

TATES RENTS, INC.

EMPLOYEE STOCK OWNERSHIP PLAN

Tates Rents, Inc. (“Company”) is very pleased to announce that the family shareholders have elected to sell the stock of the Company to the Employees using an Employee Stock Ownership Plan (“ESOP”). Via participation in the ESOP, each eligible employee becomes a shareholder of the Company. Becoming a shareholder in the Company is much different than becoming a business owner.

WHAT IS AN ESOP AND HOW DOES IT WORK?

An Employee Stock Ownership Plan (“ESOP”) is an employee benefit plan very similar to other types of retirement plans like 401(k) Plans. That is, an ESOP must satisfy all of the rules of the Internal Revenue Code, (Tax Laws), monitored by the IRS as well as all of rules and regulations set forth by the Department of Labor laws as outlined in the Employee Retirement Income Security Act (“ERISA”). All of these regulations are in place to do one thing, protect the employees of the Company.

Unlike a 401(k) Plan or other types of retirement plans, ESOP’s can borrow money which can be used to buy Company Stock. In the case of this Company, we did not borrow money from a bank to buy the Stock. Instead, The Tate Family has elected to carry a loan note (Seller Note) with a reasonable interest rate. The note payments will be made over time from the profits of the company. Contributions will be made to the ESOP to facilitate this process.

To encourage, companies and their employees to set up ESOP’s, the federal government has given ESOP’s special tax advantages. These tax advantages help make it possible for employees to become successful buyers. From the date of the ESOP transaction, the Company no longer pays state or federal income tax.

As noted above, when an ESOP is used, the employees have no personal obligation to come up with the funds to purchase the Company stock. Instead the ESOP purchases the stock on behalf of the eligible employees.

The existing shareholders will transfer their stock holdings to the ESOP Trust. The eligible employees

or ESOP Participants become shareholders of the stock held within the ESOP Trust.

Each year, the Company will fund a contribution to the ESOP for the necessary amount to satisfy the ESOP loan.

As the ESOP makes the payments, on an annual basis a portion of the stock that is held in the ESOP is released for purposes of allocation to the eligible employees (the ESOP Participants). Thus, every year stock is released to the Participants based upon the annual ESOP Payments that are made. By the time the ESOP has paid the existing shareholders in full all of the stock will be released into the Participants accounts.

ESOP BENEFITS AND RIGHTS

The ESOP Trust

The ESOP Trust holds the Employee Owned Stock of the Company. The ESOP Trust is separate from the Company and its financial accounts. This separation is one of the many Employee protections provided by creating a Trust.

Eligibility

Any employee who was employed on October 19, 2020 becomes an ESOP Participant effective January 1, 2020. Thereafter, Employees will become participants on the January 1st and July 1st next following the date they complete one year of service in which they worked at least 1,000 hours and are at least age 21. Effective January 1, 2023, employees become participants on the entry date immediately preceding the date on which they complete one year of service in which they worked at least 1,000 hours and are at least age 21.

Employee ESOP Accounts: How Stock is Accumulated and Where It is Held

Each Participant will have an Account within the ESOP. The Accounts hold the Company Stock allocated to each Participant. As previously discussed, when the Company makes an ESOP

contribution, stock is released to the Participant Accounts as follows:

Diagram A

Principal and Interest Paid (Annual)	X	Pledged Shares Not Yet Released	=	Shares Released to Trust for Allocation
Total Principal and Interest Paid and Remaining				

The ESOP will then divide (allocate) the released Stock among the individual Participant Accounts as according to the formula depicted below:

Diagram B

Individual Participant Eligible Wage	X	Shares Released for Allocation	=	Shares Allocated to Participant Account
Total Participants Eligible Wages				

In addition to the Plan entry requirements each Participant must have been credited with at least 1,000 hours of service and be employed on the last day of day of each calendar year (December 31st) to receive an allocation of Company Stock for said year.

Vesting

The ESOP is designed by law to benefit those who stay with the Company for a long period of time. The objective is to provide a benefit for those who stay with the Company and help make it successful. In accordance with the law, the following vesting schedule has been created:

VESTING SCHEDULE	
<u>Years of Service in the ESOP</u>	<u>Vesting</u>
Less than Two	0%
Two	20%
Three	40%
Four	60%
Five	80%
Six	100%

Years of Service for the Vesting Schedule shall include years of service after the effective date of the ESOP, which was January 1, 2020.

Vesting means the percent of shares that are in each Account that are actually the Participant's. The longer the Participant is with the Company the more they own.

There are three special exceptions to the Vesting Schedules that result in immediate 100 percent vesting without regard to Years of Service. A Participant becomes 100 percent vested if he/she:

- Leaves as a result of Normal Retirement. For purposes of the ESOP only, Normal Retirement is defined as termination of employment after attaining age 65. (This is not a mandatory retirement age.)
- Becomes Disabled while employed by the Company; or
- Dies while employed by the Company.

Calculating the Value of a Share of Stock

Because the Company is "privately held," the Company's stock's value cannot be established in the open marketplace. Therefore, an independent appraiser is hired by the ESOP. The appraiser calculated a range of value for the ESOP Trustee to negotiate with the selling shareholders. Following the transaction, the appraiser will determine the share value on an annual basis. The appraiser looks at the Company's operating results, the competition, and the industry in general. Based on its evaluation, the Company's worth is determined. That value is allocated among all of the shares of stock issued to find the value per share.

The appraiser (as required by law) is completely independent of the Company and other ESOP advisors' advisors. The appraiser works only for the ESOP.

While Participants are working for the Company (and until their shares are actually distributed following termination) their stock will be held in trust under the provisions of the ESOP. The value of Company stock should rise and/or fall according to the prosperity of

the Company. This will affect the value of your ESOP Trust Account.

Participant Statements

Following each Plan year (January 1 to December 31), ESOP Participants will receive a statement telling them how many shares are in their account, their vested percentage and the latest value per share based upon the independent valuation. In order to complete the Participant Statements, the Company must close its books, the Accountants must prepare the financial statements and the Company Valuation must be completed.

When Will a Participant Actually Receive Stock (a Distribution) from the ESOP?

Remember, the ESOP is a qualified retirement plan. And, like other retirement plans, can only provide benefits to you after you retire, die or leave the Company for any reason. Following is an outline of the distribution requirements by law.

Distribution Due to Retirement

When a Participant leaves due to Normal Retirement (age 65 or older) distribution of the value of his/her ESOP Account will start no later than the end of the Plan Year following the Plan Year in which the Participant's Normal Retirement occurs. The vested account balance will be paid out over a 5 year period.

Distribution Due to Death or Disability

When a Participant leaves due to death or Disability, distribution of the vested value of his/her ESOP Account will commence no later than the end of the Plan Year following the Plan Year in which the Participant's death or Disability occurs. The vested account balance will be paid out over a 5 year period.

Distribution Due to Termination For Reasons Other Than Retirement, Death or Disability

If a Participant quits, or is fired, he/she will be able to receive the vested value of their ESOP account following the end of the sixth Plan Year following the Plan Year in which service is terminated.

How Your Account Distribution is Made

Once Participants become eligible for a distribution, the distribution will be made via a cash distribution that can be rolled over to an IRA or some other retirement plan, such as a future employer's 401(k) plan.

Participant Voting Rights

Company shareholders have voting rights on all matters which require a shareholder vote, such as Company merger, consolidation, acquisition or a sale of all or substantially all of the Company's assets, liquidation or recapitalization. As a Participant in the ESOP you are a Shareholder. Like all Shareholders, each ESOP Participant votes shares in their account on a "one share- one vote" basis. Because the Shares in the ESOP are held in the ESOP Trust, the Participants vote their shares through the ESOP Trustees. Participants instruct the Trustees how to vote their shares by proxy card.

WHO WILL ADMINISTER THE ESOP?

The Company Board of Directors have appointed an Independent Trustee. They are given the authority and responsibility to control and manage all aspects of the ESOP's operation and administration.

In this role, the Trustees' job is to ensure that all of the requirements of the Internal Revenue Code and Employee Retirement Income Security Act of 1974 (ERISA) are met. These requirements are designed to protect you, the Participants.

Produced by:

Break-Thru Benefits, LLC
200 North Mullan, Suite 216
Spokane Valley, WA 99206
(509) 755-3767