

SAMPLE
Annual Incentive Plan (AIP)
DRAFT

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I. INTRODUCTION

The SAMPLE X COMPANY 2026 Annual Incentive Plan (AIP) is designed to reward the Chief Executive Officer (CEO) for driving company-wide financial performance and advancing strategic priorities. This plan reflects SAMPLE X COMPANY's executive compensation philosophy by aligning pay with company performance, including revenue growth, profitability, and long-term value creation through financial stewardship. Incentive awards are based on the achievement of both financial and strategic performance goals, with the opportunity to exceed target—earning potential is high.

This plan is effective from **January 1, 2026, through December 31, 2026**, and supersedes any prior annual incentive arrangements for this role. Payments, if earned and approved by the Compensation Committee, will be made in **March following the close of the performance year**. The remainder of this document outlines AIP's funding mechanics, payout calculations, governance provisions, and administrative terms.

II. ELIGIBILITY AND TARGET AIP

The 2026 AIP is limited to the Chief Executive Officer. Participation may be extended to other executives in future years at the discretion of the Board of Directors. Target bonuses are expressed as a percentage of annual base salary earned and are **prorated** based on the executive's hire date.

Executives hired on or after **October 1, 2026**, are not eligible for payment unless an exception is approved in writing by the Compensation Committee. Participation does not guarantee a bonus; all awards are discretionary and contingent upon company performance, continued employment, and final approval.

AIP Total Pro-rata %											
Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
100.0%	91.5%	83.8%	75.3%	67.1%	58.6%	50.4%	41.9%	33.4%	25.2%	16.7%	8.5%

III. FUNDING AND DISTRIBUTION

The Annual Incentive Plan (AIP) is directly linked to SAMPLE X COMPANY's performance and is funded based on two categories of company-wide metrics:

1. **Financial Metrics:** These include *Revenue* and *Net Income*, selected for their objective link to topline growth and profitability.
2. **Strategic Metrics:** These include operational and cultural priorities aligned to the CEO's leadership goals.

Each metric is evaluated against three predefined levels: **Threshold**, **Target**, and **Maximum**. Bonus awards are based on SAMPLE X COMPANY's actual performance against these levels, with the payout scaled accordingly.

- ✓ **Financial Metrics** can result in payouts ranging from **0% to 150%** of the target bonus.
- ✓ **Strategic Metrics** can result in payouts ranging from **0% to 110%** of target bonus.
- ✓ Performance falling **between levels** is **interpolated** to ensure proportional payouts.
- ✓ Performance **below threshold** results in **no payout** for that metric.

IV. PERFORMANCE MEASURES AND WEIGHTING

The CEO's Annual Incentive Plan (AIP) opportunity is determined by performance in two weighted categories: financial performance and strategic leadership objectives. These categories reflect SAMPLE X COMPANY's business priorities for the year.

AIP Weighting Structure:

80% Financial Performance

- **Revenue** – 60% of the financial component (48% of total AIP)
- **Net Income** – 40% of the financial component (32% of total AIP)

20% Strategic Objectives

- Defined and measured at the discretion of the Board of Directors, typically tied to leadership priorities such as culture, operational improvements, or organizational development (20% of the AIP).

Each performance area is evaluated against predefined attainment levels: Threshold, Target, and Maximum. Interpolation is applied between levels to determine a proportional AIP result.

Weight	Financial Measures	Attainment (% of Goal)			Bonus Award (as % of Target Bonus)		
		Threshold	Target	Max	Threshold	Target	Max
80%	Revenue	85%	100%	115%	50%	100%	150%
	Net Income	90%	100%	110%	50%	100%	150%
Weight	Strategic Measures	Threshold	Target	Max	Threshold	Target	Max
20%	Objective 1	90%	100%	110%	50%	100%	110%
	Objective 2	90%	100%	110%	50%	100%	110%
	Objective 3	90%	100%	110%	50%	100%	110%

V. PAYOUT MECHANICS:

- The CEO's final Annual Incentive Plan (AIP) award is determined by the following calculation:
"Target AIP × Weighted Average Performance Outcome"
- The **target AIP** is equal to 50% of the base salary earned during the performance year.
- If the CEO is employed for less than the full performance year, the award may be prorated based on the number of full months worked, **subject to the discretion of the Board of Directors.**
- Each performance measure is evaluated against pre-established attainment levels (Threshold, Target, and Maximum) and converted into a payout percentage.
- The **weighted average** of financial and strategic results is then applied to the target AIP to determine the final payout.
- The examples below illustrate how final payouts may be calculated based on actual performance outcomes.

AIP Calculation Example 1: Below Target Outcome						
Hire Date	1/1/2026					
Base Salary	\$350,000					
AIP Target %	50%					
AIP Target \$	\$175,000					
Target Total Comp	\$525,000					
Weight	Financial Measures	Sub-Wgt	Goal (\$000)	Actual (\$000)	Attainment %	Payout (% of Target)
80%	Revenue	60%	\$74,338	\$71,600	96.3%	87.7%
	Net Income	40%	\$14,718	\$14,178	96.3%	82%
Weight	Strategic Measures	Sub-Wgt	Goal	Actual %	Attainment %	Payout (% of Target)
20%	Objective 1	40%	Ex: Culture Goal		90%	50.0%
	Objective 2	30%	Ex: Ops Goal		90%	50%
	Objective 3	30%	Ex: Leadership Goal		85%	0%
TOTAL PAYOUT (% of Target)						75.24%
FY Bonus (\$)						\$131,664

AIP Calculation Example 2: Above Target Outcome						
Hire Date	1/1/2026					
Base Salary	\$350,000					
AIP Target %	50%					
AIP Target \$	\$175,000					
Target Total Comp	\$525,000					
Weight	Financial Measures	Sub-Wgt	Goal (\$000)	Actual (\$000)	Attainment %	Payout (% of Target)
80%	Revenue	60%	\$74,338	\$79,000	106.3%	120.9%
	Net Income	40%	\$14,718	\$16,000	108.7%	144%
Weight	Strategic Measures	Sub-Wgt	Goal	Actual %	Attainment %	Payout (% of Target)
20%	Objective 1	40%	Ex: Culture Goal		105%	105.0%
	Objective 2	30%	Ex: Ops Goal		100%	100%
	Objective 3	30%	Ex: Leadership Goal		115%	110%
TOTAL PAYOUT (% of Target)						124.97%
FY Bonus (\$)						\$218,699

VI. GOVERNANCE AND ADMINISTRATION

- a) **Employment Relationship:** Nothing in this Annual Incentive Plan shall be construed to create a contract of employment or guarantee of continued employment. If the Participant is employed on an at-will basis, either the Participant or the Company may terminate employment at any time, with or without cause or notice, in accordance with applicable law. If the Participant is employed under a written agreement with the Company, the terms of that agreement will govern the employment relationship.
- b) **Plan Administrator:** The Annual Incentive Plan (AIP) shall be administered by the Compensation Committee of the Board of Directors.
- b. **Payout Timing / Process:** All AIP payments are made at the sole discretion of the Board. Any award earned will be paid no later than March 15 of the calendar year immediately following the applicable performance year. Illustrative examples provided in this Plan are for demonstration purposes only; actual payouts are based on final company performance and Compensation Committee of Board of Directors approval.
- c. **Clawbacks and Overpayments:** In the event of an overpayment, the Participant shall be required to repay the overpaid amount. SAMPLE X COMPANY may recover overpayments through deductions from future AIP payments or other amounts owed to the Participant, including base salary, to the extent permitted by law. The Participant consents to such deductions.
- d. **Recognized Gross Sales:** Gross Sales is defined as sales recognized when the related invoice is paid and recorded in SAMPLE X COMPANY's General Ledger.
- e. **Resignation or Voluntary Termination:** To be eligible for an AIP payment, the Participant must be actively employed by the Company on the payment date.
- f. **Involuntary Termination for Cause:** If a Participant is terminated for Cause—including but not limited to gross misconduct, violation of Company policies, fraud, or any act harmful to the Company—the Participant shall forfeit any unpaid AIP awards, regardless of performance results.
- g. **Retirement and Disability:** In the event of a Participant's retirement or termination of employment due to total and permanent disability, the Participant remains eligible to receive a prorated AIP award based on actual Company performance and the Participant's period of service during the performance period, subject to approval by the Compensation Committee of the Board of Directors.



- h. **Death:** In the event of a Participant's death, any earned but unpaid Annual Incentive Plan award shall be paid to the Participant's designated beneficiary, or if no beneficiary is designated, to the Participant's estate or surviving spouse, in accordance with applicable law and plan procedures.
- i. **Company Goals:** All financial and strategic performance goals are subject to approval by the Board of Directors. The Board reserves the right to adjust such goals at any time, in its sole discretion, to reflect legitimate business circumstances, such as acquisitions, divestitures, or other material changes in the Company's operations or strategy.
- j. **Code of Ethics:** All Participants are expected to conduct themselves in a professional manner and to comply with the Company's Code of Ethics and all other applicable Company policies, including those outlined in the SAMPLE X COMPANY Employee Handbook. Failure to comply may result in loss of incentive eligibility and/or disciplinary action, up to and including termination.
- k. **Windfalls and Shortfalls:** The Board of Directors reserves the right, in its sole discretion, to adjust AIP payments based on external factors, including but not limited to market conditions, windfalls, or shortfalls. In certain cases, the Board may also deduct from AIP payments any incremental expenses incurred by the Company in the execution of contracts.
- l. **Tax Treatment:** All AIP payments will be subject to applicable tax withholdings and other required deductions. The Company is authorized to deduct any amounts owed by the Participant to the Company from AIP payments, unless prohibited by law. All incentive payments are considered income in the year in which they are received. Participants are encouraged to consult with a tax or financial advisor to understand the implications of any incentive payments made under this Plan.
- m. **Right to Amend:** SAMPLE X COMPANY and its Board of Directors reserve the right to interpret, amend, modify, or terminate this Plan, in whole or in part, at any time, in their sole discretion. All decisions regarding interpretation and administration of the Plan shall be final and binding.
- n. **Merger and Acquisition (M&A):** In the event of a merger or acquisition, AIP results for the first year shall not be impacted by the financial performance of any acquired or merged entities, unless otherwise determined by the Board of Directors.
- o. **Change in Control:** A "Change in Control" refers to a merger, acquisition, or other transaction resulting in a change in the ownership or control of the Company, as determined by the Board. If the Participant is terminated by the Company without Cause, or resigns for Good Reason, within twelve (12) months following a Change in Control, the Participant shall be eligible for a prorated AIP payment based on target or actual performance, as determined by the Board. The payment shall follow the Plan's normal schedule unless otherwise governed by a separate severance or CIC agreement.

VII. SAMPLE X COMPANY ANNUAL INCENTIVE PLAN ACKNOWLEDGEMENT

I acknowledge that this document does not create a contract of employment or guarantee continued employment. If I am employed at-will, either I or the Company may terminate employment at any time, with or without cause or notice. If I have a written employment agreement, that agreement will govern the terms of my employment.

I understand that no representative of the Company may alter the terms of my employment except through a written agreement approved by the Company. I also understand that this Plan does not provide legal, tax, or financial advice, and I am encouraged to consult with a personal advisor regarding any implications of incentive payments.

By signing below, I confirm that I have read and understand the terms of this Plan.

Date

Employee Signature and Printed Name

Board POC Signature and Printed Name