This Phantom Equity Agreement (“Agreement”) is made and entered into as of [DATE] (the Effective Date”), by and between [insert name of company] (the “Company”), located at [insert company’s address], and [insert name(s) of recipient(s)] (each referred to as “Recipient” and collectively as “Recipients”).

1. Grant of Phantom Equity
	1. The Company grants each Recipient the right to receive [e.g., 5%] phantom equity interest in the Company, subject to the terms and conditions of this Agreement.
	2. Phantom equity does not confer actual ownership, voting rights, or direct equity
2. Vesting Schedule
	1. Phantom equity vests over a [e.g., four-year] period in accordance with the following schedule:
	2. One-Year Cliff: The first [e.g., 25%] vests on the first anniversary from the Effective Date.
	3. The remaining [e.g., 75%] vests in equal monthly installments over the following three years, such that 100% of the phantom equity interests are vested as of the fourth anniversary from the Effective Date.

If a Recipient resigns or is terminated before full vesting, all unvested phantom equity is forfeited.

* 1. Notwithstanding the foregoing, vesting shall be accelerated upon the occurrence of a liquidity event listed in section 4.1 below.
	2. The grants and the vesting schedule as provided in this Agreement are not subject to any further consideration by the Recipients including but not limited to the Recipients providing the Company with any goods, services, or capital contributions.
	3. The phantom equity shall not be subject to dilution.
	4. The Company’s Board of Directors shall exercise the same fiduciary duties with respect to the phantom equity as it does with the Company’s common stock.
	5. The Company’s financial reports shall be issued to the Recipients on a yearly basis.
1. Performance-Based Incentives
	1. Additional phantom equity shall be granted to each Recipient based on the Company achieving the following performance milestones:
		* Upon the Company reaching [e.g., $5 million] in gross yearly sales, each Recipient shall receive an additional [e.g., 1%] phantom equity.
		* For every additional [e.g., $2.5 million] in gross yearly sales, each Recipient shall receive an additional [e.g., 0.5%] phantom equity.
		* Additional phantom equity will be subject to the same vesting and forfeiture provisions as outlined above.
2. Payout Terms
	1. Recipients shall receive a cash payout equivalent to the fair market value of vested phantom equity upon the occurrence of a liquidity event, defined as:
		* A sale of all or substantially all of the Company or its assets, or
		* The Company ceases its business operations, or
		* A major profit-sharing payout, as determined by the Company’s Board of

Directors.

* 1. The payout amount will be based on the Company’s valuation (using generally accepted accounting principles) at the time of the liquidity event.
	2. Payouts shall be taxed as ordinary income at the time of receipt.
	3. Payouts to Recipients shall take priority over any other distribution made to other classes of equity interests in the Company.
1. Forfeiture & Clawback Provisions
	1. If a Recipient committed fraud, thief, or gross negligence against the Company, then all of such Recipient’s unvested phantom equity shall be forfeited.
	2. The Company reserves the right to buy back vested phantom equity at fair market value (using generally accepted accounting principles) under certain conditions, including but not limited to misconduct, breach of contract, or material violations of company policies.
2. No Ownership or Voting Rights
	1. This Agreement does not grant any voting rights, ownership interest, or control over Company decisions.
3. Right of First Refusal
	1. The vested phantom equity may be sold, assigned, transferred by Recipients without the Company’s prior consent.
	2. Notwithstanding the above, this Right of First Refusal ("ROFR") clause is intended to provide the Company (or its members) with the opportunity to purchase any phantom equity interest that a Recipient (the "Selling Recipient") intends to sell, transfer, or otherwise dispose of before it is sold to an external party. Before selling or transferring any phantom equity interest to a third party, the Selling Recipient must provide written notice ("Sale Notice") to the Company. The Sale Notice shall include:
	* The percentage of phantom equity interest to be sold or transferred.
	* The proposed terms and conditions of the sale, including the price and identity of the prospective third-party buyer.
	* A copy of any written offer or agreement with the prospective buyer.

The Company (or its members) shall have the first option to purchase the Selling Recipient’s interest on the same terms and conditions specified in the Sale Notice. If the Company exercises its ROFR within five (5) days after receiving the Sale Notice, then Selling Recipient may proceed to sell its interest to the third party on the same terms specified in the Sale Notice.

1. Miscellaneous
	1. This Agreement shall be governed by the laws of the State of [insert state].
	2. Any disputes arising under this Agreement shall be resolved through binding arbitration in [insert state], under the rules of the American Arbitration Association.
	3. This Agreement constitutes the entire understanding between the parties regarding phantom equity and supersedes any prior discussions. No modification of this Agreement shall be valid unless in writing and agreed upon by the parties.

SIGNATURES

Company

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Title:

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Recipient 1:

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Recipient 2:

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name:

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_