

Publications

Warranting Further Discussion: Why the Use of Financing Warrants in ESOP Transactions Benefits American Workers

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The leveraged Employee Stock Ownership Plan (“ESOP”) structure was created by US Congress to enable American workers to gain an equity interest in their companies without using their own funds. A critical component in the financing of leveraged ESOP transactions is a “warrant,” which enables corporate sponsors of ESOPs to access the financing necessary to facilitate purchases of company stock by ESOPs. Warrants also afford substantial benefits to ESOPs by providing downside risk for ESOP participants, freeing up cash for more productive uses than servicing interest on debt and aligning all corporate stakeholders’ interests toward the common goal of increasing equity value.

Recently, however, the US Department of Labor (“DOL”) has taken the position that warrants necessarily reduce the fair market value of a subject company’s equity in an ESOP transaction. This position, which would discourage ESOP formation, is contrary to both the “fair market value” standard that governs ESOP transactions and the DOL’s long-held position on this issue. By helping to clear misconceptions around the use of warrants in leveraged ESOP transactions, in the *Business Valuation Review* article, “Warranting Further Discussion: Why the Use of Financing Warrants in ESOP Transactions Benefits American Workers,” Groom attorneys Lars Golumbic and Andrew Salek-Raham aim to contribute to the continued proliferation of ESOP ownership, to result in a broader-based participation in wealth creation among American workers.

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