



No-Sell Buy-Sell Arrangement

If you work with business clients helping to structure and fund buy-sell arrangements, you've probably met business owners who have yet to realize the rewards of the work they put into building their business. While they project substantial appreciation in the future, they worry that if they die too soon their heirs might lose the right to share in this potential bonanza. Where the business owners have a desire to equalize the benefits between the first and last to die, and all agree that a deceased owner's heirs should share in the anticipated future appreciation, the "no-sell buy-sell" may be a solution.

Facts: ABC Corporation has been in business for four years and is structured as a C corporation. Its two owners, Abbott and Costello, each contributed \$500,000 to start the company. It is a biotech firm with a new product that is expected to stimulate substantial growth in the company over the next 10 years. The company's current fair market value (FMV) of \$5 million is expected to double over the next decade.

Solution: Recognizing that the business is on the verge of rapid growth, a no-sell buy-sell arrangement may be the right choice. Here are the necessary steps:

- ◆ ABC common stock is recapitalized so that each owner has 1 voting share and 99 nonvoting shares.
- ◆ Abbott and Costello each purchase \$2.5 million of universal life insurance on their own life with an irrevocable life insurance trust (ILIT) as the owner and beneficiary of the policy. Each owner makes gifts to their respective ILIT to provide funds to pay the life insurance premiums. The life insurance proceeds will replace the cash that would be received by heirs under a more traditional buy-sell agreement.
- ◆ Abbott and Costello enter into a cross purchase agreement where the survivor agrees to buy only the voting stock at the other's death. Depending on the value of the voting shares, the owners may buy life insurance on each other to fund this agreement. (The nonvoting stock will pass directly to family heirs or to a trust for their benefit.)

Here's what happens at Abbott's death.

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- ◆ A \$2.5 million death benefit, free of income taxes (under IRC §101(a)), is paid to Abbott's ILIT. This money can be used to support the heirs or provide liquidity for estate taxes.
- ◆ Costello buys ABC Corporation voting stock from Abbott's estate. The pro-rata value of each voting share is \$25,000. Because the voting shares are the key to control of the company, they may be valued at a premium and could sell for twice the pro-rata value (i.e., \$50,000).
- ◆ Abbott's heirs retain the nonvoting shares either directly or as beneficiaries of a trust. Abbott's estate may be able to discount the value of the nonvoting stock for lack of control. This could result in estate tax savings.

Product Features: The policy features of the PruLife® Universal Protector and PruLife® Universal Plus policies are well suited for this concept:

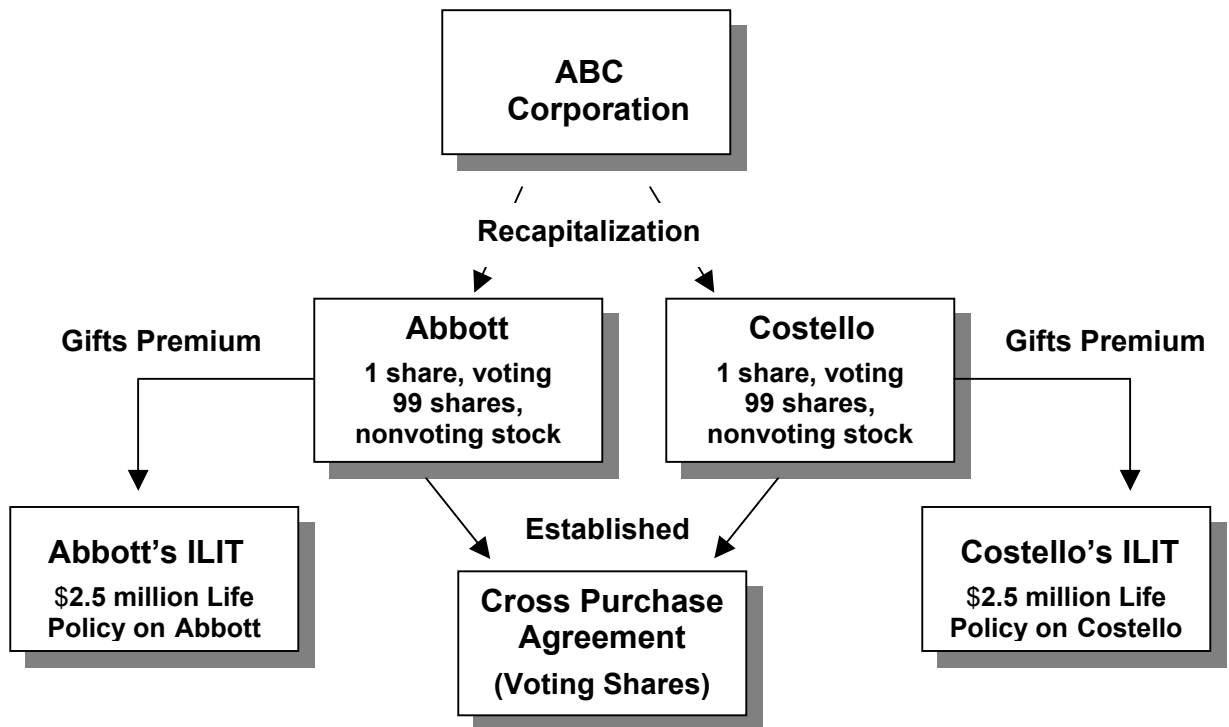
- ◆ Issued to age 90, based on actual age
- ◆ Competitive compensation structure, unreduced by age or risk impairment
- ◆ 24-month rolling commissionable target premiums (except in NY)
- ◆ PruLife® Universal Plus offers three death benefit options, including "Option C+" (return of premiums plus interest) as well as Continuation of Coverage (extended maturity after age 100)
- ◆ PruLife® Universal Protector offers either a Lifetime No-Lapse Guarantee or "dial-able" no-lapse guaranteed coverage at all issue ages and in guaranteed limited-pay scenarios.¹

CHART IS ATTACHED

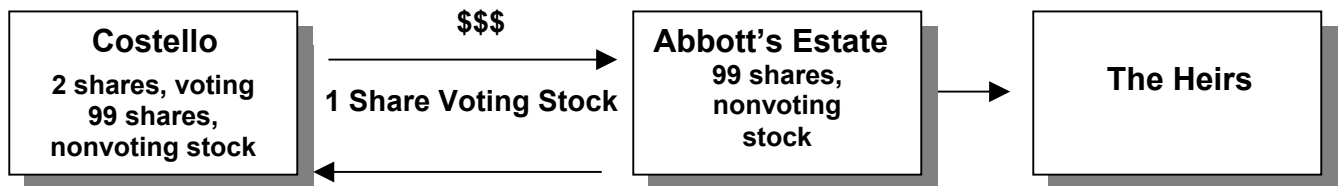
¹ All guarantees are based on the claims-paying ability of the issuer. "Dial-able" means the policyholder can secure the length of the guarantee desired.

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Structure of The No-Sell Buy-Sell Arrangement



AT ABBOTT'S DEATH, the cross purchase arrangement is honored



The Results ...

- Costello owns 100% of the voting and 50% of the nonvoting stock and retains control of the business.
- Abbott's heirs own 50% of the nonvoting stock and continue to share in the upside potential of the business.
- Abbott's ILIT has access to \$2.5 million cash for estate liquidity purposes or to purchase the nonvoting shares.
- Abbott's estate may be able to value the nonvoting stock at a discount, thereby reducing the estate tax due.