



# ESOP

EMPLOYEE STOCK  
OWNERSHIP PLAN

100%  
Employee  
Owned



An Employee Owned Company

YOUR EMPLOYEE STOCK OWNERSHIP PLAN EXPERTS

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An Employee Owned Company

What if you could sell all or a portion of your company to a ready and willing buyer at full fair market value, plus indefinitely defer all capital gains taxes while leaving behind a completely income tax-exempt entity — would you do it?

Employee Stock Ownership Plans (ESOPs) are a qualified, defined contribution employee retirement plan designed to invest primarily in employer stock of a sponsoring company. ESOPs provide an opportunity for business owners or shareholders to successfully plan an immediate or gradual tax advantaged exit strategy, while also engineering the continued success of the business. ESOPs often provide more money after tax in a seller's pocket than any other transition option.

### WHEN TO CONSIDER AN ESOP

- Owner retirement, investment divestiture, or immediate cash
- Buy-out of active or inactive partners or investors
- Divorces or Estate Sales
- Management buy outs or takeovers
- Owner diversification of stock concentration
- Refinance of existing debt to allow for the deduction of both principal and interest costs
- Reduce company debt load and increase corporate cash flow
- Owners desiring to keep company locally intact with existing employees

### ESOP CANDIDATE PROFILE

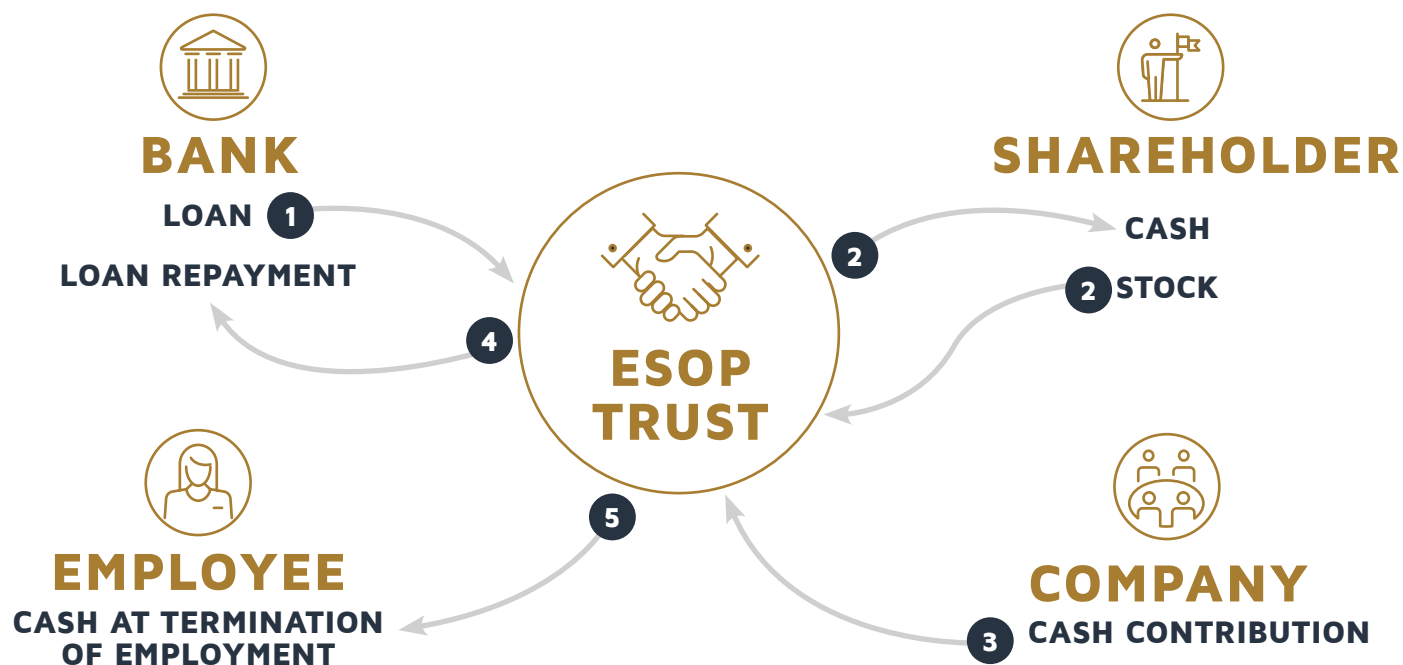
ESOPs are very flexible which makes it difficult to provide strict guidelines; however, the following criteria has proven to be effective:

- Business owner who desires partial or full liquidity
- 20 or more full time permanent employees
- Business value of \$10,000,000 or more, or net income of approximately \$2,000,000 or more
- 5 year history of profitable operations
- Strong second line management a plus

# ESOP

YOUR IDEAL  
SOLUTION





# ESOP FAQs

## HOW COMPLICATED ARE ESOPs?

ESOPs have many moving parts and are complex requiring specialized knowledge, skill and expertise. Fortunately, BTA is a specialized ESOP consulting firm that works along side company owners and current advisors to efficiently navigate the implementation process.

## ARE ESOPs EXPENSIVE?

ESOP implementation requires professional advisors who generally are not inexpensive. Ongoing costs include annual valuation and administration. Expenses must be compared to the significant economic and personal benefits of an ESOP as well as the fees associated with an outright sale, which are typically more expensive.

**HOW DOES AN ESOP EFFECT COMPANY CASH FLOW?** Due to the potential tax-free profits of the company, it is common for the income tax savings alone to be greater than the purchase price and over time having a positive impact on cash flow for corporate growth, hiring and expansion.

**WILL AN ESOP CHANGE THE WAY WE DO BUSINESS?** An ESOP company must follow all federal and state laws. It is best practice to conduct employee meetings to promote the ESOP and provide basic corporate status updates. Additionally, the

company must be run for the benefit of all shareholders including the ESOP. However, the seller and family may continue to work and receive a reasonable salary with typical perks and benefits.

## WILL MY EMPLOYEES HAVE ACCESS TO CORPORATE FINANCIAL INFORMATION?

No. Employees have a beneficial interest in the ESOP not direct stock ownership. Therefore, employees do not have the right to see corporate financials or any other confidential corporate documents.

**HOW DIFFICULT IS IT TO OBTAIN FINANCING?** Many banks are very willing to lend for ESOP purposes. ESOP loans are not unlike the cash flow and collateral requirements of any other business loan. Additionally, BTA employs creative techniques to significantly reward sellers for taking a seller note for sale amounts in excess of what the bank will lend.

**ESOPs SOUND TOO GOOD TO BE TRUE. WHAT'S THE CATCH?** No catch. ESOPs have been around for over 40 years primarily based on the regulations found in the Employee Retirement Income Security Act of 1974 (ERISA). ESOPs are overseen by both the Department of Labor and the IRS. BTA obtains a "Letter of Determination" from the IRS on every ESOP we install.



## ESOP ADVANTAGES

### SELLER

- Immediately sell all stock or portions over time at full Fair Market Value
- Defer federal capital gains taxes or avoid them completely
- Seller and family can retain reasonable personal salary, perks and benefits
- Ability to transfer company on seller's timetable to family or key management
- Retain personal and corporate legacy in the town in which the seller contributed greatly
- Financing ESOPs can be easier and more efficient for businesses than conventional financing
- Seller may maintain equity interest in future upside of company

### CORPORATE

- The company receives a dollar for dollar income tax deduction on the entire stock sale price
- An ESOP company can become 100% federal and state income tax exempt
- ESOP companies outperform their peers with increased productivity and higher return on investment
- An ESOP increases employee retention, motivation and loyalty

### EMPLOYEE AND COMMUNITY

- Employees enjoy an equity stake in company
- Employees enjoy enhanced retirement benefits with no out-of-pocket costs
- An ESOP creates an ownership culture, which improves employee satisfaction and creates a more enjoyable workplace
- The company remains an important contributor to the community's social and economic fabric



**100+ YEARS**  
COMBINED TEAM EXPERIENCE

PROVIDING SERVICE IN ALL  
**50 STATES**

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**EXPERIENCE WORKING WITH**

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**40,000+**  
EMPLOYEES

MARKET VALUES OVER  
**\$6.1 BILLION**

**1,200+**  
STOCKHOLDERS

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# BTA: A DIFFERENT KIND OF ESOP FIRM

Our experience is your success — we specialize in the design and implementation of Employee Stock Ownership Plans. We do not take a “one size fits all” approach to ESOP analysis and implementation. We take a personalized and comprehensive approach to meet the unique goals and objectives of each and every client. BTA also takes responsibility for the entire ESOP experience from initial exploration through employee roll-out meetings including gathering the appropriate professionals and offering an “all-in” fee for the customized plan design that meets or exceeds expectations.

## ESOP SERVICES

- Full-service ESOP Implementation
- Complimentary Financial Review
- Preliminary Analysis
- Feasibility Studies
- Valuation Consulting
- Plan Design
- Transaction Design
- IRC§1042 Planning
- Transaction Negotiation and Execution
- Financing
- Repurchase Liability Consulting
- Employee Communications
- Post ESOP Transactional Services

## INDUSTRIES SERVED

- Architectural
- Construction/Contractors
- Consumer/Industrial Distributors
- Energy
- Engineering
- Financial
- Healthcare
- HVAC
- Manufacturing
- Retail
- Service Companies
- Technology
- Transportation/Logistics
- Wholesaler/Distribution





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# OUR EXPERIENCE IS YOUR SUCCESS

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# ESOP SUCCESS STORIES

## CONCRETE CONSTRUCTION

### BACKGROUND

- Specialized C-8 concrete contractor
- High quality concrete foundation construction for tract home builders, custom home builders and commercial general contractors
- S Corporation with approximately 530 employees
- Company value \$28,000,000
- 4 shareholders, no family members involved in the business

### GOAL

- Shareholders are looking for an exit strategy within 7 years
- Eliminate corporate taxes

### SOLUTION

- Establish an ESOP
- All shareholders will sell 100% of their stock to the ESOP
- In exchange for selling their stock sellers will receive cash and seller notes
- \$1,500,000 down payment from Company cash to use towards paying down the shareholder Accumulated Adjustment Account balances
- Balance of AAA and stock sale will be funded by seller notes

### BENEFIT TO CLIENT

- 15 year seller notes totaling \$26,500,000
- Life of loan interest of approximately \$4,900,000
- Shareholders received Warrants to divide between seller note holders
- At the end of the seller note period the projected value of the Warrants is estimated to be \$14,600,000
- As a 100% S Corp. ESOP owned company, 100% of future profit will not be taxed from that point forward
- Over the next 15 years the corporate tax savings are estimated to be over \$52,000,000

## COMMERCIAL CONTRACTOR

### BACKGROUND

- Commercial plumbing and mechanical contractor for large medical centers, tech facilities, manufacturing plants and professional sports stadiums
- C Corporation with approximately 750 union and non-union employees
- 3 shareholders, several family members involved in the business
- Company value \$110,000,000

### GOAL

- Tax-free liquidity event for owners
- Exit strategy within 5 years
- Employee retention & motivation
- Method of rewarding non-union employees
- Corporate tax deduction

### SOLUTION

- Establish an ESOP, excluding union employees
- All shareholders will sell 100% of their stock to the ESOP
- In exchange for selling their stock sellers will receive cash and notes
- Shareholders elect IRC 1042 to avoid/defer capital gains tax on stock sale
- Following year of stock sale Company will elect S Corp. status
- Company will borrow \$30,000,00 in senior debt

### BENEFIT TO CLIENT

- Owners received \$30,000,000 cash at closing
- Sellers carried the balance with 15 year notes (life of loan interest approximately \$43,000,000)
- Shareholders received warrants to divide between seller note holders
- At the end of the seller note period the projected value of warrants is estimated to be \$54,000,000
- Sellers avoid over \$40,000,000 in capital gains tax
- As a 100% S Corp. ESOP, 100% of future profit will not be taxed from that point forward
- Over the next 15 years the corporate tax savings are estimated to be over \$164,000,000



# SPECIALTY SUB-PRIME ENGINEERING FIRM

Department of Defense Sub-Contractor

## BACKGROUND

- DoD Engineering Consulting Firm
- S Corporation with approximately 30 employees
- Company value \$9,000,000
- 1 shareholder

## GOAL

- Create an effective Estate Planning Strategy
- Owner looking for an exit strategy in 10 years
- Interested in increasing corporate tax deduction to gain competitive advantage
- Looking for liquidity and a tax effective way of passing ownership to employees
- Interested in retaining & motivating existing employees
- Since many employees joined after years of military service or after working within branches of the Federal Government, company wanted to entice employees to work past available retirement coming from other pensions
- Since ownership and key employees came from another ESOP company which was less transparent and ownership versus employee driven, ownership wanted to do something truly designed to reward and benefits employees

## SOLUTION

- Establish an ESOP
- Shareholder will sell 100% of stock to the ESOP
- In exchange for selling their stock sellers will receive cash and notes totaling \$9,700,000
- Shareholder received cash at closing of \$1,500,000 plus a seller note of will take out a senior loan in the amount of \$7,500,000 plus warrants
- Company will become 100% State and Federal Income Tax Free
- Employees will be granted stock annually over a period at zero out of pocket cost to them
- As employees increase revenue, increase margin, reduce waste and costs, improve service, equity value increases driving a higher retirement benefit
- Add a Roth option in the ESOP allowing vested stock granted to employees within the ESOP to Roth the shares, paying current taxes on the value but eliminating taxes at retirement on the Roth shares

## BENEFIT TO CLIENT

- Provides a clear path to liquidity for shareholder while protecting the legacy of what was initially built to offer friends and family a concept of ownership
- Helping further enhance and increase retirement benefits for long term employees who help drive contracts and value to the company
- Conversion of annual K-1 income subject to ordinary income taxes to long term capital gains tax treatment with upside tied to the warrant allocation
- Protecting key employees and family in the business with jobs after the sale and additional benefits through ESOP participation and SARS grants
- Roth conversion of early granted shares to selling shareholder, family of shareholder and key employees' savings potentially \$100,000's in taxes at retirement on Roth converted shares



# ESOP

YOUR IDEAL  
SOLUTION





# BUSINESS TECHNOLOGY & COMMUNICATIONS SERVICE PROVIDER

## BACKGROUND

- Sales and Service of telephone systems
- Providing carrier services
- Located in Ohio
- C Corporation with approximately 41 employees
- Company value \$12,500,000
- 4 shareholders

## GOAL

- Interested in retaining & motivating existing employees while increasing employee productivity
- Owners/Shareholders looking for an exit strategy in 10 years or longer
- Encourage ownership mentality among management and rank and file employees
- Help employee team members increase savings and retirement benefits

## SOLUTION

- Establish an ESOP
- Shareholders sell 100% of their stock to the ESOP at below fair market value to enhance immediately enhance employee equity value
- In exchange for selling their stock sellers will receive cash, notes and warrants
- Selling shareholders will leverage the company with a combination of bank and seller debt to finance the purchase of the company stock equal to \$12,500,000
- Company will become 100% State and Federal Income Tax Free saving more than \$14,500,000 through 2030 and will remain permanently Federal and State income tax free into perpetuity
- Tax savings through 2030 will pay for the debt financing along with interest payments and leave the company in better financial shape while improving benefits for employee owners

## BENEFIT TO CLIENT

- Cash at closing of \$3,000,000
- Shareholders elected installment sale for capital gains tax purposes postponing tax on stock sale over payment period
- Personal tax and charitable planning to minimize taxes on stock sale
- Interest on seller notes along with ongoing salaries allowed reinvestment of 100% of sale proceeds to be invested to grow net diversified net worth
- Owners reduced their warrant grant to increase number of SRS for management
- Warrant value projected to add \$1,850,000
- 4 shareholders will all participate in the ESOP as employee owners further adding to their future retirement income and benefits
- Incorporate a Roth option alongside the ESOP to help enhance tax efficient retirement payouts on Roth company stock election

# COMPANIES WE'VE WORKED WITH

Companies we have established ESOPs for in the last several years.





# YOUR ESOP EXPERTS

*Contact us today for a complimentary consultation  
and a free copy of Introduction to ESOPs.*



**FRED THOMAS**  
MANAGING DIRECTOR  
562.457.9285  
fthomas@bta.us.com



**ROY FARMER II**  
MANAGING DIRECTOR  
208.761.3612  
rfarmer@bta.us.com



**NIC STALOCH** ASA  
DIRECTOR  
206.963.2565  
nstaloch@bta.us.com



**DAN ZUGELL** ChFC, AEP  
DIRECTOR  
724.766.3998  
dzugell@bta.us.com



**RICK JAYE** AIF, CRC  
EAST COAST MANAGING DIRECTOR  
407.496.0205  
rjaye@bta.us.com



**BRANDON STUMPF** CFA, CPA/ABV  
SENIOR ASSOCIATE  
804.512.5236  
bstumpf@bta.us.com



**CHRIS MAYER** CFA  
ASSOCIATE  
414.587.1215  
cmayer@bta.us.com



**BRADLEY ETHERIDGE**  
VICE PRESIDENT OF MARKETING  
616.485.2008  
betheridge@bta.us.com



**MICHAEL J WEBB**  
CHIEF MARKETING OFFICER  
949.933.7470  
mwebb@bta.us.com



**HEATHER HAWS**  
ANALYST  
208.757.9802  
hhaws@bta.us.com



**BETH WALLI**  
ANALYST  
636.236.1157  
ewalli@bta.us.com



**YOUR EMPLOYEE STOCK OWNERSHIP PLAN EXPERTS**  
[www.businesstransitionadvisors.com](http://www.businesstransitionadvisors.com) | 1.855.ESOP.BTA