Angeles, CA 90013 | 877.650.3742

Orange

One City Blvd. West, Suite 700 | Orange, CA 92868 | 800.345.7242

Sacramento

1743 Creekside Drive, Suite 200 | Folsom, CA 95630 | 800.466.2250

San Francisco

123 Mission St., 26th Floor | San Francisco, CA 94105 | 866.731.3742

San Mateo

2000 Alameda de las Pulgas, Suite 101 | San Mateo, CA 94403 | 800.282.2526

San Ramon

3000 Executive Parkway, Suite 325 | San Ramon, CA 94583 | 866.702.3742