

FREQUENTLY ASKED QUESTIONS

REGARDING OUR ESOP

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Introduction to this FAQ

1. Overview

Fraley and Schilling recently created an opportunity for employees to own F&S stock. In order to do this, F&S established a new Employee Stock Ownership Plan (“ESOP”) as of January 1, 2023. The ESOP allows Robert and Kenney Schilling to sell all their shares, keeping ownership and control of the company in local hands and awards some of the company’s value to the people who helped build it.

On October 23, 2023, Robert and Kenney Schilling sold 100% of the company’s total shares to the ESOP. Each year, the company expects to contribute cash to the ESOP to pay for these shares. These shares will be allocated to accounts of eligible employees each year as loan payments are made.

Over the next several months, the company will provide you with many opportunities to learn more about the ESOP and how it may affect you – including written information like this Q&A handout, as well as training sessions that you may attend.

2. Purpose

This Q&A provides you with a basic overview of the ESOP – to answer the questions you might have. This Q&A is not trying to convince you that the ESOP is a “good” thing or a “bad” thing. Instead, it is trying to help you understand the ESOP better so that you can form your own opinion, or at least know what other questions you would like to ask.

F&S is not legally required to provide this Q&A, but the company is required to give you other information once you become eligible to participate in the ESOP. This Q&A does not satisfy the company’s legal obligations and it is not a substitute for other information you will receive by law. Although F&S has attempted to make this Q&A accurate, it is not legally binding – you should consult the ESOP legal documents for legally binding information. A list of the major legal documents is provided at the end of this Q&A.

ESOP Basics

3. What is an ESOP? What does “ESOP” stand for?

An Employee Stock Ownership Plan or “ESOP” is a qualified retirement plan. It is subject to substantially the same rules as a 401(k) plan except it invests in its own company stock. The employees will share in the future appreciation of the business without financial risk or cost.

What is the “cost” to employees? Nothing. No risk/cost/tax consequence to employees. (of course, you will pay taxes on your ESOP benefits when you receive payments later in life.)

4. What are shares? What is stock?

“Stock” is ownership of the company. One “share” of stock represents a portion of the ownership of the company. Whoever owns the stock owns the company. For example, if there are 100 shares and you own five shares, you own five percent of the company. Today, the ESOP owns 100% of the shares of F&S stock. The actual stock certificates are held in an ESOP Trust for the benefit of employees who are eligible to participate in the ESOP.

General ESOP Transaction Background

5. Who bought what from whom?

The effective date of the ESOP is January 1, 2023.

Because Robert and Kenney Schilling believe in the company and its employees, they are willing to take the financial risk of effectively lending to the company/ESOP Trust (on an unsecured basis) the funds necessary to allow the acquisition to occur.

Simply stated, Robert and Kenney Schilling sold 100% of their ownership in the company/ESOP Trust in exchange for a long-term installment note. The installment note only pays them interest on the loan until such time as the company/ESOP Trust is financially comfortable to begin paying principal.

6. How does it work, in general?

There are several basic steps.

- Each year: once you are eligible to participate in the ESOP (many employees are already eligible), a portion of the shares that the ESOP pays for will get allocated into your individual ESOP account based on your W-2 earnings.

- At the end: after you leave the company, you will receive payment for the vested shares in your ESOP account. The value that you receive will be whatever the shares in your ESOP account are worth at that point in time.

These basic steps are explained in more detail below.

ESOP Eligibility and Other Rules

7. Who will participate in the ESOP?

Current employees: Full time employees as of January 1, 2023 are eligible to participate as of that date.

New employees must be age 21 and complete 12 months of service in which you work at least 1,000 hours (1,000 hours = working half-time). You will join the ESOP on the last day of the year, December 31.

8. How do you get stock? How much stock could a typical participant receive?

Each year, some of the stock is divided up (allocated) among all eligible participants. Each individual participant who meets the requirements will get an “allocation” (a portion of the shares). To get an allocation each year, you must:

- Complete a Year of Service = work at least 1,000 hours during the year
- Still be employed on the last day of the Plan Year (December 31), unless you die or become disabled during the year

Each eligible participant will receive a portion of the total ESOP shares that year based on his/her W-2 compensation. For example:

ABC company's eligible payroll is expected to be \$1.5 million next year. If an individual participant earns \$30,000 next year, that individual would receive two percent of the shares that are allocated that year. The total number of shares paid for and allocated by the ESOP next year is expected to be 10,000 shares, so this individual would receive an allocation of about 200 shares into his or her ESOP account next year.

All contributions to the ESOP are made by F&S, you are not permitted to buy extra ESOP stock or to contribute cash into the ESOP.

9. Can you lose your ESOP benefits? What is “vesting”?

Once shares are in your account, you still have to earn the right to keep them. This is called “vesting.” It works like a “hold” on your account – if you leave F&S before your ESOP benefits are fully vested, you will forfeit some or all of your benefits.

There are two ways for your ESOP benefits to become vested (= non-forfeitable):

- Your benefits become vested once you reach normal retirement age or if you die or become disabled. Normal retirement age is the *later* of when you reach age 65 and reach your fifth anniversary *in the ESOP*.
- Otherwise, your benefits become vested over time, as you earn Years of Service. You need to work at least 1,000 hours during a “Plan Year” – from January 1 to December 31 – to earn each Year of Service. The table below shows what portion of your benefits are vested based on how many Years of Service you have earned:

Years of Service	Portion Vested
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or More	100%

10. When will you actually receive benefits from the ESOP?

Upon separation from service (e.g., retirement, death, disability or other employment termination), the vested company shares allocated to the participant’s account are converted to cash (based upon current appraised value) for distribution to the ESOP Participant.

Fair Market Value (FMV) of allocated shares is determined each year via independent appraisal.

Distributions from ESOP are similar to distributions from a 401(k) Plan (e.g., tax-free rollover to IRA, etc.).

The timing of distributions depends on a variety of factors, but the goal is to distribute the funds within one (1) year from separation of service. The ESOP Committee (which is composed of company employees) will establish a distribution policy.

11. How much will it be worth? How is the price determined?

F&S is not a “publicly traded” company like GM or Google. This means that F&S shares are not available from a broker, nor is their stock listed in the financial pages of the newspaper — there is no established “market price” for F&S shares. In these circumstances, federal law requires an independent appraiser who works for the ESOP Trustee (not for the company) to determine “fair market value” of the shares. This is what the shares would be worth if an independent buyer bought them. The valuation process is technically complex, which is why the ESOP Trustee hires an external expert. You will hear more about the valuation process in the future.

Under federal law, the Trustee must re-appraise F&S value at least once each year. All participants will receive a statement every year showing how much the stock in their ESOP accounts was worth as of the *previous* December 31. Those employees who were eligible to participate in the ESOP for 2023 (see #7) will receive their first individual ESOP Statement next fall. However, the distribution (payout) that you will receive in the future will be based on the fair market value of the shares that are in your ESOP account at that *future* point in time.

12. Will the ESOP take away your other retirement benefits?

The ESOP cannot take away any of your *past benefits*. F&S is also enhancing the 401(k) benefit effective January 1, 2024, details to follow.

Voting and Decision-Making

13. Who runs the ESOP?

The company is owned 100% by the ESOP Trust. The ESOP Trust is managed by a Trustee, who is legally obligated to protect the interests of the ESOP participants. Most large ESOP companies hire an outside firm to serve in this role. F&S has hired a third-party attorney as our ESOP Trustee.

The ESOP Trustee votes the shares as directed by our ESOP Committee. The ESOP Committee is established by F&S's Board of Directors, and consists of certain employees of the company.

14. Do you get to vote on anything?

The ESOP does not permit voting on day-to-day operating decisions. These decisions will continue to be made by management as they always have been. There are a few issues on which "shareholders" do get to vote. Remember, in an ESOP the shareholder is the Trustee, so whenever there is an issue that requires voting, the Trustee votes on all of the ESOP shares.

There are a small number of major issues on which the Trustee must ask for and follow directions from the participants before voting – in effect, you get to tell the Trustee how to vote the shares in your account on these issues. These issues are determined by a combination of state and federal law, and you will be advised if one of these situations arises. However, none of these issues involve day-to-day operating decisions of the company.

15. What is different when you show up for work now?

Until this fiscal year, the company asked employees to come to work and give their best effort because that was the best way to ensure company success and job security, and because it's the right thing to do.

Starting this fiscal year, these old reasons still apply, but you have two important new reasons to do your best: it's your responsibility as an owner, and you will get a piece of the wealth you help create. Now is the time to start establishing a true "ownership way of life."

16. What is the status of the Board of Directors?

In the past, Robert and Kenney Schilling were the board members. We have created a new board that consists of Robert Schilling, Chris Seals, and Andrew White. In addition, we will be adding two independent, outside board members over the next twelve months.

Risks, Rewards, and Safeguards

17. Is this a good thing for employees?

It depends on how well the company does in the future. Research studies consistently show that participative ESOP companies perform better than companies that are not employee-owned or participative. If F&S does well, the ESOP stock could be worth quite a lot of money, but no one can predict how much. We intend to continue to be very successful, and if this works, participants can share in significant wealth. Many other ESOPs have been extremely successful, but there are no guarantees for the F&S ESOP.

If the company does poorly, the ESOP stock is likely to fall in value. If the company fails, the ESOP stock will most likely be worth little or nothing, although it is impossible to predict in advance what would happen.

This is one of the facts of ownership: it involves risk – it is not a sure thing. Whether you personally think this is a “good” thing or a “bad” thing depends upon how well you believe the company will perform in the future, and on your comfort with this type of risk. Different people have different opinions and there is not one correct answer.

18. It sounds like “something for nothing.” What’s the catch?

If the company wins, you win, but the reverse is also true. There’s no guarantee that your ESOP balance will be worth anything significant in the future. The whole idea is for the company to continue to provide outstanding service for customers, and good jobs, pay, and benefits for employees. If you can help the company continue to be successful, you now have the opportunity to receive your fair share of the increase in stock value that may result.

The factors that determine whether the company will continue to succeed have not changed. For F&S and the ESOP to succeed in the future, we still have to provide customer satisfaction and quality products and service.

19. Is it risky to have so much of my retirement invested in company stock?

The historical track record of F&S is extremely sound. The company hopes that F&S stock will continue to be a sound investment. However, it is always a risk to have a significant part of your retirement funds invested in one place. You have the opportunity to affect the value of the F&S stock in your account, and you also have other retirement savings tools.

Separate from the ESOP, eligible employees also have the opportunity to continue to save through F&S’ 401(k) Plan which will continue to be invested outside of F&S.

20. Do you have any kind of legal protection?

The ESOP is governed by a federal law called ERISA, which governs all “qualified” benefit plans. This is the same federal law that protects the 401(k) Plan. You have specific legal rights that are summarized in the ESOP Summary Plan Description (“SPD”) and additional ESOP documents that you can review. The ESOP Trustee is also legally obligated to protect the interests of the ESOP participants. However, there is no insurance or guarantee of the *future value* of the stock in your ESOP account.

Additional Questions and Information

21. What ESOP information can you expect to see in the future?

Each year, the company will send each ESOP participant a statement which will set forth the number of shares allocated to his/her account, the current Fair Market Value of the allocated shares, and the “vested” portion of those shares.

22. What if you have additional questions?

If you have additional questions, start with your supervisor. Keep in mind, they are new to this too, and if they aren't able to answer your question, they will refer it to the ESOP Committee to make sure you get an answer. You can also submit questions on our website, we'll be sending that link soon.