



July 3, 2012

Richard Harrison
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Dear Richard Harrison:

Thank you for choosing Infinisource, Inc. to help you take a positive step toward enhancing your health benefits package and reducing payroll-related taxes for you and your employees.

The agent who brought you this Premium Conversion Plan enjoys preferential status with Infinisource, and can provide you with additional information on opportunities to save you more time and money with our full service flexible benefits administration.

Enclosed are sample documents designed to assist you in establishing a Code Section 125 Cafeteria Plan (sometimes referred to as a Premium Conversion Plan or a Premium Only Plan [POP]). We used Premium Conversion Plan and Premium Only Plan interchangeably throughout the attached documents, which have been designed to make set up easy and efficient and to ensure quality.

The attached Plan Implementation Outline provides detail regarding implementation of a Premium Conversion Plan. Infinisource is providing you with sample documents that require review by your legal counsel and execution by your employer's leadership in order to make them legally binding. Infinisource prepared these documents with the assistance of legal counsel for general use by employer/plan sponsors; however, Infinisource is not a law or accounting firm and the enclosed materials do not constitute legal assistance or advice. Moreover, the documents may not address issues specific to you or your plan design. We strongly encourage you to review all documents with your legal counsel and to make any changes that your counsel deems necessary.

1. **Plan Implementation Outline** – A checklist to help you implement your Premium Conversion Plan. You should review the Implementation Outline carefully.
2. **Plan Document** (Premium Conversion Plan) – This is a sample plan document that provides the basis for the primary legal document governing your Plan that authorizes pre-tax contributions. The final version should be signed and dated accordingly.
3. **Summary Plan Description** – The Summary Plan Description is the primary communication vehicle that describes the benefits of the Plan, including a Claims Procedures and Election Changes Summary.
4. **Nondiscrimination Testing** – Instructions and worksheet to complete IRS-required nondiscrimination testing.
5. **Election Form** (Premium Conversion and Salary Reduction Agreement) A sample form for eligible employees to elect participation.
6. **Board Resolution**– Board of Directors' resolution to adopt the Premium Conversion Plan. Generally, only the governing body of the company can adopt benefit plans.
7. **How to Handle POP on Your Payroll System** – Information on how implementing a POP impacts payroll.
8. **Midyear Election Changes and Change in Status Chart** – Guidance on permissible midyear election changes (for Human Resources department use).

As the end of your plan year approaches, Infinisource will send a renewal notice. It is necessary that you remit payment promptly in order to prevent any disruption of services.

Sincerely,

Fringe Benefits Administration
Infinisource, Inc.

To comply with Internal Revenue Service Code Section 125 governing Cafeteria Plans, a Premium Conversion Plan should be implemented and adopted prior to the effective date of the plan. The enclosed materials were prepared by Infinisource based upon information provided by you, the employer, and are provided with the understanding that you, the employer, agree to and shall indemnify and hold Infinisource, its agents, employees and officers harmless from any and all claims or costs (including attorney fees) relating to the adoption, implementation, communication, administration or termination of, or participation in, the Plan excepting those claims or costs resulting solely from gross negligence or intentional acts, errors or omission of Infinisource, its agents, employees or officers.

Premium Only Plan IMPLEMENTATION OUTLINE

It is important that the employer and Plan Administrator follow these procedures:

- A. The employer and Plan Administrator (if different from the Employer) should read and understand the Plan Document and the Summary Plan Description. These documents govern the operation of the Plan and should be the first referral source for answers.
- B. As stated in the cover letter, the employer's legal counsel should review all attached documents. Infnisource is not a law or accounting firm and the fact that we have provided sample legal documents does not constitute legal advice.
- C. Most company's by-laws or articles of incorporation have authorized only the Board of Directors or another governing body to adopt and amend benefit plans. We have prepared a sample Certificate of Resolution that memorializes the Board's action to adopt the Plan. Moreover, the sample Certificate would permit the corporation's Board members to adopt the plan without a formal meeting. In some situations, the Board or other governing body has already authorized an officer of the company to adopt plans on the employer's behalf. In that case, a document memorializing the Board's action is not necessary. You should review this document and revise as necessary to fit your particular situation.
- D. ERISA requires summary plan descriptions to be distributed to all participants within 120 days after a new plan becomes effective and to each newly enrolled employee within 90 days of enrollment. The Premium Conversion Plan is not an ERISA plan in and of itself; however, it does impact the benefits offered under the Plan (e.g., medical, dental, life) that may be subject to ERISA. Thus, it should be distributed no later than due dates established by ERISA (although we recommend immediate distribution).
- E. Employees that are considered "self-employed" are not eligible to make premium payments with pre-tax dollars (although they may be able to participate in the underlying benefit plans). Self-employed individuals include partners of a partnership, sole-proprietors, more than 2% shareholders and any family members of such that are employed by the company, and may also include members of an LLC.
- F. It is recommended that each eligible employee provide written evidence of election. We have provided you with a sample Election Form and Salary Reduction Agreement. Each eligible employee must complete and sign a copy of the Premium Only Plan Election Form and Salary Reduction Agreement. You should review these with legal counsel to ensure compliance with applicable state wage withholding laws.
- G. Review the section on Nondiscrimination Tests and run preliminary tests.
- H. Employees must receive the opportunity to read documents that pertain to the Premium Only Plan. Employers must make documents available for review within 30 days after the employee's request.
- I. Implementing your Premium Only Plan will require a change in the way you calculate your employees' payroll checks. The "How to Handle POP on Your Payroll System" document should be provided to your payroll department.

- J. The Premium Only Plan does qualify as a “Cafeteria Plan.” However, the Premium Only Plan is merely a funding vehicle and is not itself an ERISA Employee Welfare Benefit Plan. Therefore, a Form 5500 is not required. However, a Form 5500 may be required for the underlying health insurance plan. Please check with your legal or tax advisor.
- K. Infinisource will send a renewal invoice 60 days prior to the end of your plan year. Please remit payment to continue receiving the same great benefits.

Dezavala-Shavano Veterinary Clinic, LLP
Premium Conversion Plan
This Document is effective: 8/1/2012

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PREAMBLE

Effective as of the date set forth below, Dezavala-Shavano Veterinary Clinic, LLP established the Premium Conversion Plan (the "Plan" or "Cafeteria Plan") for its Employees for purposes of providing eligible Employees with the opportunity to choose from among the Benefit Package Options available under the Plan. The Plan is intended to qualify as a cafeteria plan under the provisions of Code Section 125.

**Dezavala-Shavano Veterinary Clinic, LLP
Premium Conversion Plan**

**ARTICLE I
DEFINITIONS**

1.01 "Affiliated Employer" means any entity that is considered with the Employer to be a single employer in accordance with Code Section 414(b), (c), or (m).

1.02 "After-tax Contribution(s)" means amounts withheld from an Employee's Compensation pursuant to a Salary Reduction Agreement after all applicable state and federal taxes have been deducted. Such amounts are withheld for purposes of purchasing one or more of the Benefit Package Options available under the Plan.

1.03 "Anniversary Date" means the first day of any Plan Year.

1.04 "Benefit Package Option(s)" means those Qualified Benefits available to a Participant under this Plan as set forth in the Summary Plan Description, as amended and/or restated from time to time.

1.05 "Board of Directors" means the Board of Directors or other governing body of the Employer (the "Board"). The Board of Directors, upon adoption of this Plan, appoints the Plan Administrator to act on the Employer's behalf in all matters regarding the Plan.

1.06 "Change in Status" means any of the events described in the Summary Plan Description, as well as any other events included under subsequent changes to Code Section 125 or regulations issued under Code Section 125, that the Plan Administrator (in its sole discretion) decides to recognize on a uniform and consistent basis as a reason to change the election midyear. Note: See the Summary Plan Description for requirements that must be met to permit certain midyear election changes on account of a Change in Status.

1.07 "Code" means the Internal Revenue Code of 1986, as amended.

1.08 "Compensation" means the cash wages or salary paid to an Employee by the Employer.

1.09 "Dependent" means any individual who is a tax dependent of the Participant as defined generally in Code Section 152(a); however, that in the case of health benefits, a Dependent shall be defined as set forth in Code Section 105(b) including an adult child who has not yet attained the age of 27 by the end of the current calendar year, and the regulations issued under Code Section 106. For purposes of a Dependent Care FSA (if offered under the Plan) a Dependent shall also be defined as in Code Section 21(e)(5) (i.e., dependent of the parent with custody for the greatest portion of the year).

1.10 "Effective Date" of the Plan means August 1, 2010. This is the date the Plan was originally established. It may not coincide with the date of this document as set forth in the title page.

1.11 "Employee" means an individual who the Employer classifies as a common-law employee and who is on the Employer's W-2 payroll, but does not include any of the following: (a) any leased employee (including, but not limited to, those individuals defined in Code § 414(n)); (b) an individual classified by the Employer as a contract worker or independent contractor; (c) an individual

classified by the Employer as a temporary employee or casual employee, whether or not any such persons are on the Employer's W-2 payroll; and (d) any individual who performs services for the Employer but who is paid by a temporary or other employment agency such as "Kelly," "Manpower," etc., or any employee covered under a collective bargaining agreement, except as otherwise provided for in the collective bargaining agreement.

1.12 "Employer" means Dezavala-Shavano Veterinary Clinic, LLP and any Affiliated Employer who adopts the Plan pursuant to authorization provided by the Employer. Notwithstanding the previous sentence when the Plan provides that the Employer has a certain power (e.g., the appointment of a third party administrator, entering into a contract with a third party insurer, or amendment or termination of the plan) the term "Employer" shall mean only Dezavala-Shavano Veterinary Clinic, LLP Affiliated Employers who adopt the Plan shall be bound by the Plan as adopted and subsequently amended unless they clearly withdraw from participation herein. Affiliated Employers who have adopted the Plan are set forth in the Summary Plan Description.

1.13 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.14 "Highly Compensated Individual" means an individual defined under Code Section 125(e), as amended, as a "highly compensated individual" or a "highly compensated employee."

1.15 "Key Employee" means an individual who is a "key employee" as defined in Code Section 125(b)(2), as amended.

1.16 "Nonelective Contribution(s)" means any amount that the Employer, in its sole discretion, may contribute on behalf of each Participant to provide benefits for such Participant and Dependents, if applicable, under one or more of the Benefit Package Option(s) offered under the Plan. The amount of employer contribution that is applied towards the cost of the Benefit Package Option(s) for each Participant and/or level of coverage shall be subject to the sole discretion of the Employer and may be adjusted upward or downward at any time in the contributing Employer's sole discretion. The amount shall be calculated for each Plan Year in a uniform and nondiscriminatory manner and may be based upon the Participant's dependent status, commencement or termination date of the Participant's employment during the Plan Year, and such other factors as the Employer shall prescribe. To the extent set forth in the Summary Plan Description or enrollment material, the Employer may make Nonelective Contributions available to Participants and allow Participants to allocate the Nonelective Contributions among the various Benefit Package Options offered under the Plan in a manner set forth in the Summary Plan Description or enrollment material. In no event will any Nonelective Contribution be disbursed to a Participant in the form of additional, taxable Compensation except as otherwise provided in the Summary Plan Description or enrollment material.

1.17 "Participant" means an Employee who becomes a Participant pursuant to Article II.

1.18 "Plan" means this Cafeteria Plan, as set forth herein.

1.19 "Plan Administrator" means the person(s) or Committee identified in the Summary Plan Description that is appointed by the Employer with authority, discretion and responsibility to manage and direct the operation and administration of the Plan. If no such person is named, the Plan Administrator shall be the Employer.

1.20 "Plan Year" shall be the period of coverage set forth in the Summary Plan Description.

1.21 "Pre-tax Contribution(s)" means amounts withheld from an Employee's Compensation pursuant to a Salary Reduction Agreement before any applicable state and federal taxes have been deducted. The amounts are withheld for purposes of purchasing one or more of the Benefit Package Options available under the Plan. This amount shall not exceed the premiums or contributions attributable to the most costly Benefit Package Option afforded hereunder, and for purposes of Code Section 125, shall be treated as an Employer contribution (this amount may, however, be treated as an Employee contribution for purposes of state insurance laws).

1.22 "Qualified Benefit" means any benefit excluded from the Employee's taxable income under Chapter 1 of the Code other than Sections 106(b), 117, 124, 127, or 132 and any other benefit permitted by the Income Tax Regulations (i.e., any group term life insurance coverage that is includable in gross income by virtue of exceeding the dollar limitation on nontaxable coverage under Code Sec. 79). Notwithstanding the previous sentence, long-term care insurance is not a "Qualified Benefit."

1.23 "Salary Reduction Agreement" means the actual or deemed agreement pursuant to which an eligible Employee or Participant elects to contribute his share of the cost of chosen Benefit Package Options with Pre-tax or After-tax Contributions and/or benefit credits (if offered under the Plan) in accordance with Article III herein. If the Employer utilizes an interactive voice response (IVR) system or web-based program for enrollment, the Salary Reduction Agreement may be maintained on an electronic database in accordance with all applicable federal and/or state laws.

1.24 "Spouse" means an individual who is legally married to a Participant (and who is treated as a spouse under the Code).

1.25 "Summary Plan Description" or "SPD" means the Cafeteria Plan SPD and all appendices incorporated into and made a part of the SPD that is adopted by the Employer and attached to this Plan Document as Attachment I, as amended from time to time. The SPD and its appendices are incorporated hereto by reference.

1.26 "Student" means an individual who, during each of five (5) or more calendar months during the Plan Year, is a full-time student at any college or university, the primary function of which is the conduct of formal instruction, and which routinely maintains a regular faculty and curriculum and normally has an enrolled student body in attendance at the location where its educational activities are regularly presented.

ARTICLE II ELIGIBILITY AND PARTICIPATION

2.01 Eligibility to Participate. Each Employee who satisfies the eligibility requirements set forth in the SPD shall be eligible to participate in this Plan as of the Eligibility Date set forth in the SPD. Eligibility to participate in this Plan means only that the Eligible Employee is entitled to contribute his share of the cost of applicable Benefit Package Options for which he is eligible with Pre-tax Contributions. The provisions of this Article do not override any eligibility requirement(s) or waiting period(s) specified in the applicable Benefit Package Options, which are specified in the governing documents of the Benefit Package Options.

2.02 Termination of Participation. Participation shall terminate on the earliest of the dates set forth in the SPD.

2.03 Qualifying Leave Under Family Medical Leave Act. Notwithstanding any provision to the contrary in this Plan, if a Participant goes on a qualifying leave under the Family and Medical Leave Act of 1993 (the "FMLA"), then to the extent required by the FMLA, the Participant will be entitled to continue the Participant's Benefit Package Options that provide health coverage on the same terms and conditions as if the Participant were still an active Employee. The FMLA requirements, procedures and payment option(s) are set forth in the SPD and will be administered in accordance with the FMLA and Code Section 125 regulations.

2.04 Non-FMLA Leave. If a Participant goes on an unpaid leave of absence that does not affect eligibility under this Plan or the Benefit Package Options chosen by the Participant, then the Participant will continue to participate and the contributions due for the Participant will be paid by one or more of the payment options described in the SPD and implemented by the Employer on a uniform and consistent basis in accordance with the Employer's internal policy and procedure. If a Participant goes on an unpaid leave that affects eligibility under this Plan or the Benefit Package Options chosen by the Participant, the election change rules in Section 3.04 will apply. If such policy requires coverage to continue during the leave but permits a Participant to discontinue contributions while on leave, the Participant will, upon returning from leave, be required to repay the contributions not paid by the Participant during the leave.

ARTICLE III PREMIUM ELECTIONS

3.01 Election of Contributions. A Participant may elect any combination of Pre-tax Contributions or After-tax Contributions to fund any Benefit Package Option available under the Plan, provided that only Qualified Benefits may be funded with Pre-tax Contributions. The Employer may, but is not required to, allocate Nonelective Contributions to one or more Benefit Package Options offered under the Plan and may allow Participants to allocate their allotted share of Nonelective Contributions among various Benefit Package Options in a manner set forth in the SPD or enrollment material.

3.02 Initial Election Period.

- (a) **Currently Eligible Employees.** An Employee eligible to become a Participant must complete, sign and file a Salary Reduction Agreement with the Plan Administrator (or its designee as set forth on the Salary Reduction Agreement) during the election period (as specified by the Plan Administrator) immediately preceding the Plan's Effective Date to become a Participant on the Effective Date. These elections shall be effective, subject to Section 3.04, for the Plan Year beginning on the Effective Date.
- (b) **Employees Who Become Eligible After Plan's Effective Date.** An Employee who becomes eligible to become a Participant after the Effective Date must complete, sign and file a Salary Reduction Agreement with the Plan Administrator (or its designee as set forth on the Salary Reduction Agreement) during the initial election period set forth in the SPD or enrollment material. Participation will commence under this Plan as set forth in the SPD. Coverage under each Benefit Package Option is effective in accordance with the governing provisions of such Benefit Package Option.
- (c) **Failure to Elect.** An eligible Employee who fails to complete, sign and file a Salary Reduction Agreement as indicated above during an initial election period may become a Participant on a later date in accordance with Section 3.03 or 3.04.

3.03 Annual Election Period. Each Employee who is a Participant in this Plan or who is eligible to become a Participant in this Plan shall be notified, prior to each Anniversary Date of this Plan, of his right to become a Participant in this Plan, to continue participation in this Plan, or to modify or cease participation in this Plan, and shall be given a reasonable period of time in which to exercise such right: such period of time shall be known as the Annual Election Period. The date on which the Annual Election Period commences and ends will be set forth in the SPD or the enrollment material. An election is made during the Annual Election Period in the manner set forth in the SPD. The consequences of failing to make an election during the Annual Election Period will be set forth in the SPD.

3.04 Change of Elections. A Participant shall not make any changes to the Pre-tax Contribution amount or, where applicable, to the Participant's elected allocation of Nonelective Contributions except under the circumstances set forth in the SPD and for changes made during the Annual Election Period, changes caused by termination of employment or cessation of eligibility, and changes pursuant to FMLA. Except as provided in the SPD for HIPAA special enrollment rights arising from the birth, adoption, or placement for adoption of a child, all election changes shall be effective on a prospective basis only (i.e., election changes will become effective no earlier than the first day of the first pay period coinciding with or immediately following the date that the election change was filed) but, as determined by the Plan Administrator, election changes may become effective later to the extent the coverage in the applicable component plan commences later.

3.05 Impact of Termination of Employment on Election or Cessation of Eligibility. Termination of employment or cessation of eligibility shall automatically revoke any Salary Reduction Agreement. Except as provided below, if revocation occurs under this Section 3.05, no new election with respect to Pre-tax Contributions may be made by such Participant during the remainder of the Plan Year except as set forth in the SPD.

ARTICLE IV PREMIUM PAYMENTS AND CREDITS AND DEBITS TO ACCOUNTS

4.01 Source of Benefit Funding. The cost of coverage under the component Benefit Package Options shall be funded by Participant's Pre-tax and/or After-tax Contributions and/or any Nonelective Contributions provided by the Employer. The required contributions for each Benefit Package Option shall be made known to employees in enrollment materials. Pre-tax or After-tax Contributions (as elected by the Employee on the Salary Reduction Agreement and permitted by the Employer) shall equal the contributions required from the Participant less any available Nonelective Contributions allocated thereto by the Employer, or where applicable, the Participant for coverage of the Participant or the Participant's Spouse or Dependents under the Benefit Package Options elected by the Participant under this Plan. Amounts withheld from a Participant's Compensation as Pre-tax Contributions or After-tax Contributions shall be applied to fund benefits as soon as administratively feasible. The maximum amount of Pre-tax Contributions, plus any Nonelective Contributions made available by the Employer, shall not exceed the aggregate cost of the Benefit Package Options elected.

4.02 Reduction of Certain Elections to Prevent Discrimination. If the Plan Administrator determines, before or during any Plan Year, that the Plan may fail to satisfy for such Plan Year any requirement imposed by the Code or any limitation on Pre-tax Contributions allocable to Key Employees or to Highly Compensated Individuals, the Plan Administrator shall take such action(s) as deemed appropriate, under rules uniformly applicable to similarly situated Participants, to assure compliance with such requirement or limitation. Such action may include, without limitation, a modification or revocation of a Highly Compensated Individual's or Key Employee's election without the consent of such Employee.

ARTICLE V BENEFITS

5.01 Qualified Benefits. The maximum benefit a Participant may elect under this Plan shall not exceed the sum of the aggregate maximum premium and/or contribution for all Benefit Package Option(s) set forth in the SPD.

5.02 Cash Benefit. To the extent that a Participant does not elect to have the maximum amount of his Compensation contributed as a Pre-tax Contribution or After-tax Contribution, such amount not elected shall be paid to the Participant in the form of normal Compensation payments; provided, however, that any applicable Nonelective Contributions may not be received in the form of cash compensation, except as otherwise provided for in the SPD or enrollment material.

ARTICLE VI PLAN ADMINISTRATION

6.01 Allocation of Authority. The Board of Directors or applicable governing body (or an authorized officer of the Employer) appoints a Plan Administrator that shall keep the records for the Plan and shall control and manage the operation and administration of the Plan. The Plan Administrator shall have the exclusive right to interpret the Plan and to decide all matters arising thereunder, including the right to make determinations of fact, and construe and interpret possible ambiguities, inconsistencies or omissions in the Plan and the SPD issued in connection with the Plan. All determinations of the Plan Administrator with respect to any matter hereunder shall be conclusive and binding on all persons. Without limiting the generality of the foregoing, the Plan Administrator shall have the following powers and duties:

- (a) To require any person to furnish such reasonable information as he may request for the purpose of the proper administration of the Plan as a condition to receiving any benefits under the Plan;
- (b) To make and enforce such rules and regulations and prescribe the use of such forms as he shall deem necessary for the efficient administration of the Plan;
- (c) To decide on questions concerning the Plan and the eligibility of any Employee to participate in the Plan and to make or revoke elections under the Plan, in accordance with the provisions of the Plan;
- (d) To designate other persons to carry out any duty or power which may or may not otherwise be a fiduciary responsibility of the Plan Administrator, under the terms of the Plan. Such entity will be referred to as a third party administrator and shall be identified in the SPD;
- (f) To keep records of all acts and determinations, and to keep all such records, books of account, data and other documents as may be necessary for the proper administration of the Plan;
- (g) To do all things necessary to operate and administer the Plan in accordance with its provisions.

6.02 Provision for Third-Party Plan Service Providers. The Plan Administrator, subject to approval of the Employer, may employ the services of such persons, as it may deem necessary or desirable in connection with the operation of the Plan and may rely upon all tables, valuations, certificates, reports and opinions furnished thereby. Such entity will be identified in the SPD as a third party administrator. Unless otherwise provided in the service agreement, obligations under this Plan shall remain the obligation of the Employer.

6.03 Fiduciary Liability. To the extent permitted by law, the Plan Administrator shall not incur any liability for any acts or for failure to act except for its own willful misconduct or willful breach of this Plan.

6.04 Compensation of Plan Administrator. Unless otherwise determined by the Employer and permitted by law, any Plan Administrator who is also an employee of the Employer shall serve without compensation for services rendered in such capacity, but the Employer shall pay all reasonable expenses incurred in the performance of their duties.

6.05 Bonding. Unless otherwise determined by the Employer, or unless required by any federal or state law, the Plan Administrator shall not be required to give any bond or other security in any jurisdiction in connection with the administration of this Plan.

6.06 Payment of Administrative Expenses. The Employer currently pays all reasonable expenses incurred in administering the Plan.

6.07 Funding Policy. The Employer shall have the right to enter into a contract with one or more insurance companies for the purposes of providing any Benefit Package Option(s) offered under the Plan and to replace any of such insurance companies or contracts. Any dividends, retroactive rate adjustments or other refunds of any type that may become payable under any such insurance contract shall not be assets of the Plan but shall be the property of, and shall be retained by the Employer. The Employer will not be liable for any loss or obligation relating to any insurance coverage except as is expressly provided by this Plan. Such limitation shall include, but not be limited to, losses or obligations that pertain to the following:

- (a) Once insurance is applied for or obtained, the Employer will not be liable for any loss which may result from the failure to pay premiums to the extent premium notices are not received by the Employer;
- (b) To the extent premium notices are received by the Employer, the Employer's liability for the payment of such premiums will be limited to such premiums and will not include liability for any other loss which result from such failure;
- (c) The Employer will not be liable for the payment of any insurance premium or any loss that may result from the failure to pay an insurance premium if the benefits available under this Plan are not enough to provide for such premium cost at the time it is due. In such circumstances, the Employee will be responsible for and see to the payment of such premiums. The Employer will undertake to notify a Participant if available benefits under this Plan are not enough to provide for an insurance premium, but will not be liable for any failure to make such notification;
- (d) When employment ends, the Employer will have no liability to take any step to maintain any policy in force except as may be specifically required otherwise in this Plan, and the Employer will not be liable for or responsible to see to the payment of any premium after employment ends.

ARTICLE VII CLAIMS PROCEDURES

The Plan has established procedures for reviewing claims denied under this Plan and those claims review procedures are set forth in the SPD. The Plan's claim review procedures set forth in the SPD shall only apply to issues germane to the pre-tax benefits available under this Plan (i.e., such as a determination of a Change in Status, change in cost or coverage or eligibility and participation matters under this Cafeteria Plan document) and to the extent offered under the Plan, claims for benefits under the Reimbursement Accounts.

ARTICLE VIII AMENDMENT OR TERMINATION OF PLAN

8.01 Permanency. While the Employer fully expects that this Plan will continue indefinitely, due to unforeseen future business contingencies, permanency of the Plan will be subject to the Employer's right to amend or terminate the Plan, as provided in Sections 8.02 and 8.03, below. Nothing in this Plan is intended to be or shall be construed to entitle any Participant, retired or otherwise, to vested or non-terminable benefits.

8.02 Employer's Right to Amend. The Employer reserves the right to amend at any time any or all of the provisions of the Plan. All amendments shall be made in writing and shall be approved by the Employer in accordance with its normal procedures for transacting business (e.g., by approval by the Board of Directors through a meeting or unanimous consent of all Board members). Such amendments may apply retroactively or prospectively as set forth in the amendment. Each Benefit Package Option shall be amended in accordance with the terms specified therein, or, if no amendment procedure is prescribed, in accordance with this section. Any amendment made by the Employer shall be deemed to be approved and adopted by any Affiliated Employer.

8.03 Employer's Right to Terminate. The Employer reserves the right to discontinue or terminate the Plan without prejudice at any time and for any reason without prior notice. Such decision to terminate the Plan shall be made in writing and shall be approved by the Employer in accordance with its normal procedures for transacting business. Affiliated Employers may withdraw from participation in the Plan, but may not terminate the Plan.

8.04 Determination of Effective Date of Amendment or Termination. Any such amendment, discontinuance or termination shall be effective as of such date as the Employer shall determine.

ARTICLE IX GENERAL PROVISIONS

9.01 Not an Employment Contract. Neither this Plan nor any action taken with respect to it shall confer upon any person the right to continue employment with any Employer.

9.02 Applicable Laws. The provisions of the Plan shall be construed, administered and enforced according to applicable federal law and the laws of the State of TX to the extent not preempted.

9.03 Requirement for Proper Forms. All communications in connection with the Plan made by a Participant shall become effective only when duly executed on any forms as may be required and furnished by, and filed with, the Plan Administrator.

9.04 Multiple Functions. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

9.05 Tax Effects. Neither the Employer, nor the Plan Administrator makes any warranty or other representation as to whether any Pre-tax Contributions made to or on behalf of any Participant hereunder will be treated as excludable from gross income for local, state or federal income tax purposes. If for any reason it is determined that any amount paid for the benefit of a Participant or Beneficiary are includable in an Employee's gross income for local, state or federal income tax purposes, then under no circumstances shall the recipient have any recourse against the Plan Administrator or the Employer with respect to any increased taxes or other losses or damages suffered by the Employees as a result thereof. The Plan is designed and is intended to be operated as a "cafeteria plan" under Section 125 of the Code.

9.06 Gender and Number. Masculine pronouns include the feminine as well as the neuter genders, and the singular shall include the plural, unless indicated otherwise by the context.

9.07 Headings. The Article and Section headings contained herein are for convenience of reference only, and shall not be construed as defining or limiting the matter contained thereunder.

9.08 Incorporation by Reference. The actual terms and conditions of the separate component Benefit Package Option(s) offered under this Plan are contained in separate, written documents governing each respective benefit, and shall govern in the event of a conflict between the individual plan document and this Plan as to substantive content. To that end, each such separate document, as amended or subsequently replaced, is hereby incorporated by reference as if fully recited herein. In addition, the SPD for this Plan contains many of the actual terms and conditions of this Plan. To that end, the SPD, as amended from time to time, is incorporated herein.

9.09 Severability. Should a court of competent jurisdiction subsequently invalidate any part of this Plan, the remainder thereof shall be given effect to the maximum extent possible.

9.10 Effect of Mistake. In the event of a mistake as to the eligibility or participation of an Employee, or the allocations made to the account of any Participant, or the amount of distributions made or to be made to a Participant or other person, the Plan Administrator shall, to the extent it deems possible, cause to be allocated or cause to be withheld or accelerated, or otherwise make adjustment of, such amounts as will in its judgment accord to such Participant or other person the credits to the account or distributions to which he is properly entitled under the Plan. Such action by the Administrator may include withholding of any amounts due the Plan or the Employer from Compensation paid by the Employer.

IN WITNESS WHEREOF, the Employer has executed this Cafeteria Plan as of the date set forth below.

Dezavala-Shavano Veterinary Clinic, LLP

By: _____

Title: _____

Date: _____

DEZAVALA-SHAVANO VETERINARY CLINIC, LLP
PREMIUM CONVERSION PLAN
SUMMARY PLAN DESCRIPTION
for the
Cafeteria Plan

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DEZAVALA-SHAVANO VETERINARY CLINIC, LLP PREMIUM CONVERSION PLAN

SUMMARY PLAN DESCRIPTION

GENERAL INFORMATION ABOUT THE PLAN

Dezavala-Shavano Veterinary Clinic, LLP (the "Employer") is pleased to sponsor an employee benefit program known as the Premium Conversion Plan (the "Plan") for you and your fellow employees. It is so-called because it lets you choose from several different benefit programs (which we refer to herein as "Benefit Plan Options") according to your individual needs, and allows you to use Pre-tax Contributions to pay for the benefits by entering into a salary reduction arrangement with your Employer. This Plan helps you because the benefits you elect are nontaxable (i.e., you save Social Security and income taxes on the amount of your salary reduction). Alternatively, you may choose to pay for any of the available benefits with after-tax contributions on a salary deduction basis to the extent described in your enrollment materials.

The Cafeteria Plan is summarized in this document. Information relating to the Plan that is specific to your Employer is described in the Plan Information Summary. For example, you can find the identity of the Third Party Administrator, the Employer, and the Plan Administrator in the Plan Information Summary as well as the Plan Number and any applicable contact information. The Cafeteria Plan summary and the attached Appendices constitute the Summary Plan Description for the Premium Conversion Plan. The SPD (collectively, the Summary Plan Description or "SPD") describes the basic features of the Plan, how it operates and how you can get the maximum advantage from it. The Plan is also established pursuant to a plan document into which the SPD has been incorporated. However, if there is a conflict between the official plan document and the SPD, the plan document will govern. Certain terms in this Summary are capitalized. Capitalized terms reflect important terms that are specifically defined in this Summary or in the Plan Document into which this Summary is incorporated. You should pay special attention to these terms as they play an important role in defining your rights and responsibilities under this Plan.

Participation in the Plan does not give any Participant the right to be retained in the employment of his Employer or any other right not specified in the Plan. If you have any questions regarding your rights and responsibilities under the Plan, you may also contact the Plan Administrator (who is identified in the Plan Information Summary).

CAFETERIA PLAN COMPONENT SUMMARY

Q-1. What is the purpose of the Cafeteria Plan?

The purpose is to allow eligible employees to pay for certain benefit plans ("Benefit Plan Options") with pre-tax dollars ("Pre-tax Contributions"). The Benefit Plan Options to which you may contribute with Pre-tax Contributions are described in the Plan Information Summary.

To the extent Health Savings Accounts are a Benefit Plan Option under this Plan, you may be able to contribute to your personal Health Savings Account ("HSA" as defined in Code Section 223) under this Plan. If you are permitted to contribute to an HSA, the rules for HSA contributions will be set forth generally in the Plan Information Summary.

Q-2. Who can participate in the Cafeteria Plan?

Each employee of the Employer (or an Affiliated Employer identified in the Plan Information Summary) who (i) satisfies the Cafeteria Plan Eligibility Requirements and (ii) is also eligible to participate in any of the Benefit Plan Options will be eligible to participate in this Cafeteria Plan no earlier than the Cafeteria Plan Eligibility Date. No Pre-tax Salary Reduction may be made unless a proper election is made in accordance with the terms of this SPD. The Cafeteria Plan Eligibility Requirements and Eligibility Date are described in the Plan Information Summary. If you are eligible to participate in this Plan, it does not necessarily mean you are eligible to participate in the Benefit Plan Options. For details on eligibility, benefits and premiums please refer to the plan summary for each Benefit Plan Option.

Q-3. When does my participation in the Cafeteria Plan end?

Your coverage under the Cafeteria Plan ends on the earliest of the following:

- (i) The date that you make an election not to participate in accordance with this Cafeteria Plan Summary.
- (ii) The date that you no longer satisfy the Eligibility Requirements of this Cafeteria Plan or all of the Benefit Plan Options.
- (iii) The date that you terminate employment with the Employer.
- (iv) The date that the Cafeteria Plan is either terminated or amended to exclude you or the class of employees of which you are a member.

If your employment with the Employer is terminated during the Plan Year or you otherwise cease to be eligible, your active participation in the Cafeteria Plan will *automatically* cease. If you are rehired within the same Plan Year and are eligible for the Cafeteria Plan (or you become eligible again), you may make new elections if you are rehired or become eligible again more than 30 days after you terminated employment or lost eligibility (subject to any limitations imposed by the Benefit Plan Options). If you are rehired or again become eligible within 30 days of your termination date, your Cafeteria Plan elections that were in effect when you terminated employment or stopped being eligible will be reinstated and remain in effect for the remainder of the Plan Year (unless you are allowed to change your election in accordance with the terms of the Plan).

Q-4. How do I become a Participant?

If you have otherwise satisfied the Cafeteria Plan's eligibility requirements, you become a Participant by signing an individual Salary Reduction Agreement (sometimes referred to as an "Election Form") on which you agree to pay your share of the Benefit Plan Options that you choose with Pre-tax Contributions. You will be provided with a Salary Reduction Agreement on or before your Cafeteria Plan Eligibility Date. You must complete the form and submit it to the Plan Administrator or the Third Party Administrator (per the instructions provided on or with your Salary Reduction Agreement) during one of the election periods described in **Q-6.**, below. You may also enroll during the year if you previously elected not to participate and you experience a change described below that allows you to become a Participant during the year. If that occurs, you must complete an election change form during the Election Change Period described in **Q-8.**, below. The election that you make under this Plan (whether to make Pre-tax Salary Reductions or not) is generally irrevocable during the Plan Year except as set forth in Q-6 below.

In some cases, the Employer may *require* you to pay your share of the Benefit Plan Option coverage that you elect with Pre-tax Contributions. If that is the case, your election to participate in the Benefit Plan Option(s) will constitute an election under this Cafeteria Plan.

You may be required to complete a Salary Reduction Agreement via telephone or voice response technology, electronic communication or any other method prescribed by the Plan Administrator. In order to utilize a telephone system or other electronic means, you may be required to sign an authorization form authorizing issuance of a personal identification number ("PIN") and allowing such PIN to serve as your electronic signature when utilizing the telephone system or electronic means. The Plan Administrator and all parties involved with Plan administration will be entitled to rely on your directions through use of the PIN as if such directions were issued in writing and signed by you.

Q-5. What are tax advantages and disadvantages of participating in the Cafeteria Plan?

You save both federal income tax and FICA (Social Security) taxes by participating in the Cafeteria Plan. An example in the Plan Information Summary illustrates the tax savings. Cafeteria Plan participation will reduce your taxable compensation and could mean a decrease in your Social Security benefits and/or other benefits (e.g., pension, disability and life insurance) that are based on taxable compensation.

Q-6. What are the election periods for entering the Cafeteria Plan?

The Cafeteria Plan basically has three election periods: (i) the "Initial Election Period," (ii) the "Annual Election Period," and (iii) the "Election Change Period," which is the period following the date you have a Change in Status Event (described below). The following is a summary of the Initial Election Period and the Annual Election Period.

6a. What is the Initial Election Period?

If you want to participate in the Cafeteria Plan when you are first hired, you must enroll during the "Initial Election Period" described in the enrollment materials you will receive. If you make an election during the Initial Election Period, your participation in this Cafeteria Plan will begin on the later of your Eligibility Date or the first pay period coinciding with or next following the date that your election is received. If you are newly hired and make your election no later than thirty (30) days after your hire date, the effective date of coverage is retroactive to the hire date, if

permitted by the governing documents of the Benefit Plan Options. This retroactive hire date rule does not apply to any employee who terminates employment and is rehired within 30 days after termination or returns to employment following an unpaid leave of absence of less than 30 days. Otherwise, the effective date of coverage under the Benefit Plan Options will be the date established in the governing documents of the Benefit Plan Options.

The election that you make during the Initial Election Period is effective for the remainder of the Plan Year and generally cannot be changed during the Plan Year unless you have a Change in Status Event described in **Q-8.**, below. If you do not make an election during the Initial Election Period, you will be deemed to have elected not to participate in this Cafeteria Plan for the remainder of the Plan Year. Failure to make an election under this Cafeteria Plan generally results in no coverage under the Benefit Plan Options; however, the Employer may provide coverage under certain Benefit Plan Options automatically. These automatic benefits are called "Default Benefits." Any Default Benefit provided by your Employer will be identified in the enrollment material. In addition, your share of the contributions for such Default Benefits may be automatically withdrawn from your pay on a pre-tax basis. You will be notified in the enrollment material whether there will be a corresponding Pre-tax Contribution for such default benefits.

6b. What is the Annual Election Period?

The Cafeteria Plan also has an "Annual Election Period" during which you may enroll if you did not enroll during the Initial Election Period or change your elections for the next Plan Year. The Annual Election Period will be identified in the enrollment material distributed to you prior to the Annual Election Period. The election that you make during the Annual Election Period is effective the first day of the next Plan Year and cannot be changed during the entire Plan Year unless you have a Change in Status Event described in **Q-8.**, below. If you fail to complete, sign and file a Salary Reduction Agreement during the Annual Election Period, you may be deemed to have elected to continue participation in the Cafeteria Plan with the same Benefit Plan Option elections that you had on the last day of the Plan Year in which the Annual Election period occurred (adjusted to reflect any increase/decrease in applicable premium/contributions). This is called an "Evergreen Election." Alternatively, the Plan Administrator may deem you to have elected not to participate in the Cafeteria Plan for the next Plan Year if you fail to make an election during the Annual Election Period. The consequences of failing to make an election under this Cafeteria Plan during the Annual Election Period are described in the Plan Information Summary. The Evergreen Election rules do not apply to certain Benefit Plan Options.

The Plan Year is generally a 12-month period (except during the initial or last Plan Year of the Plan). The beginning and ending dates of the Plan Year are described in the Plan Information Summary.

Q-7. How is my Benefit Plan Option coverage paid for under this Plan?

When you elect to participate in both a Benefit Plan Option and this Cafeteria Plan, an amount equal to your share of the annual cost of those Benefit Plan Options that you choose divided by the applicable number of pay periods you have during that Plan Year is deducted from each paycheck after your election date. If you have chosen to use Pre-tax Contributions (or it is a plan requirement), the deduction is made before any applicable federal and/or state taxes are withheld.

An Employer may choose to pay for a share of the cost of the Benefit Plan Options you choose with Nonelective Employer Contributions. The amount of Nonelective Employer Contributions that is applied by the Employer towards the cost of the Benefit Plan Option(s) for each Participant

and/or level of coverage is subject to the sole discretion of the Employer and it may be adjusted upward or downward in the Employer's sole discretion. The Nonelective Employer Contribution amount will be calculated for each Plan Year in a uniform and nondiscriminatory manner and may be based upon your dependent status, commencement or termination date of your employment during the Plan Year, and such other factors that the Employer deems relevant. In no event will any Nonelective Contribution be disbursed to you in the form of additional, taxable compensation except as otherwise provided in the enrollment material or in the Plan Information Summary.

The Employer may provide you with employer contributions over which you have discretion to choose how to apply to the various Benefit Plan Options available under the Cafeteria Plan. These elective employer contributions are called "Flexible Credits" or "Benefit Credits." The Flexible or Benefit Credit amounts provided by the Employer, if any, and any restrictions on their use, will be set forth in the enrollment material.

Where applicable, Salary Reduction amounts from the last month of one Plan Year may be applied to pay health plan premiums during the first month of the immediately following Plan Year, as long as your Employer does this on a uniform and consistent basis with respect to all Participants.

In addition, if applicable, a terminating employee may elect to have COBRA premiums paid on a pre-tax basis from severance pay for Plan coverage.

Q-8. Under what circumstances can I change my election during the Plan Year?

Generally, you cannot change your election under this Cafeteria Plan during the Plan Year. There are, however, a few exceptions. First, your election will automatically terminate if you terminate employment or lose eligibility under this Cafeteria Plan or under all of the Benefit Plan Options that you have chosen.

Second, you may voluntarily change your election during the Plan Year if you satisfy the following conditions (prescribed by federal law):

- (a) You experience a "Change in Status Event" or "Cost of Coverage Change" that affects your eligibility under this Cafeteria Plan and/or a Benefit Plan Option; and
- (b) You complete and submit a written Election Change Form within the Election Change period described in the Plan Information Summary.

Change in Status Events and Cost of Coverage Changes recognized by this Cafeteria Plan, and the rules surrounding election changes in the event you experience a Change in Status Event or Cost or Coverage Change are described in the Election Change Chart. The rules regarding Health Savings Account elections (if offered under the plan) will be set forth in the Plan Information Summary.

Third, an election under this Cafeteria Plan may be modified downward during the Plan Year if you are a Key Employee or Highly Compensated Individual (as defined by the Internal Revenue Code), if necessary to prevent the Cafeteria Plan from becoming discriminatory within the meaning of the applicable federal income tax law.

If coverage under a Benefit Plan Option ends, the corresponding Pre-tax Contributions will automatically end. No election is needed to stop that contribution.

Q-9. What happens to my participation under the Cafeteria Plan if I take a leave of absence?

Your Employer may elect to continue coverage under one or more of the Benefit Plan Options that you chose while you are absent on a paid leave. If so, you will pay your share of the cost of such coverage that you are required to pay during such a leave by the method normally used during any paid leave (for example, with Pre-tax Salary Reductions).

In the event of unpaid leave (or paid leave where coverage is not required to be continued), you will be permitted to pay your share of the cost of any such Benefit Plan Options that you are permitted to continue during the leave in accordance with policies adopted by your Employer. The payment options offered by the Employer in accordance with such policies will be established in accordance with Code Section 125, FMLA (to the extent applicable), any other applicable federal or state law(s) and any applicable regulations issued thereunder.

Q-10. How long will the Cafeteria Plan remain in effect?

Although the Employer expects to maintain the Cafeteria Plan indefinitely, it has the right to modify or terminate the Cafeteria Plan at any time and for any reason. Plan amendments and terminations will be conducted in accordance with the terms of the Plan Document.

Q-11. What happens if my request for a benefit under this Cafeteria Plan (e.g. an election change or other issue germane to Pre-tax Contributions) is denied?

You will have the right to a full and fair review process. You should refer to Appendix I for a detailed summary of the Claims Procedures under this Plan.

PLAN INFORMATION SUMMARY

This Appendix provides information specific to Dezavala-Shavano Veterinary Clinic, LLP. The Effective Date of this Plan Information Summary is 8/1/2012. This Plan Information Summary replaces and supersedes any other Plan Information Summary with an earlier effective date.

I. EMPLOYER/PLAN SPONSOR/THIRD PARTY ADMINISTRATOR INFORMATION

1. Name, address, and telephone number of the Employer/Plan Sponsor:	Dezavala-Shavano Veterinary Clinic, LLP 4458 Lockhill Selma Rd. San Antonio, TX 78249 (210)-699-3939
2. Name, address, and telephone number of the Plan Administrator: The Plan Administrator shall have the exclusive right to interpret the Plan and to decide all matters arising under the Plan, including the right to make determinations of fact, and construe and interpret possible ambiguities, inconsistencies or omissions in the Plan and the SPD issued in connection with the Plan.	Dezavala-Shavano Veterinary Clinic, LLP 4458 Lockhill Selma Rd. San Antonio, TX 78249 (210)-699-3939
3. Employer's federal tax identification number:	47-0862496
4. Plan Number:	—
5. Effective Date of the Plan: This is the date that the Plan was first established.	August 1, 2010
6. Effective Date of this SPD Note: This is the most recent date of the SPD other than the Plan Information Summary and the Appendices.	8/1/2012
7. Plan Year:	August 1 through July 31
8. Short Plan Year (if applicable)	through
9. Adopting Employers participating in the Plan:	N/A
10. Third Party Administrator:	Infinisource, Inc.

II. CAFETERIA PLAN INFORMATION

(a) **Eligibility Requirements and Eligibility Date.** Each Employee who is working 30 hours or more per week is eligible, excluding union employees. Those who are eligible for coverage or participation under any of the Benefit Plan Options (“Cafeteria Plan Eligibility Requirements”) will be eligible to participate in this Plan on the first day of the month following 30 days of employment (“Cafeteria Plan Eligibility Date”).

The Employee’s commencement of participation in the Plan is conditioned on the Employee properly completing and submitting a Salary Reduction Agreement as summarized in this SPD. Eligibility for coverage under any given Benefit Plan Option shall be determined not by this Plan but by the terms of that Benefit Plan Option.

(b) **Annual Election Rules.** With respect to Benefit Plan Option elections, failure to make an election during the Annual Election Period will result in one of the following deemed election(s):

- The employee will be deemed to have elected not to participate during the subsequent plan year. Coverage under the Benefit Plan Options offered under the Plan will end the last day of the Plan Year made.
- The employee will be deemed to have elected to continue his Benefit Plan Option elections in effect as of the end of the Plan Year in which the Annual Election Period took place. This is called an "Evergreen election."

(c) **Change of Election Period:** If you experience a Change in Status Event or Cost or Coverage Change as described in the Cafeteria Plan Summary and in the Election Change Chart, you may make the permitted election changes described in the Election Change Chart if you complete and submit an election change form within 30 days after the date of the event. If you are participating in an insured arrangement that provides a longer election change period, the election change period described in the insurance policy will apply.

(d) **Benefit Plan Options:** The Employer elects to offer to eligible Employees the following Benefit Plan Option(s) subject to the terms and conditions of the Plan and the terms and conditions of the Benefit Plan Options. These Benefit Plan Option(s) are specifically incorporated herein by reference. The maximum Pre-tax Contribution a Participant can contribute via the Salary Reduction Agreement is the aggregate cost of the applicable Benefit Plan Options selected, reduced by any Nonelective Contributions made by the Employer. It is intended that such Pre-tax Contribution amounts will, for tax purposes, constitute an Employer contribution, but may constitute Employee contributions for state insurance law purposes.

The following Benefit Plan Options are made available under the Plan to all those eligible Employees who make an appropriate election.

Health Insurance

Dental Insurance

Special Rule for Health Savings Accounts (if and only if identified above as a benefit plan option): The following describes your rights and obligations concerning contributions made under this Plan to your Health Savings Account (as defined in Code Section 223).

Q-1. What is a Health Savings Account for which contributions can be made under this Plan?

A Health Savings Account (“HSA”) is a personal savings account established with a Custodian or Trustee to be used primarily for reimbursement of “eligible medical expenses” you (the Account Beneficiary) and your eligible tax dependents (as defined in Code Section 152) incur, as set forth in Code Section 223. The HSA is administered by the HSA Custodian or Trustee or its designee and the terms of the HSA are set forth in the Custodial or Trust Agreement. The HSA is not an Employer-sponsored employee benefit plan. The Employer’s role with respect to the HSA is limited to making an HSA available to you and to making contributions to the HSA on your behalf through this Plan (through non-elective Employer contributions and/or pre-tax salary reductions elected by the Account Beneficiary). The fact that contributions to the HSA are made through this Plan should not be construed as endorsement of the HSA by the Employer. The Employer has no authority or control over the funds deposited in the Account Beneficiary’s HSA. As such, the HSA identified in the Plan Information Summary is not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

Q-2. Who is eligible for an HSA?

Only individuals who satisfy the following conditions are eligible for an HSA offered under this Plan:

- (a) You are enrolled in a qualifying High Deductible Health Plan maintained by your Employer that is identified as a benefit plan option in the Plan Information Summary;
- (b) You have opened an HSA with the Custodian chosen by the Employer;
- (c) You are not covered under any other non-high deductible health plan maintained by the Employer that is determined by the Employer to offer disqualifying health coverage [Note: You are not eligible for an HSA if you are covered under any non-qualifying coverage whether maintained by the Employer or not (including but not limited to coverage maintained by your spouse’s employer) and it is solely your responsibility to ensure that any other coverage you have that is not maintained by the Employer qualifies under Code Section 223] and
- (d) You have certified that you are otherwise eligible to participate in the HSA (i.e., you: i) cannot be claimed as a tax dependent; ii) are not enrolled in Medicare coverage; iii) have

qualifying high deductible health plan coverage; and iv) have no disqualifying coverage from any other source); and

(e) You are otherwise eligible for this Plan.

Q-3. Who is an Account Beneficiary?

An Account Beneficiary is an eligible Participant who has properly enrolled in an HSA in accordance with the terms of the applicable Custodial Agreement.

Q-4. Who is a Custodian or Trustee?

The Custodian or Trustee is the entity with whom the Account Beneficiary's HSA is established (for purposes of this Plan, use of the term "Custodian" includes a reference to both Custodian and Trustee). The HSA is not sponsored by or maintained by the Employer. The Custodian or its designee will provide each Account Beneficiary with a Custodial Agreement and other information that describes how to enroll in the HSA and your rights and obligations under the HSA. The Employer may choose to restrict contributions made through this Plan to HSAs maintained by a particular Custodian; however, you will be permitted to rollover funds from the HSA offered under this Plan to another HSA of your choosing (in accordance with the terms of the Custodial Agreement).

Q-5. What are the rules regarding contributions made to an HSA under the Plan?

Contributions made under this Plan may consist of both Employee Pre-tax Contributions made pursuant to a Salary Reduction Agreement and/or Nonelective Employer Contributions (if any). You may elect to contribute any amount to the HSA that you wish; however, the maximum amount of all contributions that can be made to the HSA through this Plan (including both Employer non-elective and pre-tax salary reductions) during the Plan Year cannot exceed the maximum amount set forth in Code Section 223(b)(2) (as adjusted for inflation).

If the Account Beneficiary is age 55 or older and the Account Beneficiary properly certifies his or her age to the Employer, the maximum contribution amount described above may be increased by the "additional annual contribution" amount (as set forth in Code Section 223(b)(3)), but only to the extent set forth in the separate written HSA material provided by the Employer and/or the Custodian.

To the extent set forth in the Plan's enrollment material or the HSA communication material, the Employer may automatically withhold Pre-tax Contributions from your compensation to contribute to an HSA unless you affirmatively indicate that you do not wish to contribute to the HSA with pre-tax contributions. Pre-tax Contributions will equal the maximum annual contribution amount set forth above (reduced by any Employer Nonelective Contributions) divided by the number of pay periods remaining during the Plan Year. Non-elective Employer Contributions may be made at any time during the Plan Year in a lump sum amount or through periodic contributions (as determined in the sole discretion of the Employer) and communicated in Plan or HSA enrollment materials.

Your HSA election under this Plan will not be effective until the later of the date that you make your election or the date that you establish your HSA. Employer may adjust contributions made under this Plan as necessary to ensure the maximum contribution amount is not exceeded.

Any Pre-tax Contributions that cannot be made to the HSA because you have been determined to be ineligible for such contribution will be returned to you as taxable compensation or as otherwise set forth in the Plan enrollment material. Any non-elective contributions that cannot be made to the HSA because the employee is not eligible for such contribution will be returned to the Employer except as otherwise set forth in the applicable communication material.

The Employer may advance contributions to you up to your annual HSA pre-tax salary reduction election made through this Plan (reduced by any prior Pre-tax Contributions made by you during the Plan Year) or such other amount established by the Employer, whichever is less. Advance contributions will be made available to all Participants on non-discriminatory terms and conditions; however, the Employer may condition the advance of such contributions on the occurrence of certain events identified by the Employer in separate written material relating to the Plan. Moreover, you will be required to repay the Employer for advances made through this Plan through means established by the Employer.

In the event excess contributions are made to the Participant's HSA (i.e. the HSA has received contributions in excess of the Maximum Annual Contribution Amount), it will be the sole responsibility of the Participant to work with the Custodian to remove the excess contribution (plus earnings on such contributions) prior to the due date of the Participant's tax return for that tax year and to report the contributions (and earnings) as income when filing taxes at the end of the year.

Q-6. What are the election change rules under this Plan for HSA elections?

You may change your HSA contribution election at least once per month during the plan year for any reason by submitting an election change form to the Plan Administrator (or its designee). Your election change will be prospectively effective as of the first day of the next pay period following the day that you properly submit your election change (or such later date as uniformly applied by the Plan Administrator to accommodate payroll changes). Your ability to make Pre-tax Contributions under this Plan to the HSA ends on the date that you cease to meet the eligibility requirements under this Plan.

Q-7. Where Can I get more Information on my HSA and its related tax consequences?

For details concerning your rights and responsibilities with respect to your HSA (including information concerning the terms of eligibility, qualifying High Deductible Health Plan, contributions to the HSA and distributions from the HSA), please refer to your HSA Custodial Agreement and/or the HSA communication material provided by your Employer.

Special Rule for Vacation buy/Sell Benefits (if and only if offered under the Plan).

Employees may elect to buy up to _____ vacation days in addition to the vacation days provided by the employer. In addition, employees may elect to sell up to _____ accrued vacation days in exchange for taxable compensation (such compensation will be prorated by the number of paychecks in the Plan Year and such amount will be included in each paycheck). All elections to purchase or buy vacation days must be made in accordance with the Plan's election procedures. If you buy vacation days, then you must use them by the date established by the Employer (but in no event after the end of the Plan Year) or you will lose them. You will receive the value of unused elective vacation days in your paycheck at the end of the year. In determining whether you have unused elective vacation days, all nonelective vacation days provided by the Employer will be deemed to be used first. You will not receive cash for any unused nonelective vacation days except as otherwise provided pursuant to the Employer's internal policies and procedures.

APPENDIX I

CLAIMS REVIEW PROCEDURE CHART

The Effective Date of this Appendix I is 8/1/2012. It should replace and supersede any other Appendix I with an earlier date.

The Plan has established the following claims review procedure in the event you are denied a benefit under this Plan. The procedure set forth below does not apply to benefit claims filed under the Benefit Plan Options.

Step 1: *Notice is received from Third Party Administrator.* If your claim is denied, you will receive written notice from the Third Party Administrator that your claim is denied as soon as reasonably possible, but no later than 30 days after receipt of the claim. For reasons beyond the control of the Third Party Administrator, the Third Party Administrator may take up to an additional 15 days to review your claim. You will be provided written notice of the need for additional time prior to the end of the 30-day period. If the reason for the additional time is that you need to provide additional information, you will have 45 days from the notice of the extension to obtain that information. The time period during which the Third Party Administrator must make a decision will be suspended until the earlier of the date that you provide the information or the end of the 45-day period.

Step 2: *Review your notice carefully.* Once you have received your notice from the Third Party Administrator, review it carefully. The notice will contain:

- a. The reason(s) for the denial and the Plan provisions on which the denial is based.
- b. A description of any additional information necessary for you to perfect your claim, why the information is necessary and your time limit for submitting the information.
- c. A description of the Plan's appeal procedures and the time limits applicable to such procedures.
- d. A right to request all documentation relevant to your claim.

Step 3: *If you disagree with the decision, file an Appeal.* If you do not agree with the decision of the Third Party Administrator and you wish to appeal, you must file your appeal no later than 180 days after receipt of the notice described in Step 1. You should submit all information identified in the notice of denial as necessary to perfect your claim and any additional information that you believe would support your claim.

Step 4: *Notice of Denial is received from Third Party Administrator.* If the claim is again denied, you will be notified in writing as soon as possible but no later than 30 days after receipt of the appeal by the Third Party Administrator.

Step 5: *Review your notice carefully.* You should take the same action that you took in Step 2 described above. The notice will contain the same type of information that is provided in the first notice of denial provided by the Third Party Administrator.

Step 6: *If you still disagree with the Third Party Administrator's decision, file a Second Level Appeal with the Plan Administrator.* If you still do not agree with the Third Party Administrator's decision and you wish to appeal, you must file a written appeal with the Plan Administrator within the time period set forth in the first level appeal denial notice from the Third Party Administrator. You should gather any

additional information that is identified in the notice as necessary to perfect your claim and any other information that you believe would support your claim.

If the Plan Administrator denies your Second Level Appeal, you will receive notice within 30 days after the Plan Administrator receives your claim. The notice will contain the same type of information that was referenced in Step 1 above.

Important Information

Other important information regarding your appeals:

- *On each level of appeal, the claims reviewer will review relevant information that you submit even if it is new information.*
- *You cannot file suit in federal court until you have exhausted these appeals procedures.*

APPENDIX II

TAX ADVANTAGES EXAMPLE

The Effective Date of this Appendix II is 8/1/2012. It should replace and supersede any other Appendix II with an earlier date.

As indicated in the SPD, participating in the Plan can actually increase your take-home pay. Consider the following example:

You are married and have one child. The Employer pays for 80% of your medical insurance premiums, but only 40% for your family. You pay \$2,400 in premiums (\$400 for your share of the employee-only premium, plus \$2,000 for family coverage under the Employer's major medical insurance plan). You earn \$50,000 and your spouse (a student) earns no income. You file a joint tax return.

	If you participate in the cafeteria Plan		If you do not participate in the cafeteria plan
1. Gross Income	\$50,000		\$50,000
2. Salary Reductions for Premiums	\$2,400 (pre-tax)		\$0
3. Adjusted Gross Income	\$47,600		\$50,000
4. Standard Deduction	(\$9,700)		(\$9,700)
5. Exemptions	(\$9,300)		(\$9,300)
6. Taxable Income	\$28,600		\$31,000
7. Federal Income Tax (Line 6 x applicable tax schedule)	(\$3,594)		(\$3,954)
8. FICA Tax (7.65% x Line 3 Amount)	(\$3,641)		(\$3,825)
9. After Tax Contributions	(\$0)		(\$2400)
10. Pay after taxes & contributions	\$40,365		\$39,821
11. Take Home Pay Difference	\$544		

APPENDIX III

ELECTION CHANGE CHART

The Effective Date of this Appendix III is 8/1/2012. It should replace and supersede any other Appendix III with an earlier date.

The following is a summary of the election changes that are permitted under this Plan. Also, election changes that are permitted under this Plan may not be permitted under the Benefit Plan Option (e.g., the insurance carrier may not allow a change). If a change is not permitted under a Benefit Plan Option, no election change is permitted under the Plan. Likewise, a Benefit Plan Option may allow an election change that is not permitted by this Plan. In that case, your pre-tax reduction may not be changed even though a coverage change is permitted. For a description of the election change rules for Health Savings Accounts (if made available through the Plan), see the Health Savings Account section of the Plan Information Summary.

First, read the following description of the general rules established by the IRS regarding election changes. Then, you should look to the chart to determine under what circumstances you are permitted to make an election under this Plan and the scope of the changes you may make.

1. **Change in Status.** Election changes may be allowed if a Participant or a Participant's Spouse or Dependent experiences one of the Change in Status Events set forth in the chart. The election change must be on account of and correspond with the Change in Status Event as determined by the Plan Administrator (or its designated Third Party Administrator). With the exception of enrollment resulting from birth, placement for adoption or adoption, all election changes are prospective (generally the first of the month following the date you make a new election with the Third Party Administrator but it may be earlier depending on the Employer's internal policies or procedures). A Change in Status affects eligibility for coverage if it results in an increase or decrease in the number of Dependents who may benefit under the Plan. In addition, you must also satisfy the following specific requirements:

- *Loss of Dependent Eligibility.* For accident and health benefits (e.g., health, dental and vision coverage), the election change must be consistent with the Change in Status. This applies to a Change in Status involving a divorce, annulment or legal separation, the death of a Spouse or Dependent, or a Dependent ceasing to satisfy the eligibility requirements for coverage. However, there are instances in which you may be able to increase your Pre-tax Contributions to pay for COBRA coverage of a Dependent. Contact the Third Party Administrator for more information.

Example: Employee Mike is married to Sharon, and they have one child. Mike elects family coverage for himself, his wife Sharon and their child. Mike and Sharon subsequently divorce during the plan year; Sharon loses eligibility, while the child is still eligible for coverage. Mike now wishes to cancel his previous election and elect no health coverage. The divorce between Mike and Sharon constitutes a Change in Status. An election to cancel coverage for Sharon and change to employee-plus-one-dependent is consistent with this Change in Status. However, an election to cancel coverage for Mike and/or the child is not consistent with this Change in Status.

- *Gain of Coverage Eligibility Under Another Employer's Plan.* For a Change in Status in which a Participant, Spouse or Dependent gains eligibility for coverage under another employer's cafeteria plan or benefit plan as a result of a change in marital status or a change in employment status, an election to cease or decrease coverage for that individual under the Plan would correspond with that Change in Status *only* if coverage for that individual becomes effective or is increased under the other employer's plan.
- *Group Term Life Insurance, Disability Income or Accidental Death and Dismemberment Benefits (if offered under the Plan. See the list of Benefit Plan Options offered under the Plan.).* For group term life insurance, disability income and accidental death and dismemberment benefits only if a Participant experiences any Change in Status (as described above), an election to either increase or decrease coverage is permitted.

Example: Employee Mike is married to Sharon and they have one child. The employer's plan offers a cafeteria plan which funds group-term life insurance coverage (and other benefits) through salary reduction. Mike elects \$10,000 of group-term life insurance. Mike and Sharon

subsequently divorce during the plan year. The divorce constitutes a Change in Status. An election by Mike either to increase or to decrease his group-term life insurance coverage would each be consistent with this Change in Status.

2. **Special Enrollment Rights.** If a Participant, Participant's Spouse and/or Dependent are entitled to special enrollment rights under a Benefit Plan Option that is a group health plan, an election change to correspond with the special enrollment right is permitted. An election change that corresponds with a special enrollment must be prospective, unless the special enrollment is attributable to the birth, adoption, or placement for adoption of a child, which may be retroactive up to 30 days. Please refer to the group health plan summary description for an explanation of special enrollment rights.

Example: Employee Mike is married to Sharon. He declines enrollment in medical coverage for himself, Sharon and one child because of outside medical coverage. They then lose coverage due to certain reasons (e.g., legal separation, divorce, death, termination of employment, reduction in hours or exhaustion of COBRA period). Mike may now elect medical coverage under the Plan for himself, Sharon and the child. Furthermore, Mike gains a new Dependent as a result of marriage, birth, adoption, or placement for adoption, he may also be able to enroll himself, his Spouse, and the newly acquired Dependent, provided that a request for enrollment is made within the Election Change Period.

3. **Certain Judgments, Decrees and Orders.** If a judgment, decree or order from a divorce, separation, annulment or custody change requires a Dependent child (including a foster child who is your tax Dependent) to be covered under this Plan, an election change to provide coverage for the Dependent child identified in the order is permissible. If the order requires that another individual (such as your former Spouse) cover the Dependent child, and such coverage is actually provided, you may change your election to revoke coverage for the Dependent child.

4. **Entitlement to Medicare or Medicaid.** If a Participant or the Participant's Dependents become entitled to Medicare or Medicaid, an election to cancel that person's accident or health coverage is permitted. Similarly, if a Participant or Participant's Dependents who have been entitled to Medicare or Medicaid loses eligibility for such, you may elect to begin or increase that person's accident or health coverage.

5. **Change in Cost.** If the cost of a Benefit Plan Option significantly increases, a Participant may choose to make an increase in contributions, revoke the election and receive coverage under another Benefit Plan Option that provides similar coverage or drop coverage altogether *if no similar coverage exists*. If the cost of a Benefit Plan Option significantly decreases, a Participant who elected to participate in another Benefit Plan Option may revoke the election and elect to receive coverage provided under the Benefit Plan Option that decreased in cost. In addition, otherwise eligible employees who elected not to participate in the Plan may elect to participate in the Benefit Plan Option that decreased in cost. For *insignificant* increases or decreases in the cost of Benefit Plan Option options, however, Pre-tax Contributions will automatically be adjusted to reflect the minor change in cost. The Plan Administrator will have final authority to determine whether the requirements of this section are met.

Example: Employee Mike is covered under an indemnity option of his employer's health insurance. If the cost of this option significantly increases, the Employee may make a corresponding increase in his payments or may revoke his election and elect coverage another health plan option.

6. **Change in Coverage.** If coverage under a Benefit Plan Option is significantly curtailed, a Participant may elect to revoke an election and elect coverage under another Benefit Plan Option that provides similar coverage. If the significant curtailment amounts to a complete loss of coverage, a Participant may also drop coverage if no other similar coverage is available. Further, if the Plan adds or significantly improves a benefit option during the Plan Year, a Participant may revoke his election and elect to receive, on a prospective basis, coverage provided by the newly added or significantly improved option, so long as the newly added or significantly improved option provides similar coverage. Also, a Participant may make an election change that is on account of and corresponds with a change made under another employer plan (including a plan of the Employer or another employer), so long as: (a) the other employer plan permits its participants to make an election change permitted under the IRS regulations; or (b) the Plan Year for this Plan is different from the Plan Year of the other employer plan. Finally, a Participant may change his election to add coverage under this Plan for the Participant, the Participant's Spouse or Dependents if such individual(s) loses coverage under any group health coverage sponsored by a governmental or educational institution. The Plan Administrator will have final discretion to determine whether the requirements of this section are met.

The following is a summary reflecting the election changes that may be made under the Plan with respect to each Benefit Plan Option. In addition, election changes that are permitted under this Plan are subject to any limitations imposed by the Benefit Plan Options. If an election change is permitted by this Plan but not by the Benefit Plan Option, no election change under this Plan is permitted.

ELECTION CHANGE SUMMARY

I. Change in Status

A. Change in Legal Marital Status

i. Gain of Spouse (e.g., marriage)

1. **Major Medical:** Employee may enroll or increase election for newly- eligible spouse and Dependents. Under “tag-along” rule, new and preexisting Dependents may be enrolled. Coverage option (e.g., HMO to PPO) change may be made. Employee may revoke or decrease Employee’s or dependent’s coverage only when such coverage becomes effective or is increased under the spouse’s plan.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

ii. Loss of Spouse (e.g., divorce, legal separation, annulment or spouse’s death)

1. **Major Medical:** Employee may revoke election only for spouse. Coverage option (e.g., HMO to PPO) change may be made. Employee may elect coverage for self or Dependents that lose eligibility under spouse’s plan. Under “tag-along” rule, any Dependents may be enrolled so long as at least one dependent has lost coverage under spouse’s plan.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

B. Change in Number of Dependents

i. Gain of Dependent (e.g., birth or adoption)

1. **Major Medical:** Employee may enroll or increase coverage for newly- eligible Dependent (and other Dependents not previously covered under “tag-along” rule). Coverage option (e.g., HMO to PPO) change may be made. Employee may revoke or decrease Employee’s or dependent’s coverage if Employee becomes eligible under spouse’s plan.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

ii. Loss of Dependent (e.g., death)

1. **Major Medical:** Employee may drop coverage only for the Dependent that loses eligibility. Coverage option (e.g., HMO to PPO) change may be made.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

C. Change in Employment Status that Affects Eligibility

- i. **Commencement of Employment/Change in Employment Status That Triggers Eligibility**
 - 1. **For Employee:**
 - a. *Major Medical:* Employee may add coverage for Employee, spouse or Dependents. Coverage option (e.g., HMO to PPO) change may be made.
 - b. *Dental and Vision:* Same as Major Medical.
 - c. *Employee Group Life, AD&D and Disability Coverage:* Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.
 - 2. **For Spouse or Other Dependent:**
 - a. *Major Medical:* Employee may revoke or decrease election when a corresponding election is made to a spouses or Dependent's coverage. Coverage option (e.g., HMO to PPO) change may be made.
 - b. *Dental and Vision:* Same as Major Medical.
 - c. *Employee Group Life, AD&D and Disability Coverage:* Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.
- ii. **Employment Termination/Change in Employment Status That Causes Loss of Eligibility (e.g., full-time to part-time status, salaried to hourly pay basis)**
 - 1. **For Employee**
 - a. *Major Medical:* Employee may revoke or decrease election for Employee, spouse or Dependents that lose eligibility. In addition, other previously eligible Dependents may also be enrolled under "tag-along" rule. Coverage option (e.g., HMO to PPO) change may be made.
 - b. *Dental and Vision:* Same as Major Medical.
 - c. *Employee Group Life, AD&D and Disability Coverage:* Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.
 - 2. **For Spouse or Other Dependent:**
 - a. *Major Medical:* Employee may enroll or increase election for Employee, spouse or Dependents that lose eligibility under spouse's or Dependent's employer's plan. In addition, other previously eligible Dependents may also be enrolled under "tag-along" rule. Coverage option (e.g., HMO to PPO) change may be made.
 - b. *Dental and Vision:* Same as Major Medical.
 - c. *Employee Group Life, AD&D and Disability Coverage:* Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.
 - 3. **Termination and Rehire of Employee:**

Generally, if rehire occurs within 30 days, prior elections that were in effect at termination are reinstated unless another event has occurred that allows a change. Alternatively, Employer may prohibit participation until the next plan year. If rehire occurs after 30 days, employee may make new elections.

D. Change of Dependent Status

i. Newly Eligible Dependent

1. **Major Medical:** Employee may enroll or increase election for affected Dependent. In addition, other previously eligible Dependents may also be enrolled under “tag-along” rule. Coverage option (e.g., HMO to PPO) change may be made.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

ii. Newly Ineligible Dependent

1. **Major Medical:** Employee may decrease or revoke election only for affected Dependent. Coverage option (e.g., HMO to PPO) change may be made.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

E. Change in Residence

i. Move Triggers Eligibility

1. **Major Medical:** Employee may enroll or increase election for newly eligible individual. Also, other previously eligible Dependents may be enrolled under “tag-along” rule. Coverage option (e.g., HMO to PPO) change may be made.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease or cease coverage even when eligibility is not affected.

ii. Move Causes Loss of Eligibility

1. **Major Medical:** Employee may revoke election or make new election if the change in residence affects eligibility.
2. **Dental and Vision:** Same as Major Medical.
3. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease, or cease coverage even when eligibility is not affected.

II. Insignificant Cost Changes With Automatic Increase/Decrease in Elective Contributions (initiated by Employer or Employee)

Note: The Plan has final authority to determine when a cost change is significant or insignificant based on a reasonable assessment of the facts and circumstances.

- A. **Major Medical:** Plan may automatically increase or decrease (on a reasonable and consistent basis) affected Employees’ elective contributions under the Plan.
- B. **Dental and Vision:** Same as Major Medical.
- C. **Employee Group Life, AD&D and Disability Coverage:** Employee may enroll, increase, decrease, or cease coverage even when eligibility is not affected.

III. Significant Cost Changes

Note: The Plan has final authority to determine when a cost change is significant or insignificant based on a reasonable assessment of the facts and circumstances.

A. Significant Cost Increase

- i. **Major Medical:** Employee may increase election or revoke election and elect coverage under another benefit option providing similar coverage. If no other option providing similar coverage is available, Employee may revoke election.

- ii. *Dental and Vision:* Same as Major Medical.
 - iii. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
 - B. **Significant Cost Decrease**
 - i. *Major Medical: Employee* may decrease election or elect coverage with decreased cost while revoking election for similar coverage option. In the latter case, the “tag-along” rule applies.
 - ii. *Dental and Vision:* Same as Major Medical.
 - iii. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
- IV. Significant Coverage Curtailment (e.g., significant increase in deductibles, co-payments or out-of-pocket maximums)**
- Note: The Plan has final authority to determine when coverage curtailment is significant or insignificant based on a reasonable assessment of the facts and circumstances.*
- A. **Without Loss of Coverage**
 - i. *Major Medical:* Employee may revoke election and make new prospective election for coverage under another benefit option providing similar coverage.
 - ii. *Dental and Vision:* Same as Major Medical.
 - iii. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
 - B. **With Loss of Coverage**
 - i. *Major Medical:* Employee may revoke election and make new prospective election for coverage under another benefit option providing similar coverage. Alternatively, Employee may revoke election for similar coverage option.
 - ii. *Dental and Vision:* Same as Major Medical.
 - iii. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
- V. Addition or Significant Improvement of Benefit Option**
- A. *Major Medical:* Eligible employees (whether currently participating or not) may revoke their existing election and elect the newly added or improved option. The “tag-along” rule applies.
 - B. *Dental and Vision:* Same as Major Medical.
 - C. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
- VI. Change in Coverage Under Other Employer’s Plan (including Open Enrollment)**
- A. **Other Employer’s Plan Increases Coverage**
 - i. *Major Medical:* For an election of or increase in the other employer’s coverage, employee may decrease coverage or revoke election in Employer’s Plan. For a revoked election of or decrease in the other employer’s coverage, Employee may increase coverage or make an election in Employer’s Plan. During Open Enrollment under other employer’s plan, Employee can make corresponding changes to Employer’s Plan.
 - ii. *Dental and Vision:* Same as Major Medical.
 - iii. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.
- VII. Loss of Group Health Coverage Sponsored by Governmental or Educational Institution**
- A. *Major Medical:* Employee may enroll or increase election for employee, spouse or Dependent loses coverage sponsored by a governmental or educational institution. The “tag-along” rule applies.
 - B. *Dental and Vision:* Same as Major Medical.
 - C. *Employee Group Life, AD&D and Disability Coverage:* Same as Major Medical.

VIII. FMLA Leave

Note: Employees who continue coverage under FMLA may – at Employer’s sole discretion – pay for coverage according to one of the following methods:

- *pre-pay on a pre-tax basis (so long as the leave does not cover two plan years)*
- *pay on an ongoing basis, as determined by Employer’s FMLA policy (pre-tax if receiving salary continuation)*
- *catch up upon returning from leave*

A. Commencement of Leave

- i. **Major Medical:** Employee can make same elections as Employee on non-FMLA leave. In addition, Employer must allow an Employee on unpaid FMLA leave either to revoke coverage or to continue coverage but allow Employee to discontinue payment of his share of the contribution during the leave (the Employer may recover the Employee’s share of contributions when the Employee returns to work). FMLA also allows an Employer to require that Employees on paid FMLA leave continue coverage if Employees on non-FMLA paid leave are required to continue coverage.
- ii. **Dental and Vision:** Same as Major Medical.
- iii. **Employee Group Life, AD&D and Disability Coverage:** Same as Major Medical.

B. Return from Leave

- i. **Major Medical:** Employee may make a new election if coverage terminated while on FMLA leave. In addition, an Employer may require an Employee to be reinstated in his election upon return from leave if Employees who return from a non-FMLA paid leave are required to be reinstated in their elections.
- ii. **Dental and Vision:** Same as Major Medical.
- iii. **Employee Group Life, AD&D and Disability Coverage:** Same as Major Medical.

IX. HIPAA Special Enrollment Rights

A. Loss of Other Health Coverage

- i. **Major Medical:** Employee may elect coverage for Employee, spouse or Dependent who has lost other coverage.
- ii. **Dental and Vision:** No change allowed.
- iii. **Employee Group Life, AD&D and Disability Coverage:** No change allowed.

B. Acquisition of New Dependent by Birth, Marriage, Adoption, or Placement for Adoption (newly born/adopted Dependents have coverage retroactive to birth/adoption date)

- i. **Major Medical:** Employee may elect coverage for employee, spouse or Dependent.
- ii. **Dental and Vision:** No change allowed.
- iii. **Employee Group Life, AD&D and Disability Coverage:** No change allowed.

C. Termination of Medicaid or CHIP Coverage. Effective April, 1, 2009, if the employee or Dependent is covered under a Medicaid plan under Title XIX of the Social Security Act or under a state child health insurance plan (CHIP) under Title XXI of such Act and such coverage is terminated as a result of loss of eligibility, the employee must make a written request to the Plan Administrator no later than 60 days after coverage is terminated.

1. **Major Medical:** Employee may elect coverage for employee, spouse or dependent.
2. **Dental and Vision:** No change allowed.
3. **Employee Group Life, AD&D and Disability Coverage:** No change allowed.

D. Eligibility for Employment Assistance under Medicaid or CHIP. Effective April 1, 2009, if the employee or Dependent becomes eligible for Medicaid or CHIP assistance with respect

to coverage under the Major Medical Plan (including any waiver or demonstration project under Medicaid or CHIP), the employee must make a written request to the Plan Administrator no later than 60 days after the date the employee or Dependent is determined to be eligible for such assistance.

1. Major Medical: Employee may elect coverage for employee, spouse, or Dependent.

2. Dental and Vision: No change allowed.

3. Employee Group Life, AD&D and Disability Coverage: No change allowed.

X. COBRA and State Continuation Coverage Qualifying Events

A. Major Medical: Employee may increase pre-tax contributions under Employer's plan for coverage if the qualifying event occurs with respect to the Employee, spouse or Dependents with respect to which the qualifying event occurred.

B. Dental and Vision: Same as Major Medical.

C. Health FSA: Same as Major Medical.

D. Dependent Care FSA: No change allowed.

E. Employee Group Life, AD&D and Disability Coverage: No change allowed.

XI. Judgment, Decree or Order

A. Order Requiring Employee to Cover Child (e.g., QMCSO)

i. Major Medical: Employee may change election to provide coverage for the child.

ii. Dental and Vision: Same as Major Medical.

iii. Employee Group Life, AD&D and Disability Coverage: No change allowed.

B. Order Requiring Spouse, Former Spouse or Other Individual to Cover Child

i. Major Medical: Employee may change election to terminate coverage for child.

ii. Dental and Vision: Same as Major Medical.

iii. Employee Group Life, AD&D and Disability Coverage: No change allowed.

XII. Medicare or Medicaid

A. Medicare or Medicaid Entitlement (i.e., enrollment) other than coverage solely for pediatric vaccines

i. Major Medical: Employee may revoke an election or decrease coverage for Employee, spouse or Dependent, as applicable.

ii. Dental and Vision: No change allowed.

iii. Employee Group Life, AD&D and Disability Coverage: No change allowed.

B. Loss of Eligibility for Medicare or Medicaid other than coverage solely for pediatric vaccines

i. Major Medical: Employee may commence or increase coverage for Employee, spouse or Dependent, as applicable.

ii. Dental and Vision: No change allowed.

iii. Employee Group Life, AD&D and Disability Coverage: No change allowed.

Nondiscrimination Testing Guidelines

All cafeteria plans must pass three nondiscrimination tests to prove that the plan is nondiscriminatory in favor of highly compensated or key employees of an organization. The tests include an eligibility test, a key employee concentration test and a contributions and benefits test.

Most Benefit Plan Options (e.g., Health and Dependent Care Flexible Spending Arrangements) offered under the Plan also have to satisfy nondiscrimination tests. Those tests are not discussed herein. Contact your tax or legal advisor to discuss the nondiscrimination tests for each Benefit Plan Option.

1. Safe Harbor (Eligibility Test)

The plan may not discriminate in favor of highly compensated employees (HCE) (see below for description) as to eligibility to participate. In order to pass this test, the plan must meet these requirements:

- a. No employee is required to complete more than three years of employment to participate (waiting period); and the same employment requirements apply to all employees;
- b. Individuals who have satisfied the waiting period will begin participation no later than the first day of the first plan year beginning the date they satisfied the waiting period; and
- c. The plan benefits employees who qualify under a reasonable classification (i.e., salaried vs. hourly) and the classification is nondiscriminatory.

2. Overall Concentration Test (Key Employee Concentration Test)

Benefits provided to key employees (see below for description) under the entire cafeteria plan may not exceed 25% of the benefits provided to all participants. This would include employee and employer premium payments. This does not apply to government plans.

3. Contribution and Benefits Test

The availability test is satisfied if a plan gives each participant an equal opportunity to select the qualified benefits.

A Highly Compensated Employee for the Code Section 125 Eligibility test means:

1. An officer;
2. A shareholder owning more than 5% of the employer during the testing year or preceding year; or
3. An employee, who during the preceding year, received more than \$110,000 (2010 and 2011) or more than \$115,000 (2012) in compensation or
4. A spouse or Dependent of any of the foregoing.

A Key Employee is defined in Section 416(i) as any employee, who during the current year, is:

1. An officer who is expected to have compensation in excess of \$160,000 (2010 and 2011) or in excess of \$165,000 (2012) in the testing year;
2. A more than 5% owner; or

3. A more than 1% owner expected to have annual compensation in excess of \$165,000 in the testing year.

25% “Key Employee” Concentration Test Worksheet

This test requires that not more than 25% of the Plan’s nontaxable benefits that are provided to all employees in the aggregate can be provided to Key Employees. Testing is on a Plan Year basis. However, the testing should be completed prior to the start of the year and periodically throughout the year as conditions change. In this manner, changes to the Key Employees’ elections can be made in order for the Plan to be in compliance with the test. If the plan is discriminatory for this test, Key Employees must include in income the entire amount of the Plan’s contributions.

Instructions: Determine if any Key Employees (see definition on prior page) are participating. If not, no need to test. If yes, follow numbers below:

1. Total Key Employee Benefits (A)

2. Total all Benefits (includes Key Employee Benefits) (B)

3. Determine percentage of Key Employee Benefits to the aggregate of all Benefits.

$$\frac{\mathbf{A}}{\mathbf{B}} = \frac{\quad}{\quad} \%$$

(Must be = or < 25%)

Dezavala-Shavano Veterinary Clinic, LLP
Premium Conversion Election Form and Salary Reduction Agreement

You may pay for employer-sponsored benefit plan premiums with pre-tax dollars under the Premium Conversion Plan (the "Plan"). Simply check the first box and return this Election Form by _____, to your employer's designated individual.

Failure to comply with the above instructions will result in any premiums being paid outside the Plan with after-tax dollars. Please check the second box for the after-tax option.

Irrevocable Election. If you elect the pre-tax option, you cannot change or revoke your election until the open enrollment period for the next Plan Year. Your Summary Plan Description (SPD) has details on the limited circumstances in which an election may be changed. The primary exception involves a change in status (e.g., marriage, divorce). Any election change must be requested within 30 days of the event.

Employee Information

Name: _____ SS#: _____

Address: _____

Phone: _____

Election Options (check one)

I elect the pre-tax option for the current Plan Year. I authorize my employer to make appropriate pre-tax payroll deductions to pay for benefits available under the Plan.

If applicable, you may elect to make pre-tax contributions to a Health Savings Account (HSA) as described in the SPD. By indicating the amount of the contribution below, you certify that you are eligible to contribute to an HSA and represent that you will revoke your HSA election if you are no longer eligible to contribute to an HSA.

I hereby elect to contribute the following amount to the HSA for this Plan Year and authorize a pre-tax payroll deduction from the Plan:	\$ _____
--	----------

I elect to pay for my benefit premiums on an after-tax basis. I authorize my employer to make appropriate after-tax payroll deductions.

Employee Statement and Signature

I understand the contents of this Election Form and agree to the following:

- This Election Form does not enroll me in any benefit plans or options available under the Plan
- Pre-tax premiums reduce my compensation for Social Security tax purposes
- My election revokes any prior election under the Plan and remains in force through subsequent Plan years, unless I revoke the election or execute a new Election Form
- During the open enrollment period, I may change my elections for the next Plan year
- If my contribution for any benefit changes, I authorize my employer to change my salary reductions accordingly

Employee's Signature

Date

**MINUTES OF SPECIAL MEETING
OF BOARD OF DIRECTORS
OF DEZAVALA-SHAVANO VETERINARY CLINIC,
LLP**

(Company)

A Special Meeting of the Board of Directors of Dezavala-Shavano Veterinary Clinic, Llp was held at the office of the Corporation on _____, at _____.

	<u>Name</u>	<u>Title</u>
Present:	_____	_____
	_____	_____
	_____	_____
Not Present:	_____	_____
	_____	_____
	_____	_____

The meeting was called to Order by: _____.

The following resolutions were unanimously approved:

RESOLVED, that *Dezavala-Shavano Veterinary Clinic, LLP (the "Corporation") makes a Section 125 Premium Conversion Plan benefit available to its employees and pays a portion of those premiums as set forth in the attached Plan. The Corporation wishes to adopt such Plan as it complies with the Internal Revenue Code to enable its employees to elect to pay for their share of the group insurance premiums on a pre-tax salary reduction basis. The plan, as presented to this meeting, is hereby approved and adopted and the proper officers of the Corporation are hereby authorized and directed to execute and deliver to the administrator of the Plan one or more counterparts of the Plan.*

RESOLVED, that *the Plan Administrator shall be instructed to take such actions that are deemed necessary and proper in order to implement the Plan, and to set up adequate accounting and administrative procedures to provide benefits under the plan.*

RESOLVED, that *the proper officers of the Corporation shall act as soon as possible to notify the employees of the Corporation of the adoption of the Premium Conversion Plan by delivering to each employee a copy of the Summary Description of the Plan in the form of the Summary Plan Description presented to the meeting, which form is hereby approved.*

There being no further business to come before this Special Meeting, the meeting was adjourned.

(Corporate Secretary)

How to Handle POP on Your Payroll System

1. Implementing your Premium Only Plan (POP) will require a change in the way you calculate payroll checks. Your POP will only affect employees who have health (including dental and vision), disability or group term life insurance (limit of \$50,000 coverage) premiums deducted from their payroll and elect to participate in the plan.

2. Here is an example of a how a payroll check would be computed for an employee who earns \$24,000, has three withholding allowances and is paid on a monthly basis.

Gross Wages	\$2,000.00
FICA	153.00
FIT	137.00
SIT (MI)	82.00
Group Insurance	<u>200.00</u>
Net Pay	\$1,428.00

3. Currently, the employee in the above example is deducting the insurance premium on an after-tax basis. The only change required by your POP is that the insurance premium be deducted on a pre-tax basis. In other words, you will need to deduct the insurance premium from gross salary before you compute FICA, federal and state income taxes. The example below illustrates how this same employee's paycheck would be computed under the POP.

	<u>Without POP</u>	<u>With POP</u>
Gross Wages	\$2,000.00	\$2,000.00
Group Insurance (Pre-tax)		200.00
Net		\$1,800.00
FICA	153.00	138.00
FIT	137.00	107.00
SIT (MI)	82.00	74.00
Group Insurance <u>200.00</u>		
Net Pay	\$1,428.00	\$1,481.00

1. You will note that the employee's paycheck has now been increased due to IRS Code Section 125 Premium Only Plan; gross salary must be reduced by insurance premiums that are being funded through payroll deductions. Therefore, taxes will be decreased and the employee's paycheck will increase.

POP - Payroll Questions and Answers

Question: *Will my payroll system change?*

Answer: Your payroll check writing can be handled with manual or computerized payroll systems. The primary feature required by your computer system or payroll service is that it has the capability to handle nontaxable deductions.

Question: *How will the POP change information on Forms 941 and 940?*

Answer: The amounts on the forms included as wages, tips other taxable compensation and Social Security wages will now be the gross salary, "after POP."

Question: *We currently have a 401k plan that is funded by employee payroll deductions. Are the salary reduction features the same?*

Answer: Yes, however, there is one difference. POP reduces gross salary for FICA purposes. Social Security wages cannot be reduced by 401k payroll deductions.

Question: *How does the POP reduction to gross salary affect contributions to our qualified pension, profit sharing or 401k plan?*

Answer: You must check the definition of gross salary (compensation) in your specific qualified plan document. It is legal to include or exclude the POP reduction in the definition of compensation.

Question: *How does the POP affect state income taxes?*

Answer: Some states (i.e., New Jersey) may not recognize the salary reductions for Cafeteria Plans and taxes may be required – check with your accountant.

Question: *How are deductions for local payroll taxes handled under the POP?*

Answer: Some localities allow the POP deduction in computing the paycheck while other localities do not. You will need to contact your local department of revenue for a determination.

Question: *How will POP affect state unemployment taxes?*

Answer: Each state treats the POP differently. You must check with your state unemployment division for clarification.

Question: *Can a sole proprietor, partnership or S-corporation sponsor a POP?*

Answer: Yes, the entities can sponsor a POP and benefit by saving the FICA tax on money placed into the plan.

Question: *Can a sole proprietor, partner, member in a L.L.C., P.L.C. or L.L.P. taxed as a sole proprietor or more than 2% shareholder in an S-corporation participate in a POP?*

Answer: No, under the provisions of Reg. 1.125-1 Q&A-4, a sole proprietor would not be allowed to participate. A partner in a partnership or member in a L.L.C., P.L.C. or L.L.P. would be considered similar to a sole proprietor. Under the provisions of Code Section 1372, a more than 2% shareholder in an S-corporation and the more than 2% shareholder's family members who are employed by the company are treated as self-employed for certain fringe benefit purposes including participation in a POP.

Question: *Is a POP required to be based on a calendar year?*

Answer: No, nothing in the code or regulations requires that a POP be on a calendar year basis. Most POPs run concurrently with the company's medical plan year.