



## 406 ENGINEERING

1201 S. 6<sup>th</sup> Street W., Suite 102 | Missoula, MT 59801 | 406.317.1131  
35 8<sup>th</sup> Street East | Kalispell, MT 59901 | 406.257.0679

### Summary of Employee Ownership with 406 Engineering, Inc.

406 Engineering recognizes that all individuals are part of a company and contribute to making it function. We believe that because of this, all individuals within a company should be rewarded for their contributions. These rewards should not only come in the form of profit sharing, but also from a voice in how the company operates. For this reason, 406 Engineering became an employee-owned company on January 1, 2022. This employee/partner focus created a unique and positive work environment and company that offers the following:

#### Option to Purchase Shares

- Options to purchase **ownership** shares are **based on salary and years of service** with 406 Engineering.
  - Base share options offered are based upon the employee's salary. This creates a **base ownership percentage** of the **employee's salary compared to the combination of all salaries** within 406 Engineering.
    - Example: \$70,000 a year salary will be given the option to purchase 70,000 shares, and if the company has a total of \$1,000,000 worth of salary (1,000,000 shares) the base ownership is  $70,000/1,000,000 = 7.0\%$  of ownership
    - As salary adjustments are made, ownership adjustments will reflect current salary in the base ownership calculation.
  - **Years of service will be rewarded** with an option to purchase 6,000 additional shares for each year of service with 406 Engineering. This will be added to the base ownership shares.
- Ownership **eligibility will be April 1<sup>st</sup>** following the start date for each new employee.

#### Shareholder Agreement Details

- **New share options will be released on April 1<sup>st</sup>** of each year. All individuals employed on April 1<sup>st</sup> will have the option to purchase shares based on salary and years of service. This is an option and is not a requirement to work at 406 Engineering.
  - Shares will be able to be **purchased with a 0% loan** from 406 Engineering.
    - The **loan** may be **paid off using funds released through distributions** until the value is fully paid off.
    - As the loan is paid off the value of the shares is recognized as equity by the new owner. This equity is bought back by 406 upon the owner's exit from the company.
    - The **estimated loan pay-off** timeline is expected to be around **2 years**, this will depend on profitability for each year.
  - All shareholders will need to sign 406 Engineering's shareholder agreement in order to become an owner.
- Share price will be based on 406 Engineering's Balance Sheet "Owner's Equity" value on April 1<sup>st</sup> of each year.
  - **Shares will be valued on "Owner's Equity"** divided by the total shares issued.

- Complete financial transparency for all owners/employees.
  - All owners will be given **complete financial transparency** for all areas of the Company.
  - The company provides complete **Income Statement, Balance Sheet, and Cash Flow** statements each month to all individuals at 406 Engineering.
- 406 Engineering is an S-Corporation with profit recognition flowing to each owner based on the number of shares each individual owns.
  - A K-1 will be issued each year to each owner, by March 15<sup>th</sup> to be included in each owner's personal taxes.
  - 406 Engineering will **pay each owner 30% of the recognized profit share for the additional taxable income**. This is to ensure that no additional tax burden from ownership will occur
    - Tax distributions are released quarterly.
- Shareholder **voting rights are based on the individual number of shares** each owner has.
  - If 50,000 shares are owned, then 50,000 voting options belong to that owner.
  - **Shareholders** will have the right to **vote for board of directors** that help guide the direction of 406 Engineering.
  - If other voting opportunities are presented to shareholders, each owner will have the chance to vote.

As 406 Engineering moves forward, we hope that the sharing of profit and decision making through **company ownership** will allow us to both recruit and retain the best individuals in our field. Allowing us to become a **highly desired company** by both **clients** and future **employee-owners**.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brian Throckmorton".

Brian Throckmorton, P.E.  
CEO  
**406 Engineering, Inc.**