

# E S O P

YOUR **IDEAL** SOLUTION



BOARDROOM

Sell all or a portion of your company...

to a ready & willing buyer at  
full Fair Market Value...

while retaining control,  
salary & benefits...

plus indefinitely defer all  
capital gains taxes...

while leaving behind a completely  
income tax-exempt entity.



BUSINESS  
TRANSITION  
ADVISORS

OUR EXPERIENCE  
**YOUR SUCCESSES**

**100+**

YEARS  
OF  
COMBINED  
TEAM  
EXPERIENCE

EXPERIENCE WORKING WITH

**17,430+**

EMPLOYEES

**700**

STOCKHOLDERS

MARKET  
VALUES  
OVER

**\$2.7 BILLION**

PROVIDING SERVICE IN ALL

**50 STATES**

*Specializing in  
the design and  
implementation  
of Employee  
Stock Ownership  
Plans (ESOPs)*

**ESOP SERVICES**

- Complimentary Financials Review
- Preliminary Analysis
- Feasibility Studies
- Valuation Consulting
- Plan Design
- Transaction Design
- IRC51042 Planning
- Financing
- Repurchase Liability Consulting
- Employee Communications
- Post ESOP Transactional Services

**INDUSTRIES SERVED**

- Architectural
- Construction
- Contractors
- Consumer/Industrial
- Distributors
- Energy
- Engineering
- Financial
- Healthcare
- High-Tech & Biotech
- Manufacturing
- Retail
- Service Companies
- Technology
- Wholesaler/Distribution

# ESOP

## A KEY PART OF YOUR BUSINESS SUCCESSION PLAN

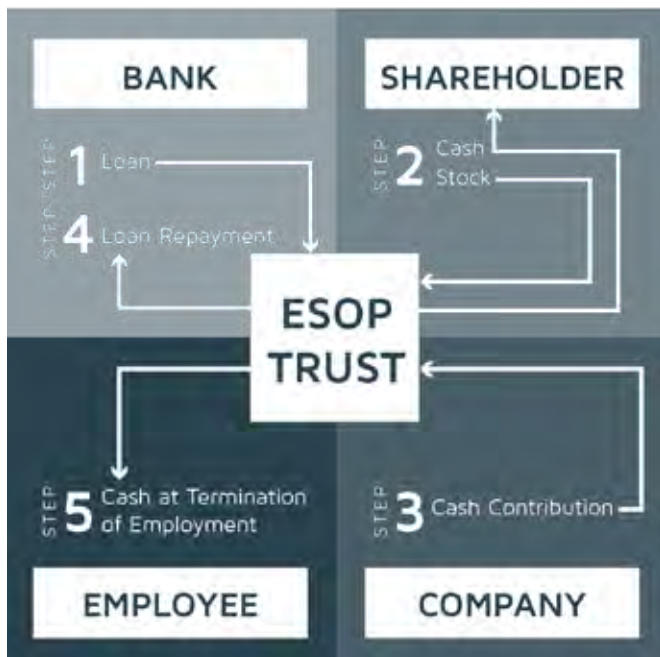
**ESOP** // *Employee Stock Ownership Plan* // A qualified, defined contribution employee retirement plan designed to invest primarily in employer stock of a sponsoring company.

*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.*

### SITUATIONS 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

### BASIC LEVERAGED ESOP



### GENERAL 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 \$5,000,000 or more, or net income of approximately \$1,000,000 or more
- 5 year history of profitable operations
- Strong second line management a plus

# FAQs

## YOUR ESOP QUESTIONS ANSWERED

01

**IF I SELL MORE THAN 50% OF MY BUSINESS, WILL I LOSE CONTROL?**

No. Control of the company does not have to change regardless of the percentage sold to the ESOP.

02

**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.

03

**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.

04

**WILL AN ESOP CHANGE THE WAY WE DO BUSINESS?**

An ESOP company must follow all federal and state laws already required. It is also a good idea to hold regular 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 retain control, continue to work, and receive a reasonable salary with typical perks and benefits.

05

**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.

06

**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.

07

**ESOPs SOUND TOO GOOD TO BE TRUE. WHAT'S THE CATCH?**

No catch. ESOPs have been around for nearly 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.

*ESOPs often provide more money after tax in a seller's pocket than any other transition option.*

# ADVANTAGES

## SELLER

- Immediately sell all stock or portions over time at full Fair Market Value
- “Defer” capital gains taxes or avoid them completely
- Seller and family can retain personal salary, perks, benefits and control without interference of outside interests
- Ability to transfer company and/or control 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



BTA'S ESOP  
**SUCCESS STORIES**

## ENGINEERING COMPANY IN THE SOUTHWEST

### BACKGROUND

- S Corporation valued at \$14,500,000
- 100% owned by the President
- The company maintained high profit margins, employed 25 people and had a payroll under \$1,500,000

### GOAL

- Owner wanted liquidity and a way to phase out of the company over the next 5 years
- Successor management had been identified and all responsibilities would transfer over to the management team during the 5 year period
- Reward long term employees
- Reduce taxes

### SOLUTION

- Implement ESOP for 95% of shares, with the selling shareholder retaining 5% to maintain control
- Sell 5% of the stock held outside the ESOP to successor management within 5 years or upon death

- Borrow \$3,000,000 (max)
- Seller to finance \$10,775,000 (balance) as subordinated 10 year debt payable at 4.0%, but effective mezzanine market rate was 16.2%
- Warrants were issued for NPV of difference (actual vs. owed) exercisable when debt is extinguished

### BENEFIT TO CLIENT

- Orderly transfer of stock and control according to seller's wishes
- Owner received immediate cash of \$3,000,000 and notes totaling \$10,775,000 over 10 years
- Estimated corporate tax savings of over \$17,000,000 over next 10 years
- Employees receive significant additional retirement benefits
- Seller gets an additional \$7,500,000 in 10 years when warrants are exercised

For more success stories visit us online.



## PHARMACEUTICAL COMPANY

IN THE SOUTHEAST

### BACKGROUND

- Valued at \$125 million
- Approximately 300 employees
- Company has been involved in the pharmaceutical industry since 1954
- Specializes in prescription medical food products marketed and sold nationally

### GOAL

- Retain operational control of the company
- Cash out small independent shareholders
- Start estate planning and provide liquidity for majority shareholders (family)
- Continue to provide above average benefits to employees

### SOLUTION

- Established an ESOP to meet company shareholder and family goals
- Established estate plan for selling shareholders

- Setup preferred stock with dividends
- Obtained senior lender financing for transaction

### BENEFIT TO CLIENT

- Provide liquidity to owners and non-employee shareholders
- The ESOP provided approximately \$16,500,000 in initial tax benefits
- The total cost of using an ESOP vs. a non tax advantaged option was \$32,000,000 vs. \$55,000,000
- Allowed owners to maintain control of the board of directors
- Allows the employees to benefit from the growth and value of company stock

## WHY CHOOSE BTA?

### A DIFFERENT KIND OF ESOP FIRM

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.

BTA'S ESOP  
TEAM

Our collective business experience provides a unique perspective.



Pictured Left to Right: Fred Thomas, Roy Farmer, Kevin Hanson, Dan Zugell, Andrew Shapiro, Kayla Adams.

**FRED THOMAS**  
**MANAGING DIRECTOR**  
562.457.9285 // [ftomas@bta.us.com](mailto:ftomas@bta.us.com)

Fred is principally responsible for business development, succession planning, ESOP formation, consulting, merger/acquisition and transaction design. He has been actively involved in the financial industry since the mid '70s. *Business Administration degree with Finance major from the University of Missouri. Member of The National Center of Employee Ownership (NCEO) and the ESOP Association.*

**ROY FARMER**  
**MANAGING DIRECTOR**  
208.761.3612 // [rfarmer@bta.us.com](mailto:rfarmer@bta.us.com)

Roy's responsibilities include business development, corporate reorganization and finance, succession planning, consulting and ESOP implementation. He has also been actively involved in the financial industry since the mid '70s. *Business and Business Administration degrees from American River College and Brigham Young University, graduate studies at Pepperdine University. Member of the ESOP Association.*

**KEVIN HANSON**  
**DIRECTOR**  
262.365.1786 // [khanson@bta.us.com](mailto:khanson@bta.us.com)

With over 15 years of experience, Kevin has been advising boards of directors, management teams and investors through mergers and acquisitions, fairness opinions, ESOP valuations, fundraising, due diligence efforts and strategic and succession planning. *Previously Principal with Marshall & Stevens, Vice President with Valuation Research Corporation and Research Associate with Robert W. Baird & Co.*

**DAN ZUGELL** CLU, CHFC, LUTCF  
**SENIOR VICE PRESIDENT**  
724.766.3998 // [dzugell@bta.us.com](mailto:dzugell@bta.us.com)

Dan has a wealth of hands-on management experience spanning many financial service disciplines. His experience includes the formation of MetLife's ESOP program and as a Director of MetLife's Institutional Specialized Benefit Resources division. Since 1998, Dan has emerged as a national presence on ESOP matters as a frequently published author and featured speaker and has earned several advanced financial designations. *Bachelor of Arts degree from Grove City College. Member of The ESOP Association, National Center for Employee Ownership, The Estate Planning Council and the Society of Financial Service Professionals.*

**ANDREW SHAPIRO** CLU, CHFC, MSM  
**SENIOR VICE PRESIDENT**  
614.619.9286 // [ashapiro@bta.us.com](mailto:ashapiro@bta.us.com)

Andrew, a well-known public speaker and author, has over 30 years of experience in the Financial Services industry with a focus on working with business owners to provide executive benefit plans and craft business succession plans. He is known for his ability to create innovative solutions that integrate family dynamics, tax regulations, and the desires of corporate owners to control and monetize their business assets. *Bachelor of Science degree from the prestigious Island University College of Management, Master of Science degree from The American College. Active member in many industry organizations.*

**KAYLA ADAMS**  
**ANALYST**  
208.628.3151 // [kadams@bta.us.com](mailto:kadams@bta.us.com)

Kayla assists in every step of BTA's ESOP process. She is responsible for preliminary analysis, feasibility studies, due diligence, coordination of ESOP formations from initial analysis to implementation, repurchase liability studies, employee communications, and general business management. *Member of the National Center of Employee Ownership (NCEO) and the ESOP Association.*

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