



ESI is on the move.

As part of ESI's ongoing effort to provide superior service to our clients, we have relocated our Delafield offices. This move enables a greater degree of efficiency for our daily operations.

With our new building just one mile from the location we have occupied for the past seven years, the ESI team has been able to retain the same phone, fax and email addresses - which provides continuity and an ease of contact.

With a current staff of nine professionals, ESI has developed into one of the largest and most respected valuation teams in the nation. However, even with our steady growth, the ESI team remains focused on our customers. After all, *Service* is our middle name!

“Wherever you see a successful business, someone once made a courageous decision.”

- Peter F. Drucker

Does your buy-sell agreement have what it takes?



Kim Parsons, AVA
Sr. Financial Analyst

Buy-sell agreements are an integral tool in many companies and are used to protect the shareholders of a firm.

Such agreements govern the sale of stock of a departing shareholder back to the company or to other shareholders. Because some events can put the shareholder and company in opposition to each other (like when a shareholder quits or is fired) it is critical that the agreement be as clear as possible to eliminate uncertainty and multiple interpretations.

One step in this direction is to require the parties to agree on as many elements as possible at the time the agreement is signed – not when a triggering event occurs. In addition, the terms of the agreement should be clearly delineated.

Buy-sell agreement ✓ CHECKLIST

- ✓ Agree on elements in advance.
- ✓ Detail triggering events.
- ✓ Outline specifics of determining price.
- ✓ Define resolution procedures.

Include items such as: details and effective dates of the triggering events, how and by whom the price will be determined, who will pay for the value determination, the standard of value that will apply along with the value basis (control or minority), and conflict resolution procedures.

To further eliminate ambiguity, review the agreement provisions from the perspectives of the three parties integral to the process: (1) the business owner, (2) the attorney, and (3) the valuation professional.

A well-defined buy-sell agreement can go a long way in making sure the company, and its shareholders, are protected.

Why can't I just get the cash?

Adapted from Inc. Magazine.



If the company can afford to pay me with stock, why can't it just give me cash instead?

This is one of the most commonly asked questions by employee-owners. And there are a number of reasons why companies either have to, or prefer to, pay in stock.

An ESOP Is Buying Out an Owner

If your company has an employee stock ownership plan (ESOP), there is a good chance it was set up to buy out one or more of the company's owners. The company puts cash into the ESOP, which the ESOP then uses to buy the owners' stock. Alternatively, the ESOP can borrow money to buy shares, with the company repaying the loan by putting enough cash into the ESOP to make the loan payments. If the company simply gave that cash to the employees, then the cash wouldn't be available to buy the owners' shares.

The "Pay Me Later, Not Now" Argument

Companies need two things to be successful: profits and cash (profit is what is left over from sales after all costs have been paid). Costs, however, include depreciation (the wear and tear on assets). Conserving cash is important if a company wants to have money to invest to keep growing and competing. One way it can do that is to pay its employees out of the future income of the company. A good way to do this is to give people stock.

Keeping Motivated

Although buying out an owner or saving current cash motivates many employee ownership plans, many are an expression of the company's desire to get people to think and act like owners. Assume that every year the company gives you a cash bonus. That's a nice addition, but it will always be a minor part of your pay. Assume instead the company gives you the same amount in stock each year. After several years, you will have accumulated an amount equal to perhaps one year's pay. Now that's an attention getter that can keep you very focused on the company's growth!

Q&A



Patty Putnam
Director,
Client Communications

This question and answer section is intended to provide answers to some of your most frequently asked questions. Watch for it in each issue and let us know if you have anything you'd like to contribute.

Q: Other than year-end financials, what else is needed to begin preparing our annual update?

A: Year-end financials are just one of the items we look for. We always include a comprehensive checklist of the required items in your year-end packet. A few of the items on that list include: operating budgets or forecasts, listings of major fixed assets or deletions, information on senior management, shareholders, officers, stock transactions, and industry data. *Please keep in mind that all of the items on the checklist might not apply to your specific situation.* Watch for your year-end packet detailing the information needed the month following your fiscal year end.



Sandy Paavola
Vice President

Events requiring appraisal of ESOP shares.

What are some of the instances in which an appraisal of ESOP shares is required?

- (1) When the ESOP makes its first acquisition of stock and at least annually at fiscal year end thereafter.
- (2) With any stock contribution to the ESOP.
- (3) Whenever the ESOP purchases additional non-participant's shares or significant blocks of stock.
- (4) If the ESOP sells some or part of its stock.

Often the annual valuation can be used for the repurchase of small blocks of departing employees' stock, the determination of the plan account balance, and annual contributions. Check your plan document for specific allowances.