UNILATERAL BUY-SELL ARRANGEMENT

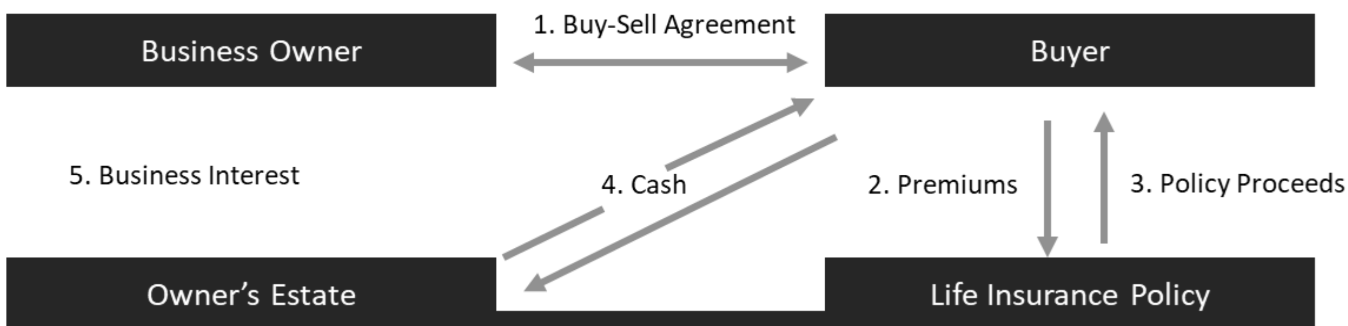
If you know who you'd like to take over your business, you've already taken an important step toward ensuring your business will continue forward following your exit. An important next step to ensuring a smooth transition, is having a plan in plan to fund the transfer of ownership and a unilateral buy-sell arrangement using life insurance is an option that should be considered **especially if any of these statements are true of your situation:**

- You are the sole owner.
- You 'd like to establish a ready market for your business interest upon your death.
- You have an "heir apparent" in mind *(i.e. a family member or key employee who is capable of running the business).*
- You want to establish an estate tax value for your business interest to possibly reduce potential IRS disputes.
- You want to ensure funds are available to help with the buyout of your interest.

WHAT IS A UNILATERAL BUY-SELL ARRANGEMENT?

- A binding contract between you (the seller) and a willing purchaser (the buyer) for the transfer of business under specified terms and conditions
- An arrangement that can help ensure there is cash available to complete the transaction.

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 and his or her heirs are relieved of the business responsibilities.

BENEFITS TO THE BUYER

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

TAX CONSIDERATIONS FOR THE BUYER

- Policy proceeds are generally received income tax-free under IRC §101(a). For employer-owned contracts issued after August 17, 2006, death proceeds will be subject to income tax. However, where specific employee notice and consent requirements are met, and certain exceptions apply, death proceeds can be received income tax-free under IRC §101(j).
- Premium payments for life insurance are not income tax-deductible.
- An employee benefit strategy such as a bonus arrangement or a split-dollar arrangement may be negotiated with the business owner to help defray the buyer's personal cost of the life insurance policy.
- Policy cash value increases generally accrue income tax-deferred.
- The buyer will receive the benefit of a basis in the purchased business interest equal to the price paid.

[1] *Life insurance cash values are accessed through withdrawals and policy loans. Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.*

TAX CONSIDERATIONS FOR THE DEPARTING OWNER OR HEIRS

- If 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. 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.

HOW A UNILATERAL BUY-SELL ARRANGEMENT WORKS

The business owner and the buyer enter into a binding buy-sell agreement. *This agreement does two things:*

1. obligates the business owner's estate to sell his or business interest upon death; and
2. obligates the buyer to purchase the business owner's business interest upon death.

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

The buyer purchases a life insurance policy on the business owner.

- The buyer is the owner, beneficiary, and premium payer of the policy.
- You should consult your legal counsel to determine whether notice and consent under IRC § 101(j) is required before the policies are issued to receive tax-favored treatment.[2]

At the death of the business owner, the buyer receives the policy proceeds.

The buyer uses the life insurance proceeds to satisfy the purchase obligation in accordance with the terms of the buy-sell Agreement.

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

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 potential buyer apply for the life insurance and have the business owner (you) complete all medical and underwriting requirements.

[2] For employer-owned life insurance policies issued after August 17, 2006, IRC § 101(j) provides that death proceeds will be subject to income tax; however, where specific employee notice and consent requirements are met and certain safe harbor exceptions apply, death proceeds can be received income tax free. Life insurance proceeds are otherwise generally income tax-fee under , IRC § 101(j).