

# Employee Stock Ownership Plans

MAXIMIZING VALUE THROUGH KNOWLEDGE™

Employee Stock Ownership Plans ("ESOP") were created in 1974 by the Employee Retirement Income Security Act ("ERISA") as a vehicle to motivate employees by giving them company ownership. An ESOP is structured as a legal trust and is classified as a qualified retirement plan under the Internal Revenue Code. A trustee serves in a fiduciary capacity solely in the interest of the ESOP and its participants. The trustee must retain the services of an experienced, independent appraisal firm in the valuation of closely-held employer securities.

Valuations for ESOP purposes are necessary for two reasons. First, when the ESOP is originally formed, the initial purchase from the owner must be fairly priced. Second, the shares owned must be re-valued annually to determine the repurchase price in the event of employee retirement, departure, disability or death.

ERISA requires an ESOP to pay no more than "adequate consideration", or fair market value, when investing in a businesses' equity. Consequently, plan trustees and fiduciaries must determine, in good faith, the fair market value. These ESOP valuation assertions are then scrutinized by the IRS, the ESOP trustees, and the Department of Labor. As a result of all these unique issues, an appropriate ESOP valuation must be well documented, unbiased, and supportable.

ESOP valuation is a complex matter and must consider each company's unique facts and circumstances. Adams Capital's professionals have substantial experience valuing businesses and providing financial advisory services for ESOP plan trustees.