WAIT-AND-SEE BUY-SELL AGREEMENT

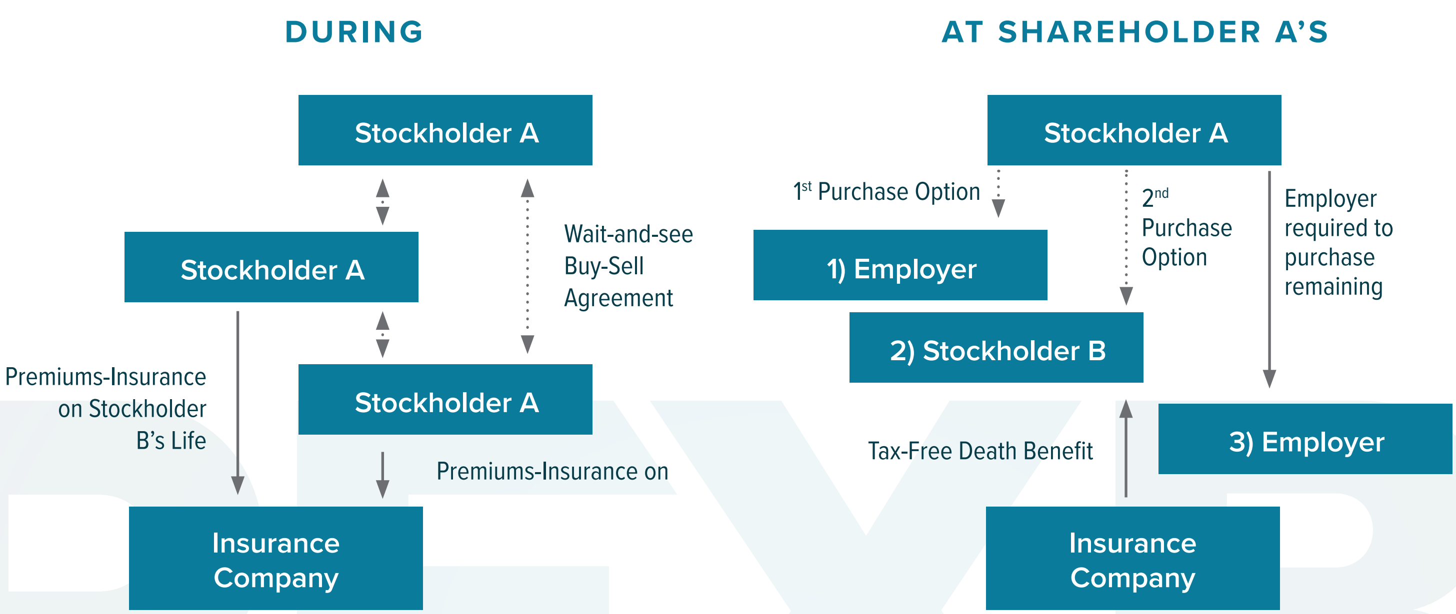
There are distinct potential advantages and disadvantages in the two primary types of buy-sell arrangements. Changing personal and business circumstances may make it difficult to select the most appropriate plan. A wait-and-see arrangement lets the business owners wait until the first death or another triggering event to decide whether the business or the remaining owners should purchase the business interest. Wait-and-see arrangements allow the purchaser to be the entity, the individual business owner, or both.

With the wait-and-see agreement, the corporation is given the first option to buy all or part of the deceased's stock. If the business does not purchase the entire share, then the remaining shareholders have the option to buy. If they buy just a portion or decide not to exercise the option, the business is then required to purchase any remaining balance of the deceased's interest not previously purchased by the business or the remaining shareholders.

Under this type of agreement, each owner typically buys a life insurance policy on the life of every other owner to fund the buyout. This permits the flexibility to allow the individuals to elect to buy the deceased's interest individually or to use the death claim proceeds as a contribution to capital or as a loan to the corporation so the business can do the buyout. If the entity is the owner-beneficiary of the insurance, then the surviving owners must borrow those funds from the corporation so they can have access to the death benefit funds to do an individual buyout. This gives much less flexibility to the overall plan.

If a permanent life insurance policy is used for the funding, there can be sufficient flexibility to assist in a living buyout at retirement or disability if that is an event specified in the buy-sell agreement. The policy's accumulated values can be used as a down payment for an installment sale.

How It Works:



PEXB
PINNACLE
EXECUTIVE BENEFITS

WAIT-AND-SEE BUY-SELL AGREEMENT

Continued

Advantages

- Can wait until death to determine whether business should buy deceased's interest or whether it is better for the individual shareholders to do the buyout
- Creates a market and establishes a fair price for the business interest
- Provides the funds to make the purchase
- Avoids a forced sale of assets
- Can provide liquidity to the estate of the deceased owner
- Surviving owner gets a new basis for the business interest if direct purchase from deceased's estate or if contribution to capital is made to corporation so it can buy the deceased's share
- Surviving stockholders are given the opportunity to run the business without conflicting interests of heirs
- The estate is assured prompt and full payment

Other Considerations

- When there are more than 3 or 4 owners, the number of life insurance policies required may become difficult to manage. At inception, the number of policies required is equal to the number of owners multiplied by that number minus 1. So, if there are 3 owners, you would need 6 policies (3 times 2 (3-1)). If there were 4 owners, 12 policies would initially be required (4 times 3 (4-1))
- If there is a wide disparity in the ages of the owners, the younger owners are paying the greater share of premiums on the life insurance policies they buy on the lives of the older owners. This can be mitigated by having a bonus arrangement for the younger owners to assist in the purchase.
- The cash values of policies owned on other owners' lives are includible in the decedent owner's estate. In disposing of the insurance policies of the survivors that were owned by the deceased, care should be given to avoid the "transfer for value" rules that may subject the life insurance proceeds to income tax to the extent that the proceeds exceed the purchase price and any subsequent premiums paid. Generally, these policies should only be sold to the insured or to the business interest to avoid the "transfer for value" rules unless all other surviving owners are partners in a partnership (a permissible exception to the "transfer for value" rule).