

Equity Expansion International, Inc.
The “Justice-Based” S-Corp ESOP Advantage

General

The following scenario uses a fictional company to illustrate in a simplified way the advantages of a JBM S-Corp ESOP through the results of a series of annual allocations to an Employee Stock Ownership Plan (ESOP) over a five-year period. This is not intended to represent any actual situation or company.

Several unique features are built into this scenario: 1) Equal annual allocations of contributions to all active participants, 2) “Cliff” vesting after three years, and 3) “Rebalancing” of accounts. All three of these are integral to the special “Justice-Based” approach used by Equity Expansion International (EEI).

The Justice-Based (JBM) Advantage

EEI believes that, under current law and in most circumstances, the corporate environment and culture within which the goals of Justice-Based Management (JBM) and Justice-Based Leadership (JBL) can best be achieved is in a business enterprise that is organized as a “Subchapter-S Corporation” and is 100% owned by the workers (a term that includes everyone employed by the company) through a qualified ESOP Trust.

Admittedly, as far as the *administration* of the ESOP is concerned — how the allocations are performed — it makes no difference whatsoever whether a company is a regular “C-Corp” or an “S-Corp.” The allocations are performed in exactly the same way in either case.

It does, however, make a very big difference to the *sponsoring company* whether it is organized as a C-Corp or an S-Corp. This is because ***a company that is organized as an S-Corp and is 100% owned by the workers through an ESOP pays no state or federal corporate income taxes.***

You read that correctly. An S-Corp is, in effect, a partnership with “limited liability,” *i.e.*, the only thing at risk is what an owner puts into the company, not any personal possessions, savings, or investments. Plus, where an owner of a C-Corp is taxed twice (sometimes more), once at the corporate level when the company makes a profit, and again when he or she receives dividends, a partner is taxed only once: when he or she receives a distribution from the partnership. Only the partners are taxed, not the partnership.

Because an ESOP is a tax-exempt trust, however, and the trust is the sole legal owner of the company (the only “partner”), it is not subject to corporate income tax at either the state or the federal level. The only “taxable event” occurs when a participant receives a distribution of benefits, or there is a “dividend” passed through.

“Dividend” is in quotes because, technically, S-Corps do not “pay dividends” like a regular corporation. They “make distributions” like a partnership. As far as the ESOP is concerned, however, profits passed through the ESOP to the participants based on share ownership are considered “dividends.”

In some cases the tax-exempt status of a company organized as an S-Corp and wholly owned by the workers through an ESOP Trust can increase profitability by a factor of 150% simply as a result of the tax savings.

Studies from the National Center for Employee Ownership in Oakland, California show that worker-owned companies with profit-sharing and participatory management can out-perform otherwise comparable companies by *another* 150% (225%). Adding the tax advantages of a 100% S-Corp ESOP to the JBM system offers the greatest advantages to businesses, management, and workers.

Equal Annual Allocations

Most ESOPs and other qualified retirement plans allocate company contributions on the basis of relative compensation, that is, the ratio that a participant's compensation bears to total compensation. For example, a participant who receives 10% of total "covered compensation" (compensation of qualified participants within legal limits) would receive 10% of the annual company contribution.

This is because ESOPs were established in the law under the Employee Retirement Income Security Act (ERISA). Retirement law assumes as a given that retirement income should be commensurate with employment income.

ESOPs were not invented primarily as *retirement* plans, however, but as *ownership* plans. It is, in a sense, an "accident" of legislative history that ESOPs come under retirement law.

Since EEI operates on the assumption that an ESOP is primarily an ownership plan, we go on the principle that each participant in a period is as much an owner as every other participant. EEI recommends that annual company contributions be divided evenly among all active participants for that period. Over time, of course, participants who have been in the plan more years will have larger account balances due to the fact that they have participated in more allocations.

EEI believes that every "citizen" of a business enterprise has the same right to become an owner of that company as every other company "citizen." The equal right that every person has to become an owner and earn a capital income to supplement one's pay is best realized by opening up equal ownership opportunities to every worker.

On the other hand, each worker has a contribution to make to the company through his or her labor as well as his or her ownership. A free and non-monopolistic marketplace is the most objective and democratic means for determining the just value of each worker's labor contribution. This would ordinarily be reflected in a differential in pay scales.

An EEI "Justice-Based ESOP" is designed to conform to these essential principles of justice as far as possible within the current system of laws.

Vesting

"Vesting" is defined as the non-forfeitable ownership (or partial ownership) by an employee of the retirement account balances or benefits contributed on the employee's behalf by an employer. Under U.S. retirement law, plans have the option of having either *graduated* or *graded* vesting, or *cliff* vesting.

“Graduated” or “graded” vesting means that participants earn vesting incrementally within certain guidelines established by the Department of Labor. “Cliff” vesting means that participants earn 100% ownership at one time instead of gradually over time.

To illustrate graduated vesting, assume that a participant in a retirement plan has account balances with a value of \$10,000.00 and is 30% vested. The participant owns \$3,000.00 of the account. If a participant leaves the company with 30% vesting of a \$10,000.00 account, and there is no change in the value of the account before the participant qualifies to receive a distribution of benefits, the participant will receive \$3,000.00.

The remaining \$7,000.00 is forfeited to the remaining participants, and divided among them according to the procedures given in the plan document. This is usually on the same basis that the original contributions were allocated to participants’ accounts. EEI recommends that forfeitures be reallocated equally among all active participants, just like company contributions.

This sample scenario assumes cliff vesting. That is, all participants earn 100% vesting once they reach three years of credited service.

This example also assumes that all participants begin earning credited service at the commencement of the plan, with no prior service with the company being counted. This is not usual. Most plans for established companies allow participants to count employment periods before the commencement of the plan as credited service on some formula. This was not done for this scenario in order to make the calculations simpler and more straightforward.

Rebalancing of Accounts

For years ESOP companies and professionals have struggled with the problem of “running out of shares.” That is, earlier participants received allocations of all the shares, while newer participants receive only cash contributions.

Unless the company issued new shares, newer participants were forced to rely on departing participants selling their shares back to the ESOP to purchase shares for their accounts, or on forfeitures from participants who departed before they were fully vested. For well-run companies with low turnover, this meant that new participants had few opportunities to obtain shares, resulting in distorted ownership proportions.

A few years ago, the IRS and DOL approved “rebalancing,” so that all participants can have exactly the same ratio of shares to other assets in their account balances. This ratio is equal to the proportion of total shares in the plan to total assets in the plan.

It works like this. At the end of each allocation period, the ratio of total shares to total assets for the entire plan is calculated. Participants who have a higher proportion of shares to assets under the company’s ownership strategy use the trust’s share and other investments accounts as an internal stock exchange. In this way they “sell” their “excess” shares to participants who have a lower proportion of shares to assets.

Participants who have a lower proportion of shares to assets would have the trust use some of the cash in their accounts to purchase shares from participants who have a higher proportion of shares to assets. The result is that every single participant has shares, and has shares in the same ratio of shares to assets as everyone else.

For example, if the ratio of total shares to total assets in the plan is 75%, at the end of the annual rebalancing of accounts, a participant with a total account value of \$10,000.00 would

have \$7,500.00 worth of company shares in his account, and \$2,500.00 in cash. A participant with a total account value of \$100,000.00 would have \$75,000.00 worth of company shares in his account, and \$25,000.00 in cash.

It is very important to note that after a rebalancing takes place each participant's total account value remains *exactly* the same as it was before the rebalancing. No participant loses or gains one cent of value as the result of a rebalancing.

Nevertheless, ESOP professionals strongly recommend if a company contemplates rebalancing, it do so from the inception of the plan. Despite the fact that it can be shown with mathematical precision that not a single participant gains or loses anything as the result of a rebalancing, there may be resentment among those who think they have "lost" shares. An ongoing ownership education program will neutralize such misunderstandings. Otherwise, resentment can undermine company solidarity and have a heavy negative impact on morale.

How ESOPs Obtain Company Shares

ESOPs can obtain the company shares that they allocate among participants in only two ways. Either 1) the ESOP Trust purchases the shares from existing owners, or 2) the company issues or reissues new shares, and either sells them or contributes them to the ESOP. The only difference as far as the ESOP Trust is concerned involves a sale of shares to the ESOP.

The company can pay any mutually agreeable price to existing shareholders, or make any other arrangement. An ESOP Trust, however, can only purchase shares, or receive shares as a contribution from the company, at the independently appraised fair market value.

The Department of Labor and the Internal Revenue Service take this requirement *very* seriously. Violating the requirement that all share transactions with an ESOP Trust must involve an independently appraised fair market value can result in disqualification of the plan, and possible serious legal penalties.

Allocating Shares

How the shares enter the plan determines when they are allocated to participants' accounts.

- 1) Shares that are purchased by the ESOP Trust must, of course, be paid for. To pay for the shares, the company makes an annual "contribution" to the ESOP Trust in cash. The amount of the contribution is subject to certain legal limitations that we need not get into in this discussion.

The Trust takes the cash, and uses it to make debt service payments on the "acquisition loan," that is, the loan the ESOP obtained to purchase the shares. As the payments are made, a portion of the shares is released from a suspense account and allocated among plan participants according to whatever formula is given in the plan document. EEI's preferred method of allocation is (as stated above) equal annual allocations of all contributions to the plan, whether in the form of cash, company shares, or both.

By "cash" we mean any asset other than company shares. This can also be described as "Other Plan Investments" once the cash is in the plan and the plan trustees have prudently invested the cash in high quality securities.

- 2) Share contributions are allocated exactly the same way as cash contributions.

Special Circumstances

Ordinarily, when an ESOP purchases shares with a loan, the loan is repaid, and the shares allocated over a number of years. If, however, the ESOP obtains a loan to purchase company shares, and the entire loan is repaid in the year in which the shares were purchased with the proceeds of the loan, all shares are allocated in that year.

Whether a cash or a share contribution, if a contribution that meets the legal requirements for the size of the company contribution to the plan exceeds the amount that can be allocated to participants' accounts (this is rare), the contribution is held in suspense until the next allocation date, and then allocated as if it were part of the contribution for that year.

Assumptions for the Attached Five-Year Scenario

The attached spreadsheets represent simplified ESOP allocations over a five-year period. Because the scenario does not reflect an actual case history, the results are only for purposes of illustration. They are in no way projections of how EEI believes the company will perform.

ESOP Share Acquisition

To simplify the attached scenario, we assumed that the company purchased shares from existing shareholders, and put the shares into treasury. Companies cannot own their own shares, and must put shares into treasury before reissuing them. In this case, the company retired the shares, and immediately turned around and reissued them to the ESOP. The shares that were contributed to the ESOP were, in effect, entirely new shares.

What the company paid the existing shareholders to obtain the shares does not matter to the ESOP. As far as the ESOP is concerned, as long as the shares were contributed (or sold, in the event the transaction was a sale) to the ESOP at the independently appraised fair market value, the amount paid to the former shareholders is irrelevant.

Practically speaking, the appraiser will take into account the price the company paid for the shares in determining the fair market value, but that will not necessarily be the value used to calculate the value of the company's share contribution to the ESOP. This is a separate transaction in which the valuation must take into account many factors.

Solely to make the calculations relatively simple, this scenario assumes the company contributed 1,000 shares to the ESOP with a fair market value of \$100.00 per share in the first year, and \$25,000.00 in cash, and only cash in years two through five. What the company paid the former shareholders for the shares does not appear in the calculation.

Other Assumptions

In this scenario, unvested account balances are forfeited in the year in which a non-vested participant terminates. This is not usual. Ordinarily participants incur a five-year break in service before forfeiting. No break in service was used to condense the number of years in the scenario. Forfeitures are reallocated among remaining active participants equally, the same way as the annual company contribution.

Plan net income (earnings on plan assets other than company shares) is allocated on the basis of the ratio that a participant's cash balance has to total cash in the plan. Thus, a participant who has 10% of the cash in the plan in his account will receive 10% of the plan net income for that year.

Vested participants who terminate service are fully paid out when they terminate service. Again, ordinarily participants incur a break in service before receiving their benefits, but immediate payout was assumed in this case in order to shorten the time period of the scenario.

Year 1

At the end of the first year of the ESOP, there are ten participants who receive allocations of the company contribution consisting of 1,000.00 company shares with a fair market value of \$100.00 each and \$25,000.00 in cash. This is allocated equally among all participants, 100 shares and \$2,500.00 in cash to each participant.

As no participant has three years of credited service, no participant is vested. There is no rebalancing because this is the first year of allocations and every participant has exactly the same amounts in his account balances to begin with.

Year 2

The company contributes \$20,000.00 in cash to the plan, and no shares. The value per share has increased to \$150.00 per share. There is no rebalancing because the ratio is the same for all participants once again.

Year 3

The company contributes \$50,000.00 in cash to the plan, and no shares. The value per share has increased to \$250.00 per share. There is no rebalancing because the ratio yet again is the same for all participants.

Year 4

The company contributes \$5,000.00 in cash to the plan, and no shares. The value per share has fallen to \$75.00 per share. Three participants terminate service and receive a full payout of everything in their account balances, being paid out at the prior year's value per share in effect at the time the payout is made. Three new participants are hired and enter the plan. Because the new participants received only cash contributions and did not have beginning cash with which to repurchase shares from terminated participants, rebalancing occurs. Participants who have a greater proportion of shares to total account assets in the plan sell some shares, while those who have a lower proportion of shares purchase the shares.

Year 5

The company contributes \$50,000.00 in cash to the plan, and no shares. The value per share has increased to \$300.00 per share. One participant terminates service. Because he is not vested, he forfeits his account balances, which are reallocated among the remaining participants. The company hires a new participant who enters the plan. Account balances are again rebalanced.

**Simplified Sample Five-Year Allocations
for an
EEI JBM S-Corp ESOP**

Equity Expansion International, Inc.
Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

Assumptions

Three-year "Cliff" Vesting
 Equal annual allocations of all Company contributions to Active Participants
 All accounts "rebalanced" at the end of the allocation process to reflect the same proportion of shares in all accounts, the ratio determined by total shares in the Plan to total Plan assets.
 One thousand shares contributed to the Plan in the first year, none after that.
 Forfeitures allocated equally.
 Plan income allocated on relative cash balances
 Rounding differences of less than \$1 are immaterial.
 Immediate payout on termination
 Forfeitures at end of year in which terminated

YEAR 1

25,000.00	Cash Contribution	0.00	Plan Net Income
1,000.000000	Share Contribution	80%	Total Share Ratio to Total Assets
25,000.00	Total Cash in Plan	1,000.000000	Total Shares in Plan
N/A	Prior Year's Value per Share	100,000.00	Value of Shares in Plan
100.00	Value per Share	125,000.00	Total Value of Plan Assets

PARTICIPANT	ACTIVE (1)		YEARS OF CREDITED SVC	BEGINNING CASH	BEGINNING SHARES	TOTAL DISTRIBUTION		CASH DISTRIBUTED	SHARES DISTRIBUTED	PLAN NET INCOME	CASH FORFEITED	SHARES FORFEITED
	INACTIVE (0)					DISTRIBUTION						
A	1		1	0.00	-	-	-	-	-	-	-	-
B	1		1	0.00	-	-	-	-	-	-	-	-
C	1		1	0.00	-	-	-	-	-	-	-	-
D	1		1	0.00	-	-	-	-	-	-	-	-
E	1		1	0.00	-	-	-	-	-	-	-	-
F	1		1	0.00	-	-	-	-	-	-	-	-
G	1		1	0.00	-	-	-	-	-	-	-	-
H	1		1	0.00	-	-	-	-	-	-	-	-
I	1		1	0.00	-	-	-	-	-	-	-	-
J	1		1	0.00	-	-	-	-	-	-	-	-
	10			0.00	-	-	-	-	-	-	-	-

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 1

PARTICIPANT	FORFEITED CASH ALLOC.	FORFEITED SHARES ALLOC.	CASH CONTRIBUTION	SHARE CONTRIBUTION	REPURCHASE CASH AVAILABLE	SHARES REPURCHASED	REPURCHASE CASH USED	CASH BALANCE	SHARE BALANCE
A	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
B	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
C	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
D	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
E	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
F	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
G	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
H	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
I	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
J	-	-	2,500.00	100.000000	2,500.00	-	-	2,500.00	100.000000
	-	-	25,000.00	1,000.000000	25,000.00	-	-	25,000.00	1,000.000000

Equity Expansion International, Inc.
Sample ESOP Allocation
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YEAR 1

PARTICIPANT	VALUE OF SHARES	ACCOUNT VALUE	EXCESS/ SHORTAGE	CASH PAID/ RECEIVED	FINAL CASH BALANCE	FINAL SHARE BALANCE	FINAL ACCOUNT VALUE	PARTICIPANT VESTING	VESTED BALANCE
A	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
B	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
C	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
D	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
E	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
F	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
G	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
H	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
I	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
J	10,000.00	12,500.00	-	-	2,500.00	100.000000	12,500.00	0%	-
	100,000.00	125,000.00	-	-	25,000.00	1,000.000000	125,000.00		-

Equity Expansion International, Inc.
Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

Assumptions

Three-year "Cliff" Vesting
 Equal annual allocations of all Company contributions to Active Participants
 All accounts "rebalanced" at the end of the allocation process to reflect the same
 proportion of shares in all accounts, the ratio determined by total shares in the Plan to
 total Plan assets.
 Forfeitures allocated equally.
 Plan income allocated on relative cash balances
 Rounding differences of less than \$1 are immaterial.
 Immediate payout on termination
 Forfeitures at end of year in which terminated

YEAR 2

20,000.00	Cash Contribution	2,500.00	Plan Net Income
-	Share Contribution	76%	Total Share Ratio to Total Assets
47,500.00	Total Cash in Plan	1,000.000000	Total Shares in Plan
	Prior Year's Value per Share	150,000.00	Value of Shares in Plan
150.00	Value per Share	197,500.00	Total Value of Plan Assets

PARTICIPANT	ACTIVE (1)	INACTIVE (0)	YEARS OF CREDITED SVC	BEGINNING CASH	BEGINNING SHARES	TOTAL DISTRIBUTION	CASH DISTRIBUTED	SHARES DISTRIBUTED	PLAN NET INCOME	CASH FORFEITED	SHARES FORFEITED
A	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
B	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
C	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
D	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
E	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
F	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
G	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
H	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
I	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
J	1		2	2,500.00	100.000000	-	-	-	250.00	-	-
	10			25,000.00	1,000.000000	-	-	-	2,500.00	-	-

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 2

PARTICIPANT	FORFEITED CASH ALLOC.	FORFEITED SHARES ALLOC.	CASH CONTRIBUTION	SHARE CONTRIBUTION	REPURCHASE CASH AVAILABLE	SHARES REPURCHASED	REPURCHASE CASH USED	CASH BALANCE	SHARE BALANCE
A	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
B	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
C	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
D	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
E	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
F	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
G	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
H	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
I	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
J	-	-	2,000.00	0.000000	4,750.00	-	-	4,750.00	100.000000
	-	-	20,000.00	-	47,500.00	-	-	47,500.00	1,000.000000

Equity Expansion International, Inc.
Sample ESOP Allocation
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YEAR 2

PARTICIPANT	VALUE OF SHARES	ACCOUNT VALUE	EXCESS/ SHORTAGE	CASH PAID/ RECEIVED	FINAL CASH BALANCE	FINAL SHARE BALANCE	FINAL ACCOUNT VALUE	PARTICIPANT VESTING	VESTED BALANCE
A	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
B	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
C	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
D	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
E	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
F	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
G	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
H	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
I	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
J	15,000.00	19,750.00	-	-	4,750.00	100.000000	19,750.00	0%	-
	150,000.00	197,500.00	-	-	47,500.00	1,000.000000	197,500.00		-

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Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

Assumptions

<p>Three-year "Cliff" Vesting</p> <p>Equal annual allocations of all Company contributions to Active Participants</p> <p>All accounts "rebalanced" at the end of the allocation process to reflect the same proportion of shares in all accounts, the ratio determined by total shares in the Plan to total Plan assets.</p>	<p>Forfeitures allocated equally.</p> <p>Plan income allocated on relative cash balances</p> <p>Rounding differences of less than \$1 are immaterial.</p> <p>Immediate payout on termination</p> <p>Forfeitures at end of year in which terminated</p>
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YEAR 3

50,000.00	Cash Contribution	3,200.00	Plan Net Income
-	Share Contribution	71%	Total Share Ratio to Total Assets
100,700.00	Total Cash in Plan	1,000.000000	Total Shares in Plan
150.00	Prior Year's Value per Share	250,000.00	Value of Shares in Plan
250.00	Current Value per Share	350,700.00	Total Value of Plan Assets

PARTICIPANT	ACTIVE (1)		YEARS OF CREDITED SVC	BEGINNING		TOTAL DISTRIBUTION	CASH DISTRIBUTED		SHARES DISTRIBUTED	PLAN NET INCOME		CASH FORFEITED	SHARES FORFEITED
	INACTIVE (0)			CASH	SHARES								
A	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
B	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
C	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
D	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
E	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
F	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
G	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
H	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
I	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
J	1		3	4,750.00	100.000000	-	-	-	-	320.00		-	-
	10			47,500.00	1,000.000000	-	-	-	-	3,200.00		-	-

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 3

PARTICIPANT	FORFEITED CASH ALLOC.	FORFEITED SHARES ALLOC.	CASH CONTRIBUTION	SHARE CONTRIBUTION	REPURCHASE CASH AVAILABLE	SHARES REPURCHASED	REPURCHASE CASH USED	CASH BALANCE	SHARE BALANCE
A	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
B	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
C	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
D	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
E	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
F	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
G	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
H	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
I	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
J	-	-	5,000.00	0.000000	10,070.00	-	-	10,070.00	100.000000
	-	-	50,000.00	-	100,700.00	-	-	100,700.00	1,000.000000

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 3

PARTICIPANT	VALUE OF SHARES	ACCOUNT VALUE	EXCESS/ SHORTAGE	CASH PAID/ RECEIVED	FINAL CASH BALANCE	FINAL SHARE BALANCE	FINAL ACCOUNT VALUE	PARTICIPANT VESTING	VESTED BALANCE
A	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
B	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
C	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
D	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
E	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
F	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
G	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
H	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
I	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
J	25,000.00	35,070.00	0.0000	-	10,070.00	100.000000	35,070.00	100%	35,070.00
	250,000.00	350,700.00	0.0000	-	100,700.00	1,000.000000	350,700.00		350,700.00

Equity Expansion International, Inc.
Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

Assumptions

Three-year "Cliff" Vesting
Equal annual allocations of all Company contributions to Active Participants
All accounts "rebalanced" at the end of the allocation process to reflect the same proportion of shares in all accounts, the ratio determined by total shares in the Plan to total Plan assets.
Forfeitures allocated equally.
Plan income allocated on relative cash balances
Rounding differences of less than \$1 are immaterial.
Immediate payout on termination
Forfeitures at end of year in which terminated

YEAR 4

5,000.00	Cash Contribution	1,500.00	Plan Net Income
-	Share Contribution	58%	Total Share Ratio to Total Assets
54,490.00	Total Cash in Plan	1,000.0000	Total Shares in Plan
250.00	Prior Year's Value per Share	75,000.00	Value of Shares in Plan
75.00	Current Value per Share	129,490.00	Total Value of Plan Assets

PARTICIPANT	ACTIVE (1)		YEARS OF CREDITED SVC	BEGINNING CASH	BEGINNING SHARES	TOTAL DISTRIBUTION	CASH DISTRIBUTED	SHARES DISTRIBUTED	PLAN NET INCOME	CASH FORFEITED	SHARES FORFEITED
	INACTIVE (0)										
D	1		4	10,070.00	100.000000	-	-	-	214.28	-	-
E	1		4	10,070.00	100.000000	-	-	-	214.28	-	-
F	1		4	10,070.00	100.000000	-	-	-	214.28	-	-
G	1		4	10,070.00	100.000000	-	-	-	214.29	-	-
H	1		4	10,070.00	100.000000	-	-	-	214.29	-	-
I	1		4	10,070.00	100.000000	-	-	-	214.29	-	-
J	1		4	10,070.00	100.000000	-	-	-	214.29	-	-
K	1		0	-	-	-	-	-	-	-	-
L	1		0	-	-	-	-	-	-	-	-
M	1		0	-	-	-	-	-	-	-	-
A	0		3	10,070.00	100.000000	35,070.00	(10,070.00)	(100.0000)	-	-	-
B	0		3	10,070.00	100.000000	35,070.00	(10,070.00)	(100.0000)	-	-	-
C	0		3	10,070.00	100.000000	35,070.00	(10,070.00)	(100.0000)	-	-	-
	10			100,700.00	1,000.000000	105,210.00	(30,210.00)	(300.00)	1,500.00	-	-

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 4

PARTICIPANT	FORFEITED CASH ALLOC.	FORFEITED SHARES ALLOC.	CASH CONTRIBUTION	SHARE CONTRIBUTION	REPURCHASE CASH AVAILABLE	SHARES REPURCHASED	REPURCHASE CASH USED	CASH BALANCE	SHARE BALANCE
D	-	-	500.00	0.000000	10,784.28	42.022133	(3,151.66)	7,632.62	142.022133
E	-	-	500.00	0.000000	10,784.28	42.022133	(3,151.66)	7,632.62	142.022133
F	-	-	500.00	0.000000	10,784.28	42.022133	(3,151.66)	7,632.62	142.022133
G	-	-	500.00	0.000000	10,784.29	42.022172	(3,151.66)	7,632.63	142.022172
H	-	-	500.00	0.000000	10,784.29	42.022172	(3,151.66)	7,632.63	142.022172
I	-	-	500.00	0.000000	10,784.29	42.022171	(3,151.67)	7,632.62	142.022171
J	-	-	500.00	0.000000	10,784.29	42.022171	(3,151.67)	7,632.62	142.022171
K	-	-	500.00	0.000000	500.00	1.948305	(146.12)	353.88	1.948305
L	-	-	500.00	0.000000	500.00	1.948305	(146.12)	353.88	1.948305
M	-	-	500.00	0.000000	500.00	1.948305	(146.12)	353.88	1.948305
A	-	-	-	0.000000	0.00	-	-	0.00	-
B	-	-	-	0.000000	0.00	-	-	0.00	-
C	-	-	-	0.000000	0.00	-	-	0.00	-
	-	-	5,000.00	-	76,990.00	300.000000	(22,500.00)	54,490.00	1,000.000000

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 4

PARTICIPANT	VALUE OF SHARES	ACCOUNT VALUE	EXCESS/ SHORTAGE	CASH PAID/ RECEIVED	FINAL CASH BALANCE	FINAL SHARE BALANCE	FINAL ACCOUNT VALUE	PARTICIPANT VESTING	VESTED BALANCE
D	10,651.66	18,284.28	0.819879	61.49	7,694.11	141.202254	18,284.28	100%	18,284.28
E	10,651.66	18,284.28	0.819879	61.49	7,694.11	141.202254	18,284.28	100%	18,284.28
F	10,651.66	18,284.28	0.819879	61.49	7,694.11	141.202254	18,284.28	100%	18,284.28
G	10,651.66	18,284.29	0.819802	61.49	7,694.12	141.202370	18,284.29	100%	18,284.29
H	10,651.66	18,284.29	0.819802	61.49	7,694.12	141.202370	18,284.29	100%	18,284.29
I	10,651.67	18,284.29	0.819932	61.49	7,694.11	141.202239	18,284.29	100%	18,284.29
J	10,651.67	18,284.29	0.819932	61.50	7,694.12	141.202239	18,284.29	100%	18,284.29
K	146.12	500.00	(1.913035)	(143.48)	210.40	3.861340	500.00	0%	-
L	146.12	500.00	(1.913035)	(143.48)	210.40	3.861340	500.00	0%	-
M	146.12	500.00	(1.913035)	(143.48)	210.40	3.861340	500.00	0%	-
A	-	-	-	-	0.00	-	-	100%	-
B	-	-	-	-	0.00	-	-	100%	-
C	-	-	-	-	0.00	-	-	100%	-
	75,000.00	129,490.00	(0.000000)	0.00	54,490.00	1,000.000000	129,490.00		127,990.00

Equity Expansion International, Inc.
Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

Assumptions

Three-year "Cliff" Vesting
 Equal annual allocations of all Company contributions to Active Participants
 All accounts "rebalanced" at the end of the allocation process to reflect the same proportion of shares in all accounts, the ratio determined by total shares in the Plan to total Plan assets.
 Forfeitures allocated equally.
 Plan income allocated on relative cash balances
 Rounding differences of less than \$1 are immaterial.
 Immediate payout on termination
 Forfeitures at end of year in which terminated

YEAR 5

50,000.00	Cash Contribution	7,500.00	Plan Net Income
-	Share Contribution	73%	Total Share Ratio to Total Assets
111,990.00	Total Cash in Plan	1,000.000000	Total Shares in Plan
75.00	Prior Year's Value per Share	300,000.00	Value of Shares in Plan
300.00	Current Value per Share	411,990.00	Total Value of Plan Assets

PARTICIPANT	ACTIVE (1)	YEARS OF CREDITED SVC	BEGINNING CASH	BEGINNING SHARES	TOTAL DISTRIBUTION	CASH DISTRIBUTED	SHARES DISTRIBUTED	PLAN NET INCOME	CASH FORFEITED	SHARES FORFEITED
D	1	5	7,694.11	141.202254	-	-	-	1,059.02	-	-
E	1	5	7,694.11	141.202254	-	-	-	1,059.01	-	-
F	1	5	7,694.11	141.202254	-	-	-	1,059.01	-	-
G	1	5	7,694.12	141.202370	-	-	-	1,059.02	-	-
H	1	5	7,694.12	141.202370	-	-	-	1,059.02	-	-
I	1	5	7,694.11	141.202239	-	-	-	1,059.02	-	-
J	1	5	7,694.12	141.202239	-	-	-	1,059.02	-	-
K	1	1	210.40	3.861340	-	-	-	28.96	-	-
L	1	1	210.40	3.861340	-	-	-	28.96	-	-
N	1	0	-	-	-	-	-	-	-	-
M	0	0	210.40	3.861340	-	-	-	28.96	(239.36)	(3.861340)
	10		54,490.00	1,000.000000	-	-	-	7,500.00	(239.36)	(3.861340)

Equity Expansion International, Inc.
Sample ESOP Allocation
Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 5

PARTICIPANT	FORFEITED CASH ALLOC.	FORFEITED SHARES ALLOC.	CASH CONTRIBUTION	SHARE CONTRIBUTION	REPURCHASE CASH AVAILABLE	SHARES REPURCHASED	REPURCHASE CASH USED	CASH BALANCE	SHARE BALANCE
D	23.94	0.386134	5,000.00	0.000000	13,777.07	-	-	13,777.07	141.588388
E	23.94	0.386134	5,000.00	0.000000	13,777.06	-	-	13,777.06	141.588388
F	23.94	0.386134	5,000.00	0.000000	13,777.06	-	-	13,777.06	141.588388
G	23.94	0.386134	5,000.00	0.000000	13,777.08	-	-	13,777.08	141.588504
H	23.94	0.386134	5,000.00	0.000000	13,777.08	-	-	13,777.08	141.588504
I	23.94	0.386134	5,000.00	0.000000	13,777.07	-	-	13,777.07	141.588373
J	23.94	0.386134	5,000.00	0.000000	13,777.08	-	-	13,777.08	141.588373
K	23.94	0.386134	5,000.00	0.000000	5,263.30	-	-	5,263.30	4.247474
L	23.94	0.386134	5,000.00	0.000000	5,263.30	-	-	5,263.30	4.247474
N	23.94	0.386134	5,000.00	0.000000	5,023.94	-	-	5,023.94	0.386134
M	-	-	-	0.000000	-	-	-	-	-
	239.36	3.861340	50,000.00	-	111,990.00	-	-	111,990.00	1,000.000000

Equity Expansion International, Inc.
Sample ESOP Allocation
 Equal Annual Allocations of Shares and Rebalancing of Accounts

YEAR 5

PARTICIPANT	VALUE OF SHARES	ACCOUNT VALUE	EXCESS/ SHORTAGE	CASH PAID/ RECEIVED	FINAL CASH BALANCE	FINAL SHARE BALANCE	FINAL ACCOUNT VALUE	PARTICIPANT VESTING	VESTED BALANCE
D	42,476.52	56,253.58	5.047271	1,514.18	15,291.25	136.541117	56,253.58	100%	56,253.58
E	42,476.52	56,253.57	5.047293	1,514.19	15,291.25	136.541095	56,253.57	100%	56,253.57
F	42,476.52	56,253.57	5.047293	1,514.19	15,291.25	136.541095	56,253.57	100%	56,253.57
G	42,476.55	56,253.63	5.047249	1,514.17	15,291.25	136.541255	56,253.62	100%	56,253.62
H	42,476.55	56,253.63	5.047250	1,514.18	15,291.25	136.541254	56,253.62	100%	56,253.62
I	42,476.51	56,253.58	5.047238	1,514.17	15,291.24	136.541135	56,253.58	100%	56,253.58
J	42,476.51	56,253.58	5.047238	1,514.18	15,291.26	136.541135	56,253.60	100%	56,253.60
K	1,274.24	6,537.54	(11.620734)	(3,486.22)	1,777.08	15.868208	6,537.54	0%	-
L	1,274.24	6,537.54	(11.620734)	(3,486.22)	1,777.08	15.868208	6,537.54	0%	-
N	115.84	5,139.78	(12.089364)	(3,626.81)	1,397.13	12.475498	5,139.78	0%	-
M	-	-	-	-	-	-	-	0%	-
	300,000.00	411,990.00	0.000000	0.01	111,990.00	1,000.000000	411,990.00		393,775.14