

June 2, 2009

Pringle & Herigstad, P.C.  
c/o Mr. Reed A. Soderstrom, Esq.  
2424 Elk Drive  
P.O. Box 1000  
Minot, North Dakota 58702

RE: Nelson vs. Nelson

Dear Mr. Soderstrom,

I have read, reviewed and analyzed the Donald C. and Geraldine E. Peterson Irrevocable Family Trust Agreement, and the Protective Life Insurance Company Last Survivor Flexible Premium Adjustable Life Insurance Policy [Policy No. B00290890] on Donald C. and Geraldine Peterson.

The Adjustable Life Insurance Policy is currently the only life insurance contract within the Peterson Irrevocable Family Trust. It is a life insurance payable on the last survivor of Donald C. and Geraldine E. Peterson. Protective Life Insurance Company is a stock as opposed to mutual organization and therefore does not pay dividends to policyholders. Premiums paid under the policy can vary at the discretion of the life insurance contract owner. Under the conditions of the trust agreement [Article III] premiums are paid to the extent that Donald C. and Geraldine E. Peterson make monies available to the trustee in the form of annual additions to pay the policy premium. The annual premium is \$30,500 per year. Article III allows the trustee to borrow from the policy cash values to pay any premiums that come due should monies not become available from the donors. Should the cash value in the policy be exhausted by its use to pay for premiums on the life insurance contract, the trust terminates. Further, under Article IV, upon the death of either Donald C. or Geraldine E. Peterson, the trustee may use any or all of the value to the insurance policy to support the health, support and/or maintenance of the surviving spouse.

Under these circumstances there are three scenarios under which policy B00290890 would have no current value to Connie Nelson: (1) in the event that Connie were to predecease either one of her parents, (2) the donors to the trust Donald C and Geraldine E. Peterson were unable or unwilling to make future premium payments into the trust causing the trustee to have to borrow off the cash values to the point where the cash value is zero,, or (3) either Donald C. or Geraldine E. Peterson dies and the surviving spouse requires all the cash value for the health, maintenance and support of the surviving spouse. From an actuarial standpoint the probability of the first scenario is 7.5% using the 2001 Commissioner's Standard Ordinary Mortality Table for Non-Smokers [see attached spreadsheet]. The other two scenarios depend on issues other than mortality. Factors, such as the interest and ability of the donors to continue paying the annual insurance premiums, the health of the donors, particularly after the death on one of them, and future finances for long-term health and nursing care for the donors, all relate to assessing the likelihood that the value of Connie Nelson's interest in the policy is zero. Unfortunately, one can only speculate in terms of the chance that scenarios 2 or 3 could come to pass.

On the other hand, the insurance company [Protective Life Insurance Company] does provide an independent assessment of the current value on the adjustable flexible premium second die policy [B0029890] in the trust. The current cash surrender value on this policy represents what the policy is worth if it were to be liquidated as of today. In developing this value the insurer takes into the account paid in contributions, actuarial factors relating to the relative ages of Donald C. and Geraldine E Peterson in regard to them both dying, and the

existence of any policy loans. As a consequence the best defensible value on this policy is its cash surrender value of \$221,916.15 as of 1/17/2009. This value represents what the trust could get for the policy today based on current conditions. Since Connie Nelson has a one-third interest in this value, the worth of this policy to her today would be \$73,972.05 [ $\$221,916.15/3$ ].

In my opinion, although the value of the policy could ultimately be zero under certain circumstances, the more appropriate value is \$73,972.05. If I can be of any further assistance in this case, please let me know.

Sincerely,

Dr. A. Frank Thompson  
 UNI Professor of Finance  
 3114 Skyline Drive  
 Cedar Falls, IA. 50613  
 e-mail address: [actuary1@uni.edu](mailto:actuary1@uni.edu)

Probability that Connie Nelson Predeceases Either One of Her Parents

Assumptions:

2001 CSO Mortality Table for Non-smokers

z	Connie Nelson		Gerald C. Peterson		Geraldine E. Peterson		[ ${}_tP_x + {}_tP_y - {}_tP_y \times {}_tP_x$ ]	(2) * (7)
	(1) ${}_tP_z$	(2) $1 - {}_tP_z$	(3) y	(4) ${}_tP_y$	(5) x	(6) ${}_tP_x$		
52	0.99653	0.00347	83	0.90691	80	0.95757	0.996050191	0.003456
53	0.99615	0.00385	84	0.813498	81	0.911999	0.983587707	0.003786
54	0.99575	0.00425	85	0.720703	82	0.863289	0.961817064	0.004087
55	0.99532	0.00468	86	0.629649	83	0.812174	0.930438447	0.004354
56	0.99482	0.00518	87	0.541662	84	0.758879	0.889485105	0.004607
57	0.9943	0.0057	88	0.458192	85	0.703602	0.839409322	0.004784

58	0.99374	0.00626	89	0.380643	86	0.647743	0.781827328	0.004894
59	0.99318	0.00682	90	0.310201	87	0.589932	0.717135719	0.004890
60	0.9926	0.0074	91	0.248183	88	0.531205	0.647551383	0.00479
61	0.99197	0.00803	92	0.194717	89	0.47249	0.57520534	0.004618
62	0.99128	0.00872	93	0.149585	90	0.415485	0.502919364	0.004385
63	0.99057	0.00943	94	0.112331	91	0.363229	0.434758138	0.004099
64	0.9898	0.0102	95	0.082317	92	0.313888	0.370366863	0.003777
65	0.98895	0.01105	96	0.058956	93	0.26656	0.309800987	0.003423
66	0.98801	0.01199	97	0.041182	94	0.221341	0.253407222	0.003038
67	0.98698	0.01302	98	0.027988	95	0.17864	0.201627819	0.002625
68	0.98583	0.01417	99	0.018457	96	0.140227	0.15609553	0.002211
69	0.98457	0.01543	100	0.011774	97	0.106882	0.117397518	0.001811
70	0.98318	0.01682	101	0.007309	98	0.08105	0.087766461	0.001476
71	0.98158	0.01842	102	0.004404	99	0.060403	0.064541308	0.001188
72	0.97979	0.02021	103	0.002568	100	0.043765	0.046220452	0.000934
73	0.97785	0.02215	104	0.001445	101	0.030742	0.032142717	0.000711
74	0.97572	0.02428	105	0.000781	102	0.020838	0.021602638	0.000524
75	0.97336	0.02664	106	0.000405	103	0.013564	0.013963551	0.000371
76	0.97077	0.02923	107	0.0002	104	0.008429	0.008626875	0.000252
77	0.96792	0.03208	108	9.33E-05	105	0.004968	0.005061183	0.000162
78	0.96477	0.03523	109	4.1E-05	106	0.002766	0.002806692	9.88798E-05
79	0.96137	0.03863	110	1.68E-05	107	0.001447	0.001463647	5.65407E-05
80	0.95757	0.04243	111	6.39E-06	108	0.000708	0.000714404	3.03122E-05
81	0.95241	0.04759	112	2.21E-06	109	0.000322	0.000323794	1.54093E-05
82	0.94659	0.05341	113	6.88E-07	110	0.000134	0.000135187	7.22033E-06
83	0.94079	0.05921	114	1.88E-07	111	5.16E-05	5.1793E-05	3.06666E-06
84	0.93438	0.06562	115	4.41E-08	112	1.81E-05	1.8114E-05	1.18864E-06
85	0.92716	0.07284	116	8.49E-09	113	5.78E-06	5.78434E-06	4.21332E-06
86	0.92061	0.07939	117	1.26E-09	114	1.6E-06	1.59897E-06	1.26942E-06
87	0.91075	0.08925	118	1.27E-10	115	3.78E-07	3.78146E-07	3.37496E-06
88	0.90045	0.09955	119	6.43E-12	116	7.37E-08	7.37505E-08	7.34186E-06
89	0.88947	0.11053	120	0	117	1.1E-08	1.10292E-08	1.21905E-06
90	0.87935	0.12065			118	1.19E-09	1.1863E-09	1.43127E-06
91	0.87423	0.12577			119	7.7E-11	7.69788E-11	9.68162E-06
92	0.86416	0.13584			120	0	0	0
93	0.84922	0.15078					0	0
94	0.83036	0.16964					0	0
95	0.80708	0.19292					0	0
96	0.78497	0.21503					0	0
97	0.76221	0.23779					0	0
98	0.75831	0.24169					0	0
99	0.74526	0.25474					0	0
100	0.72454	0.27546					0	0
101	0.70245	0.29755					0	0
102	0.67781	0.32219					0	0
103	0.65096	0.34904					0	0
104	0.6214	0.3786					0	0
105	0.58944	0.41056					0	0

106	0.55668	0.44332	0
107	0.52312	0.47688	0
108	0.48936	0.51064	0
109	0.4542	0.5458	0
110	0.41824	0.58176	0
111	0.38368	0.61632	0
112	0.35016	0.64984	0
113	0.31964	0.68036	0
114	0.27662	0.72338	0
115	0.2366	0.7634	0
116	0.19508	0.80492	0
117	0.14956	0.85044	0
118	0.10756	0.89244	0
119	0.06489	0.93511	0
120	0	1	0

Probability Connie Predeceases either one of her parents:

7.54%