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ENERGY PASSION CREATIVITY

28th Annual Estate & Tax Planning Professional Seminar

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Planning Beyond Ownership (Taylor's Version)

Marriage, Succession, and Executive Retention

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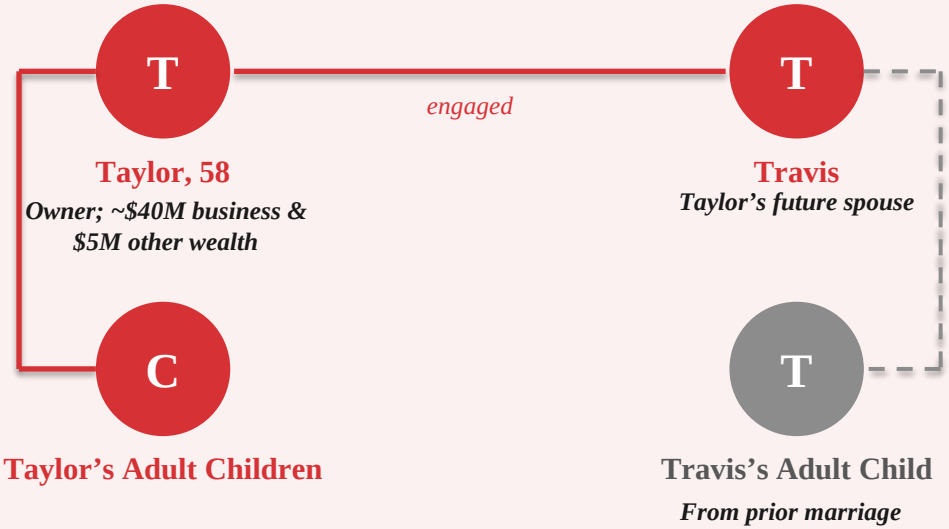
Domestic Relations • Estate Planning • Executive Compensation & Employee Benefits

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MEET THE FAMILY:

THE LAST GREAT AMERICAN DYNASTY

THE FAMILY



THE BUSINESS



~$40M company
Taylor wants it kept in the family

TAYLOR'S GOALS

1	Provide for Travis
2	Preserve the business for Taylor's children
3	Retain Tree without giving up ownership
4	Keep the option to sell in the next 5–10 years

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LOVE STORY: HOW THE STORY UNFOLDS

BEFORE THE WEDDING	ESTATE & SUCCESSION	KEEPING VALUE
How do we protect the business if the marriage ends?	***How do we provide for Travis and still leave the business to the children?***	***How do we keep Tree through a sale without giving away equity?***

Taylor and Travis are engaged

The business is the family's largest asset

Taylor dies first

Travis needs support; the children need the company

Taylor may sell in 5–10 years

Tree is key to getting there

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Before the Wedding | Estate & Succession | Keeping Value

01 Protecting the Business *Before* the Marriage

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FIRST THE RING, THEN THE AGREEMENT

IN TAYLOR'S FILE

The wedding is in eight months. Taylor's operating agreement restricts transfers but says nothing about a spouse's marital claim to value. Travis has a lawyer and wants to understand what Travis is giving up.

Your Marriage, Your Rules

Allows you to determine what happens upon marriage, regardless of how it ends.

Death and Divorce

You can plan for both in the agreement.

Search the World Over

Select the law that applies.

Premature Negotiation

It is easier to set the rules before the marriage. Postnuptial agreements are available in many states but are often scrutinized more closely and are harder to negotiate.

What Happens in Vegas

Trusts and operating agreements may not address what applies in a marriage. The prenuptial agreement can address and supersede those.

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ISN'T IT ROMANTIC?

- Money is the root of most marital issues
- Open communication as to expectations, fears, and boundaries
- Plan for the worst when you are at your best
- Provide protections for both parties

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ARE YOU READY FOR IT?

FULL DISCLOSURE	INDEPENDENT COUNSEL	TIMING
Show Me Yours and I'll Show You Mine	***Who Is the Best Man or Woman? A Lawyer***	***Early Bird Gets the Enforceable Agreement***
Both parties make a complete disclosure of all assets and liabilities.	Each party has their own lawyer, with time to review and negotiate.	Signing close to the wedding invites duress and lack-of-time challenges. Start months in advance.
Identification **Comparison** **Understanding**		

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CONSIDERATIONS

Death

- Waiver of elective share
- Set floor
- Guaranteed minimum

Divorce: Division of Assets

- Financial strangers
- Restatement and refinement of the law's application
- Hybrid

Divorce: Support Considerations

- Waive or limit support
- Set forth a schedule

Streamlining Litigation

- Define terms of valuation
- Avoid valuation arguments
- Structure payout concepts

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APPRECIATION DURING THE MARRIAGE: ACTIVE VS. PASSIVE

Passive Appreciation

Growth from market forces, inflation, or industry trends. In many states, remains separate property if the business was separate.

Active Appreciation

Growth attributable to the efforts of either spouse during the marriage. In many states, is marital to the extent of the marital effort.

Why It Matters for Taylor

- Taylor works full-time in the business, so growth is likely to be considered active.
- Even in a middle-manager rather than primary-leader role, there can be an argument as to appreciation.

Prenuptial Considerations

- Make passive vs. active appreciation irrelevant
- Avoid valuation arguments
- Avoid significant cash-flow issues to the owner on divorce

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Before the Wedding | **Estate & Succession** | Keeping Value

02

Balancing the New Spouse, Children, and Business Succession

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BAD BLOOD:
COMPETING INTERESTS IN A SECOND MARRIAGE

Party	What They Need	Risk If Unaddressed
Travis	Lifetime income, housing, financial security	Elective share claims (1/3 of net estate + car + mansion house for 1 year, unless waived in prenup; state laws vary on what is included in "estate"); dependence on stepchildren; disputes with the trustee
Taylor's children	Eventual ownership and control of the business; inheritance	Assets pass outright to Travis and then to Travis's child; loss of control during Travis's lifetime
Travis's child	Not a primary beneficiary of Taylor's plan unless Taylor chooses	Unintended inheritance through outright transfers to Travis
Tree and the company	Stable management and continuity through transition	Key-person departure that depletes value for everyone
Taylor	Flexibility, control during life, retirement income, estate tax reduction, leaving the legacy Taylor desires	Large estate tax, conflict between children and stepparent, poor business succession

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I PROTECT THE FAMILY:

PROVIDING FOR TRAVIS WHILE KEEPING THE BUSINESS IN THE FAMILY

- No estate plan (or even a simple "everything to my spouse" will) would defer estate tax for Taylor but hand Travis control of the company the children are expected to inherit.
- Instead, Taylor can fund a **QTIP trust** at death for Travis's benefit during Travis's life, passing to Taylor's children at Travis's death.

Split the Asset

Recapitalize the business into voting and nonvoting interests. Voting interests pass to the children (or a trust they control); Travis's trust receives economic rights or other assets.

Choose the Trustee Carefully

- An independent or corporate trustee reduces conflict and preserves the remainder for Taylor's children.
- If Travis is trustee, consider an investment or distribution adviser and a business advisory committee.

Use Non-Business Assets for Travis

Fund Travis's share with marketable investments, real estate, retirement benefits, or insurance.

Address Income Expectations

A QTIP holding a closely held business must produce income for Travis; consider a power to make property productive.

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CHAMPAGNE PROBLEMS: CONSIDER A QTIP TRUST

THE MECHANICS	THE FAMILY	THE BOTTOM LINE
WHEN FUNDED Usually at Taylor's death (can be lifetime)	**TRAVIS'S RIGHTS** All income at least annually; principal at trustee's discretion if allowed	**DIVORCE RISK** Generally addressed in will/trust terms at death
ESTATE TAX TREATMENT Qualifies for the marital deduction by election; included in Travis's estate	**WHO GETS REMAINDER** Taylor chooses (e.g., Taylor's children)	✓ **FIT FOR TAYLOR** Strong fit for second-marriage control at death

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TAYLOR'S ESTATE TAX PROBLEM: CONSIDER LIFETIME GIFTING

THE PROBLEM

THE ISSUE

$40M business plus $5M in other wealth could mean a 40% estate tax on $15M (a $6M tax)

✓ WHY ACT NOW

The $15M exemption can change. Gifts made today move future growth out of the estate.

SMALLER, STEADY GIFTS

ANNUAL EXCLUSION

Use annual exclusion gifts ($19,000 per donor per donee in 2026)

529 PLANS

Frontload 529 plans using 5 years of annual exclusions for grandchildren

BIGGER MOVES

TRUSTS FOR CHILDREN

Annual exclusion gifts to trusts rather than outright, or large gifts using exemption; children aren't waiting for their stepparent to pass; grantor trusts allow additional gifting

VALUATION DISCOUNTS

Gift nonvoting units in the business at a discount (consider carryover basis), or in an investment LLC: lack of control and marketability discounts

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TAYLOR'S ESTATE TAX PROBLEM: CONSIDER SLATS

THE MECHANICS

WHEN FUNDED

During Taylor's lifetime, by gift

TAX TREATMENT

Uses Taylor's gift tax exemption (up to $15M); designed to be outside both estates; spend down assets inside the estate first

THE FAMILY

TRAVIS'S RIGHTS

Discretionary distributions as the trustee permits; the trustee can be Travis or a corporate trustee

WHO GETS REMAINDER

Taylor chooses (e.g., Taylor's children)

THE BOTTOM LINE

DIVORCE RISK

Travis may retain benefits after divorce unless drafted to end on divorce; Taylor loses indirect access

✓ FIT FOR TAYLOR

Removes growth from the estate; draft carefully for remarriage; consider a second SLAT one year later that Travis funds for Taylor

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TRUSTS, LIFE INSURANCE, AND LIQUIDITY TO EQUALIZE

Insurance can create the assets that the business cannot

Identify the Gap	Size the Need	Fund with Insurance	Provide Liquidity
If the business goes to the children, what's left for Travis, and is it enough?	Travis's lifetime needs and any obligations under the prenup.	An irrevocable life insurance trust (ILIT) can hold a policy for Travis's benefit outside Taylor's estate.	Insurance or other assets pay taxes and buy-sell obligations without forcing a sale.

Coordinate ownership, beneficiaries, and premium funding with the buy-sell agreement and any company-owned policies.

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MASTERMIND:
BUSINESS GOVERNANCE AND SUCCESSION STRUCTURE

Who owns, who votes, and who runs the company are three different questions

Tool	Purpose	Taylor's Situation
Buy-sell agreement	Controls transfers at death, disability, divorce, and departure; sets price and funding	Prevents transfer to Travis or Travis's child; addresses forced sale and funding; review entity-redemption insurance treatment after Connelly (2024)
Voting control	Voting/nonvoting split, voting trust, or manager-managed LLC	Children (or trustee) hold the vote; Travis's trust holds economics only, if any
Management succession	Interim leadership and a path for the children	Tree runs operations while the children develop; retention is essential
Board or advisory board	Independent oversight during transition	Provides governance during disability or after death
Trust provisions	Trustee powers to hold, vote, and sell business interests	Authorize the trustee to retain the business and approve executive incentives

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COORDINATING THE PRENUP WITH THE ESTATE PLAN

The two documents must tell the same story

IN TAYLOR'S FILE

The prenup promises Travis a $2 million life insurance benefit and the right to remain in the residence for life. If the ILIT is never funded and the residence is left to the children outright, Travis may have a claim against the estate.

Elective Share Waiver

The prenup should waive or define Travis's rights at death so the estate plan can operate.

Promises in the Prenup

Any obligation to provide for Travis (insurance, trust, residence) must be funded in the estate plan.

Retirement Benefits

Prenup waivers must be followed by post-marriage spousal consents and matching beneficiary designations.

Business Documents

The buy-sell and operating agreement must align with both the prenup and the trusts.

Ongoing Review

Revisit after marriage, a sale, divorce, or the birth of grandchildren.

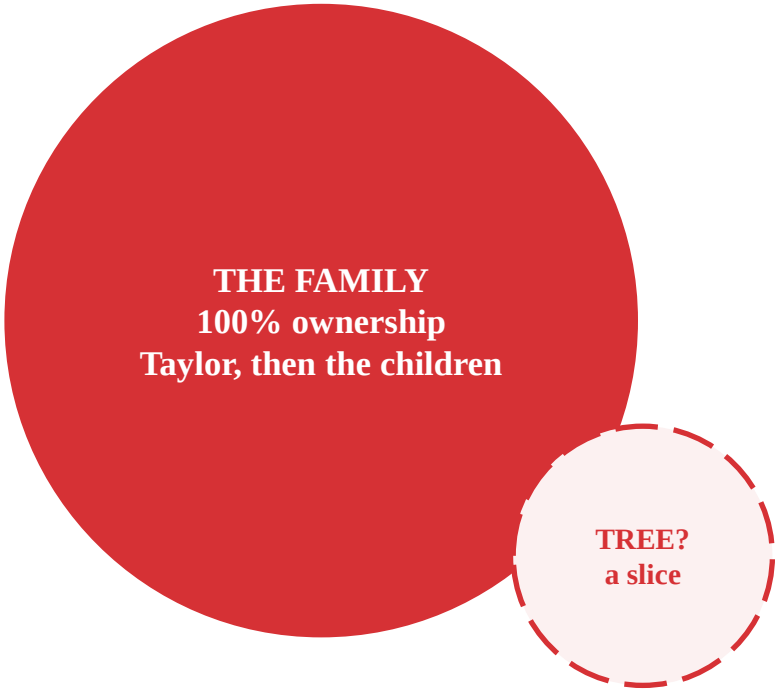
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03 *Preserving* Business Value Through Executive Compensation

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THE SETUP: A SALE ON THE HORIZON

Tree wants "a piece of the pie." What should that piece look like?



VALUE DEPENDS ON TREE

Key-person value drives the prenup valuation, the estate plan, and the sale price.

A BUYER WILL CHECK

Buyers diligence key-employee deals and often hold back part of the payout.

A REAL SLICE COSTS A LOT

The slice comes with more than value: owner's rights, a say in the buy-sell, and a seat beside the children.

ANSWER: SHARE THE GROWTH, NOT THE PIE

With 5–10 years of runway, a plan can vest over time, reward growth, and be fully documented well before a buyer arrives.

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WI$H LI$T: THE MENU OF OPTIONS FOR TREE

Option	How It Works	Best For
Phantom units (full value)	Cash equal to the value of notional units at a payment event	Retention (pays even if value is flat)
Appreciation units (SARs)	Cash equal to growth above a base value set at grant	Rewarding growth
Performance cash plan	Cash earned on multi-year company goals	Driving specific results
Transaction bonus	Percentage of proceeds or a fixed pool at closing	Staying through a sale
SERP / deferred compensation	Promised retirement or deferred benefit	Long-term retention

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PHANTOM EQUITY AND SARS VS. ACTUAL EQUITY

	ACTUAL EQUITY	PHANTOM EQUITY KEEPS OWNERSHIP IN THE FAMILY	SARs KEEPS OWNERSHIP IN THE FAMILY
What does Tree get?	Ownership interest	Cash (or equity) equal to unit value	Cash (or equity) equal to growth above a base value
Is Tree an owner?	Yes: co-owner with the children	No: ownership stays with the family	No: ownership stays with the family
How is Tree taxed?	Ordinary income at vesting (or grant with 83(b)); later growth can be capital gain	Ordinary income when paid	Ordinary income when exercised or paid
Company deduction?	Generally matches ordinary income; none for later capital gain	Deductible when paid	Deductible when paid
Section 409A?	Generally not deferred compensation	Short-term deferral or a 409A payment event (e.g., sale or separation)	Exempt only if base value ≥ grant-date FMV, no other deferral feature
Valuation needed?	At grant and at exit	Formula or appraisal for unit value	Grant-date FMV and later values

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INVISIBLE STRING:
TYING THE PAYOUT TO PERFORMANCE

Design Levers

- **Measures**: financial, operational, or team-based
- **Timeframe**: performance periods are commonly three years
- **Weighting**: reflects which goals matter most
- **Threshold / target / maximum**: payout scales with achievement
- **Measurement**: who certifies results, and how
- **Flexibility and communication**: Tree must understand the goals

Illustrative Design for Tree (3-Year Cycle)

Metric	Weight	Why It Fits
EBITDA growth	50%	What a buyer pays for
Revenue growth	50%	Scale and market position

Achievement	Threshold	Target	Maximum
Payout (% of target award)	50%	100%	150%

SALE MID-CYCLE

If a sale happens mid-cycle, the plan should already say whether performance is measured through closing, deemed met at target, or prorated; decide it now, not at the deal table.

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EXAMPLE: WHAT TREE COULD EARN BY A SALE

Hypothetical: company worth $40M today, grows $5M a year, sells for $60M in Year 5

Step 1: Annual SAR Grants

Each grant pays 0.5% of the growth from its grant date to the sale.

Grant	Value at Grant	Growth to $60M	Payout (0.5%)
Year 1	$40M	$20M	$100K
Year 2	$45M	$15M	$75K
Year 3	$50M	$10M	$50K
Year 4	$55M	$5M	$25K
Total			$250K

Earlier grants are worth more; later grants keep Tree focused on growth right up to the sale.

Step 2: Add the Layers

Layer	Amount
Bonus: $75K × 4 yrs	$300K
Deferred comp: $50K × 4 yrs	$200K
Transaction bonus	$250K

Bonus paid each year at target
Deferred comp vests at sale
Transaction bonus: half at closing, half 1 year later

Step 3: Add It Up

Item	Amount
SAR grants	$250K
Deferred comp	$200K
Transaction bonus	$250K
At or after sale	$700K
Bonuses along the way	$300K
Total	$1.0M

All cash: Tree never owns a share.

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MORE FOR TREE: RETIREMENT AND RETENTION LAYERS

Supplemental Retirement (SERP)

A promised benefit beyond the 401(k): for example, 20% of 3-year average base pay × years of service, paid in annual installments after separation.

Elective Deferral Plan

Lets Tree defer salary or bonus above qualified-plan limits; elections are made before the year the pay is earned.

Transaction and Retention Bonuses

A share of proceeds or fixed pool at closing, with part paid later; often a tranche at the first anniversary to satisfy a buyer.

Change-in-Control Protection

Double-trigger severance: paid only if there is a sale and Tree is terminated without cause or resigns for good reason.

Life and Disability Benefits

Supplemental life insurance and survivor benefits — coordinated with corporate-owned policies and the buy-sell.

Covenants Tied to Pay

Non-solicit and confidentiality obligations as conditions to vesting and severance; noncompetes turn on state law.

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ELDEST DAUGHTER: WHAT ABOUT TAYLOR'S CHILDREN?

Both children now want to work in the company. Taylor wants them to earn ownership, without disrupting Tree's plan or the sale.

- **Restricted stock or units:** vest with service or performance; ordinary income at vesting (or at grant with an 83(b) election).
- **Stock options:** the right to buy at a fixed price; corporations only.
- **Profits interests:** a share of future growth only; LLCs taxed as partnerships, and each child becomes a partner.
- **Either way:** cover repurchase rights and the buy-sell if a child leaves, and make sure new grants don't dilute Tree.

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THE MANUSCRIPT: MAKING IT ALL WORK TOGETHER

Tree's plan and the children's equity belong in one structure

HOW TO MAKE IT FIT

- **Protect Tree's value.** Phantom or appreciation-unit formulas adjust for new equity issued to the children, so family grants don't dilute Tree.
- **Keep pay market-based.** Pay the children market rates for their roles and track equity separately; perceived favoritism is a retention risk.
- **Govern the transition.** Voting control stays with Taylor or a trust; the board or an advisory board approves incentive plans for everyone.
- **Plan for departures.** Repurchase rights, buy-sell triggers, and forfeiture terms cover a child or Tree who leaves before a sale.

WHY IT MATTERS

- **Tax.** 409A failure: current income, a 20% additional tax, and interest for Tree. Excess parachutes: 20% excise tax and a lost deduction. Missed 83(b): growth taxed as ordinary income.
- **The deal.** Buyers diligence every arrangement. Undocumented promises, inconsistent terms, or late 280G modeling can cut the price, delay closing, or land in escrow.
- **The family plan.** One valuation drives the prenup, estate plan, and incentive formulas; trustees can continue the plans; the buy-sell covers every award.
- **The people.** Clear, written terms keep Tree and the children aligned through a sale, and after Taylor is no longer in the room.

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THE LIFE OF A SHOWGIRL: QUESTIONS?

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