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Welcome to
Phantom Stock
Plans: Designing
Effective Incentive
Strategies for Private
Companies

Thursday, March 13, 2025 | 8:00 - 9:30 am PT

Available Via Video Conference

NASBA CPE Credit: 1 hour for CPAs

CFP Credit: 1 hour

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- Be sure to look for and answer all NASBA required polling questions during the presentation to ensure your eligibility for credit
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LEARNING OBJECTIVES & AGENDA

🕒 Learning Objectives

- Understand how Phantom Stock and Stock Appreciation Rights (SAR) plans work
- Define differences between the various synthetic equity plans
 - Full Value Unit (FVU)
 - Stock Appreciation Rights (SAR)
- Provide an overview of the plan document and individual award agreement
- Define the tax impact to the company and plan participant
- Identify funding strategies to ensure the company has the cash necessary to pay out the benefit



Phantom Equity Overview

WHAT IS PHANTOM STOCK?

- ④ Phantom stock plans are compensation arrangements that provide employees with benefits similar to owning real equity in the business without actual ownership
- ④ Most phantom plans are based on the equity value of the company
 - Designed to incentivize growth in the business
- ④ Types of phantom plans
 - Stock Appreciation Rights (SAR)
 - Value of the phantom equity is based on the growth of the value of the business
 - Full Value Unit (FVU)
 - Value of the plan is based on the entire value of the company
- ④ When designed properly, the phantom plan pays for itself
 - The incentivized growth of the company warrants the payout of the increased business value to employees



ADVANTAGES OF PHANTOM STOCK

- ④ Phantom stock plans benefit both companies and employees
 - Company benefits
 - Alignment amongst corporate goals and employee behavior
 - Compensation drives behavior
 - Equity-like compensation
 - Long-term retention of key people
 - Improved motivation from key people – they can see what’s in it for them
 - Tax deduction for benefits that are paid out to employees
 - Employee benefits
 - Increased compensation based on the value growth of the business
 - Defined compensation plan for the efforts allocated to the company
 - Provides an incentive to stay with the company over the long-term

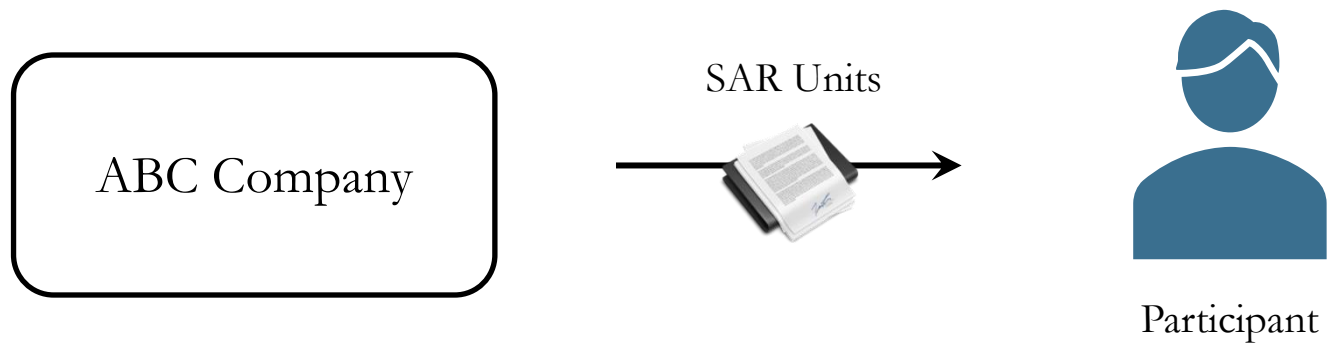


- ④ Most phantom plans are based on an award of phantom stock with a performance period and subsequent payout period
 - Award/grant: the amount of equity being awarded for a given year to an employee
 - Example: 1% of the company or 100 phantom shares
 - Performance period: the time period being evaluated to determine the value of the award
 - Example: 2025 company value of \$100M v. 2030 company value of \$150M
 - Payout period: the terms of the payment for the award
 - Most payout periods match the length of the performance period
 - Example: three-years, five-years, etc.
- ④ The company makes a phantom equity grant, determines the growth of the value of the award over the performance period and then buys back the award from the employee
 - This allows for new award to be made for the next time period
- ④ Most companies do not allocate the total phantom award at one time
 - Allocated over a three or five-year period
 - Example: 2% equity awards over a five-year period results in a 10% phantom equity pool
- ④ Every phantom plan is unique and customizable based on the objectives of the company



Polling Question #1

STEP 1: AWARD ALLOCATION

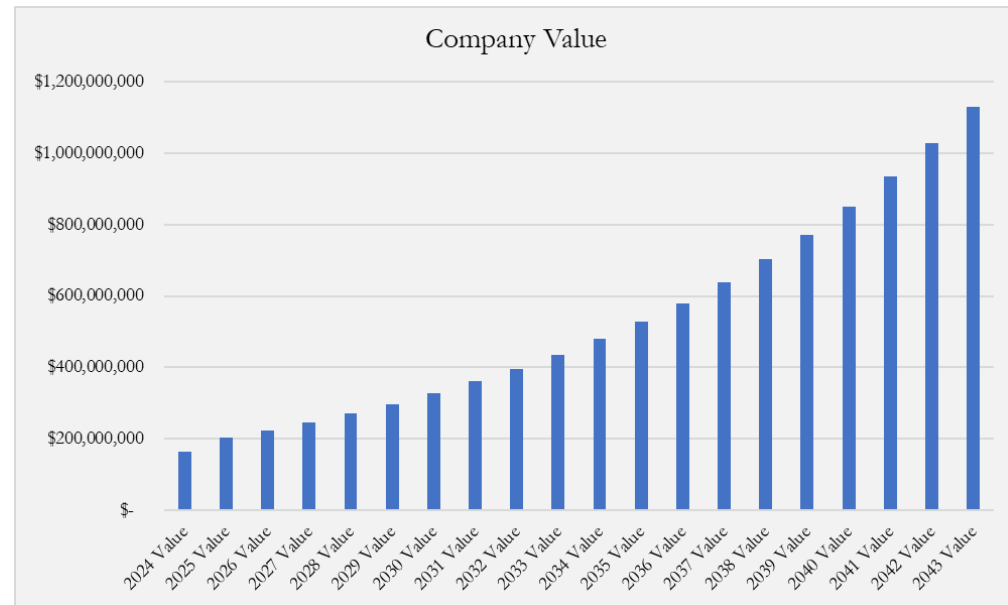


- ④ ABC awards SAR units to a plan participant
 - No tax is owed when an award is granted
 - Company value is known at the time of the award
- ④ ABC board will determine the allocation and amount of awards each year
 - Awards can happen each and every year depending on how much phantom equity the ABC board would like to allocate to participants



STEP 2: COMPANY PERFORMANCE

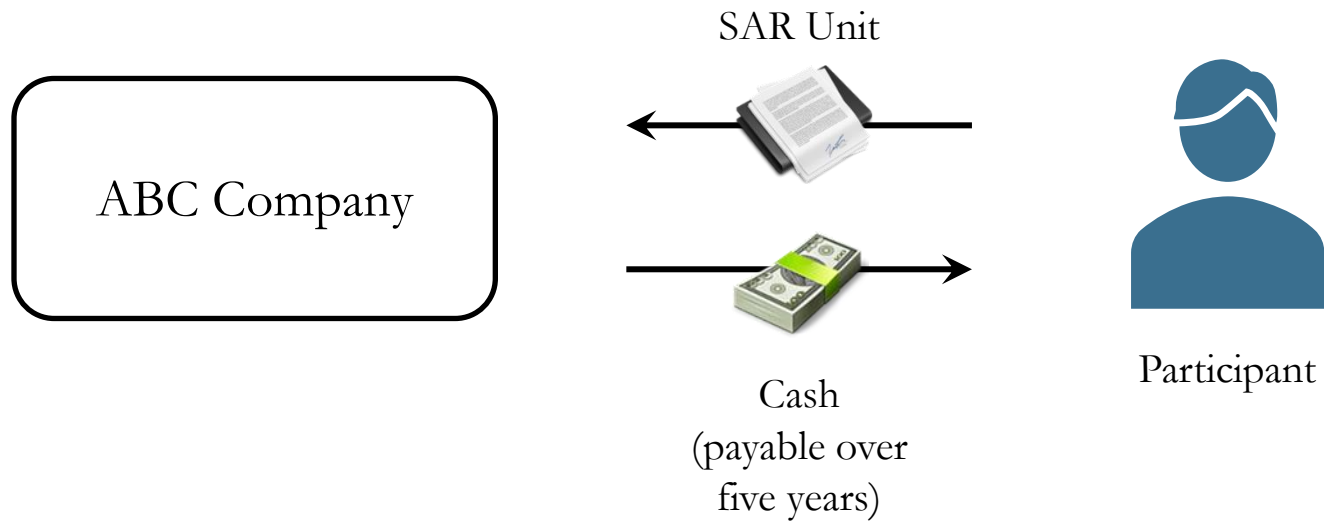
ABC Company



- ABC (ideally) grows over the performance period
 - Ending company value minus beginning company value determines the size of the payout for each participant



STEP 3: REDEMPTION OF PHANTOM EQUITY



- ⌚ At the end of the performance period (five years), ABC will purchase the SAR units from each participant
 - Value will be paid out over a five-year period



ABC Case Study

- ④ Review Phantom Stock/SARs plan as the solution to achieve the desired long-term incentive, retention and compensation plan for key people
 - Evaluate option as it relates to ABC's long-term sustainability and overall executive structure
 - Analyze feasibility, timeframe and cash-flow requirements
 - Discuss benefits with individual team members as well as the company's overall performance
- ④ Design compensation structure to incentivize key people to achieve long-term company objectives
 - Define plan structure, funding vehicles and implementation process
 - Reward 10% - 15% of the future growth of the business value to key leaders
 - Maintain flexibility to adjust allocation/awards amongst participants (as necessary and appropriate)
 - Balance funding of the SAR plan with future cash flow needs for the business
- ④ Evaluate proposed FVU plan for Sam
 - Discuss structure of the plan and define the future benefit
- ④ Stress test assumptions for the plan design
 - Review growth and valuation assumptions
- ④ Execute on plan



OVERVIEW OF PLAN DESIGN

- ④ The plan is intended to promote the success of ABC by granting key employees the right to receive cash payments based on the future appreciation in the Company's earnings
 - ABC's board, CEO/President may grant annual awards to select key employees
- ④ Each award will entitle the participant to receive a future payment based on his/her percentage interest in that year's company Value Appreciation Pool, with each total pool being **2%** of the increase in the company's EOY Plan Company Value from the beginning to the end of a **five-year performance period**
 - Results in the ABC shareholders creating a generous pool of 10% of the future growth of the company
 - Held back 5% in reserve to be awarded in the future (if desired)
- ④ The pool is designed to measure the increase in ABC's earnings over the performance period in accordance with the following formula: **X (A minus B) = Total Amount Allocated to the Pool**



OVERVIEW OF PLAN DESIGN (CONT'D)

- ⊗ In the formula on the previous page:
 - X equals 2% (or another percentage determined by the President or CEO before the beginning of a plan year) (A) equals the EOY Plan Company Value as of the last day of the performance period; and (B) equals the EOY Plan Company Value as of the first day of the performance period.
 - “Performance period” means the five-year period following the grant of an award
- ⊗ “Weighted Average Adjusted EBITDA” means the company’s Adjusted EBITDA determined as follows:
 - Weighted Average Adjusted EBITDA is equal to three times the Adjusted EBITDA for the current year, plus two times the weighted Adjusted EBITDA for the prior year, divided by five
 - Adjust prior year calculation for EBITDA/value to “smooth” out prior financial performance



OVERVIEW OF PLAN DESIGN (CONT'D)

- ⊗ A participant will be fully vested in an award on the first to occur of the following:
 - The participant dying while employed by ABC
 - The participant becoming disabled (as defined in the plan) while employed by ABC
 - A change of control at ABC under certain circumstances or the plan being terminated
 - EOY plan value will reflect the sale price of ABC in the event of a change of control
 - Employee must remain with the company 24 months after the sale event to receive the higher benefit
 - If employee chooses to leave during this time period, they only receive the plan value
 - If they are terminated by the acquirer, they will receive the sale price
 - A participant who separates from service (as defined in the plan) or otherwise discontinues participation in the plan will be vested in an award consistent with the schedule below. In general, a participant separates from service on termination.

Vesting Schedule

Elapsed Time from Grant Date	Vested Percentage
Less than one year	0%
One year but less than two years	20%
Two years but less than three years	40%
Three years but less than four years	60%
Four years but less than five years	80%
Five or more years	100%



Polling Question #2

⌘ SARs

- Due to smaller initial participant group, ABC will only allocate 1% SAR units in the first award period

⌘ Award allocation will increase to 2% in years two and beyond

⌘ FVUs

- In order to adequately incent Sam (key employee), ABC will allocate him FVUs
- Objective: allocate enough FVUs over a 15-year period to compensate Sam with \$25M pre-tax based on a 5% forecasted growth rate
 - Payable over 15 years during retirement
- Sam will also receive an annual bonus so he is compensated as if he was an equity shareholder
 - Payment equal to his synthetic equity ownership multiplied by the total amount of excess distributions
 - Distributions in excess of tax distributions due to S Corp status



Financial Projections & Valuation

BASELINE PROJECTION

Company Valuation Projection - Baseline

	A.	B.	C.	D.	E.	F. (E*Input)	G. (F*-Input)	H. (F+G)	
Plan Year	Period Beginning	Period Ending	Adjusted EBITDA Growth Assumption	Adjusted EBITDA	Adjusted EBITDA Weighted Average	Times Multiple of X	Discount of Lack of Control/Marketability	EOY Plan Company Value	Annual Change in Plan Company Value
0	1/1/2023	12/31/2023	Actual	\$ 41,594,290	\$ 45,753,718	\$ 228,768,592	\$ (91,507,437)	\$ 137,261,155	
1	1/1/2024	12/31/2024	Projected	\$ 63,951,366	\$ 55,008,535	\$ 275,042,676	\$ (110,017,071)	\$ 165,025,606	\$ 27,764,450
2	1/1/2025	12/31/2025	10%	\$ 70,346,502	\$ 67,788,448	\$ 338,942,239	\$ (135,576,895)	\$ 203,365,343	\$ 38,339,737
3	1/1/2026	12/31/2026	10%	\$ 77,381,153	\$ 74,567,292	\$ 372,836,462	\$ (149,134,585)	\$ 223,701,877	\$ 20,336,534
4	1/1/2027	12/31/2027	10%	\$ 85,119,268	\$ 82,024,022	\$ 410,120,109	\$ (164,048,043)	\$ 246,072,065	\$ 22,370,188
5	1/1/2028	12/31/2028	10%	\$ 93,631,195	\$ 90,226,424	\$ 451,132,120	\$ (180,452,848)	\$ 270,679,272	\$ 24,607,207
6	1/1/2029	12/31/2029	10%	\$ 102,994,314	\$ 99,249,066	\$ 496,245,331	\$ (198,498,133)	\$ 297,747,199	\$ 27,067,927
7	1/1/2030	12/31/2030	10%	\$ 113,293,745	\$ 109,173,973	\$ 545,869,865	\$ (218,347,946)	\$ 327,521,919	\$ 29,774,720
8	1/1/2031	12/31/2031	10%	\$ 124,623,120	\$ 120,091,370	\$ 600,456,851	\$ (240,182,740)	\$ 360,274,111	\$ 32,752,192
9	1/1/2032	12/31/2032	10%	\$ 137,085,432	\$ 132,100,507	\$ 660,502,536	\$ (264,201,014)	\$ 396,301,522	\$ 36,027,411
10	1/1/2033	12/31/2033	10%	\$ 150,793,975	\$ 145,310,558	\$ 726,552,790	\$ (290,621,116)	\$ 435,931,674	\$ 39,630,152
15	1/1/2038	12/31/2038	10%	\$ 242,855,205	\$ 234,024,107	\$ 1,170,120,534	\$ (468,048,213)	\$ 702,072,320	\$ 63,824,756
20	1/1/2043	12/31/2043	10%	\$ 391,120,736	\$ 376,898,164	\$ 1,884,490,821	\$ (753,796,328)	\$ 1,130,694,492	\$ 102,790,408

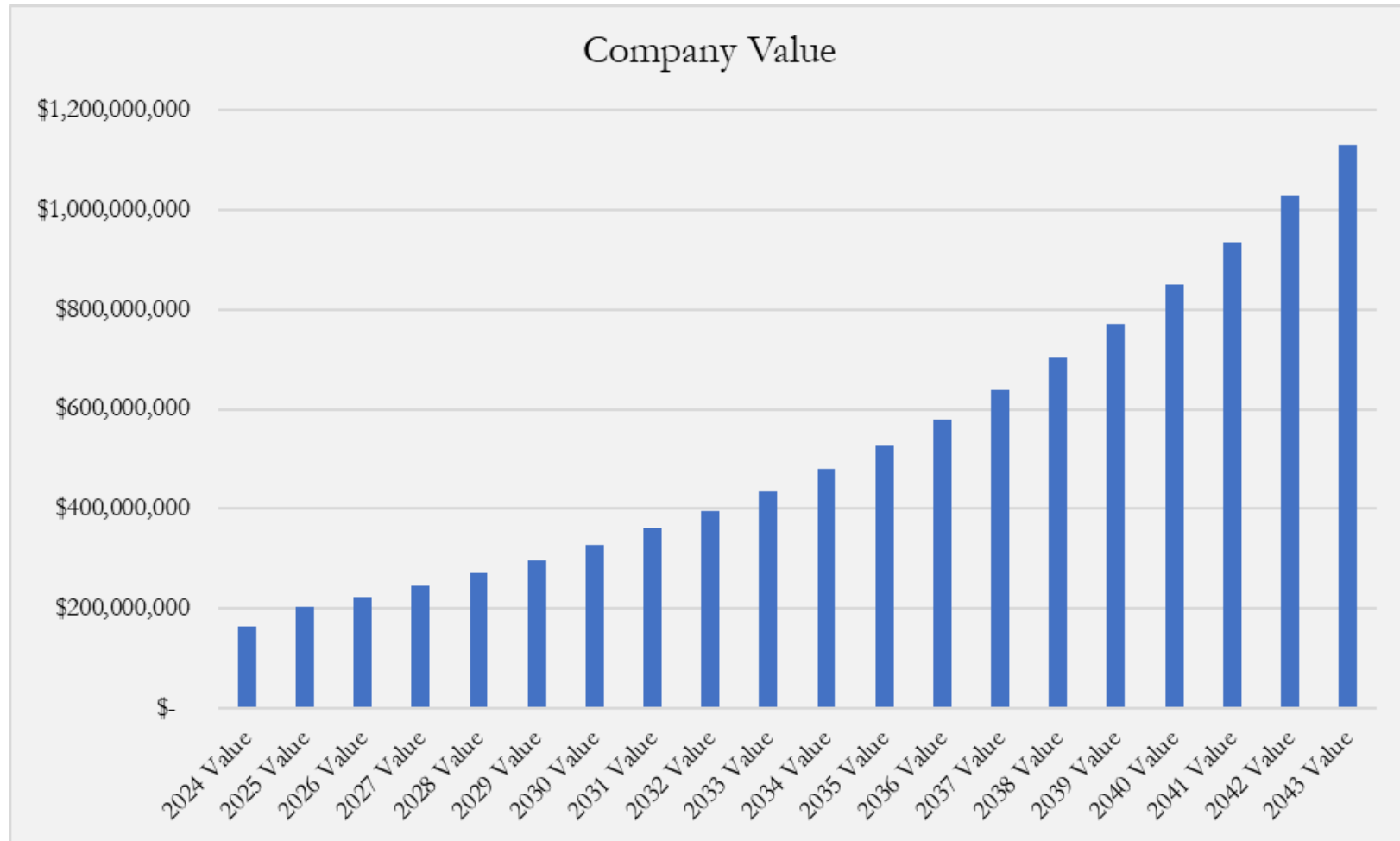
Notes:

- *A valuation multiple of: **5.00** is applied to the EBITDA weighted average
- Valuation discount of: **-40.00%** is applied lack of marketability and control
- *Assumes a **10.00%** growth rate throughout projection

- ⊗ Baseline design assumes “baseline” scenario growth rate at 10% level throughout the projection
 - Beginning EBITDA is adjusted to “smooth” out financial performance for the start of the plan



COMPANY VALUE 20-YEAR PROJECTION



- ⦿ Baseline design assumes “baseline” scenario growth rate at 10% level throughout the projection
 - Beginning EBITDA is adjusted to “smooth” out financial performance for the start of the plan



BASELINE – AGGREGATE AWARD 10-YEAR PROJECTION

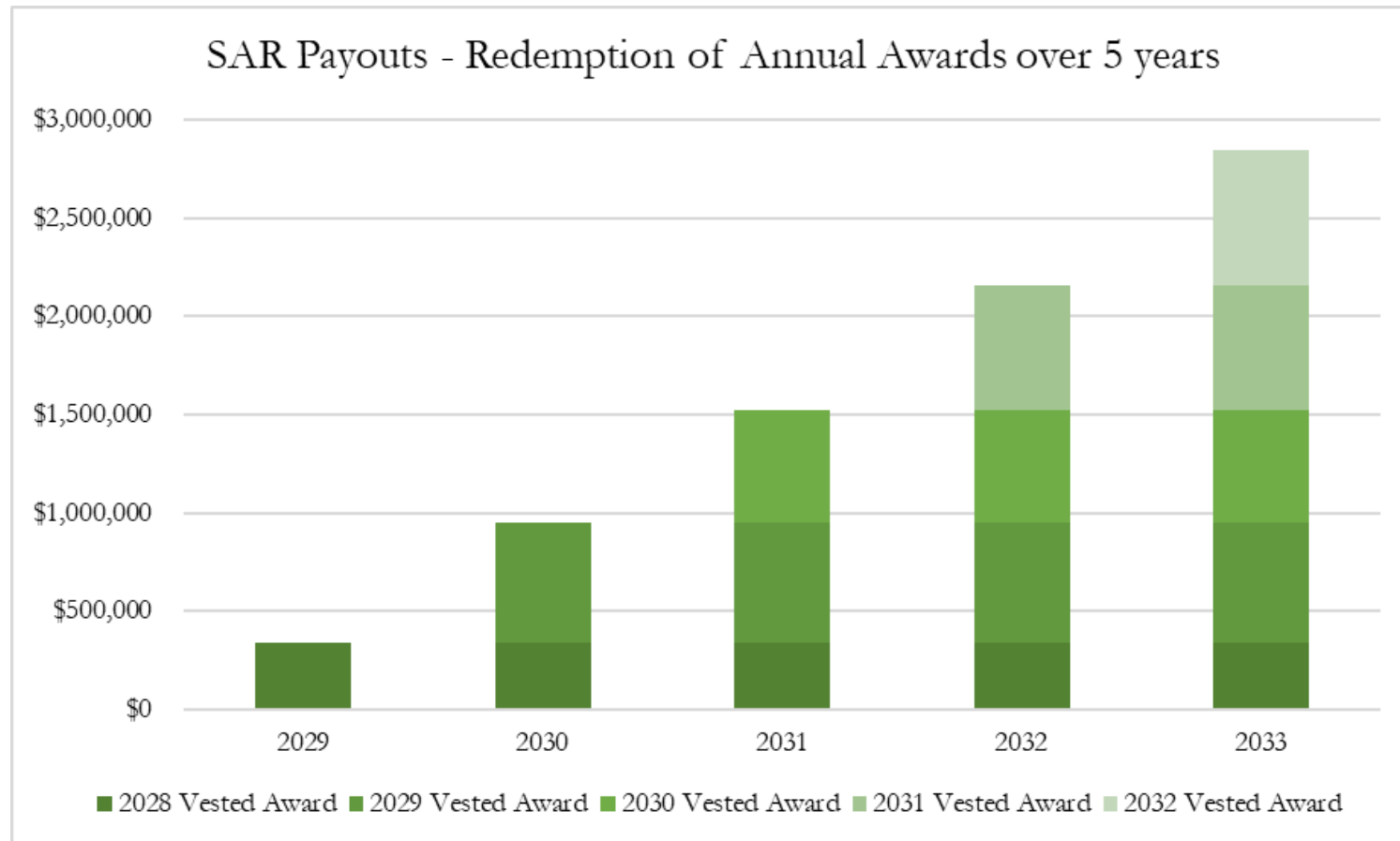
Year Vested	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Date	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035	12/31/2036	12/31/2037
Company Value	\$ 270,679,272	\$ 297,747,199	\$ 327,521,919	\$ 360,274,111	\$ 396,301,522	\$ 435,931,674	\$ 479,524,841	\$ 527,477,325	\$ 580,225,058	\$ 638,247,564
Growth Over 5-Year Period	\$ 145,896,403	\$ 132,721,593	\$ 124,156,576	\$ 136,572,233	\$ 150,229,457	\$ 165,252,402	\$ 181,777,642	\$ 199,955,407	\$ 219,950,947	\$ 241,946,042
SAR Equity Percentage	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Annual Awards	\$ 1,458,964	\$ 2,654,432	\$ 2,483,132	\$ 2,731,445	\$ 3,004,589	\$ 3,305,048	\$ 3,635,553	\$ 3,999,108	\$ 4,399,019	\$ 4,838,921
Annual Payment (5 years post-award)	(\$336,984)	(\$613,107)	(\$573,541)	(\$630,895)	(\$693,984)	(\$763,383)	(\$839,721)	(\$923,693)	(\$1,016,063)	(\$1,117,669)
Award Cash Flow Schedule										
2028 Award	\$336,984	\$336,984	\$336,984	\$336,984	\$336,984					
2029 Award		\$613,107	\$613,107	\$613,107	\$613,107	\$613,107				
2030 Award			\$573,541	\$573,541	\$573,541	\$573,541	\$573,541			
2031 Award				\$630,895	\$630,895	\$630,895	\$630,895	\$630,895		
2032 Award					\$693,984	\$693,984	\$693,984	\$693,984	\$693,984	
2033 Award						\$763,383	\$763,383	\$763,383	\$763,383	\$763,383
2034 Award							\$839,721	\$839,721	\$839,721	\$839,721
2035 Award								\$923,693	\$923,693	\$923,693
2036 Award									\$1,016,063	\$1,016,063
2037 Award										\$1,117,669
2038 Award										
Total Annual Payout	\$336,984	\$950,091	\$1,523,632	\$2,154,526	\$2,848,511	\$3,274,910	\$3,501,524	\$3,851,676	\$4,236,844	\$4,660,528

Key Assumptions/Observations

- Business value assumed to increase at 10% per year for purposes of the SAR awards



BUYBACK OF SAR AWARDS ANNUALLY



Key Assumptions/Observations

- ⦿ Business value assumed to increase at 10% per year for purposes of the SAR awards



Award Allocation

SAR ALLOCATION – PERCENTAGE OF EACH AWARD

Name	SAR Benefit Number of Participants Compensation	1%	2%	2%	2%	2%	2%
		3	13	15	17	19	19
		2024	2025	2026	2027	2028	2029
Employee #1	\$ 380,000	50.00%	11.28%	9.95%	9.09%	8.40%	8.40%
Employee #2	\$ 375,000	30.00%	11.13%	9.82%	8.97%	8.29%	8.29%
Employee #3	\$ 475,000	20.00%	14.10%	12.44%	11.37%	10.50%	10.50%
Employee #4	\$ 271,000		8.04%	7.10%	6.49%	5.99%	5.99%
Employee #5	\$ 233,294		6.93%	6.11%	5.58%	5.16%	5.16%
Employee #6	\$ 206,000		6.11%	5.39%	4.93%	4.55%	4.55%
Employee #7	\$ 225,000		6.68%	5.89%	5.38%	4.97%	4.97%
Employee #8	\$ 208,500		6.19%	5.46%	4.99%	4.61%	4.61%
Employee #9	\$ 190,000		5.64%	4.98%	4.55%	4.20%	4.20%
Employee #10	\$ 190,000		5.64%	4.98%	4.55%	4.20%	4.20%
Employee #11	\$ 145,000		4.30%	3.80%	3.47%	3.21%	3.21%
Employee #12	\$ 245,000		7.27%	6.42%	5.86%	5.42%	5.42%
Employee #13	\$ 225,000		6.68%	5.89%	5.38%	4.97%	4.97%
Future Executive #1	\$ 230,000			6.02%	5.50%	5.08%	5.08%
Future Executive #2	\$ 220,000			5.76%	5.26%	4.86%	4.86%
Future Executive #3	\$ 185,000				4.43%	4.09%	4.09%
Future Executive #4	\$ 175,000				4.19%	3.87%	3.87%
Future Executive #5	\$ 175,000					3.87%	3.87%
Future Executive #6	\$ 170,000					3.76%	3.76%
Total		100%	100%	100%	100%	100%	100%

⊗ Awards are split based on an employee’s compensation relative to the size of the pool for each given year

— Benchmarking against compensation allows for fair allocation amongst participants



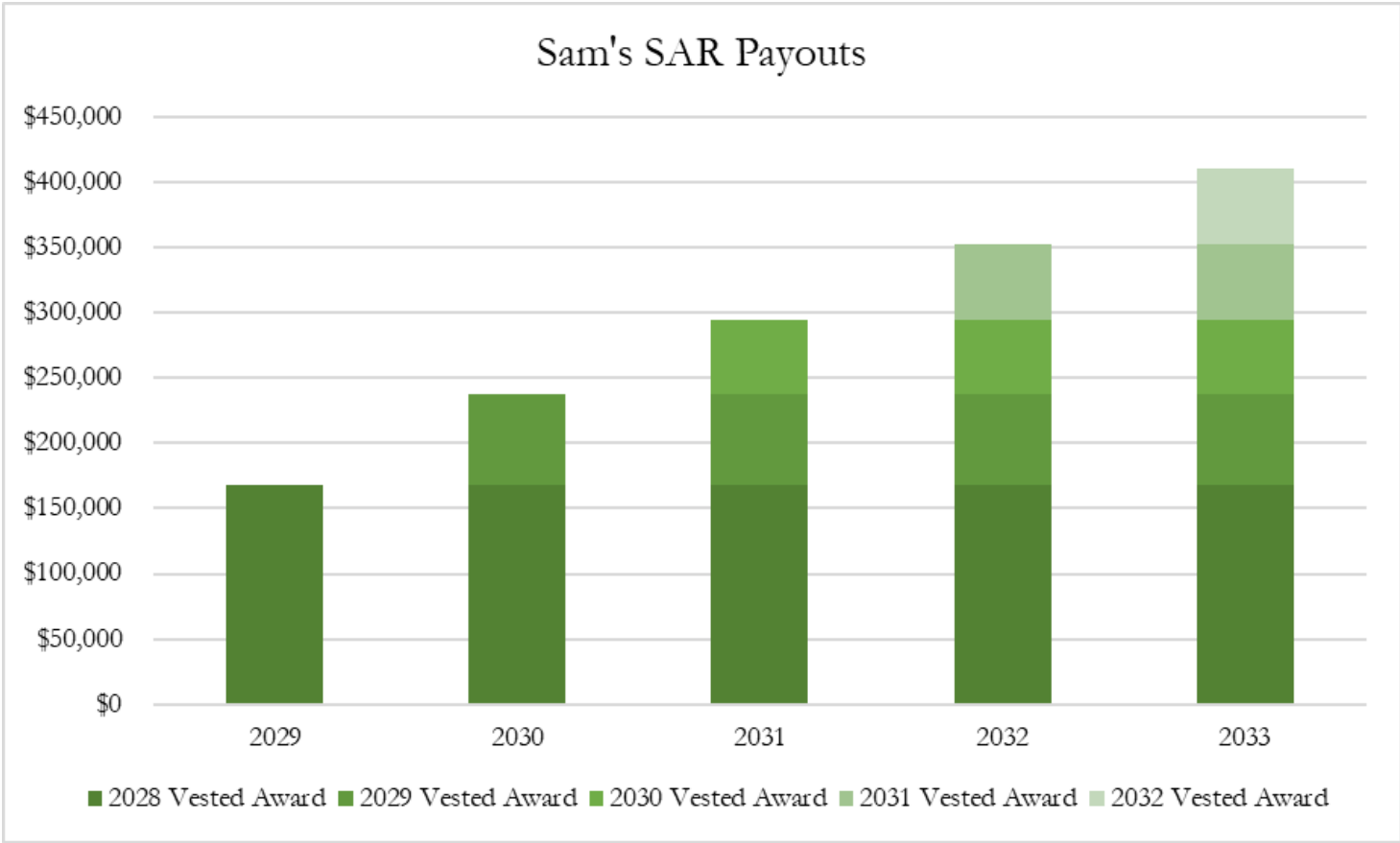
SAM (KEY EXECUTIVE) – SAR AWARD ALLOCATION & PAYOUT

	2029 Payment	2030 Payment	2031 Payment	2032 Payment	2033 Payment	2034 Payment	2035 Payment
2028 Vested Award	\$168,492	\$168,492	\$168,492	\$168,492	\$168,492		
2029 Vested Award		\$69,158	\$69,158	\$69,158	\$69,158	\$69,158	
2030 Vested Award			\$57,072	\$57,072	\$57,072	\$57,072	\$57,072
2031 Vested Award				\$57,371	\$57,371	\$57,371	\$57,371
2032 Vested Award					\$58,295	\$58,295	\$58,295
2033 Vested Award						\$64,124	\$64,124
2034 Vested Award							\$70,537
Total	\$168,492	\$237,650	\$294,722	\$352,093	\$410,388	\$306,020	\$307,399
Total Compensation	\$484,987	\$509,236	\$534,698	\$561,433	\$589,505	\$618,980	\$649,929
<i>SAR Benefit as a % of Compensation</i>	34.7%	46.7%	55.1%	62.7%	69.6%	49.4%	47.3%

- Ⓢ Target initiative is 30% - 50% of a key executive's compensation
 - Average compensation for the next 15 years ≈\$545,000
 - Average SAR benefit over same time period ≈\$180,000
 - Average benefit of 30% - 35% of base pay
 - SAR benefit increases as a percentage over time
 - Intent is to reward key employee for performance and longevity with ABC
 - If company exceeds projections, then a larger benefit will be paid



SAM'S ANNUAL PAYOUTS



CFO – AWARD ALLOCATION & PAYOUT

	2029 Payment	2030 Payment	2031 Payment	2032 Payment	2033 Payment	2034 Payment	2035 Payment
2028 Award	\$67,397	\$67,397	\$67,397	\$67,397	\$67,397		
2029 Award		\$86,448	\$86,448	\$86,448	\$86,448	\$86,448	
2030 Award			\$71,340	\$71,340	\$71,340	\$71,340	\$71,340
2031 Award				\$71,713	\$71,713	\$71,713	\$71,713
2032 Award					\$72,869	\$72,869	\$72,869
2033 Award						\$80,155	\$80,155
2034 Award							\$88,171
Total	\$67,397	\$153,845	\$225,185	\$296,898	\$369,767	\$382,525	\$384,248
Total Compensation	\$606,234	\$636,545	\$668,373	\$701,791	\$736,881	\$773,725	\$812,411
<i>SAR Benefit as a % of Compensation</i>	<i>11%</i>	<i>24%</i>	<i>34%</i>	<i>42%</i>	<i>50%</i>	<i>49%</i>	<i>47%</i>

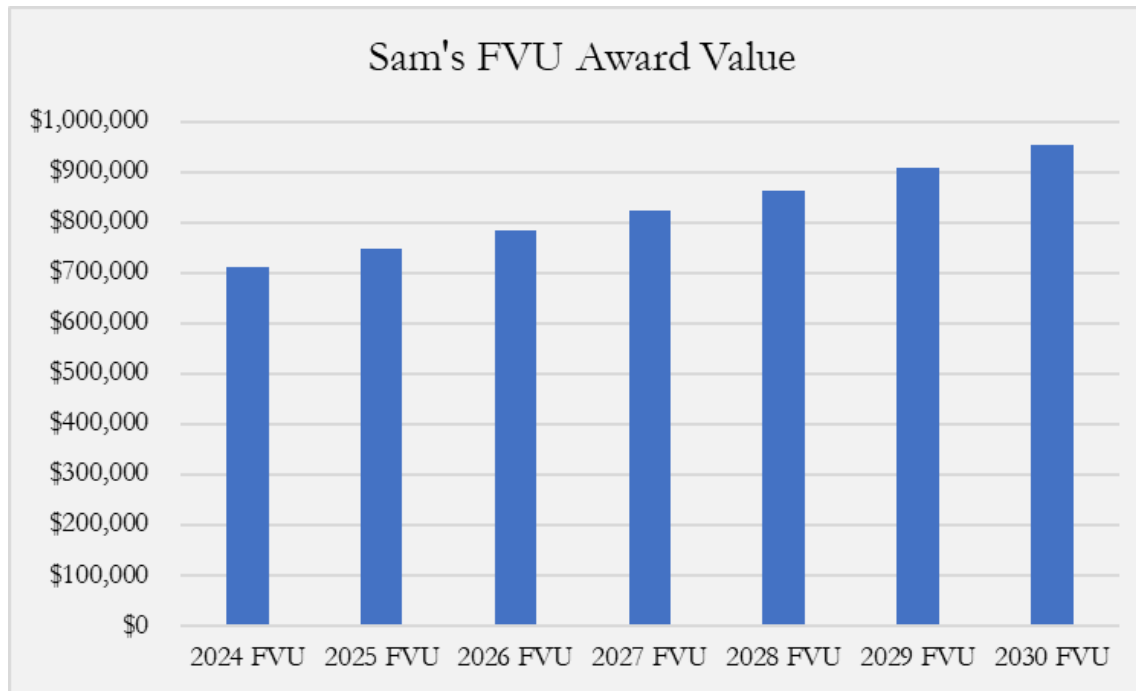
- ⊗ Target initiative is 30% - 50% of a key executive's compensation
 - Average compensation for the next 15 years ≈\$680,000
 - Average SAR benefit over same time period ≈\$216,000
 - Average benefit of 30% - 35% of base pay
 - SAR benefit increases as a percentage over time
 - Intent is to reward key employee for performance and longevity with ABC
 - If company exceeds projections, then a larger benefit will be paid



Polling Question #3

Full Value Unit (FVU) Award

FVU – AWARD PROJECTION

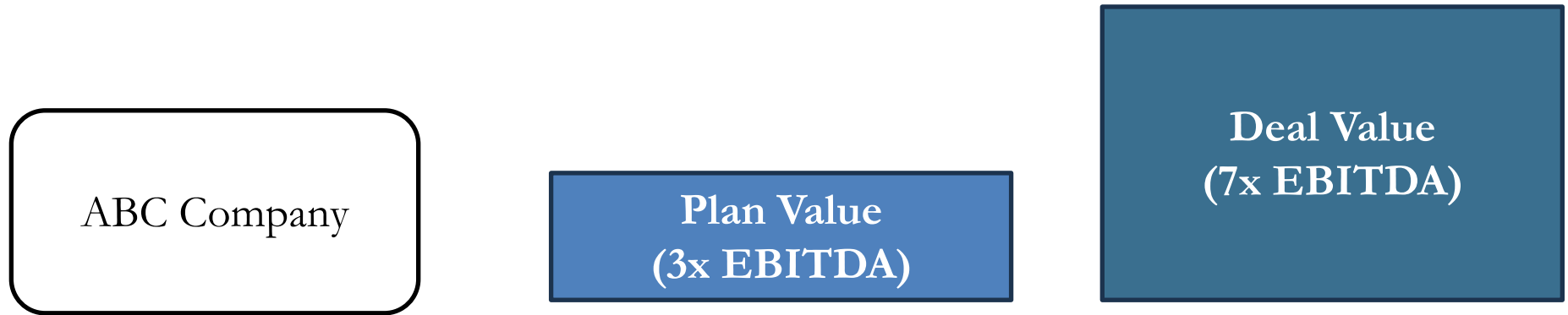


- ④ Sam will be allocated FVU's to achieve the target goal of creating a \$25M benefit 15 years from now
 - ABC will purchase his FVU's during his first 15 years in retirement
 - Each award is based on the present value of 1/15th of the desired benefit to be paid to Sam in 15 years
- ④ Sam will also receive a “bonus” based on the after-tax distributions made from the company to its shareholders
 - Allows him to be compensated as if he were a true equity shareholder



Change of Control Example

CHANGE OF CONTROL – EXAMPLE



- ⌚ In the event of a change of control, the ending value will be increased to the purchase price
 - Assumed to be significant increase relative to plan value
 - Plan value: 3X EBITDA
 - Change of control assumed value: 7X+ EBITDA
- ⌚ SAR participants receive the higher value as long as they remain with the acquiring company
 - Subject to certain provisions in the plan



Insurance Funding Design & Accounting Details

SAR INSURANCE DESIGN COMPOSITE

Calendar Year	Plan Year	Insurance Policy Illustrations						Employer Plan Cash Flow				
		Annual Premium	Annual Distribution Net of Tax	Account Value	Cash Surrender Value	Death Benefit	Realized Death Benefit*	Life Insurance Premium	Annual SAR Plan Benefit Payment	Life Insurance Proceeds	Employer Tax Deduction 40%	Net SAR Plan Outlay
2025	1	\$6,000,000	\$0	\$5,664,328	\$4,826,418	\$108,064,328	\$0	(\$6,000,000)	\$0	\$0	\$0	(\$6,000,000)
2026	2	\$6,000,000	\$0	\$11,300,734	\$10,555,922	\$113,700,734	\$0	(\$6,000,000)	\$0	\$0	\$0	(\$6,000,000)
2027	3	\$6,000,000	\$0	\$17,075,347	\$16,423,630	\$119,475,347	\$0	(\$6,000,000)	\$0	\$0	\$0	(\$6,000,000)
2028	4	\$6,000,000	\$0	\$23,165,646	\$22,607,192	\$125,565,646	\$0	(\$6,000,000)	\$0	\$0	\$0	(\$6,000,000)
2029	5	\$6,000,000	\$336,983	\$29,234,349	\$28,768,847	\$131,634,349	\$0	(\$6,000,000)	(\$336,984)	\$336,983	\$134,794	(\$5,528,223)
2030	6	\$6,000,000	\$950,093	\$34,938,484	\$34,566,243	\$137,338,484	\$0	(\$6,000,000)	(\$950,091)	\$950,093	\$380,036	(\$4,669,871)
2031	7	\$6,000,000	\$1,523,632	\$40,308,998	\$40,029,872	\$142,708,998	\$0	(\$6,000,000)	(\$1,523,632)	\$1,523,632	\$609,453	(\$3,866,915)
2032	8	\$6,000,000	\$2,154,526	\$45,272,851	\$45,086,822	\$147,672,851	\$0	(\$6,000,000)	(\$2,154,526)	\$2,154,526	\$861,811	(\$2,983,663)
2033	9	\$6,000,000	\$2,848,512	\$49,818,476	\$49,725,564	\$152,218,476	\$0	(\$6,000,000)	(\$2,848,511)	\$2,848,512	\$1,139,404	(\$2,012,084)
2034	10	\$6,000,000	\$3,274,909	\$54,210,377	\$54,210,377	\$156,610,377	\$0	(\$6,000,000)	(\$3,274,910)	\$3,274,909	\$1,309,964	(\$1,415,127)
2035	11	\$0	\$3,501,524	\$53,559,494	\$53,559,494	\$81,341,311	\$0	\$0	(\$3,501,524)	\$3,501,524	\$1,400,610	\$4,902,134
2036	12	\$0	\$3,851,676	\$52,499,877	\$52,499,877	\$78,461,025	\$0	\$0	(\$3,851,676)	\$3,851,676	\$1,540,671	\$5,392,347
2037	13	\$0	\$4,236,844	\$50,970,330	\$50,970,330	\$75,597,192	\$0	\$0	(\$4,236,844)	\$4,236,844	\$1,694,738	\$5,931,582
2038	14	\$0	\$4,660,528	\$48,902,145	\$48,902,145	\$72,575,107	\$0	\$0	(\$4,660,528)	\$4,660,528	\$1,864,211	\$6,524,739
2039	15	\$0	\$5,126,581	\$46,219,735	\$46,219,735	\$68,809,885	\$0	\$0	(\$5,126,581)	\$5,126,581	\$2,050,632	\$7,177,213
2040	16	\$0	\$5,639,240	\$42,843,275	\$42,843,275	\$62,445,741	\$0	\$0	(\$5,639,239)	\$5,639,240	\$2,255,696	\$7,894,936
2041	17	\$0	\$6,203,162	\$38,676,675	\$38,676,675	\$55,373,704	\$0	\$0	(\$6,203,163)	\$6,203,162	\$2,481,265	\$8,684,427
2042	18	\$0	\$6,823,480	\$33,617,978	\$33,617,978	\$47,992,755	\$0	\$0	(\$6,823,480)	\$6,823,480	\$2,729,392	\$9,552,872
2043	19	\$0	\$7,505,827	\$27,550,253	\$27,550,253	\$39,835,205	\$0	\$0	(\$7,505,828)	\$7,505,827	\$3,002,331	\$10,508,158
2044	20	\$0	\$8,256,411	\$20,344,165	\$20,344,165	\$30,807,155	\$0	\$0	(\$8,256,410)	\$8,256,411	\$3,302,564	\$11,558,975
2045	21	\$0	\$6,904,032	\$14,158,379	\$14,158,379	\$23,274,208	\$0	\$0	(\$6,904,031)	\$6,904,032	\$2,761,612	\$9,665,644
2046	22	\$0	\$5,416,415	\$9,193,506	\$9,193,506	\$17,247,102	\$0	\$0	(\$5,416,414)	\$5,416,415	\$2,166,566	\$7,582,981
2047	23	\$0	\$3,780,036	\$5,676,161	\$5,676,161	\$13,027,540	\$0	\$0	(\$3,780,035)	\$3,780,036	\$1,512,014	\$5,292,050
2048	24	\$0	\$1,980,019	\$3,860,719	\$3,860,719	\$10,530,148	\$0	\$0	(\$1,980,018)	\$1,980,019	\$792,007	\$2,772,026
2049	25	\$0	\$0	\$4,034,491	\$4,034,491	\$9,977,132	\$0	\$0	\$0	\$0	\$0	\$0
2054	30	\$0	\$0	\$5,083,878	\$5,083,878	\$8,387,930	\$0	\$0	\$0	\$0	\$0	\$0
2059	35	\$0	\$0	\$6,431,143	\$6,431,143	\$9,032,875	\$0	\$0	\$0	\$0	\$0	\$0
2063	39	\$0	\$0	\$7,647,407	\$7,647,407	\$10,230,965	\$5,270,390	\$0	\$0	\$5,270,390	\$0	\$5,270,390
2064	40	\$0	\$0	\$3,776,576	\$3,776,576	\$5,147,030	\$524,389	\$0	\$0	\$524,389	\$0	\$524,389
2065	41	\$0	\$0	\$3,522,340	\$3,522,340	\$4,791,602	\$0	\$0	\$0	\$0	\$0	\$0
2066	42	\$0	\$0	\$3,659,638	\$3,659,638	\$4,960,359	\$0	\$0	\$0	\$0	\$0	\$0
2067	43	\$0	\$0	\$3,795,209	\$3,795,209	\$5,127,858	\$4,442,138	\$0	\$0	\$4,442,138	\$0	\$4,442,138
2068	44	\$0	\$0	\$564,257	\$564,257	\$715,480	\$0	\$0	\$0	\$0	\$0	\$0
2069	45	\$0	\$0	\$590,658	\$590,658	\$745,970	\$0	\$0	\$0	\$0	\$0	\$0
2070	46	\$0	\$0	\$617,612	\$617,612	\$777,101	\$0	\$0	\$0	\$0	\$0	\$0
2071	47	\$0	\$0	\$645,032	\$645,032	\$808,786	\$808,786	\$0	\$0	\$808,786	\$0	\$808,786
Total:		\$60,000,000	\$84,974,430					(\$60,000,000)	(\$84,974,426)	\$130,009,903	\$33,989,770	\$70,009,903

FVU INSURANCE DESIGN COMPOSITE

		Insurance Policy Illustrations					Employer Plan Cash Flow					
Calendar Year	Plan Year	Annual Premium	Annual Distribution Net of Tax	Account Value	Cash Surrender Value	Death Benefit	Realized Death Benefit*	Life Insurance Premium	Annual FVU Plan Benefit Payment	Life Insurance Proceeds	Employer Tax Deduction 40%	Net FVU Plan Outlay
		2025	1	\$2,500,000	\$0	\$2,363,378	\$2,021,311	\$42,613,378	\$0	(\$2,500,000)	\$0	\$0
2026	2	\$2,500,000	\$0	\$4,718,744	\$4,414,649	\$44,968,744	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2027	3	\$2,500,000	\$0	\$7,134,118	\$6,868,059	\$47,384,118	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2028	4	\$2,500,000	\$0	\$9,681,880	\$9,453,898	\$49,931,880	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2029	5	\$2,500,000	\$0	\$12,369,490	\$12,179,439	\$52,619,490	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2030	6	\$2,500,000	\$0	\$15,204,817	\$15,052,841	\$55,454,817	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2031	7	\$2,500,000	\$0	\$18,196,649	\$18,082,710	\$58,446,649	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2032	8	\$2,500,000	\$0	\$21,354,475	\$21,278,508	\$61,604,475	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2033	9	\$2,500,000	\$0	\$24,687,635	\$24,649,704	\$64,937,635	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2034	10	\$2,500,000	\$0	\$28,205,558	\$28,205,558	\$68,455,558	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2035	11	\$2,500,000	\$0	\$32,253,984	\$32,253,984	\$72,503,984	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2036	12	\$2,500,000	\$0	\$36,526,332	\$36,526,332	\$76,776,332	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2037	13	\$2,500,000	\$0	\$41,034,206	\$41,034,206	\$81,284,206	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2038	14	\$2,500,000	\$0	\$45,789,124	\$45,789,124	\$86,039,124	\$0	(\$2,500,000)	\$0	\$0	\$0	(\$2,500,000)
2039	15	\$0	\$4,198,679	\$43,927,745	\$43,927,745	\$57,904,247	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2040	16	\$0	\$4,198,679	\$41,957,429	\$41,957,429	\$54,232,580	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2041	17	\$0	\$4,198,679	\$39,875,372	\$39,875,372	\$50,516,786	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2042	18	\$0	\$4,198,679	\$37,675,218	\$37,675,218	\$46,967,076	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2043	19	\$0	\$4,198,679	\$35,349,105	\$35,349,105	\$43,651,792	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2044	20	\$0	\$4,198,679	\$32,890,072	\$32,890,072	\$40,233,798	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2045	21	\$0	\$4,198,679	\$30,290,955	\$30,290,955	\$36,709,542	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2046	22	\$0	\$4,198,679	\$27,544,132	\$27,544,132	\$33,075,293	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2047	23	\$0	\$4,198,679	\$24,641,330	\$24,641,330	\$29,400,231	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2048	24	\$0	\$4,198,679	\$21,576,167	\$21,576,167	\$25,798,506	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2049	25	\$0	\$4,198,679	\$18,336,155	\$18,336,155	\$22,191,956	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2050	26	\$0	\$4,198,679	\$14,911,260	\$14,911,260	\$18,347,967	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2051	27	\$0	\$4,198,679	\$11,292,089	\$11,292,089	\$14,260,857	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2052	28	\$0	\$4,198,679	\$7,469,938	\$7,469,938	\$9,842,640	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2053	29	\$0	\$4,198,679	\$3,427,787	\$3,427,787	\$5,687,773	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2054	30	\$0	\$0	\$3,591,230	\$3,591,230	\$5,731,889	\$0	\$0	\$0	\$0	\$0	\$0
2059	35	\$0	\$0	\$4,503,702	\$4,503,702	\$6,528,966	\$0	\$0	\$0	\$0	\$0	\$0
2063	39	\$0	\$0	\$5,270,590	\$5,270,590	\$7,501,753	\$5,921,076	\$0	\$0	\$5,921,076	\$0	\$5,921,076
2064	40	\$0	\$0	\$4,209,755	\$4,209,755	\$5,929,173	\$0	\$0	\$0	\$0	\$0	\$0
2065	41	\$0	\$0	\$4,352,009	\$4,352,009	\$6,112,490	\$0	\$0	\$0	\$0	\$0	\$0
2066	42	\$0	\$0	\$4,488,541	\$4,488,541	\$6,290,563	\$0	\$0	\$0	\$0	\$0	\$0
2067	43	\$0	\$0	\$4,616,486	\$4,616,486	\$6,460,401	\$1,767,910	\$0	\$0	\$1,767,910	\$0	\$1,767,910
Total:		\$35,000,000	\$62,980,185					(\$35,000,000)	(\$62,980,171)	\$70,669,171	\$25,192,069	\$60,861,240

SAR & FVU INSURANCE DESIGN COMPOSITE

Calendar Year	Plan Year	Insurance Policy Illustrations						Employer Plan Cash Flow				
		Annual Premium	Annual Distribution Net of Tax	Account Value	Cash Surrender Value	Death Benefit	Realized Death Benefit*	Life Insurance Premium	Annual SAR & FVU Plan Benefit Payment	Life Insurance Proceeds	Employer Tax Deduction 40%	Net SAR & FVU Plan Outlay
		2025	1	\$8,500,000	\$0	\$8,027,706	\$6,847,729	\$150,677,706	\$0	(\$8,500,000)	\$0	\$0
2026	2	\$8,500,000	\$0	\$16,019,478	\$14,970,571	\$158,669,478	\$0	(\$8,500,000)	\$0	\$0	\$0	(\$8,500,000)
2027	3	\$8,500,000	\$0	\$24,209,465	\$23,291,689	\$166,859,465	\$0	(\$8,500,000)	\$0	\$0	\$0	(\$8,500,000)
2028	4	\$8,500,000	\$0	\$32,847,526	\$32,061,090	\$175,497,526	\$0	(\$8,500,000)	\$0	\$0	\$0	(\$8,500,000)
2029	5	\$8,500,000	\$336,983	\$41,603,839	\$40,948,286	\$184,253,839	\$0	(\$8,500,000)	(\$336,984)	\$336,983	\$134,794	(\$8,028,223)
2030	6	\$8,500,000	\$950,093	\$50,143,301	\$49,619,084	\$192,793,301	\$0	(\$8,500,000)	(\$950,091)	\$950,093	\$380,036	(\$7,169,871)
2031	7	\$8,500,000	\$1,523,632	\$58,505,647	\$58,112,582	\$201,155,647	\$0	(\$8,500,000)	(\$1,523,632)	\$1,523,632	\$609,453	(\$6,366,915)
2032	8	\$8,500,000	\$2,154,526	\$66,627,326	\$66,365,330	\$209,277,326	\$0	(\$8,500,000)	(\$2,154,526)	\$2,154,526	\$861,811	(\$5,483,663)
2033	9	\$8,500,000	\$2,848,512	\$74,506,111	\$74,375,268	\$217,156,111	\$0	(\$8,500,000)	(\$2,848,511)	\$2,848,512	\$1,139,404	(\$4,512,084)
2034	10	\$8,500,000	\$3,274,909	\$82,415,935	\$82,415,935	\$225,065,935	\$0	(\$8,500,000)	(\$3,274,910)	\$3,274,909	\$1,309,964	(\$3,915,127)
2035	11	\$2,500,000	\$3,501,524	\$85,813,478	\$85,813,478	\$153,845,295	\$0	(\$2,500,000)	(\$3,501,524)	\$3,501,524	\$1,400,610	\$2,402,134
2036	12	\$2,500,000	\$3,851,676	\$89,026,209	\$89,026,209	\$155,237,357	\$0	(\$2,500,000)	(\$3,851,676)	\$3,851,676	\$1,540,671	\$2,892,347
2037	13	\$2,500,000	\$4,236,844	\$92,004,536	\$92,004,536	\$156,881,398	\$0	(\$2,500,000)	(\$4,236,844)	\$4,236,844	\$1,694,738	\$3,431,582
2038	14	\$2,500,000	\$4,660,528	\$94,691,269	\$94,691,269	\$158,614,231	\$0	(\$2,500,000)	(\$4,660,528)	\$4,660,528	\$1,864,211	\$4,024,739
2039	15	\$0	\$9,325,260	\$90,147,480	\$90,147,480	\$126,714,132	\$0	\$0	(\$9,325,259)	\$9,325,260	\$3,730,104	\$13,055,364
2040	16	\$0	\$9,837,919	\$84,800,704	\$84,800,704	\$116,678,321	\$0	\$0	(\$9,837,917)	\$9,837,919	\$3,935,167	\$13,773,086
2041	17	\$0	\$10,401,841	\$78,552,047	\$78,552,047	\$105,890,490	\$0	\$0	(\$10,401,841)	\$10,401,841	\$4,160,737	\$14,562,578
2042	18	\$0	\$11,022,159	\$71,293,196	\$71,293,196	\$94,959,831	\$0	\$0	(\$11,022,158)	\$11,022,159	\$4,408,863	\$15,431,022
2043	19	\$0	\$11,704,506	\$62,899,358	\$62,899,358	\$83,486,997	\$0	\$0	(\$11,704,506)	\$11,704,506	\$4,681,802	\$16,386,308
2044	20	\$0	\$12,455,090	\$53,234,237	\$53,234,237	\$71,040,953	\$0	\$0	(\$12,455,088)	\$12,455,090	\$4,982,035	\$17,437,125
2045	21	\$0	\$11,102,711	\$44,449,334	\$44,449,334	\$59,983,750	\$0	\$0	(\$11,102,709)	\$11,102,711	\$4,441,084	\$15,543,795
2046	22	\$0	\$9,615,094	\$36,737,638	\$36,737,638	\$50,322,395	\$0	\$0	(\$9,615,092)	\$9,615,094	\$3,846,037	\$13,461,131
2047	23	\$0	\$7,978,715	\$30,317,491	\$30,317,491	\$42,427,771	\$0	\$0	(\$7,978,713)	\$7,978,715	\$3,191,485	\$11,170,200
2048	24	\$0	\$6,178,698	\$25,436,886	\$25,436,886	\$36,328,654	\$0	\$0	(\$6,178,696)	\$6,178,698	\$2,471,479	\$8,650,177
2049	25	\$0	\$4,198,679	\$22,370,646	\$22,370,646	\$32,169,088	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2050	26	\$0	\$4,198,679	\$19,130,253	\$19,130,253	\$27,753,725	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2051	27	\$0	\$4,198,679	\$15,708,017	\$15,708,017	\$23,340,790	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2052	28	\$0	\$4,198,679	\$12,097,185	\$12,097,185	\$18,439,842	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2053	29	\$0	\$4,198,679	\$8,277,533	\$8,277,533	\$14,162,805	\$0	\$0	(\$4,198,678)	\$4,198,679	\$1,679,471	\$5,878,150
2054	30	\$0	\$0	\$8,675,108	\$8,675,108	\$14,119,819	\$0	\$0	\$0	\$0	\$0	\$0
2059	35	\$0	\$0	\$10,934,845	\$10,934,845	\$15,561,841	\$0	\$0	\$0	\$0	\$0	\$0
2063	39	\$0	\$0	\$12,917,997	\$12,917,997	\$17,732,718	\$11,191,466	\$0	\$0	\$11,191,466	\$0	\$11,191,466
2064	40	\$0	\$0	\$7,986,331	\$7,986,331	\$11,076,203	\$524,389	\$0	\$0	\$524,389	\$0	\$524,389
2065	41	\$0	\$0	\$7,874,349	\$7,874,349	\$10,904,092	\$0	\$0	\$0	\$0	\$0	\$0
2066	42	\$0	\$0	\$8,148,179	\$8,148,179	\$11,250,922	\$0	\$0	\$0	\$0	\$0	\$0
2067	43	\$0	\$0	\$8,411,695	\$8,411,695	\$11,588,259	\$6,210,048	\$0	\$0	\$6,210,048	\$0	\$6,210,048
2068	44	\$0	\$0	\$564,257	\$564,257	\$715,480	\$0	\$0	\$0	\$0	\$0	\$0
2069	45	\$0	\$0	\$590,658	\$590,658	\$745,970	\$0	\$0	\$0	\$0	\$0	\$0
2070	46	\$0	\$0	\$617,612	\$617,612	\$777,101	\$0	\$0	\$0	\$0	\$0	\$0
2071	47	\$0	\$0	\$645,032	\$645,032	\$808,786	\$808,786	\$0	\$0	\$808,786	\$0	\$808,786
Total:		\$95,000,000	\$147,954,615					(\$95,000,000)	(\$147,954,597)	\$166,689,304	\$59,181,839	\$130,871,143

FVU & SAR INSURANCE DESIGN SUMMARY

Composite Plan Insurance Summary

Insured	Age	Assumed Underwriting	Annual Premium (Years 1-10)	Annual Premium (Years 11-14)	Total Premiums Paid	Initial Face Amount
Owner #1	44	Standard Nonsmoker	\$3,175,000	\$625,000	\$34,250,000	\$57,250,000
Owner #2	48	Preferred Plus Nonsmoker	\$3,175,000	\$625,000	\$34,250,000	\$50,500,000
Executive #1	48	Preferred Plus Nonsmoker	\$1,550,000	\$1,250,000	\$20,500,000	\$23,800,000
Executive #2	40	Preferred Plus Nonsmoker	\$300,000	0	\$3,000,000	\$6,100,000
Executive #3	47	Preferred Plus Nonsmoker	\$300,000	0	\$3,000,000	\$5,000,000
Total			\$8,500,000	\$2,500,000	\$95,000,000	\$142,650,000



- ④ Need to account for phantom equity benefit for Generally Accepted Accounting Principles (GAAP) purposes
 - Add liability for projected plan benefit
 - Must assumed full vesting on plan benefit for GAAP purposes
 - Even if the participant is only vested 20% in the plan
 - Adjusts annually based on awards and amount of synthetic equity granted
 - Increase in plan benefit each year will be a charge to earnings
 - Add asset for cash value of insurance policy
- ④ Accounting for plan will be asset “heavy” first and will level out over time between asset and liability



Legal Considerations

LEGAL CONSIDERATIONS & QUESTIONS

- ④ How is the plan drafted from a legal perspective?
 - What legal documents are needed to enforce the structure and validity of the plan?

- ④ What are the most common considerations to make sure the plan is documented appropriately from a legal perspective?

- ④ What flexibility exists once a plan is documented and phantom equity has been allocated?

- ④ What is reported to the IRS?



EMPLOYEE COMMUNICATION & ANNUAL PLAN COMPLIANCE

- ④ Employee rollout, communication and education
 - Present overview of plan as a group, then facilitate individual meetings with each participant
- ④ Annual plan compliance
 - Review financial performance of ABC
 - Evaluate current and projected value of awards
 - Create participant statements and share with employees
 - Allow them to understand the value of their projected benefit for all active awards
 - Make additional awards (as desired by the CEO/board)
 - Evaluate insurance funding and performance
 - Make annual adjustments (as necessary)



LEARNING OBJECTIVES ACHIEVED

🎯 Learning objectives achieved:

- ✓ Understand how Phantom Stock and Stock Appreciation Rights (SAR) plans work
- ✓ Define differences between the various synthetic equity plans
 - ✓ Full Value Unit (FVU)
 - ✓ Stock Appreciation Rights (SAR)
- ✓ Provide an overview of the plan document and individual award agreement
- ✓ Define the tax impact to the company and plan participant
- ✓ Identify funding strategies to ensure the company has the cash necessary to pay out the benefit







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Appendix

IMPORTANT DISCLOSURES

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The business advisory services, and possible resulting recommendations (estate planning solutions, need for liquidity planning, etc.) will vary in type and complexity, depending on a client's individual personal and business circumstances and goals. Services and responsibilities are outlined in our Proposal Letter and Relationship and Engagement Agreement. It is important that you provide accurate and complete responses to the questions asked by the WP Partner, that you review the information provided to you in the initial Instinct Verification, Decision Dialogue, financial modeling or other report, as well as any final report, and that you promptly inform the Partner of any subsequent changes to your situation or the information provided. You are solely responsible for the accuracy or completeness of the information you have provided, which may affect the results of any recommendations contained in the report. Information should be kept up to date, as results may vary over time and as assumptions change.

Methods of Analysis and Projection

Information collected is intended to project future financial scenarios to meet your future goals or liquidity requirements. Financial Projections and other information prepared by WP are based on assumptions provided by and/or reviewed with the client in their final report, are hypothetical in nature, do not reflect actual investment or business results and are not guarantees of future performance. Actual results will vary, perhaps to a significant degree.

- Personal Investments - WP uses simple aggregate growth rates to project personal investments and retirement accounts, and all inputs are either provided by the client or client's financial advisor/provider or are jointly agreed on by WP and the client. Return assumptions do not reflect the deduction of any commissions, fees or product charges that may apply to any particular investment, which may negatively impact returns.
- Insurance Illustrated Performance - All policy values used reflect current policy charges, current cost of insurance rates, current mortality and expense risk charges, average fund expenses and the stated hypothetical gross rate of return. The policy values are hypothetical for illustration purposes only and may not be used to project or predict investment results. Policy values will vary based on the actual performance of sub-account investments selected, actual insurance charges over the life of the plan and the timing of the premium payments. A WP illustration may utilize a supplemental illustration from an insurance provider, that is only part of the basic illustration and must be read in conjunction with the actual basic illustration. Please refer to the actual illustration for more information about the guaranteed elements of the policy and other important details.
- Business Income Statement, Cash Flow Statement and Balance Sheet – Current company financial statement information is provided by the client, as well as revenue and expense growth assumptions for future years. These assumptions are used to project future Net Income, and business valuation based upon an appropriate multiplier disclosed to the client.
- Personal Cash Flow – Cash flows are projected based on information obtained from the client (tax returns, personal financial statements, bank statements, W-2s, 1099s, K-1s, etc.). Future cash inflows and outflows are based on input from the client and the client's advisors.



IMPORTANT DISCLOSURES (CONT'D)

- Estate/Trust Cash Flow – Cash flows due to and from Trusts will be based on trust documents and financial information (tax returns, financial statements, etc.) obtained from the client.
- Personal Assets – In some situations, WP may project the value of an asset (i.e. real estate, other assets, etc.) based on input from the client and the client's advisors.
- Taxes – Taxes are being calculated in the analysis. However, WP does not provide tax advice and the tax calculations are for illustrative and hypothetical purposes only. The client should consult with their tax advisor to evaluate their tax situation.

Other Compensation

In addition to WP's business consulting services, and the fees charged to clients as outlined in the Relationship and Engagement Agreement, WP Partners are licensed agents to sell insurance. WP may receive fees from life insurance companies, if insurance is purchased through WP relationships. Any commissions or fees will be disclosed to you in any life insurance proposal and agreement. WP is a member firm of Partners Financial and has access to all insurance providers on their network. The needs and circumstances of the client will drive the choice of the insurance provider.

Insurance Product

An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risk, including the possible loss of principal. The performance of your account will vary and you may receive more or less than the amount invested. Product guarantees, including the death benefit, are subject to the claims-paying ability of the issuing insurance company. Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

An insurer's financial strength rating represents an opinion by the issuing agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only, and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not apply to the safety or performance of any separate account.

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The fund performance data shown in this report that relates to variable life insurance policies was obtained through Morningstar and represents the individual net returns of the underlying funds shown in the report. Morningstar is a non-affiliated third party investment research and management firm that provides mutual fund information, news, commentary, portfolio analysis, comparison reporting and other services. Past performance does not guarantee future results. The fund performance data is being provided for informational purposes only and does not reflect the actual returns of the sub accounts in the variable component of the insurance policies that are invested in those funds, which may be lower or higher than the performance quoted due to the timing of cash flows, holding periods, sub account allocation changes, policy fees and other expenses. Policy fees or expenses include premium loads, cost of insurance, administration fees, mortality and expense risk charges, or any other charges that may be incurred under the policy. Policy returns would be significantly lower after all policy fees and expenses are deducted.

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