



MTL INSURANCE COMPANY[®]
A member of the MUTUAL TRUST FINANCIAL GROUP



Covenant II

WHOLE LIFE INSURANCE

Take a closer look at Covenant II and discover why MTL is The Whole Life Company.”[®]

Wait-and-See Buy-Sell Agreements

Covenant II is MTL Insurance Company’s leading participating whole life insurance policy. Its design and flexibility offer key advantages for individual as well as business use, such as Wait-and-See Buy-Sell Agreements.

A Wait-and-See Buy-Sell Agreement allows shareholders to postpone the choice between a Stock Redemption and a Cross-Purchase Buy-Sell Agreement until the occurrence of a triggering event (e.g., death, retirement or disability). The Wait-and-See Buy-Sell requires that both the business and the shareholders agree to purchase the stock of a departing shareholder pursuant to the terms and conditions of the Buy-Sell Agreement.

The best way to understand this is to see how it works.

A Wait-and-See Buy-Sell Agreement

Let’s assume that we have three shareholders: Grant, Lee and Jackson. In the typical Wait-and-See Buy-Sell Agreement, here is the situation at Lee’s death:

- The corporation has the first option to buy Lee’s stock from his estate.
- Should the corporation fail to exercise this option, or exercise it only with respect to a portion of Lee’s stock, then Grant and Jackson will have the second option to buy Lee’s stock (or the remainder of it).
- If Grant and Jackson should leave any of Lee’s stock unpurchased, then the corporation **must** purchase any remaining portion (or all) of Lee’s stock. This assures Lee’s family that all of the stock will be purchased, and assures the surviving shareholders that they will succeed to full control of the corporation.

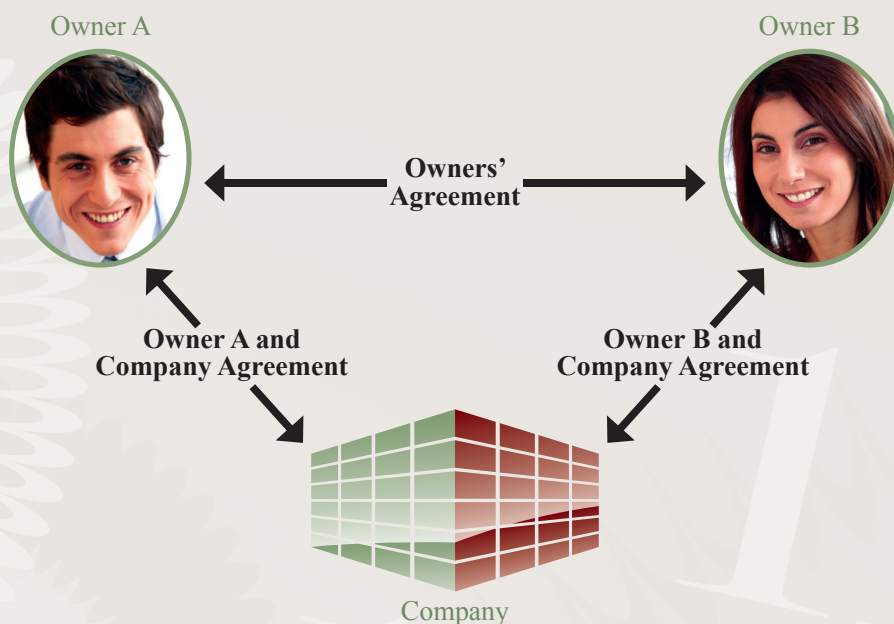
Each of the individual owners and the business entity are potential life insurance buyers. The entity has the greatest exposure since it has a binding obligation to purchase the interest if the two options are unexercised, or incompletely exercised.

The Wait-and-See approach is obviously not appropriate for a sole proprietorship or a single-owner corporation. Further, if the owners are related, the family attribution rules are a potential problem in the event of a redemption under the first option, or a mandatory purchase under the third step.

The diagram on the reverse side shows how the agreement works.



Wait-and-See Buy-Sell Agreement



The decision between Cross Purchase or Stock Redemption (Entity) can be difficult because no one can see into the future to determine which will ultimately be better for all parties. The Wait-and-See is a hybrid agreement containing language of both types of buy-sell agreement. The final buyer of the business will not be determined until after death occurs.

Advantages of Using Whole Life Insurance in a Wait-and-See Buy-Sell Agreement

- The agreement obligates either the business or the surviving owners to purchase the decedent's interest at death. The other party then has the first option to purchase this interest.
- The party(ies) with the obligation purchases life insurance as a cross purchase (if the owners have the obligation) or stock redemption/entity arrangement (if the business has the obligation).*
- The party(ies) receiving the life insurance proceeds use them to help purchase the business interest for themselves, or can lead them to other party(ies) to help them finance the purchase.
- No decision needs to be made about the purchases until a business interest is due to be purchased under the agreement. This provides flexibility for changes in economic times, tax laws, and the owner's circumstances.

** Death benefit and cash value increases may be subject to the alternative minimum tax, which may cause taxes and penalties.*

Your MTL Insurance Advisor can discuss these ideas with you. However, he or she is prohibited from giving tax or legal advice. You should consult with a tax or legal professional of your choice for tax and legal advice.

For more information, contact your MTL Insurance Company representative:



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