

What is an ESOP?

On the Nature of Employee Ownership

Ownership includes two equal parts:

- Equity/Value
- Governance/Control

Employee ownership can be structured to include either or both – You design it to meet objectives.



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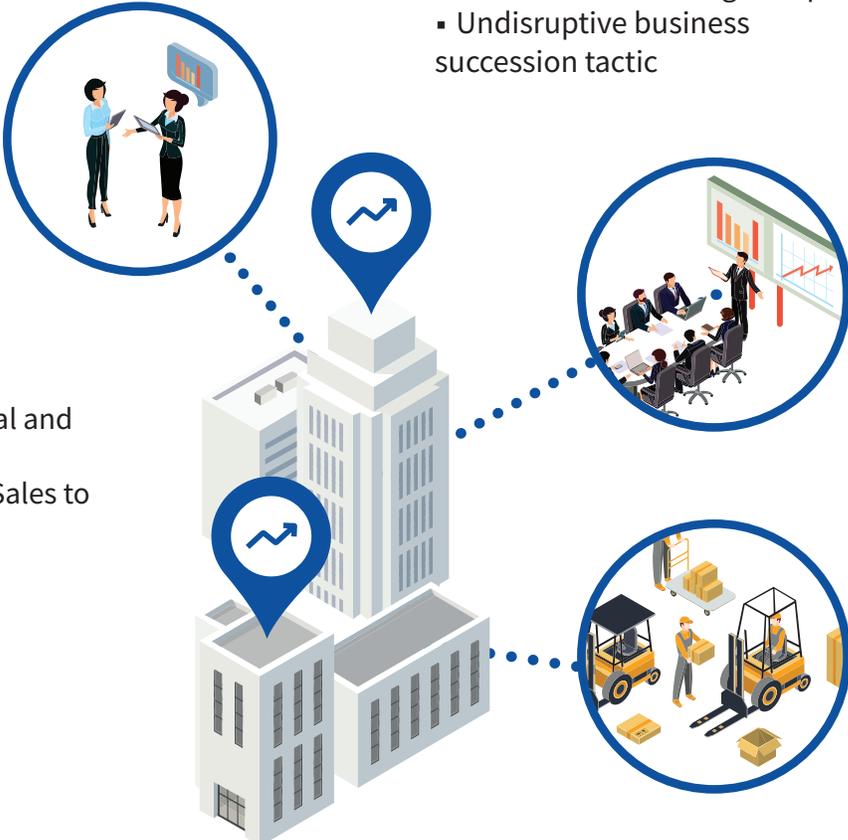
Defined contribution retirement plan like Profit-Sharing or 401(k), with two significant differences:

- Required to invest primarily in the stock of the sponsoring company, and
- May borrow money backed by the credit of the Company in order to do so (leveraged ESOP)

Can be used for stock transfers from existing shareholders or as a capital raising vehicle acquiring newly issued shares from the Company

A versatile tool used to accomplish a wide range of financial and employee relations objectives

- Tax favored employee benefit
- Cost effective leveraged capital
- Undisruptive business succession tactic



Major ESOP Benefits

Financial

- Tax Deductible Financing (both principal and interest)
- Sellers' Ability to Defer Tax on Gain on Sales to ESOP

Non-Financial

- Motivation
- Ownership Culture
- Incentive
- Community Improvement

Amortization is 100% Pre-Tax

ESOP Contributions are Fully Deductible No Matter How they are Applied

Repaying the Loan

1. Bank Loan is Repaid Over Negotiated Period

2. Company Makes Contribution or Dividend Payment to ESOP

3. ESOP Trustee Purchases Shares from Shareholders

4. Participant Accounts Accrue Stock as the ESOP Loan is Repaid

Leveraged ESOP

LEVERAGED ESOP TRANSACTION STRUCTURE

1. Bank or Other Lender Makes Term Loan to Company
2. Company Loans Proceeds to ESOP.
3. ESOP Trustee Purchases Shares from Shareholders



Sellers Benefit: 1042 Tax Deferred Rollover

SPECIAL BENEFITS:

Deferral of Tax on Sale To ESOP

Seller can elect to defer gain on privately held C corporation shares sold to ESOP by reinvesting all or any portion of the sales proceeds in qualified replacement securities.

Seller must have owned stock for at least three years prior to sale.

Seller, certain related individuals,

and greater-than-25% owners generally cannot participate in allocations of shares that have been subject to this treatment.

ESOP S-Corporation

SPECIAL BENEFITS:

Fully Tax Free Earnings

Effective in 1998, ESOPs were authorized to become shareholders in Sub-chapter "S" corporations.

ESOP, as a Shareholder, is attributed a ratable portion of the corporations earnings each year.

Since the ESOP is tax exempt, its share of S-Corporation earnings

are tax free!

There is no flow-through of tax to participants, except with reference to the value of their shares on distribution.

A True Win Win Win Win Situation



Sellers

Get full fair market value for their shares.



Employees

Get a retirement benefit that can be as much as 4x what you would expect them to have otherwise without risking their own savings.



Communities

Get a stable corporate citizen that adds to their wealth while supporting their members with good stable jobs.



Company

Gets tax and financial benefits that are unequalled.