

Minute Book
Certificate Book

and

Stock Ledger

of

AMERICAN CAR SALES, INC.

A Corporation Incorporated
Under the Laws of
The State of New York

CorpKit, NY ©

INCORPORATION

BYLAWS

ARTICLES

CERTIFICATE

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Section 1244 of the Internal Revenue Code

Conversion of Capital Loss into Ordinary Loss

Recognizing the need to encourage investment in small businesses, Section 1244 of the Code permits ordinary loss treatment up to a maximum of \$50,000 (\$100,000 if a joint return is filed) for losses on the sale of stock issued by a so-called small business corporation. Such stock is labeled Section 1244 stock and given this favorable Tax treatment if the following qualifications of the small Business Corporation are met:

1. The corporation is a documented, small business corporation, meaning that money and or the value (otherwise known as the adjusted basis) of property contributed to the Corporation in return for stock or as a capital contribution may not exceed \$1 million (as of the time the money and property are contributed; subsequent appreciation and or depreciation in the value of the company are irrelevant);
2. The stock is issued by the Corporation in exchange for money or property (other than stock and securities);
3. Less than half of the Corporations aggregate gross receipts during the five previous taxable years (or, if less, the entire time the corporation was in existence), were from such investment-type sources as interest, dividends, rent and gains from sales of securities; and
4. The stock is issued to an individual or a partnership.

The Corporation does not need to formally elect or adopt a plan to issue Section 1244 stock. So long as the four above-mentioned qualifications are met, the stock is automatically treated as Section 1244 stock.

Losses resulting from the sale of worthless or devalued securities will be treated as capital losses, applying a less favorable tax rate, when such stock is issued by any corporation, other than a small business corporation. However, gains on the sale of stock issued by a small business corporation is still taxed as capital gain.

Capitalization of a new corporate equity often consists of the capital contributions of shareholders discussed above and loans to the Corporation by shareholders. Since loans are not securities, the above explanation of the taxation of Section 1244 Securities is irrelevant. There are never tax consequences when these loans are withdrawn at a later date so long as these loans do not violate the thin incorporation tax doctrine. Many considerations go into determining if a corporation is thinly incorporated. The I.R.S. primarily focuses on the following ratio:

- (a) debt owned to shareholders (loans)
- (b) Shareholders equity (stock)

Even though there is no litmus paper test used to determine what is and is not an acceptable debt/equity ratio, it is safe to say that a one-to-one debt/equity ratio maintained by a corporation is highly conservative and will not be considered to be thinly incorporated. On the other hand, as the corporation's debt/equity ratio exceeds one-to-one the corporation faces a greater risk of being classified as thinly incorporated. Another important factor used by the I.R.S. when determining thin incorporation is if the debt (loan) has unusual features making it seem more like stock than an actual loan. The best way to avoid the problems associated with this doctrine is to structure the debt in an ordinary, commercially reasonable way and to ensure that the relationship between the shareholder/lender and the corporation is an arms length transaction. For example, a note should be signed at the time the loan is made, the loan should have a commercially reasonable interest rate, (never tied to corporate earnings), and other terms, and the interest and principal on the loan should be repaid on time.

Corporate Income Taxes and The S Corporation Election

In 1958 Congress enacted Subchapter S of the Code of 1954 to aid and encourage small business corporation formation. Subchapter S essentially allows a qualifying corporation to avoid double taxation at the corporate and shareholder level and instead have its income and expenses passed through to its shareholders, who in turn report such income and expenses on their own income tax returns. The Small Business Act of 1996 made many liberalizing rule changes allowing S Corporations to have more flexibility.

Eligibility

Only a small business corporation, as defined under this section of the Code, may elect to have the rules of Subchapter S apply to it and its shareholders. (The term small business corporation, as it pertains to eligibility to make the S corporation election, has no connection with the term small business corporation as used with regard to Section 1244 of the Code.) In fact, a corporation may lose such status if it ceases to meet the Codes requirements of a small business corporation. A small business corporation is a domestic corporation (a corporation organized or created under the laws of the United States or a state or territory or a similar association that is taxed as a corporation) that has:

1. Only one class of stock. It is important to note that shares differing solely in voting rights do not constitute different classes of stock. Thus, an S corporation can issue non-voting stock in addition to its voting stock. In addition, a corporation meets the single-class-of stock requirement only if each outstanding share confers upon its holder rights as to corporate profits and as to corporate assets upon liquidation that are identical to the rights conferred upon the holders of all other shares. A Corporation may issue shares that vary in transfer, repurchase, and redemption rights so long as all of the shares convey the same rights and interests in the corporations profits and assets. Only stock that is issued and outstanding is considered to be stock for purposes of this rule. A second class of stock that is held as treasury stock or that is authorized but unissued is ignored.

2. One Hundred or less shareholders. Prior to 1/1/97 Thirty-five or less.

3. Shareholders other than nonresident aliens or nonhuman entities (such as other S corporations or partnerships) unless such shareholder is an estate or trust specifically permitted to be an S Corporation shareholder.

4. A small business trust, if it so elects, can now be an S Corporation shareholder. An electing small business trust is any trust where all beneficiaries are individuals, estates or charitable organizations holding a contingent remainder interest (but not a right to receive a current distribution from income or principal of the trust). However, trusts not eligible to qualify as an electing small business trust are qualified subchapter S trusts with respect to which an election is in effect and tax exempt trusts. Also, no interest in the trust can be acquired for purchase, only by gift, bequest, etc. Each beneficiary of the trust is counted as a shareholder for the 75-shareholder limit. The holding period that a testamentary trust may be an S Corporation shareholder after the transfer of S Corporation stock to the trust pursuant to a will is expanded to two years.

S corporations permitted to hold C and S Corporation subsidiaries.

A member of an affiliated group may elect S Corporation status. In addition, an S corporation is allowed to own 80 percent or more of the stock of a C corporation. Furthermore, an S corporation is allowed to own a wholly owned S corporation subsidiary (qualified subchapter S subsidiary). Dividends received by an S corporation from a C Corporation in which the S Corporation has an 80 percent or greater ownership stake is not treated as passive investment income to the extent the dividends are attributable to the earnings and profits of the C corporation derived from the active conduct of a trade or business.

WAIVER NOTICE OF SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF
AMERICAN CAR SALES, INC.

Purpose: To approve the election to be treated as a Small Business for income tax purposes.

We, the undersigned, constituting all of the Directors of the above named Corporation, a domestic corporation organized under the laws of the State of New York, do hereby severally waive notice of the time, place and purpose of this special meeting of Directors, of any adjournment or adjournments thereof; and consent that the meeting be held at:

Place: _____

Date: _____

Time: _____

Dated: _____

Secretary presented and read a waiver of the time, place and purpose of the meeting, signed by a number/majority/all of the Directors, which was entered and attached to the minutes of this meeting.

The Chairman called the meeting to order and then advised that all of the shareholders had requested that the Corporation elect to be treated as a small business for income tax purposes. It was noted that the corporation met all the requirements for qualification, and (number/majority/all) recommended that such action be taken. Upon motion duly made, seconded and unanimously adopted, it was:

Director

Director

RESOLVED, that the Corporation elect, under the provisions of Section 1362 of the Internal Revenue Code, to be treated as a small business corporation for income tax purposes, subject to receipt of written consent to said election by all of the shareholders. It was further

Director

RESOLVED, that upon receipt of written consent to said election by all of the shareholders, the President and such other officers authorized by the Board of Directors, from time to time, are hereby authorized and instructed to file such election and shareholders statement of compliance with the Internal Revenue Service and to take any and all steps necessary and desirable to cause the Internal Revenue Service to become a small business corporation for tax purposes.

There being no further business to come before this meeting, upon motion duly made, seconded and unanimously adopted, the meeting was adjourned.

Secretary

MINUTES OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
OF
AMERICAN CAR SALES, INC.

A special meeting of the Board of Directors of the above named Corporation was held on the:

Date:

Time:

Place:

The following Directors were present, constituting a quorum:

The Secretary presented and read a waiver of the time, place and purpose of the meeting; signed by ____ (number/majority/all of) the Directors, which was ordered and attached to the minutes of this meeting.

The Chairperson called the meeting to order and then advised that all of the shareholders had requested that the Corporation elect to be treated as a small business corporation for income tax purposes. He/she noted that the corporation met all the requirements for qualification and (he/she) recommended that such action be taken. Upon motion duly made, seconded and unanimously approved, it was:

RESOLVED, that the Corporation elect, under the provisions of Section 1362 of the Internal Revenue Code, to be treated as a small business corporation for income tax purposes, subject to receipt of written consent to such election by all of the shareholders; and it was further

RESOLVED, that upon receipt of written consent to said election by all of the shareholders, the President and such other officers authorized by the Board of Directors, from time to time, are hereby authorized and instructed to file such election and shareholders statement of consent with the Internal Revenue Service and to take any and all steps necessary and desirable to execute the Internal Revenue Service to become a small business corporation for tax purposes.

There being no further business to come before the meeting, upon motion duly made, seconded and unanimously adopted, the meeting was adjourned.

Secretary

President

MEDICAL AND DENTAL REIMBURSEMENT PLAN
UNDER SECTION 105(h) OF THE INTERNAL REVENUE CODE

In order for a Medical and Dental Reimbursement Plan (Plan) to be tax exempt, it may not be discriminatory under Section 105(h) of the Internal Revenue Code. Discrimination will be found if the Plan favors officers, shareholders, or highly compensated employees. In order to determine whether or not a Plan favors any one, some or all of these groups, the Plan must pass the following two-part nondiscriminatory eligibility and nondiscriminatory benefits test set forth under the Internal Revenue Code:

(1) The Plan must not discriminate in favor of a Highly Compensated Individual within the company. A Highly Compensated Individual is

- (a) one who is among the companies five highest paid officers;
- (b) is a shareholder who owns more than ten percent (10%) in value of the companies stock; or
- (c) is among the highest twenty-five percentile (25%) of all paid employees, other than officers or shareholders.

(2) The Plan must benefit seventy percent (70%) or more of all employees, or eighty percent (80%) or more of all employees who are eligible to participate in the Plan. (Please note that an Employee that has not completed three years of service, who is under age twenty-five, is part-time or seasonal, is a nonresident alien, or is covered by an agreement between employee representatives and the employer, e.g.: employees covered by a labor unions medical plan, need not be included under the Plan.)

All facts and circumstances concerning the company's implementation of the Plan will be considered when testing for discrimination under the Plan. A Plan will not be deemed to be discriminatory when the Plans benefits are offset by benefits paid under a self-insured plan or an insured plan, or by benefits paid under federal or state law.

If a Highly Compensated Employee receives a reimbursement that is not available to other employees, all of the reimbursement will be taxable income. However, if the Plan merely fails to meet the requirements outlined above, the taxable reimbursement amount will be calculated by multiplying the total amount paid to the Highly Compensated Individual by the following fraction:

$$\frac{\text{Total Amount Paid to All Highly Compensated Employees Under Plan}}{\text{Total Amount Paid to All Employees Under Plan}}$$

Attached please find a copy of the Plan and a form of an Agreement, along with a special set of minutes adopting the Plan. These documents need to be completed in order for a company to institute the Plan outlined herein.

AGREEMENT
MEDICAL AND DENTAL REIMBURSEMENT PLAN

AMERICAN CAR SALES, INC.

Date: _____

To: _____
(Name of Executive)

This will serve to confirm the understanding and agreement between you and the undersigned (hereinafter referred to as the "Corporation") with respect to the Medical and Dental Reimbursement Plan (hereinafter referred to as the "Plan").

1. The Corporation shall reimburse for the expenses incurred by Covered Employees for the medical care of those employees, their spouses, and their minor children who are then dependents, in excess of the coverage provided by medical insurance and prepayment plans provided by the Corporation or by the employee, on expenses which are not covered by any such insurance contract. Such reimbursement shall not exceed the limits set forth in Article 2 below.

2. The Corporation has adopted the Plan. Pursuant to such Plan and for so long as you are employed by the Corporation, the Corporation agrees to reimburse you for all reasonable medical and dental expenses up to the sum of \$10,000 in any fiscal year which you and/or members of your immediate family may incur, except such expenses which are covered and are reimbursable to you from any medical, dental, health and/or accident insurance policy insuring you and/or members of your immediate family.

3. In order to be reimbursed pursuant to the Plan, you must submit proof to the Corporation of your medical and dental expenses within one year from the date when such expense or expenses were incurred.

4. (a) Claims for benefits under the Plan shall be made in writing to the Corporation.

(b) If such claim for benefits is wholly or partially denied, the Corporation shall, within a reasonable period of time, but no later than 90 days after receipt of the claim, notify the claimant of the denial of the claim. Such notice of denial (i) shall be in writing, (ii) shall be written in a manner calculated to be understood by the claimant, and (iii) shall contain: the specific reason or reasons for denial of the claim; a specific reference to the pertinent plan provisions upon which the denial is based; a description of any additional material or information necessary for the claimant to perfect the claim, along with an explanation why such material or information is necessary; and an explanation of the Plan's claim review procedure.

(c) Within 120 days after receipt by the claimant of the written notice of denial of the claim, or such later time as shall be deemed reasonable, taking into account the nature of the benefit subject to the claim and any other attendant circumstances, or if the claim has not been granted within a reasonable period of time, the claimant may file a written request with the Corporation that it conduct a full and fair review of the denial of the claimant's claim for benefits, including conducting a hearing, if deemed necessary by the reviewing party. In connection with

certified mail return receipt requested, and addressed to (Name and Corporation's Address) with a copy to (Name and Address).

Any of the parties hereto may give notice to the others at any time by the methods specified above of a change in the address at which, or the person to whom, notices addressed are to be delivered in the future.

10. The Plan shall be binding upon and shall inure to the benefit of the parties hereto and their personal representatives, successors and assigns. It may not be modified, except in writing, signed by both parties.

11. The Plan shall be governed by the laws of the state of New York.

12. The Plan supersedes all prior plans or agreements, written or oral, between the Employee and the Corporation, and shall constitute the only agreement relating to the Employee's medical and reimbursement benefits so long as such Employee is employed by the Corporation.

13. Wherever in this instrument words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender whenever they would so apply, and vice versa. Wherever words appear in the singular or plural, they shall be read and construed as in the plural or singular, respectively, wherever they would so apply.

14. Each Employee, family member or beneficiary, does, by his acceptance of potential benefits under this Plan agree to execute any documents, which may be necessary or proper in the carrying out of the purpose and intent of the Plan.

15. Each eligible Employee shall have the right to elect not to participate in this Plan or in any benefit plan thereunder.

This letter shall constitute a binding agreement between us upon your signing it in the place indicated below.

Accepted and Agreed to: AMERICAN CAR SALES, INC.

Approved:

(Signature of Employee)

By _____
President

MINUTES OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
BOARD OF
AMERICAN CAR SALES, INC.

Purpose: To approve and adopt a Medical and Dental Reimbursement Plan of the above named Corporation.

A special meeting of the Board of Directors of the above-named Corporation was held at:

Date:

Time:

Place:

The following Directors were present, constituting a quorum:

The chairperson called a meeting to order and a Medical and Dental Reimbursement Plan was presented to the meeting. After discussion, upon motion duly made, seconded and adopted, it was

RESOLVED, that the Medical and Dental Reimbursement Plan presented to the meeting is hereby approved and adopted by this Board of Directors and it is ordered that a copy of said Plan be attached to the minutes of this meeting; and it was further

RESOLVED, that the President and such other officers as may be authorized by the Board of Directors, from time to time, empowered and directed to take any and all necessary steps to carry out the provisions of the above Plan.

With no further business to come before the meeting, upon a motion duly made, seconded and unanimously carried, the meeting was adjourned.

Secretary

Approved:

President

WAIVER OF NOTICE OF SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF

AMERICAN CAR SALES, INC.

Purpose: To approve and adopt a Medical and Dental Reimbursement Plan.

We, the undersigned, constituting all of the Directors of AMERICAN CAR SALES, INC., a domestic corporation organized under the laws of the State of New York, do hereby severally waive notice of the time, place and purpose of the special meeting of Directors, and of any adjournment or adjournments thereof; and consent that the meeting be held at :

Place:

Date:

Time:

We do further severally agree and consent to the transaction thereat of any and all business that may properly come before said meeting.

Dated: _____

Director

Director

Director

Sample Form of Offer to Purchase Stock

(Dated)

To the Board of Directors of

AMERICAN CAR SALES, INC.

Gentlemen:

I, the undersigned, hereby offer to purchase _____ (number) shares of the _____ stock
of your corporation at a total purchase price
of _____

Very truly yours,

(Name of Purchaser)

(Dated)

Print Name
Print Address
Annual Meeting Date
Address
Accountant
Registered Agent

Shareholder's Name	Number of Shares
_____	_____
_____	_____
_____	_____
_____	_____

BYLAWS
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AMERICAN CAR SALES, INC.

CORPORATE DETAILS

as of _____,

Date of Incorporation: _____

State of Incorporation: New York

Principal Place of Business _____

Chairperson: _____

Director: _____

Director: _____

Director: _____

Officers:

President _____

Vice-President _____

Secretary _____

Treasurer _____

Bank Accounts: _____

Fiscal Year: _____

Annual Meeting Date: _____

Attorney: _____

Accountant: _____

Registered Agent: _____

<u>Shareholders:</u>	<u>Number of Shares</u>
_____	_____
_____	_____
_____	_____
_____	_____

LOCATION OF CORPORATE RECORDS

RETAINED IN OFFICE	FORWARDED TO CLIENT	DATE/INITIALS
G Minute book	G	_____
G Share Certificate book	G	_____
G Share Ledger	G	_____
G Seal	G	_____

File in office notebook of Corporation

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AMERICAN CAR SALES, INC.

CORPORATE DETAILS

as of _____, 19__

Date of Incorporation: _____

State of Incorporation: New York

Principal Place of Business: _____

Chairperson: _____ Director: _____

Director: _____ Director: _____

Officers:

President _____

Vice-President _____

Secretary _____

Treasurer _____

Bank Accounts: _____

Fiscal Year: _____

Annual Meeting Date: _____

Attorney: _____

Accountant: _____

Registered Agent: _____

Shareholders:

Number of Shares

_____	_____
_____	_____
_____	_____

WAIVER OF NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OF

AMERICAN CAR SALES, INC.

We, the undersigned, constituting all of the shareholders of the above named Corporation, do hereby waive notice of the time and place of the Annual Meeting of Shareholders, and of any adjournment or adjournments thereof, and consent that the meeting be held at:

Place:

Date:

Time:

We do further agree and consent to the transaction of any business which may properly be brought before such meeting.

Dated: _____, the Chairman of the Corporation, acted as Secretary of the Corporation.

Shareholder

Shareholder

Shareholder

MINUTES OF ANNUAL MEETING OF SHAREHOLDERS

OF

AMERICAN CAR SALES, INC.

The annual Meeting of Shareholders of the above Corporation was held at:

Date:

Time:

Place:

There were present the following shareholders:

Names of Shareholders

No. of Shares

The meeting was called to order by _____, the Chairperson of the Corporation. _____, of the Corporation, acted as Secretary of the meeting.

The Chairperson declared that a quorum was present and that the meeting was duly organized. It was ordered that the proxies be appended to the minutes of the meeting.

The Chairperson announced that the annual meeting of Shareholders was convened pursuant to due notice, and that pursuant to a resolution adopted by the Board of Directors, _____, had been affixed as a record date for the determination of shareholders entitled to vote at the meeting.

The Secretary presented and read a waiver of time, place, and purpose of the meeting, signed by all the shareholders, which was ordered filed.

The Secretary read the minutes of the preceding meeting of the shareholders held on _____, which was then adopted.

The President reported on the business and affairs of the Corporation generally.

The Treasurer reported on the business and affairs of the Corporation generally.

The Secretary presented (his/her) report.