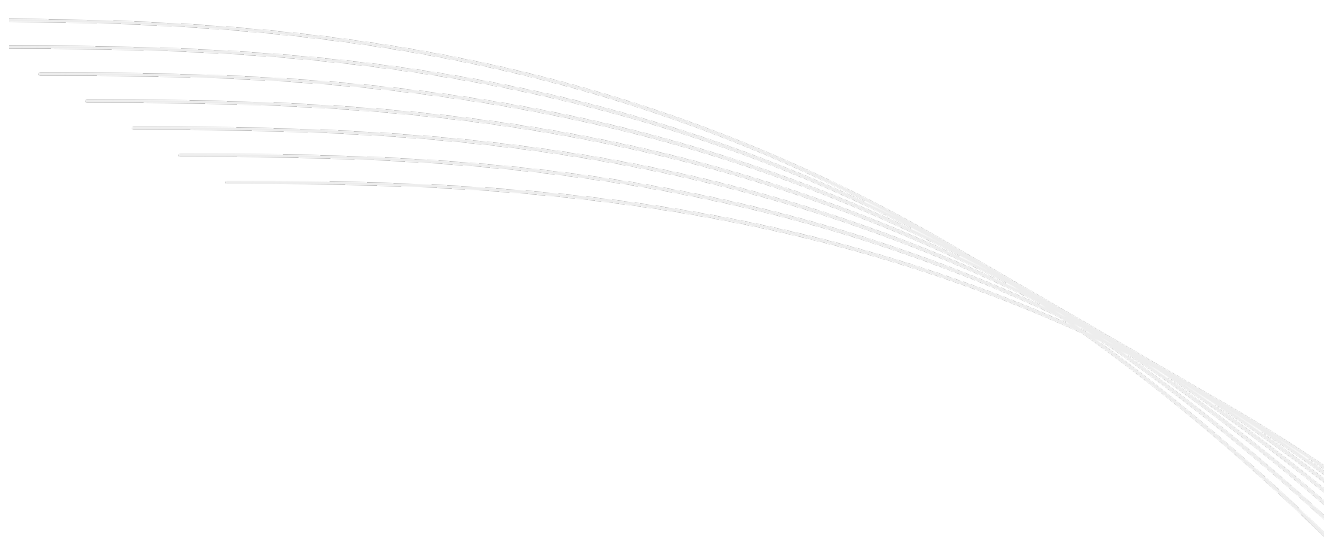




CLIENT ENTERPRISES, INC.

BUSINESS SUCCESSION EVALUATION

September 22, 2026

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Important Notes

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Current Plan vs. Optimized Plan

A comparison of your current business succession plan and the suggested optimized plan.

CURRENT PLAN		OPTIMIZED PLAN	
Agreement	Entity Purchase Buy-Sell	Agreement	Cross-Purchase Buy-Sell
Funding Method	Life Insurance	Funding Method	Life Insurance
Business Value	\$10,424,000	Business Value	\$10,424,000
Funds Available	\$2,000,000	Funds Available	\$10,424,000
Risk to Family/Business		Risk to Family/Business	
\$8,424,000		\$0	

Plan Benefits Comparison

BENEFIT	CURRENT PLAN	OPTIMIZED PLAN
Alleviate the burden and expense of locating a buyer	✓	✓
Relieve loved ones of stressful negotiation	✓	✓
Help ensure your loved ones receive a fair price	✓	✓
Ensure immediate payment of the full purchase price	⊖	✓
Assure employees and creditors the business continues	⊖	✓
Prevent a co-owner's spouse from becoming an owner	✓	✓
Ensure you retain control if a co-owner dies	✓	✓

Action Plan

01	Meet with a qualified business planning attorney to review buy-sell agreement and update as needed
02	Apply for life insurance coverage to properly fund buy-sell agreement
03	Evaluate the impact of the loss of a key employee on the business through the Key Person Evaluation process
04	Schedule annual review of business succession plan

Optimized Business Succession Plan

SUGGESTED AGREEMENT STRUCTURE

Cross-Purchase Buy-Sell Agreement

SUGGESTED FUNDING METHOD

Life Insurance

ASSUMED BUSINESS VALUE

\$10,424,000

John Client

POLICY DETAILS

Policy Owner & Beneficiary	Robert Client
Death Benefit Needed	\$5,212,000
Type of Policy	15-Year Term

Robert Client

POLICY DETAILS

Policy Owner & Beneficiary	John Client
Death Benefit Needed	\$5,212,000
Type of Policy	15-Year Term

Buy-Sell Agreement Review

BUY-SELL AGREEMENT STRUCTURE REVIEWED

Entity Purchase Buy-Sell

The following review highlights key provisions typically addressed in a comprehensive buy-sell agreement. A check indicates the provision is included in the document reviewed above, a dash that it is not, and both marks that it is only partly addressed.

	PROVISION	INCLUDED
01	Identifies entity name, entity type and ownership	✓
02	Provides for endorsement of stock certificates (corporations only)	✓
03	Prohibits transfer of an ownership interest except as provided in the agreement	✓
04	Provides for required sale of deceased owner's interest upon death	✓
05	Provides for required sale of disabled owner's interest upon disability	⊖
06	Provides for required sale of owner's interest upon voluntary termination	✓
07	Provides for involuntary transfers of owner's interest upon bankruptcy	✓
08	Provides for valuation based on certificate of agreed value	⊖
09	Provides for valuation based on appraised or book value if not agreed upon	✓
10	Provides terms of sale with life insurance proceeds upon owner's death	✓
11	Provides terms of sale when no life insurance proceeds available	✓
12	Provides for covenant not to compete by departing owner	⊖
13	Provides for protection of confidential information by departing owner	⊖
14	Releases and indemnifies departing owner from indebtedness	⊖
15	Provides for the company's default in payment on a note given to an owner	⊖
16	Provides for purchase of life insurance and/or disability buy-out insurance	✓
17	Provides for amendment of agreement by all parties	✓
18	Provides for termination of agreement by agreement of all parties	⊖
19	Provides for termination of agreement upon dissolution of entity	⊖
20	Provides for termination of agreement upon simultaneous death of all owners	⊖

WHAT THE GAPS MEAN

- 05** The agreement does not require the sale of a disabled owner's interest. A disabled owner could draw the same income as healthy owners without contributing to the success of the business.
- 08** The agreement does not provide for valuation by a certificate of agreed value. Use of this method helps ensure the buyout amount keeps up with the fair market value of the business.
- 12** The agreement does not prevent a departing owner from competing directly with the business. Such a provision helps ensure a departing owner's knowledge is not used against the business.
- 13** The agreement does not prevent a departing owner from taking confidential information. Such a provision protects client lists, pricing and trade secrets after an owner leaves.
- 14** The agreement does not provide for a departing owner's indemnification from company indebtedness. Such a provision helps ensure a departing owner is not liable for company debts.
- 15** The agreement does not provide for remedies upon the company's default on a promissory note. Such a provision outlines a departing owner's remedies against the company and its owners.
- 18** The agreement does not provide for termination upon agreement of all parties. Such a provision clearly indicates under what circumstances the agreement can be terminated.
- 19** The agreement does not release parties from purchase obligations upon dissolution of the entity. Such a provision ensures no obligation to purchase remains if the entity has been dissolved.
- 20** The agreement does not provide for termination of purchase obligations upon the simultaneous death of all owners. Such a provision terminates all purchase obligations if no owners remain.

Business Valuation

A summary of key business information and the resulting valuation of your company.

BUSINESS INFORMATION

Business Name	Client Enterprises, Inc.
Entity Type	S Corporation
Valuation Date	09/22/2026
Assets	\$8,000,000
Liabilities	\$6,000,000
Earnings (3-yr average)	\$1,400,000
Owner Compensation & Bonuses	\$700,000
Discount Rate	25.0%
Capitalization Rate	23.0%
Rate of Return on Capital Assets	5.0%
Projected Annual Growth	5.0%

VALUATION SUMMARY

CURRENT BUSINESS VALUE

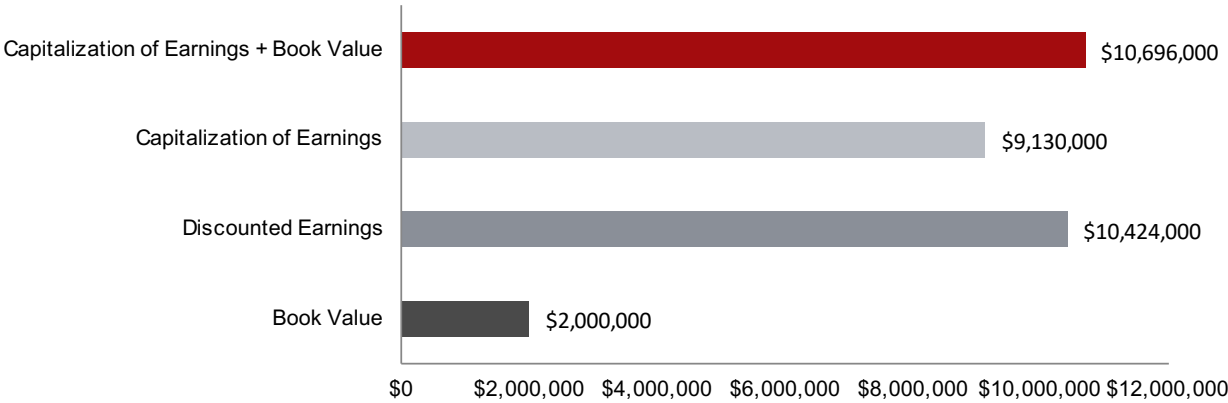
\$10,424,000

EACH OWNER'S SHARE OF THE VALUE

John Client 50%: \$5,212,000

Robert Client 50%: \$5,212,000

BUSINESS VALUE BREAKDOWN



This calculation is meant to provide a valuable starting point in helping you determine the value of your business. It is not a substitute for a formal valuation, nor does it establish value for tax or underwriting purposes. A formal valuation should be obtained with the guidance of your legal and/or tax advisors.

Definition of Terms

The following definitions are provided to help you understand key terms referenced throughout this evaluation.

Assets:

Business assets adjusted to reflect fair market value, or the liquidation value of the business, as opposed to the depreciated value used for income tax purposes.

Earnings:

Earnings before interest, taxes, depreciation and amortization (EBITDA), averaged over three years. Owner compensation and bonuses are added back to arrive at the figure used in the valuation.

Capitalization Rate:

The yearly return a buyer would want on the price they pay for the business. One year of earnings divided by that rate gives the value: at 20%, earnings of \$100,000 support a value of \$500,000. More risk means a higher rate and a lower value.

Projected Annual Growth:

The rate at which the business is expected to grow each year, expressed as a percentage. One rate is used for every year of the projection rather than a near-term rate and a separate long-term rate.

Goodwill:

Intangible assets relating to a company's business practices that increase the value of the business but are difficult to quantify, such as brand recognition and customer loyalty.

Liabilities:

Everything the business owes, including loans, notes, accounts payable and any other debts outstanding at the valuation date.

Owner Compensation & Bonuses:

Salary and bonuses paid to the owners. This is added back to earnings because a buyer of the business would not necessarily carry that same cost.

Discount Rate:

The expected rate of return from another investment opportunity with a comparable level of risk, built up from the risk-free rate plus company and industry risk premiums.

Rate of Return on Capital Assets:

The annual return the company's assets alone would be expected to produce, stated as a percentage of book value. Earnings above that level are treated as the return on the business itself rather than on its assets.

Business Valuation Methods

This information introduces different methods that could be used to help value your business. It is not a substitute for a formal valuation performed by a professional, and is designed to demonstrate how different valuation methods produce different results.

Book Value Method

This is the simplest of the four methods. It adds up what the business owns at fair market value, subtracts what the business owes, and treats the difference as the value of the company. Because it counts only assets and liabilities, it ignores the profit the business earns and any goodwill built up with customers and employees.

In plain terms: This is close to what the business would be worth if it stopped operating tomorrow and sold what it owns. It is most useful when the company is asset-heavy and goodwill is limited, and it usually understates the value of a healthy operating company.

Discounted Earnings Method

Projects what the business is expected to earn in future years and converts those future dollars back into today's dollars using a discount rate. The discount rate reflects how certain those earnings are: the less predictable the future, the higher the rate and the lower the resulting value.

In plain terms: The business is valued on what it is expected to produce rather than on what it owns. It is common for service businesses and fast-growing companies, and the answer moves quite a bit with the growth and discount rates chosen.

Capitalization of Earnings Method

Takes current and historical earnings, adjusts them for risk, and divides by a capitalization rate to arrive at a value. It assumes the business will keep earning at roughly the level it earns today rather than growing or shrinking sharply.

In plain terms: One year of normal earnings is treated as though it will repeat indefinitely. It suits established businesses with steady results and works less well where earnings swing from year to year.

Capitalization of Earnings + Book Value Method

Combines the book value and capitalization approaches. It first identifies the earnings above what the company's assets alone would be expected to produce, capitalizes those excess earnings, and adds the result to book value.

In plain terms: The business is worth what it owns, plus what its earning power adds on top. It is helpful when capital assets and profits both matter to how the company makes money, which is common in manufacturing and distribution.

The Impact of Future Growth

While it is important to implement a business succession plan, it is equally important to regularly review your buy-sell agreement and any associated funding. Agreements and funding can quickly become outdated as business value increases. The table below illustrates the potential growth of your business in future years.

ASSUMED CURRENT BUSINESS VALUE	ASSUMED ANNUAL GROWTH RATE	PROJECTED VALUE IN YEAR 15
\$10,424,000	5.0%	\$21,670,747

These projections are for illustrative purposes only and are based on the assumed annual growth rate shown above.

YEAR	BEGINNING OF YEAR VALUE	PROJECTED GROWTH	END OF YEAR VALUE
2026	\$10,424,000	\$521,200	\$10,945,200
2027	\$10,945,200	\$547,260	\$11,492,460
2028	\$11,492,460	\$574,623	\$12,067,083
2029	\$12,067,083	\$603,354	\$12,670,437
2030	\$12,670,437	\$633,522	\$13,303,959
2031	\$13,303,959	\$665,198	\$13,969,157
2032	\$13,969,157	\$698,458	\$14,667,615
2033	\$14,667,615	\$733,381	\$15,400,996
2034	\$15,400,996	\$770,050	\$16,171,045
2035	\$16,171,045	\$808,552	\$16,979,598
2036	\$16,979,598	\$848,980	\$17,828,577
2037	\$17,828,577	\$891,429	\$18,720,006
2038	\$18,720,006	\$936,000	\$19,656,007
2039	\$19,656,007	\$982,800	\$20,638,807
2040	\$20,638,807	\$1,031,940	\$21,670,747

Cross-Purchase Buy-Sell Agreement

In a cross-purchase arrangement the surviving owners are obligated to buy the interest of a deceased owner. Each owner holds a life insurance policy on every other owner and uses the death benefit to complete the purchase, so the survivors keep control and the family receives cash rather than an interest it cannot sell.

WHILE BOTH OWNERS ARE LIVING



AT OWNER A'S DEATH



Owner B collects the death benefit, buys Owner A's interest from the estate, and the heirs receive cash.

CLIENT PROFILE

- Two owners, or a few who will buy each other out
- Owners close in age and insurability

WHY IT IS USED

- Creates a buyer where there is no market
- Keeps the business with the remaining owners
- Sets price and terms while all owners are living
- Turns an illiquid interest into cash for the family

ADVANTAGES

- Surviving owners keep control of the business
- No new partner arrives by inheritance
- A buyer's basis equals the price paid
- Policies are owned personally, so the death benefit does not raise the value of the business
- The family receives cash for settlement costs
- Reassures lenders, customers and employees

DISADVANTAGES

- Every owner insures every other owner, so four owners need twelve separate policies
- Premiums differ by age and health
- Premiums are a personal, non-deductible cost
- Each owner relies on every other owner to keep their coverage in force

ROLE OF LIFE INSURANCE

- Delivers cash exactly when it is needed
- Funds the full purchase price from day one
- Costs far less than borrowing the money
- Coverage should last as long as the owner expects to hold the interest

TAX CONSIDERATIONS

- Death benefits are generally received income tax-free
- Premiums are not deductible
- The deceased owner's interest gets a basis step-up
- No policy is company-owned, so the benefit does not raise the business value, per Connelly (2024)
- Corporate AMT can reach company-owned policies, not personally owned ones

ADDITIONAL CONSIDERATIONS

- Premium cost is rarely even. An older or less healthy owner costs more, and the others carry it
- Agreements often equalize this with a bonus
- The business often pays premiums and reports them as extra W-2 income to the policy owner
- A departing owner still holds policies on the others
- Decide up front if those are kept or transferred
- Moving a policy between owners can trigger the transfer-for-value rule
- For more than three owners, an insurance LLC is more efficient
- Review coverage as value or ownership changes

This summary is general information. Confirm how any specific arrangement should be structured and taxed with your legal and tax advisors.

Funding a Buy-Sell Agreement

A buy-sell agreement obligates surviving owners, the business, or a third party to purchase the business interest of an owner upon that owner's death. These transactions generally require the purchaser to pay a significant sum of cash to the deceased owner's heirs or estate. "Funding" the agreement refers to the method of financing that purchase price. The most common options are compared below.

Life Insurance

A policy on each owner's life provides the purchase price at the moment it is needed

ADVANTAGES

- ✓ Generally the least costly method of funding
- ✓ Cash is available precisely when needed
- ✓ Proceeds are generally received income tax-free
- ✓ Minimizes financial strain on the buyer

DISADVANTAGES

- ⊖ Availability and cost depend on insurability
- ⊖ Premiums are not a deductible expense
- ⊖ Growth in value may require added coverage

Installment Payments

The buyer pays the estate over time under a promissory note

ADVANTAGES

- ✓ Seller may spread capital gain over time
- ✓ Allows flexibility for the buyer

DISADVANTAGES

- ⊖ Heirs bear the risk of buyer default
- ⊖ No immediate liquidity for estate taxes
- ⊖ Payments reduce business cash flow

Borrowed Funds

The buyer borrows the purchase price when the obligation arises

ADVANTAGES

- ✓ Cash is available when needed, if credit can be secured

DISADVANTAGES

- ⊖ Depends on the buyer's ability to secure credit
- ⊖ Interest as well as principal must be paid
- ⊖ Collateral and guarantees are generally required

Sinking Fund

The business or the owners set aside cash in advance

ADVANTAGES

- ✓ Cash is available if owners have time to save
- ✓ Owners can access the cash if the agreement ends

DISADVANTAGES

- ⊖ May take significant time to accumulate
- ⊖ Deposits are after-tax and earnings may be taxable
- ⊖ Funds are exposed to business or owner creditors