

IMAGINE FOR A MOMENT:

- Selling your business for cash to a ready, willing and able buyer in your community, in a private transaction, at fair market value without endless haggling over the price and terms
- Deferring the capital gains tax (~20%) on the sale of some or all of your company's stock
- Financing the transaction with a loan and paying off the debt with pre-tax dollars, deducting not only the interest, but the principal as well
- Selling a majority interest in your company and still maintaining control
- Acquiring a company with pre-tax dollars
- Creating an "ownership culture" in your company that improves the morale, loyalty and productivity of your employees

An ESOP can bring this image to reality.

WHAT'S THE MAGIC ABOUT AN ESOP?

Employee Stock Ownership Plans (ESOPs) are not magic but they are probably one of the most misunderstood employee benefit plans in existence today. They are a tax-qualified retirement plan like a profit-sharing or 401-k plan with two important distinctions:

1. ESOPs are required to invest primarily in the stock of the sponsoring employer. Other plans are required to diversify their asset holdings.
2. It's the only employee benefit plan that may use corporate credit to finance the purchase of company stock from a shareholder. For other plans, this would be a prohibited transaction.



ESOP
Capital Strategies, Inc.

But ESOPs are much more than a retirement plan. A privately held business owner can sell some or all of his or her business at fair market value to a ready and willing buyer (the ESOP) and elect to pay no tax on the sale. Or, they can sell a significant portion of their stock to diversify their personal net worth and still maintain control of their company. An ESOP can borrow money to finance the transaction and pay down the debt with tax deductible contributions to the ESOP creating a deduction for both the principal payment and the interest. This unique leveraging ability allows business owners to use their ESOP to grow their companies by making tax advantaged acquisitions.

With all of these advantages, what's the catch? The evaluation and implementation of an ESOP is complex requiring multiple levels of tax, legal, actuarial, financial and administrative expertise. That's where we can help.

ESOP CAPITAL STRATEGIES, INC.

ESOP Capital Strategies, Inc. (ECSI) is a subsidiary of Marshall & Stevens Incorporated, one of the leading independent valuation firms in the U.S. with 6 offices and over 75 years of experience. ECSI creates and manages strategic alliances with professional ESOP service providers to deliver comprehensive, "one stop" ESOP services on behalf of our Affiliates (highly skilled and experienced insurance and investment advisors) and their clients. These specialized services include: feasibility studies, ESOP design and formation, valuation and financial consulting, ESOP financing, life insurance funding strategies, repurchase liability studies, preparation of legal and regulatory documents, IRS filings and plan administration services. You can use one or all of our services depending on your needs and we usually work in tandem with your existing advisors.

ECSI and our Affiliates “quarterback” the process on your behalf. The process ensures that you do not make the decision to implement an ESOP in isolation without consideration to your other employee benefit plans and your personal financial needs and those of your shareholders and key people as well.

WHY SHOULD YOU CONSIDER THE SERVICES OF ECSI?

- The employee benefit and ESOP legal and regulatory world is complex requiring specialized expertise.
- ECSI’s professional service providers are nationally recognized experts in their respective fields.
- ECSI removes the burden from your shoulders of managing the feasibility and implementation process required to install an ESOP.
- ECSI’s project management experts help keep your plan implementation process on time and within budget.
- ECSI removes the burden from you and your staff of keeping up with and interpreting all the “gray areas” and inevitable regulatory revisions that exist in the ESOP and employee benefit world today.
- Since plan administration is one of our core services, we will be in constant contact with you after your plan is installed.
- ECSI’s holistic approach will consider your personal needs and those of your shareholders and employees in any potential transaction.
- ECSI can introduce you to other business transition professionals such as merger and acquisition or investment banking specialists if it’s determined that an ESOP is not the right solution for you.

WHAT MAKES A GOOD ESOP CANDIDATE?

A business owner with any of the following goals should consider the advantages of an ESOP:

- Improve business performance through equity incentives
- Enable some or all current shareholders to sell their stock on a tax-free basis within the next five to 10 years
- Enable shareholders to diversify their holdings in the company on a tax-free basis and still maintain control of the company
- Buy-out inactive minority shareholders on a tax-deductible basis for the corporation and a tax-free basis for the selling shareholders
- Grow the company through acquisitions on a tax-deductible basis
- Share equity in the company with employees to attract, retain and reward a productive workforce

In addition, the best ESOP candidates have:

- Eligible payroll of approximately \$1 million or more
- A business with a current minimum market value of at least \$5 million
- C or S corporation tax status
- Capable successor managers
- Good revenue and earnings history and the ability to secure financing

Our mission is to provide the highest quality professional consulting services in a timely and efficient manner, creating maximum value for our clients.



WHAT'S THE FIRST STEP TO DETERMINE IF AN ESOP IS RIGHT FOR YOU AND YOUR COMPANY?

The first step is to complete a feasibility process with the assistance of the ECSI team. The feasibility process starts with a thorough review of your goals and objectives. After establishing your goals and objectives and reviewing your company's financial statements, we offer two levels of feasibility analysis:

1. A Preliminary Assessment which includes:

- A current estimated market value of your company
- Modeling and structuring a basic transaction based on your goals and objectives
- Evaluating the impact of the ESOP transaction on the company's current financial statements and cash flow
- Assessing your financing options

2. A Feasibility Study

Our Feasibility Study is a more rigorous and expanded version of our Preliminary Assessment. The Feasibility Study will consider:

- Projections of the net income and cash flow of your company into the future both with and without an ESOP
- Projections of covered payroll of participating employees
- Thorough analysis of both the pre-transaction and post-transaction value of your business
- Forecast employee accumulations in the ESOP and in your other benefit plans
- Forecast the net wealth effect of the transaction on the seller and all other shareholders
- Analyze the effect of the transaction on corporate governance issues
- Prepare an employee communications plan
- Forecast the repurchase obligation created by the installation of the plan

ECSI SERVICES

Strategy Development

- Goal & Objective Setting – determine if an ESOP can help you achieve your business and personal goals.
- Feasibility Assessment and Analysis – conduct rigorous quantitative analysis to determine if an ESOP is financially feasible and advisable for your company.
- Alternatives to Consider – compare an ESOP with other potential solutions.
- Cost/Benefit Analysis – determine if the benefits of implementing an ESOP for your company exceeds the goals defined.

Strategy Implementation

- Plan design and ESOP formation - drafting the necessary legal, corporate, shareholder and employee documents and agreements to tax qualify the plan with the IRS and make it effective in the eyes of the regulatory authorities.
- Plan trustee - the ESOP trustee ensures that the creation and maintenance of the plan adheres to fiduciary standards.
- Business valuation - must be conducted by an independent, third party qualified appraiser to establish a fair market value of the business according to Revenue Ruling 59-60.
- Financing alternatives – compare internal versus external funding for the plan. Secure financing for the ESOP if required.
- 1042 Investment planning – adherence to the requirements of IRC 1042 enabling a selling shareholder to indefinitely defer the capital gain on the sale of their shares to the ESOP.
- Repurchase obligation – forecasting your obligation to repurchase the shares of departing ESOP participants and evaluating pre-funding strategies.
- Employee communications – communication strategies to maximize employee satisfaction/participation.
- Administration & compliance - the administrator must collect and maintain all required participant data, prepare the management and participant reports, and ensure that the plan complies with government reporting and disclosure requirements.