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### **An *ESOP* Appraisal Checklist**

What should the trustee of an Employee Stock Ownership Plan (ESOP) generally look for in an appraisal of the fair market value of the sponsor company stock? Although the ESOP trustee is ultimately responsible for the accuracy of the report as well as its conclusions, the independent appraisal should meet the following checklist (based on ASA guidance) to ensure the report's compliance. The ESOP appraisal should:

- ✓ State the effective valuation date and report preparation date.
- ✓ Clearly state the purpose of the valuation.
- ✓ Cite Revenue Ruling 59-60 factors for guidance.
- ✓ Reference Section 3(18) of ERISA regarding fair market value and adequate consideration.
- ✓ Outline stock ownership characteristics, such as degree of ownership control and marketability.
- ✓ Reference basic sponsor company information, such as its history, a description of products and services, market and competitive situations, management depth and succession issues, capital structure, and ownership distribution.
- ✓ Analyze the economy and industry outlook, as it pertains to the sponsor company.
- ✓ List all the sources of information used by the appraiser.
- ✓ Include the sponsor company's financial statements (balance sheet, income and cash flow statements, comparative financial ratio analysis, etc.), as well as the relevant time periods and the accountant's level of assurance (i.e., compiled versus reviewed versus audited).

- ✓ Compare the sponsor company's financial information to itself, to identify timeline trends.
- ✓ Use the generally accepted business valuation approaches (income, market, asset-based), with sufficient supporting detail.
- ✓ Clearly state the valuation conclusion, including a sufficient weighting of each valuation method used.

In addition, the Trustee should make sure to check off the following questions regarding any ESOP appraisal:

- ✓ If the guideline company method is used, are the selection criteria for the comparables appropriate and the population from which they are drawn clearly specified?
- ✓ If a marketability discount is used, are sufficient data provided in support?
- ✓ If a lack of control discount is used, is it applied only to valuation methods that conclude a controlling ownership interest level of value, and are sufficient data provided in support?
- ✓ If an ownership premium is used, is it applied only to valuation methods that conclude a non-controlling ownership interest level of value, and are sufficient data provided in support?

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