

## When Considering an ESOP

An ESOP offers many benefits to the employees, owners and shareholders of a closely held business. Before setting up an ESOP, it is essential to understand both the pros and cons.

## Why Choose ComStock Advisors?

Our directors

- perform more than 100 ESOP engagements annually
- hold senior membership in the American Society of Appraisers or Certified Public Accountant status
- hold long-standing memberships in the ESOP Association and the National Center for Employee Ownership
- have spoken on valuation topics before the ESOP Association, National Center for Employee Ownership, Business Valuation Association and other groups
- have published in prominent industry publications, including *The Journal of Employee Ownership Law and Finance*
- have served as consulting experts or expert witnesses on financial issues in federal tax, district and bankruptcy courts and in state circuit and superior courts



## COMSTOCK ADVISORS



**EXPERIENCE**



**INDEPENDENCE**



**DEFENSIBLE**

### CHICAGO, IL

129 W. Wesley Street  
Wheaton, IL 60187  
Phone: (630) 462-9100  
Fax: (630) 462-5666

### CINCINNATI, OH

1 Levee Way, Suite 3109  
Newport, KY 47071  
Phone: (859) 957-2300  
Fax: (859) 957-2305

### COLUMBUS, OH

1335 Dublin Road, Suite 225A  
Columbus, OH 43215  
Phone: (614) 485-9470  
Fax: (614) 485-9471

### Winston-Salem, NC

4400 Silas Creek Pkwy, Suite 103  
Winston-Salem, NC 27104  
Phone: (336) 765-1155  
Fax: (336) 765-3377

# Employee Stock Ownership Plans



COMSTOCK ADVISORS

Visit us on the web at [www.comstockadvisors.com](http://www.comstockadvisors.com)  
Email: [info@comstockadvisors.com](mailto:info@comstockadvisors.com)

## How an ESOP Works

An ESOP (employee stock ownership plan) is a benefit plan that gives employees an equity stake in the employer company. Many companies have found that employee participation in an ESOP creates the incentive to improve company performance and results in increased company value.

ESOPs have been set up by closely held businesses for many reasons, including the intangible (continuing a family legacy through employee, rather than outside, ownership) and the tangible (creating a market for company stock).

An ESOP takes the form of a trust—outlined in a plan document—to which the employer company contributes stock or cash. The ESOP itself invests primarily in the stock of the company.

## More Reasons to Set Up an ESOP

Current tax law allows both C and S corporations to set up ESOPs. A major tax incentive for the owner of a closely held C corporation is the section 1042 “rollover” (deferral of capital gains taxation on stocks sold to the ESOP). The major tax incentive for an S corporation is that the ESOP is not taxed on its share of corporate earnings.

An ESOP also

- provides employees with a tax-deferred retirement benefit
- may enable the company to attract and retain better employees
- allows a company to reduce income taxes by deducting both the principal payments and the interest on the ESOP loan
- allows a company to raise capital for asset acquisitions, shareholder buy-outs and debt refinancings

- allows exiting shareholders to diversify their asset holdings
- allows a company to deduct dividends used to repay the ESOP loan or passed through the participants
- can borrow money in order to purchase the stock of the employer company
- may be combined with another benefit plan

## Analyzing the Impact of an ESOP

If you find an ESOP’s benefits of interest, the first step is to determine if selling the company’s stock to an ESOP is the most appropriate strategy. To do this, ComStock Advisors will produce a *feasibility study* that analyzes an ESOP’s potential impact.

## How ComStock Can Assist You

ComStock Advisors can serve either as an independent advisor to the ESOP, or we can consult with the company and its shareholders to assess the feasibility and desirability of setting up an ESOP.

## About a ComStock Feasibility Study

In producing a feasibility study, ComStock Advisors can research and analyze numerous aspects of your company, which may include its size and culture, debt-carrying capacity, payroll base, cash flow, existing debt, collateral availability, ownership continuity and management strength.

The completed study will include

- a preliminary valuation of the company
- the likely range of value for the stock, which is of concern to both selling shareholders and the ESOP trustee
- the impact of a transaction’s structure on the remaining stockholders
- the likelihood of obtaining financing
- the likelihood of structuring the ESOP within the payroll limitations of ERISA

## Setting Up an ESOP

If your company decides to set up an ESOP, ComStock Advisors will produce the final valuation and any required fairness or solvency opinions when the transaction is closed. We also offer advice on the structuring of the ESOP’s securities and the financing of the ESOP through an outside lender.

## Maintaining an ESOP

As part of the ESOP’s maintenance, ComStock Advisors provides annual stock valuations and can advise the plan’s trustee on the fairness of any new ESOP transaction.

## Terminating an ESOP

If it is necessary to terminate, freeze or convert the ESOP, ComStock Advisors will advise the plan trustee on issues of valuation and financial fairness.

## Our ESOP Services

ComStock Advisors offers the following services related to new or existing ESOPs:

- *feasibility study*
- *stock valuation*
- *transaction valuation*
- *obtaining of financing*
- *advisement on securities structure*
- *fairness opinion*
- *solvency opinion*
- *appraisal review*
- *repurchase liability study*
- *annual ESOP stock valuation*
- *advisement on financial issues associated with the termination, freezing or conversion of an ESOP*