

Example of Leveraged Buy Out

Bank
Gives 50m Loan to Business for ESOP
6.5 – 9% Interest with 5 Year Term

Trustee
ERISA Appointed Trustee

Gives 50m Loan to Business

Business
(100 Shares)
Receives 50m Loan from Bank for ESOP
Sells 100 Shares to ESOP
Business Receives 50m Tax Deduction
Pay Off Bank in 3.7 years

ESOP
Purchases 100 Shares
ESOP is the Owner of the Business
Distributes Shares to Employees and Phantom Stock

Employees – 80%
Implement Vesting Schedule

Phantom Stock – 20%
No Vesting Schedule

Can fluctuate up to
65% ES / 45% PS
409P Testing

Employee Stock Ownership Plan (ESOP)
1m EBITDA & 10 Employees (Entry Point)

Business Owner
Receives 50m Distribution from Business

<u>S Corp</u>	<u>C Corp</u>
Remains a pass-through entity	1042 Tax Election Stocks/Bonds
More retained ownership to seller *ESOP & SARS*	Tax Deferred
Best option giving to family	Best for Strong Balance Sheet
Good for High-Cost Basis	ESOP Contributions are Tax Deductible
	Seller SARS Only

Employee Stock Ownership Plan (ESOP)

1m EBITDA & 10 Employees (Entry Point)

Accounts Receivables (A/R)

Business has 80M of A/R on the Balance Sheet
Business Sells A/R for 50M in Single Transaction

50m Goes to Balance Sheet

Business

(100 Shares)

Receives 50m to Balance Sheet for ESOP
Sells 100 Shares to ESOP

Business Receives 50m Tax Deduction

Example of Non-Leveraged Buy Out

Trustee

ERISA Appointed Trustee

ESOP

Purchases 100 Shares

ESOP is the Owner of the Business
Distributes Shares to Employees and Phantom Stock

Employees – 80%

Implement Vesting Schedule

Phantom Stock – 20%

No Vesting Schedule

Can fluctuate up to
65% ES / 45% PS

Business Owner

Receives 50m Distribution from Business

S Corp

Remains a pass-through entity

More retained ownership to seller
ESOP & SARS

Best option giving to family

Good for High-Cost Basis

C Corp

1042 Tax Election
Stocks/Bonds

Tax Deferred

Best for Strong Balance Sheet

ESOP Contributions are Tax Deductible

Seller SARS Only