

HRNOVATIONS

QUALIFIED TRANSPORTATION FRINGE BENEFIT PLAN

SUMMARY PLAN DESCRIPTION

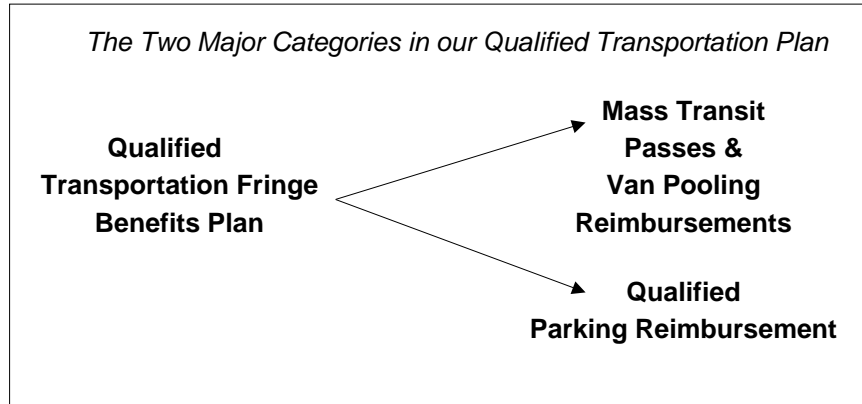
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HRNOVATIONS

QUALIFIED TRANSPORTATION FRINGE BENEFIT PLAN

A Qualified Transportation Fringe Benefit Plan provides two pre-tax alternatives to help you meet your transportation needs and expenses associated with getting back and forth between home and work. The two alternatives are illustrated below:



Employer sponsored Qualified Transportation Fringe Benefit Plans allow employees certain transportation benefits on a pre-tax basis. Because the plans operate under special rules set out in the Federal law and in regulations published by the Internal Revenue Service, a Qualified Transportation Plan may enable employees to realize significant tax advantages otherwise unavailable to them, up to monthly statutory limits.

The Employer retains the right to make amendments to the Plan or terminate the Plan if it desires. The Plan Administrator has full and sole discretionary authority to interpret the terms and benefits of the Plan. The laws of the State in which the Employer is incorporated govern this plan, except where pre-empted by Federal law.

The plan shall not be deemed to constitute a contract between the employer and any employee or to be a consideration for, or an inducement or condition of, the employment of any employee.

OVERVIEW OF THE PLAN

Operational Overview

The Plan operates under guidelines in Section 132(f) of the Internal Revenue Code and regulations pertaining thereto, including IRS Notice 94-3, Section 1072 of the Taxpayer Relief Act of 1997 and Regulations issued in the Federal Register on January 11, 2001 as 1.132-9(b).

The Plan allows you to make a written election to pay on a before-tax basis for Qualified Transportation expenses through a compensation reduction agreement. The election must be made prior to both the period that the benefit will be provided and your compensation would have been currently available. The election is irrevocable after the period begins. Each period is for one calendar month, beginning on the first day of the month. The election must be dated and be for a specified amount not to exceed the statutory monthly limits. The election automatically renews each subsequent period until you prospectively change or revoke your election for the forthcoming period(s) prior to the commencement of the respective period.

Unused amounts may not be refunded. However, unused amounts may be carried over to subsequent months within the Plan Year and used to reimburse for Qualified Transportation benefits. The terms of this Plan require that any unused amounts remaining after the end of the Plan Year will be forfeited and revert to the Employer. You will have 90 days after the Plan Year to submit claims for reimbursement of expenses during the periods covered within the Plan Year. Receipts for services cannot be over 180 days from the date incurred.

There are two categories of Qualified Transportation benefits. Each category has a monthly statutory limit. The first category is Mass Transit Passes and Van Pooling with a limit of \$120 per month. The second is Qualified Parking with a limit of \$230 per month. An employee may receive benefits from each category within the limits.

Any benefit amounts exceeding the limits are included in wages for taxation purposes. (The statutory limits apply independently to each employee working for the Employer; thus a married couple working for the same employer may “double-up”).

Cash reimbursement for mass transit is allowed only if vouchers or some equivalent, such as transit tokens or transit passes are not readily available for direct distribution through your Employer.

Mass Transit Passes Transit Passes are passes, tickets, tokens, farecards, vouchers, or similar items that entitle a person to transportation between the residence of the employee and their place of employment on mass transit facilities, regardless of whether they are publicly or privately owned. Mass transit facilities are considered to be vehicles available for public transit such as a bus, train, subway, monorail, cable-car, vanpool or ferryboat. This plan permits you to elect to fund on a before-tax basis for transit passes, vouchers or tickets available through your Employer, or if not available, for reimbursement of your purchase of a transit pass.

The maximum allowed before-tax benefit is \$120 per month combined with Van Pooling.

**Van Pooling in
Commuter Highway
Vehicles**

Van Pooling applies to the transportation in a qualified *Commuter Highway Vehicle* of the Employee in connection with travel between the employee's residence and their place of employment; and on trips during which the number of employees transported for commuting is at least one-half of the adult seating capacity of the vehicle excluding the driver.

A *Commuter Highway Vehicle* must have seating capacity of at least six adults, not including the driver, and; at least 80% of its mileage use is expected to be for the purpose of transporting employees between their residences and place of their employment; and the number of employees transported is at least one-half of the adult seating capacity of the vehicle not including the driver.

A maximum before-tax benefit of \$120 per month combined with Transit is allowed.

Qualified Parking

Qualified Parking means parking provided to the employee on or near the business premises of the Employer; or on or near a location ("park and ride") from which the employee commutes to work through use of a transit pass, in a van pool, or other mass transit facility such as a train or a ferry boat. The parking facility may be an employer rented facility. The benefit itself may take several forms, such as the provision of free parking for employees, reduced rates, or full or partial reimbursement of employee payments for qualified parking. Reimbursement for parking on or near the premises of your Employer, or on or near a location from which the employee commutes to work through use of a Transit Pass or Van Pooling.

A maximum amount of \$230 per month is allowed as a before-tax benefit.

Qualified Transportation Fringe Benefit Plan Details

Eligibility

If you are eligible for the Plan, your participation will begin on the first day of the month following or coincidental with our date of hire.

Seasonal and temporary employees are excluded from participation in this Plan. An employee is permitted to receive Qualified Transportation benefits from more than one employer providing the employers are not under common control.

If employees receive more in benefits than the law allows, they must pay income taxes on the value of the benefits that are more than the amount allowed.

Partners and shareholders owning 2% or more of an S corporation cannot participate in this Plan. (LLP's and LLC's are treated as Partnerships whose partners cannot participate.) A spouse, child or parent of the above cannot participate in this Plan due to family attribution rules.

Plan Year January 1 through December 31.

Forms to be Completed by the Employee

Qualified Transportation Reimbursement Plan Benefit Election Enrollment & Change Form

Current employees must complete this form before the first day of each Plan Year and are able to make changes or enroll before the first of each month.

This form is used as a compensation reduction agreement election for newly eligible employees and employees wishing to change their election during the Plan Year. It must be completed prior to the first day of the month in which the benefit becomes available.

Preconditions for Payment of Benefits

Reimbursements will be made following receipt of a claim for the month(s) in which the expense is incurred.

As to Reimbursement Amount Reimbursement shall not be for more than the actual expenses incurred by the employee. The maximum salary reduction to be contributed to an employee's account in any month shall not exceed the statutory limit. Reimbursement does not include cash advances, which are not permitted.

Parking Expense associated with the Transit Pass or Mass Transit transportation is not eligible for reimbursement under the Transit Pass Plan. However, it is possible that qualified parking expense associated with parking at or near the point that you begin your

transportation journey on the mass transit vehicle to your place of employment is eligible under the Qualified Parking Plan, (“park and rides” near the ferry boat or train terminal).

As to Plan Operations (1) The Salary Reduction Election must be made prior to the month in which the employee would have otherwise received compensation equivalent to the elected. The salary reduction agreement must be in effect for a full month at a time and must specify the period for which the benefit will be provided. The election is irrevocable once the month or period that the expense applies to begins. No changes to the agreement may be made during the month.

(2) A Salary Reduction Election will automatically renew for each subsequent month or period until the Participant submits a new election or revokes an existing election for the forthcoming month.

(3) Unused Salary Reduction amounts may not be refunded to the employee however, unused amounts may be carried over to subsequent months but not a subsequent Plan Year.

(4) Qualifying expenses are only those, which occur during the period the elected coverage is in effect. The period of coverage is each consecutive month of the Plan Year for which the appropriate election has been made. Each month is calculated separately and cannot exceed the statutory monthly limit. An expense is incurred at the time that obtaining the Transit Pass gives rise to the expense.

Any reimbursement amounts or benefits provided by the Employer exceeding the monthly statutory limit must be included in the taxable compensation of the Participant.

*Claims
Administration*

A statement must accompany claims for reimbursement from the employee certifying that the expense has been incurred. In addition, if available, there must be substantiation (such as the receipt for the Transit Pass) that the expense has been incurred and that it was within the last 180 days.

A form, **Request For Reimbursement Qualified Transportation Plan**, which is considered to meet the requirements for submitting a claim, is available online at www.baclink.com under the Flex Plans and Resources section. The completed claim form and the appropriate receipts should be submitted to:

Benefit Administration Company
PO Box 550
Seattle, WA 98111-0550
Fax (206) 682-8016
(206) 625-1800

Claims must be filed no later than 90 days following the end of the Plan Year to be eligible for reimbursement **and within 180 days of incurring the expense.**

Claims may be submitted for each month or for several months at a time. However, the benefits have a monthly statutory limit of \$230 for Qualified Parking and \$120 for Mass Transit Passes and Van Pooling.

The claim must specify to which month the benefit applies, and the expense for that month. Typically, an employee's certification plus a parking receipt or used transit pass will be adequate. Different than the requirements for Cafeteria Plan reimbursements, a canceled check, credit card receipt or other proof that the expense has been incurred will be sufficient. When a receipt is not provided in the ordinary course of business (parking meter, parking lot collection box, and transit coin box) the employee may attest to incurring the expense. The Employer is prohibited from honoring claims when there is a reason to believe dishonesty is involved.

Also different than Cafeteria Plans the expense is incurred for the month when the expense is paid by the employee (bus pass is purchased or monthly parking is paid or charged against a credit card), and not necessarily when the service has been fully used or rendered for the month. Reimbursements do not include cash advances.

If your claim is denied in whole or in part, you will receive written notification from us within thirty days of the date you filed the claim. A brief letter will indicate the charges not payable, the reason and the steps you may take to have the claim reviewed. If additional information is needed for the payment of a claim, you will be contacted. You may request a review in writing with us. Upon receipt of the written request for review of a claim, we will review the claim and furnish copies of all documents and all reasons and facts relating to the decision. You must submit your opinion of the issues and your comments in writing. Requests for review must be filed within 60 days after you receive notice of denial. A decision will be made within 60 days and will be delivered to you in writing setting forth specific reasons for the decision and specific references to the pertinent plan provisions upon which the decision is based. Adjudication of claims by Benefit Administration Company is advisory. Your Plan Administrator is responsible for all final payment decisions upon an appeal for review. The Plan Administrator has full and final discretionary authority to interpret the provisions of this Plan and the entitlement to receive benefits under the Plan.

Funding

A separate recordkeeping account is established for each employee electing a benefit. The account keeps track of the total benefit available each month, the benefit used, and the salary reductions collected to pay for the benefit.

Contributions by HRnovations as Employer

HRnovations will pay for the cost of administering the Qualified Transportation Fringe Benefits Plan. Current tax law does not require you to pay income taxes on these payments by HRnovations, (except to the extent that employer provided benefit exceeds the statutory limitations; then income is imputed to you based on the fair market value of the benefit).

Employee Contributions

You may pay any costs through tax-favored compensation reduction, up to the maximum statutory limits, for Transit Passes, Van Pooling expenses and Qualified Parking Expenses.

Automatic Rolling Enrollment from one month to the next

Your election is for one month at a time, prospectively. Your election to participate must be made prior to the beginning of each respective month. Once you have made an election, we will consider that election to be made for each succeeding month, until you change your elected amount of compensation reduction or elect to revoke participation for the next successive month.

If Your Employment Is Terminated

Under IRS regulations the Qualified Transportation Fringe Benefits Plan must operate for a full month at a time. This means that if you have funded for the month or purchased your Mass Transit Pass for the month and you separated from service after the month began, you cannot receive a refund for any unused amounts. Any remaining amounts will be forfeited. Federal rules require that Qualified Transportation benefits be provided only to employees of the Employer. Separation of service makes the prior employee ineligible.

Salary Reduction

Its Importance

By following the rules set out by the US Government, compensation reduction in a Flexible Benefits Plan may enable you to pay certain Qualified Transportation expenses with income that is not taxed.

Why It Works In a plan operated under the rules, your compensation reduction in effect becomes an employer's contribution. When used to provide Qualified Transportation Fringe Benefits, such contributions are non-taxable when they do not exceed the statutory limits.

How Salary Reduction Works: In the example below, John purchases a bus pass so he will have transportation to work. The pass cost John \$63 each month. John is able to save both Social Security and Federal income taxes.
Take-Home Pay Test

	QUALIFIED TRANSPORTATION FRINGE BENEFITS PLAN	
	Before the plan	After the plan
Monthly Salary	\$ 2,500.00	\$ 2,500.00
Before-Tax Covered Expenses	-0.00	-63.00
Taxable Salary	2,500.00	2,437.00
FICA Tax (7.65%)	-191.75	-186.43
Income Tax Withholding (20%)	-500.00	-487.40
After-Tax Expenses	-63.00	-0.00
Net Take-Home Pay	1,745.25	1,763.17
Increase in Monthly Spendable Income		\$ 17.92
Annual Value of Increase		\$ 220.04

Some Drawbacks The rules need to be taken seriously. The principal ones:

- The salary reduction agreement must be in effect for a full month at a time. During the month no changes to the agreement may be made.
- Qualifying expenses are only for expenses incurred for services, which are paid for and occur during the monthly period being claimed and during which an election is in effect. An expense is incurred at the time that the expense or item is provided that gives rise to the expense. To qualify, the service or item must have been provided during the Period for which coverage was elected.
- Any balance in your Account after paying all qualifying expenses for each month will be carried over into the next month, but will not be carried forward into a new Plan Year. Unused amounts may not be returned and may be eventually forfeited following the end of the Plan Year or if you separate from employment.
- Selection of tax-free benefits under the plan will result in lower contributions by you and your employer to the Social Security system, and, although unlikely, could result in lower benefits under that system.

This is not a plan under ERISA

The Qualified Transportation Fringe Benefits Plan sponsored by your employer is an employee fringe benefit plan but it is not a plan defined under or within the meaning of Section 3(1) of ERISA, the Employee Retirement Income Security Act. As a participant in this plan, you are not entitled to certain rights and protections under ERISA.

If you have any questions about your plan, you should contact your employer, the plan administrator. If you have any questions about ERISA, you should contact the nearest Field Office of the Pension and Welfare Benefits Administration; Department of Labor.

Employer and Plan Information		
<i>Legal Name of Employer and Plan Administrator:</i> HRnovations	<i>Federal Tax ID No.</i> 91-1495101	<i>Plan No.</i> 600
<i>Plan's Agent for Service of Legal Process</i> Plan Administrator, HRnovations		
<i>Address: The employer, as well as the individual above, may be reached at the address below:</i> 700 – 112th Street NE, Suite 300 Bellevue, WA 98004-5106		