A Unilateral Buy-Sell
Funded with Life Insurance
Presentation

Business Continuation

Do you identify with the following?

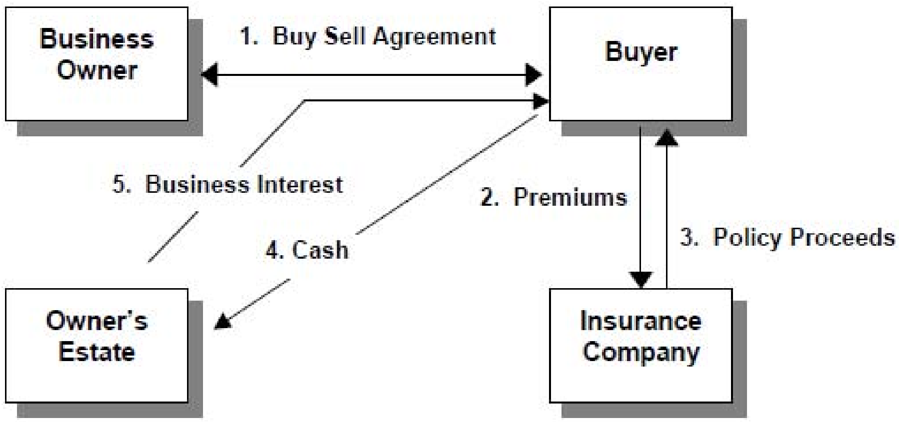
You are a Business Owner …

- You are the sole owner of your business.
- You want to establish a ready market for your business interest at your death; and
- You have an "heir apparent" in mind, perhaps a family member or a key employee who is capable of running the business;
- You want to fix an estate tax value for your business interest, to reduce potential IRS disputes; and
- You want to be certain funds will be available to help with the buy-out of your interest.

If so you may want to consider establishing a unilateral buy-sell arrangement funded with life insurance. A unilateral buy-sell arrangement is

- A binding contract between you, the business owner (the seller) and a willing purchaser (the buyer) providing for the transfer of business interest under specified conditions and terms.
- An arrangement that when funded with life insurance purchased by the buyer, helps to ensure that cash will be available to the complete the buy-out.

Unilateral Buy Sell Arrangement



1. The business owner and the buyer enter into a binding buy-sell agreement obligating the business owner's estate to sell and the buyer to purchase the owner's business interest at his/her death.

   Where desired, additional language can be added to the buy sell agreement to cover a proposed lifetime sale due to disability or retirement.

2. The buyer obtains life insurance on the life of the business owner. The buyer is the owner, beneficiary and premium payer on the policy.

3. At the death of the business owner, the buyer receives income tax free policy proceeds under IRC § 101(a).

4. The buyer uses the life insurance proceeds to fulfill his purchase obligation according to the terms of the buy sell agreement.

5. The business owner's estate releases the business interest and/or assets to the buyer.

Benefits to the Purchasing Parties:

- A funded buy-sell arrangement provides needed cash at the owner's death to help meet purchase obligations created by the agreement.
- A valued key employee or a family member is assured that their loyalty and dedication is recognized and that their role in the business will continue in the future.
- Where permanent life insurance is purchased, the policy cash values, if any, can be accessed by the policy owner for use in a lifetime purchase of the business interest.[1]

Benefits to the Departing Owner or Heirs:

- The buy-sell arrangement provides a ready market for the sale of the business.
- Cash paid for the business interest is available for estate liquidity or other family needs.
- The departing owner/heirs are relieved of the business responsibilities.

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[1] Life insurance policy cash values are accessed through withdrawals and policy loans. Loans are at interest. Unpaid loans and withdrawals cause a reduction in cash values and death benefits. In general, loans are not taxable, but withdrawals are taxable to the extent they exceed basis in the contract. Loans outstanding at policy lapse or surrender prior to the death of the insured will cause immediate taxation to the extent of gain in the contract. For policies which are Modified Endowment Contracts, distributions (including loans) are taxable to the extent of income in the contract, and an additional 10% federal income tax penalty may apply, You may wish to consult your tax advisor for advice regarding your particular situation.

Tax Considerations for the Buyer:

- Policy proceeds are generally received income tax free under IRC 101(a).
- Premiums for life insurance are not income tax deductible.
- An employee benefit strategy such as a bonus arrangement or a split dollar agreement may be negotiated with the business owner to defray the purchaser's personal cost of the life insurance policy.
- Policy cash value increases generally accrue income tax deferred.
- The purchasing party will receive the benefit of a basis in the purchased business interest equal to the price paid.

Tax Considerations for the Departing Owner/Heirs:

- Properly drafted, buy-sell agreements can help establish the value of the business interest for estate tax purposes.
- The sale of the business interest at death generally does not result in income taxable gains due to the step-up in basis received by the estate.[2] However, where "hot assets" such as unrealized receivables or appreciated inventory are sold to the purchaser ordinary income results.
- The lifetime sale of the business will generally result in capital gains income taxation unless "hot assets" are sold.

[2] Under the Economic Growth and Tax Relief Reconciliation Act of 2001, for the year 2010, the estate tax is repealed. For deaths occurring in that year, only a modified step-up in basis will be available. This is limited to a step up of $1.3 million in total for all beneficiaries and an additional $3 million step up available for property passing to a surviving spouse.

Recommended Action Plan

1. Seek the professional advice of your attorney regarding your personal needs and objectives for the disposition of your business interest.
2. Meet with your accountant, attorney and/or professional appraiser to determine the value of your business interest.
3. Determine the appropriate insurance solution.
4. Have your attorney draft the buy sell agreement and other appropriate documents.
5. Have the purchaser apply for the life insurance and the buyer complete all medical and underwriting requirements.