



# EYE ON ESOPs

1ST QUARTER 2011

## Hello New South Members!

### A Message from the New South Chapter President

I have found tremendous benefit in being part of the New South Chapter and I hope that you do as well. As with any organization, you get what you give, and I wanted to list some of the benefits that I believe my company and I personally have received in just the few years that we have been involved in the chapter.

- **Local programming.** I enjoy that many of the conferences and other events are in the same time zone that I normally wake up in. This also makes it much easier to involve several of our employee-owners in events.

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## Executive Compensation in ESOP Companies

A lot is changing in the executive compensation arena. ESOP-owned companies should pay attention. The headlines are littered with articles on compensation excesses on Wall Street and multiple pieces of legislation aimed to correct perceived abuses. While most of the discussion and legislation is focused on publicly traded companies, I believe this represents a pendulum shift towards better governance that privately held ESOP companies—along with their directors and trustees—should consider.

A few years ago, our team began working with ESOP companies to help them address their executive compensation issues. We started identifying and using



the hard-to-find data for privately held companies so we would be benchmarking on an apples-to-apples basis. We also started looking at the governance issues surrounding the process of developing and approving executive

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# Tri-Chapter Regional Conference Recap



The 2nd Annual Tri-Chapter Regional Conference was held at Pinehurst North Carolina again this year.

We teed off on Sunday, March 27th, with CEO/CFO and HR Roundtables followed by a reception that evening.

The Employee Ownership Foundation (EOF) Golf Tournament was held Monday morning, March 28th. Unfortunately, the weather did not cooperate as it was cold with drizzling rain, but a few of the golf diehards couldn't resist. One of our New South members, Kerry Doughty with Avion Solutions, Inc., said, "When it is too cold to feel your hands when playing golf, the score doesn't seem to matter as much."

I would like to take this opportunity to say how much we appreciate the sponsors and the members who participated in the golf fund-raiser.

Registration began Monday at 12:45pm in conjunction with a Lunch & Learn session. Boxed lunches were offered and several topic tables were available for attendees. The Chapter Presidents welcomed the group and Steven King, President of Mid-Atlantic Chapter, entertained us with a little golf humor. The breakout sessions of the three tracks started at 2:00pm. That evening we had the annual cocktail reception and an awards banquet.

Daphne Wilson with McCord Communications did an excellent job summarizing the event when she said, "The Pinehurst Conference was an excellent source of informative sessions along with invaluable networking opportunities. The administrators and officers who planned it did a great job and they are to be commended for their efforts. The eight and one half hour drive is more than I like to do, but it was worth it to be there! The cost was very reasonable and the accommodations were good."

For those of you who were unable to attend this conference, we hope you will join us next year and we look forward to seeing you at the New South Fall Conference.

Information about the Fall Conference and other New South activities can be found on our Chapter website ([CLICK HERE](#)).

**Connie Woodmansee**  
New South Vice President  
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Education Sessions included:

## Communications Track

- 50 Best Ideas to Jump Start Your ESOP and Employee Ownership
- Effective Open Book Management
- Linking Your ESOP Design & Ownership Culture
- Creating an Effective Communications Committee
- Communication Do's and Don'ts
- The 19th Hole: Communicating Your Valuation Scorecard

## Technical Track

- DOL Audit Preparation and Proposed Regulation
- Navigating the Hazards and Staying on the Course
- Fiduciaries and Valuation
- 401(k) ESOP Integration Issues
- Using Your ESOP as an Acquisition Tool
- Have and Have Not Issues: How and Why to Give All Employees Equal ESOP Opportunity

## Hot Topic Track

- Keeping Score: Lessons Learned Structuring Executive Compensation in 12 ESOP Companies
- Wearing Two Hats: Serving as an ESOP Trustee and Board Member
- Health Care Reform and Your ESOP Company
- Selling an ESOP Company
- Congressional Company Visits



Pictured: Sayward Masselter, New South Chapter President, Michael Keeling, CAE, President of the ESOP Association, and Eileen Wyatt

# Tri-Chapter Regional Conference Recap

## 2011 New South Chapter Employee Owner of the Year

Neil Brittain, McCord Communications, Anniston, AL

McCord Communications was fortunate enough to hire Neil Brittain (one of our competitors) in 1992. He has led by example since arriving and continually shows good character every day! Neil was kind enough to accept a position on our ESOP Committee in 2007 and immediately started his motivational speeches that we all still talk about.

He brought cherry pies to our meetings and taught us how to have “Our Share of the Cherry Pie-The ESOP.” His speech to us this year was about “Show Me the Money.” He placed various coins all over the floor before we got to our meetings and then asked us “Are you stepping all over our money?” He went on to explain that “It’s our choice to take advantage of discounts, plan our jobs adequately, and conserve company resources.” He brought posters that showed by each employee saving a little each day, we could increase our profit by \$100,000 per year!

Because Neil puts everything in simple terms, we have all been able to grasp the concept of “Employee Ownership” and how to make a difference in our everyday jobs. He is a true blessing to all that know him. Neil has traveled all over the United States for us and even went to South Korea and Italy this year to complete jobs on short notice. He has consistently stressed to us that by “taking care of the customer, we will succeed in the end.” Neil has certainly succeeded in being an exemplary leader for all of us at McCord Communications. Our company and ESOP value is much better because of him! *(Text taken from award application. Authored by Daphne Wilson, McCord Communications)*



## 2011 New South Chapter Company of the Year

HASKELL, Jacksonville, FL

HASKELL, the nation’s leading integrated design-build firm, is recognized for its success and leadership in construction management. We have provided design-build services for more than 1,500 projects throughout North America, Latin America, and abroad.

Since January 1, 2008, the company has been employee-owned; however, a culture of employee ownership has existed at HASKELL since the company’s founding in 1965. We currently have 601 participants in the ESOP. With the addition of the ESOP was the creation of our ESOP Communication Committee consisting of nine rotating employees representing a diagonal cross-section of the company.

The ESOP Communication Committee works to educate employees and create awareness that daily work activities can impact our ESOP. The Committee designs and writes a quarterly *ESOP Bulletin* and has a regular space in the corporate monthly newsletter, *Scope*. In addition, we have had numerous Lunch and Learn sessions taught by our trustee. The committee also created “ESOP Week,” which is a celebration of our allocation. During ESOP week, we have a “guess the stock” contest, ESOP Lunch and Learn, and ask employees to turn in cost saving suggestions. The “finale” of the week is a celebration in which our CEO and CFO speak about the ESOP and announce the stock price.



Pictured: Tania Cable, Sayward Masselter, and Brooke Peters  
Ms. Cable and Ms. Peters accept the Company of the Year Award from New South Chapter President, Sayward Masselter

We also participate in ESOP month in October. For the month, we held an ESOP-themed breakfast of **Eggs, Sausage, Orange juice and Potatoes**. During ESOP month, we also pass out “100% Vested” travel mugs to all employees who are 100% vested in the ESOP. *(Text taken from award application. Authored by Tania Cable, HASKELL)*

# Executive Compensation in ESOP Companies (continued)

compensation. The results were both expected and unexpected. This article covers a few of our observations over the years and issues ESOP companies should be considering.

## Governance

Let's start with governance. In general, the natural tension that exists between the board of directors and executives is often lacking in a privately held company, where the board and executives often overlap. This is especially true in ESOP companies where executives also serve as the ESOP trustee and, therefore, represent the ESOP shareholder as well. The Venn diagram of management, the board, and shareholders is often just one circle.

I am not an attorney, but generally speaking, if an executive's compensation is set by a disinterested party (i.e., independent directors), the independent directors' actions have the protection of the business judgment rule, which puts the burden of proof on the party claiming that compensation is excessive. If compensation is set by parties that are not independent, the business judgment rule does not apply and the burden of proof shifts to the defendant (i.e., often the executives). For an excellent discussion on this topic, see Stephen Magowan's Chapter 1 in the National Center for Employee Ownership's (NCEO's) *The ESOP Company Board Handbook*.

Although many companies are moving towards hiring one or more independent directors, this is not in the immediate future of all ESOP companies. What should a self-trusted ESOP company with no independent directors do in the meantime? They should establish a process for evaluating compensation that includes objective, outside data and document their process thoroughly. Document, document, document.

Public companies have to disclose a lot about their approach to compensation in the Compensation Discussion & Analysis ("CD&A"), which is part of their proxy filing. Although this doesn't apply to most privately held companies, a well-documented approach to compensation is a best practice that evidences good corporate governance.

We often find that the minutes of the board meetings fail to mention the compensation process entirely, and if they do there is little evidence of a deliberated process used in arriving at the compensation figures. Think of it this way: If the IRS or a disgruntled shareholder ever questioned how top-level executives' salary was determined, what would be available in the corporate records to defend against this claim?

Most ESOP companies are paying executives appropriately, but they should have documentation to show the process they used to arrive at this compensation.

## Compensation Benchmarking

One of the most important pieces of documentation is an objective assessment of compensation paid to similar executives at similar companies. To be sure it is nearly impossible to construct a peer group of privately held companies that are the main competition for executive talent, but it is possible to use surveys to at least establish a reasonable realm for comparison.

We try to use multiple datasets that we weight to best fit each particular company. There are survey providers whose information contains more private than public companies. Industry associations can be another good source for relevant survey data. Finally, The National Center for Employee Ownership's 2009 survey titled *Executive Compensation in ESOP Companies* is another source that shows what other ESOP companies are doing. Most ESOP companies do not

consider themselves to be competing against other ESOP companies, but this survey is very helpful for showing typical incentive plan award amounts for executives in companies that often face similar equity considerations (e.g., Internal Revenue Code Section 409(p) limitations for S corporation ESOPs).

At the end of the day, this is sometimes an imperfect endeavor, but at least it evidences a company's effort to obtain the best information

available and consider whether their practice is significantly below or above the market data. From there, the directors or compensation committee need to consider the competitive environment, the executive's skills, the efficacy of the executive, and the company's performance versus industry averages.

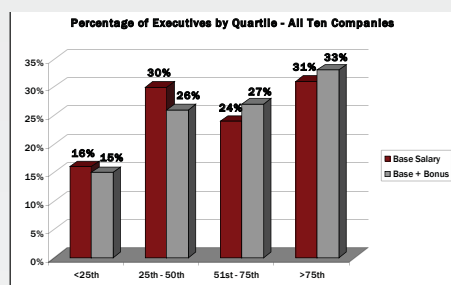
Sometimes companies know they have a compensation issue or retention risk and need outside data to verify this, and sometimes they do a study for governance reasons and are surprised.

The chart on page 5 below shows results from ten recent compensation benchmarking engagements for ESOP companies. The chart shows the percentage of executives whose compensation fell into each quartile. For example, it shows that considering base salary and bonus (i.e., total cash compensation), 15% of the executives in these ten companies fell below the 25th percentile.

**“Although many companies are moving towards hiring one or more independent directors, this is not in the immediate future for all ESOP companies.”**

# Executive Compensation in ESOP Companies (continued)

About half of the executives fell between the 25th – 75th percentiles into what we can roughly call the middle, but a little less than half are either below the 25th or above the 75th. These outliers are not necessarily underpaid or overpaid, but such results certainly merit a closer look and good documentation in the meeting minutes.



One of the companies with executives below the 25th percentile had a CFO who was pushing for equity compensation. Coincidentally, this company also had sales executives

who were above the 75th percentile due to a generous bonus program that was unavailable to the CFO. Armed with data particular to their industry, they were able to convince the direct shareholders that the CFO should receive equity-based compensation because the CFO was valuable to the company and had no retention incentives.

The mix of pay (i.e., fixed vs. variable, current vs. deferred) can be just as important as total pay. The base cash salary should be sufficient to attract and retain the right executive talent needed to steer the company, but the executives' efforts should be aligned with creating shareholder value. We believe this is especially important for ESOP companies where added fiduciary considerations come into play.

## Section 409A

While the new say-on-pay regulations and other legislation are primarily aimed at publicly traded companies, Internal Revenue Code Section 409A does apply to privately held companies. Although Section 409A has been around for a few years now, in our experience a fair number of ESOP companies have not had their nonqualified deferred compensation documents reviewed or updated to ensure compliance.

Section 409A generally applies to any “nonqualified deferred compensation,” which is compensation that is paid more than 2 ½ months after the end of the tax year in which it is no longer subject to a substantial risk of forfeiture. A detailed discussion of the many facets of Section 409A is beyond the scope of this article, but we have noticed Section 409A problems with two of the most common equity-based vehicles we see for ESOP companies: phantom stock and stock appreciation rights (SARs).

Phantom stock generally is subject to Section 409A. Once an arrangement is subject to 409A, it has to meet the rules of Section 409A. Section 409A requires the distribution to be paid upon specific events, such as separation due to death, disability or termination of employment, or on a fixed payment date. One of the chief offenders we see in phantom stock plan documents is company discretion regarding the payout of vested awards. We often see discretion for the company to pay the award in a lump sum or installment distributions, and this violates the fixed payment date requirements.

SARs, on the other hand, are not subject to Section 409A if they meet certain conditions. Namely, the SAR must be granted at fair market value, the number of SAR units must be fixed at grant and the plan may not provide the recipient the opportunity to further defer the payout after the award is earned. As with phantom stock, we often see companies reserve discretion to pay the award in a lump sum or installment, which provides an impermissible deferral of income and subjects the SARs to the provisions of Section 409A.

Companies should be sure to have their legal counsel review their plan documents for Section 409A compliance as significant taxes and penalties apply if these provisions are violated.

## Conclusion

Independence was a dominant theme around the time of Enron and some independence issues were mandated for publicly traded companies as part of the Sarbanes-Oxley Act of 2002 and follow-on legislation. We now hear a lot of positive buzz at ESOP conferences about better governance, such as the trend towards more ESOP companies hiring independent directors. Is this a coincidence? Not entirely.

When the practices of publicly traded companies swing too far in an undesired direction, they are the first to be nudged the opposite way. The resulting pendulum shift often matriculates down to privately held companies as advisors and government agencies grow accustomed to the new best practices. This is a good time for ESOP companies to consider their practices surrounding executive compensation. It's better to see the pendulum coming than to realize it has already passed.

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# Is It Time to Change ESOP Appraisers?

## 15 Reasons Why It Might Become Necessary & How to Accomplish It

In accordance with the guidance and requirements of the Employee Retirement Income Security Act (“ERISA”) and regulations promulgated by the Department of Labor (“DOL”), Trustees of qualified retirement plans, including employee stock ownership plans (“ESOPs”), must (at least annually) determine the net worth of the assets comprising the plan’s trust fund. In the case of most ESOPs, the principle asset of the trust fund is the stock of the sponsoring company.

ESOP valuation is an increasing concern for Trustees and sponsor companies as many ESOPs have matured financially (ESOP debt retired and shares allocated), demographically (aging participants), and strategically (achieved 100% ownership of the stock).

Given these and other evolving complexities (including the proposed DOL regulation which would designate ESOP appraisers as fiduciaries of the plans they value), it is sometimes necessary or advisable for ESOP Trustees and the Boards of ESOP companies to change their business valuation advisor.

This article addresses why a Trustee or sponsoring company might or should opt for a new appraisal provider, as well as what criteria, questions, and qualities drive the process of selecting a new appraiser.

### Why a Change in Appraisers Might Become Necessary

There are potentially many reasons and/or motivations that can compel an ESOP Trustee to seek a new valuation advisor. We list 15 in no particular order.

1. **The current appraiser is no longer available or is unwilling to perform the annual plan year valuation.** Due to retirement, firm closure, conflict of interest, or some other reason that is beyond the control of the Trustee or sponsoring company board, the legacy appraiser is not available or willing to perform annual plan year valuations.
2. **The legacy appraiser has resigned from the ESOP appraisal due to evolving regulatory decisions from the DOL.** As of the drafting of this article, the DOL has requested and considered feedback and testimony concerning the designation of ESOP appraisers as fiduciaries of those plans they value. Collectively, the ESOP appraisal community has responded in opposition. A number of ESOP valuation firms have identified this issue as a potential “make or break” concerning the continuation of ESOP appraisal services. As such, if the proposed regulations are enacted, growing numbers of sponsoring companies may be forced to retain

a new appraiser because their legacy appraiser has resigned from the ESOP appraisal. This issue and its ramifications for Trustees, sponsoring companies, and ESOP appraisers warrant continued monitoring.

3. **Growth and/or evolution in the sponsor company’s business model, industry, market complexity, management,** or otherwise can take a business from a once comfortable and familiar place for the appraiser to one that is beyond their resources and competencies.
4. **The maturation of the ESOP** may be creating new or increased concerns regarding the valuation or other Trustee considerations that are not being adequately addressed or integrated into the valuation or into other financial advisory feedback and support often provided by valuation experts.
5. **The legacy appraisal product does not reflect current valuation theory, methodology, and/or reporting standards.** Trustees that suspect their valuations are lacking in thoroughness, accuracy, or reasonableness might be well-served to obtain an independent review of the work to identify problem or missing content before any decision is made to change appraisers.
6. **The sponsoring company has experienced volatile or declining performance that is not quantified or otherwise addressed in the ESOP valuation.** There has been much written by valuation practitioners concerning the relative volatility of closely held valuations compared to the valuations of the broader (public) market place. The lack of reconciling valuation information and conclusions to market and/or financial evidence may suggest a variety of ills ranging from complacency to advocacy.
7. **The appraisal conclusions and underlying valuation components have not been reconciled with prior valuations or over time.** Trustees need to be able to examine the underlying performance, market evidence, and valuation treatments over time in order to offer constructive feedback and questions, as well as to track the investment and operating performance of the sponsor company. However, keep in mind that valuation practitioners must

“... it is sometimes necessary or advisable for ESOP Trustees and the Boards of ESOP companies to change their business valuation advisor.”

# Is It Time to Change ESOP Appraisers?

(continued)

be allowed to enhance or augment their reports and methodology with the passage of time, the advancement of analytical treatments and approaches, the evolution of the body of knowledge, in response to draft review processes, and to comply with changes in regulations and compliance requirements.

8. **Excess control premiums have been applied to a controlling interest ESOP valuation resulting in a potentially higher than reasonable value and causing serious ramifications for participants and sponsor companies.** Over-valuation is a consistent issue in many ESOP appraisals. A principal cause of over-valuation is the direct or implicit application of unwarranted or unsupported control premiums. Control premiums, particularly when styled as specific and finite adjustments in a valuation, are generally not advisable in the appraisal world unless they are explained and reconciled financially. If the appraiser cannot articulate the financial basis for the application of (and the magnitude of) a control premium by direct reference to earnings enhancements, risk mitigation, enhanced growth rates, or other fundamental valuation drivers and assumptions, then a Trustee would be well-served to question the appropriateness of the premium.
9. **Valuation discounts are insufficient or missing,** resulting in valuation conclusions that do not comply with the level of value defined by the Trustee. Many minority interest ESOPs are effectively valued on a quasi-control basis. Is this reasonable or proper? Is the marketability discount appropriate in light of the sponsor company's financial health and the needs of plan participants?
10. **The aging of baby boom participant pools require that the demographics of plan participants be examined for diversification or retirement needs.** Repurchase obligation is a seminal issue in ESOP valuation. Appraisers should inquire about projected retirement needs of both ESOP participants and other shareholders or significant managers. Repurchase obligation studies are the order of the day for Trustees and sponsor company boards. In some cases, non-ESOP shareholders requiring accommodation via stock redemption may have needs or expectations that conflict with needs arising from an accumulation of ESOP participants awaiting contributions and/or distributions for retirement or diversification purposes.
11. **A change in the ESOP Trustee may bring about a change in the appraiser.**
12. **The ESOP valuation fails to reconcile to non-ESOP appraisals** or other appraisals used for capital raising or other purposes.

There are reasons why this could or should be the case. However, significant valuation events that fail to reconcile to the ESOP valuation can suggest serious issues.

13. **A lower professional fee is needed or, perhaps, the conclusion of value is not desirable.** Fee sensitivity is arguably a good trait for ESOP Trustees, as long as valuation quality is not compromised. However, shopping the valuation for a targeted treatment or result is a dangerous endeavor.
14. **There are service and timeliness issues with the current appraiser.** The need for expediency cannot compromise accuracy or completeness in the valuation. The timing and responsiveness of information production is the key to a good appraisal experience.
15. **The ESOP is terminating.** Termination events often involve fairness opinions and other advanced considerations, prompting a change in the appraiser or the use of a secondary appraiser to advise the Trustee in a consultancy role. The same may be true for secondary and/or consolidating ESOP transactions.

## The Process of Selecting the New ESOP Appraiser

When the decision has been made to select a new qualified appraiser, it is appropriate for the Trustee to begin an orderly process of interviewing more than one potential valuation expert in order to make an informed decision.

Therefore, Trustees and/or sponsoring companies should consider the following:

- **Industry Expertise or Valuation Expertise?** Although "industry experts" in a variety of industries are abundant, it is generally advisable to prioritize valuation expertise over industry expertise in the ESOP world. Industry experts, although knowledgeable about their particular industry, frequently lack even a basic understanding of the concept of fair market value as it pertains to a particular level of value in the context of a private company ESOP. It is advisable to look for appraisers with a working and current knowledge of ESOP valuation issues.
- **Is the appraiser a sole practitioner or the member of a firm with other skilled ESOP appraisers** that can readily stand-in if the original practitioner leaves the firm, retires, or exits the field? The involvement of multiple professionals (often contributing to

**"... shopping the valuation for a targeted treatment or result is a dangerous endeavor."**

# Is It Time to Change ESOP Appraisers?

(continued)

or administering to varying elements of the valuation process) working collectively under the supervision of a senior-level practitioner may provide the back-up that mitigates the potential disruption caused by the departure or unavailability of the legacy/primary appraiser.

- **The ESOP appraisal experience of the business valuation firm**, including the number of ESOP valuations performed over the history of the firm, as well as the current number of ESOP appraisals performed.
- **Non-ESOP appraisal experience of the business valuation firm.** Some ESOP stakeholders might consider a firm that only specializes in ESOP appraisals an advantage. Others could perceive such a service concentration as inherently risky or too professionally confining for the appraiser to gain collateral professional financial services experience.
- **The professional credentials held by the business appraisers within the firm being considered.** Professional valuation credentials generally include the following: Accredited Senior Appraiser (ASA), Accredited in Business Valuation (ABV), Certified Business Appraiser (CBA), Certified Valuation Analyst (CVA), and Chartered Financial Analyst (CFA). To date, government agencies do not certify appraisers in the discipline of business valuation. Accordingly, professional credentials and valuation experience are critical considerations in vetting a new appraisal firm.
- **Affiliation with the ESOP Association and/or the National Center for Employee Ownership; articles published; speeches given; conferences attended.**
- **The valuation methods typically employed and the relative weight applied to each.**
- **Has a regulatory challenge ever been leveled against the proposed ESOP appraiser?**
- **The appraiser's position regarding:**
  - **an ownership control price premium** applied to an ESOP's purchase of the employer corporation stock and, conversely, a minority interest discount applied to an ESOP's purchase of employer corporation stock.
  - **a marketability discount** in view of the ESOP participants' put option rights.
  - **the typical range of the marketability discount** applicable to ESOP-owned employer stock.
- **The appraiser's treatment and/or consideration of the ESOP's repurchase obligation.**
- **The appraiser's experience as an expert witness** in litigation or plan audit matters involving the IRS, the DOL, or ESOP participants and the outcomes of such events. It could well be that an experienced ESOP appraiser with limited or no litigation experience is preferable to one that has repeatedly been required to defend their appraisals in audit and litigation proceedings.
- **Estimates of professional fees (both current and on-going).**
- **The appraisal firm's valuation process**, including an understanding of the timing to complete the valuation engagement.
- **The extent to which the financial advisor expects to work interactively with sponsoring company management during the valuation process.**

The Trustee has a role to play in providing pertinent information to the prospective appraisal firms such that they can understand the proposed project and provide a comprehensive proposal of services. As such, the Trustee should provide the following information to the appraiser candidates:

- Historical financial statements (typically 5 years)
- Previous ESOP valuation reports
- History of the subject plan
- Information on the ESOP sponsor company

The Trustee's selection decision should be based on the overall qualifications of the business appraisal firm. Discussion of the probable valuation outcome during the selection phase could be misleading or taint the process. In cases where a new appraiser serves as a review resource to the Trustee, there could be situations when differences of treatments and methodologies are discussed, as well as the impact that valuation modifications or additions would have on an appraisal issued by the previous appraiser. In such cases, the new appraiser has the burden of independence and credibility and Trustees have the obligation

**“The selection process should serve to ensure that the change in appraisers minimizes or mitigates the negative impact on the ESOP, and the ESOP participants...”**

# Is It Time to Change ESOP Appraisers?

(continued)

of obtaining the best information and not a predetermined outcome from a change in the appraisal firm. As stated previously, shopping the valuation for a targeted treatment or result is a dangerous endeavor.

The selection process should also be reasonably documented so that the questions of “why was a change necessary?” and “how was the selection process undertaken?” can be answered by the Trustee.

## Conclusion

There are risks involved when making the decision to select a new appraiser, including a change in valuation methodology, a possible meaningful change in share value, and the perceived independence of the Trustee (and appraiser) from the perspective of regulators and/or plan participants. Some Trustees and sponsoring company boards are simply averse to the potential backlash or complications that can arise from changing appraisers. However, in many situations, a change is needed and prudent and a lack of change can be viewed as creating or worsening a valuation issue.

The selection process should serve to ensure that the change in appraisers minimizes or mitigates the negative impact on the ESOP, and the ESOP participants (or that a change is accompanied by necessary, long-term considerations, even if a change in the valuation provider results in a meaningful near-term impact on the ESOP) and should be rigorous enough to withstand scrutiny from government regulators and plan participants.

Given the economic uncertainties in recent years, the continuing globalization of markets, the evolution of valuation science, and the growing concern for DOL compliance, Trustees and sponsoring company boards must retain the right and conviction to source valuations from providers that can properly develop and defend their appraisal results.

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# Hello New South Members!

(continued)

- **Networking.** I love to adapt or “steal” the ideas that I hear from other companies. Most of our communication pieces have used (with many thanks) the efforts of other ESOP companies. It helps me to look smart and creative. We have also gotten several ideas for plan design changes for the future.
- **The wealth of information available from the professional members.** As an HR Director, I can’t have my mind on our ESOP 100% of the time. Many of the chapters’ professional members send out informative and helpful newsletters, sponsor webinars and are available via phone or email for questions.

These are just a few of the benefits that make our membership worthwhile. If you have not been to a New South event, I encourage you to attend an upcoming event. Watch this newsletter and your email for information on upcoming events. I look forward to meeting you there!

Sayward Masselter

New South Chapter President

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## Upcoming Events

34th Annual Conference  
of the ESOP Association  
ESOPs: Powering Through Uncertainty  
May 12 & 13, 2011  
Renaissance Washington Hotel  
Washington, DC  
For more information, [CLICK HERE](#)

### Coming in June!

**New South Chapter  
Eggs & ESOP Breakfasts**  
*Watch for dates & locations*

### Coming in October!

**New South Chapter  
Fall Conference in Atlanta, GA**  
*Watch for date & information*

The ESOP Association's  
Las Vegas Conference & Trade Show  
November 3 & 4, 2011  
Caesar's Palace  
Las Vegas, NV  
For more information, [CLICK HERE](#)

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## Pro-ESOP Bill Introduced in U.S. House of Representatives

On March 29, 2011, six members of the House Ways and Means Committee introduced pro-ESOP legislation --- H.R. 1244, the "Promotion and Expansion of Private Employee Ownership Act of 2011."

The ESOP Association endorses this proposal, and expresses appreciation to Congressmen David G. Reichert (R-WA), Ron Kind (D-WI), Charles W. Boustany, Jr. (R-LA), Earl Blumenauer (D-OR), Erik Paulsen (R-MN), and Bill Pascrell (D-NJ) for standing up of ESOPs.

We are updating our website's Advocacy Kit, Spring Edition 2011, to provide suggestions for ESOP advocates in asking their elected Federal members of the House of Representatives to join these six members in expressing support for ESOPs.

To read to press release sent out by The ESOP Association, [CLICK HERE](#).

To read H.R. 1244, [CLICK HERE](#).

## ABOUT EYE ON ESOPS

EYE ON ESOPs is published by The New South Chapter of The ESOP Association. With approximately 2,500 members, The ESOP Association is the national, non-profit association of companies with employee stock ownership plans (ESOPs) and service providers with a professional commitment to ESOPs. The New South Chapter is one of eighteen chapters nationwide. When you join The ESOP Association you are automatically enrolled in the chapter serving your geographic area. The New South Chapter is comprised of 153 members (78 corporate and 75 professional) from Alabama, Florida, Georgia, Mississippi and Tennessee. Chapter membership provides the opportunity to network and learn with members from other ESOP companies in the New South area at chapter-sponsored events.

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