

**TransportCo  
RealCo**



**ESOP  
Feasibility Analysis**

**DRAFT**

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**TABLE OF CONTENTS**

**I. Introduction**

**II. Company History / Management**

- **Company History**
- **Growth Areas**
- **Management Team**
- **Shareholder Breakdown**

**III. Financial Overview**

- **Historical Revenue & Cash Flow**
- **Proforma Revenue & Cash Flow**
- **Current Debt**
- **Competition**
- **Concentrations**
- **Other Real Estate & Investments**
- **Ratio Analysis**
- **Valuation**

**IV. Summary of Expected Facts**

- **Transaction Structure**
- **Note Structure**
- **Transaction Model Illustration**
  - **Step I**
  - **Step II**

**V. ESOP Feasibility Factors**

- 1. Analysis of the Impact of the Company's Existing Governing Structure on the ESOP**
- 2. Analysis of Company Value**
- 3. ESOP Tax Benefit for the Company**
- 4. Analysis of Company Cash Flow Coverage**
- 5. Analysis of Eligible Payroll Limitation**



6. **Analysis of Interaction of ESOP and Other Company Contracts and Loan Agreements**
  7. **Analysis of Effect on Employees and Management**
  8. **Analysis of Future Repurchase Obligations**
  9. **Analysis of Seller Income**
- VI. Cost-Benefit Analysis**
- VII. Implementation**
- VIII. Statement of Feasibility**
- IX. Financial Data**
- **Financial Statements**
    - **Summary Historical**
    - **Projections**

## **APPENDIX**

- A. **Growth & Valuation**
  - **TransportCo**
  - **RealCo**
  - **Combined**
- B. **ESOP Allocation Analysis**
- C. **DEBT SCENARIOS**
  - **Fast Payoff Static Growth with trailers**
  - **Fast Payoff 10% Growth with trailers**
  - **Fast Payoff 20% Growth with trailers**
- D. **Owners Income Schedule**
- E. **ESOP FAQs**



## **I. INTRODUCTION**

The purpose of this ESOP Feasibility Analysis is to describe how an ESOP could be used to purchase shares of TransportCo and RealCo (the “Companies”) from their shareholders/partners. This Feasibility Analysis provides a “decision package” for the Companies’ boards of directors, management, and shareholders/partners. It will allow these corporate decision-makers to determine if, and to what extent, an ESOP can assist the boards, management and shareholders/partners in achieving their desired objectives.

Both the technical and practical factors involved in an ESOP are evaluated. On the technical side, an analysis of value, ESOP tax benefits, eligible payroll limitation and annual additions limit will be considered. On the practical side, the Companies’ projected cash flow and its ability to repay ESOP debt, the impact of the Companies’ existing governing structures on the ESOP, interaction of the ESOP on other Company contracts and loan agreements, effect on employees and management will be reviewed.

This report begins with a summary of key information regarding the Companies, describing how an ESOP could be structured to achieve the Companies’ goals and discusses the cost involved in implementing an ESOP.



## II. COMPANY HISTORY/MANAGEMENT

John Doe, John Smith, Jim Johnson, and Bob Jackson formed what is now known as “TransportCo” in 1983 in Oldtown, CA . The “Company,” as it exists today, is comprised of three entities that serve the long haul, just-in-time, refrigerated food transportation business. RealCo owns the trailers and leases them back to the owner/operators who transport freight through TransportCo, Inc.

In 1990, 7 years after forming the original company, the owners sold the business and equipment to a rollup headed by TGroup. The sellers were to remain on-board in management roles in TGroup under a non-compete agreement. However, approximately ninety days following the sale, the buyer received a capital call financial institution. To meet that call, TGroup went back to the sellers and asked them if they would like to buy back the 200 trailers/equipment and lease them to the organization. John Doe and John Smith bought the trailers back through RealCo and formed a lease agreement with TGroup.

Six months later, TGroup filed for bankruptcy protection, but Doe and Smith had structured the lease agreement to protect it in a bankruptcy filing. After emerging from bankruptcy as NewGroup, the Company continued to receive lease payments under the originally negotiated agreement. This agreement continued for another three years until John Smith and John Doe worked out their non-compete agreements. In 2004, they started TransportCo, Inc.

Since that time, the Company has grown significantly and now owns approximately 300 trailers through RealCo. It also started a separate business in September of 2000, John Smith Brokerage, Inc. d/b/a John Smith Truck and Trailer Repair. This business will be sold or dissolved in December, 2009.

The Company contracts with independent owner/operators who transport brokered freight, primarily refrigerated food for large and regional processing and grocery operations out of its Jackson office and through a separate brokerage-entity in Albany. The Company only ships to areas where it can make a return haul for an existing client, thereby cutting out the need to work through a broker, who would reduce margin dramatically. It likes to get its drivers back to the Eastern region once a week. The Company primarily hauls on the Southeast region and the Midwest region.

### Growth Areas

The Company’s niche is long-haul, just-in-time delivery of fresh pork and beef. This makes up approximately 75% of their business with the remaining 25% coming from the furniture industry and other miscellaneous dry goods clients.

The Company sees tremendous ability to grow its business organically. According to Management, the Company owns 1.5 trailers for each operator, and 100% of those trailers are currently in service. The demand from existing clients and the current supply of owner/operators is significant enough to provide the revenue to finance a purchase of 75 new trailers which will be delivered in batches through July. According to the Company, it will bring on 50 new owner/operators to meet the additional new freight demands. At \$300k per driver in revenue at a 25% margin, the Company could produce

## ESOP Feasibility Analysis



an additional \$15M in revenue per year and \$3.75M in profit (in addition to other organic growth through existing operations).

Last, the Company has expanded into additional refrigerated and dry goods freight opportunities that have been born out of existing relationships, specifically ice cream and dairy products sourced out of the Southeast Region. The Company believes that it can maintain 20% top and bottom line growth going forward.

The Management team is as follows:

Although the three Companies each have slightly different ownership structures, the Companies are collectively run by the three owners:

John Doe – Finance  
John Smith – Operations  
Frank Deprosti – Operations

They have identified two young employees who they believe will be able to transition into leadership roles within the Company post-ESOP. Frank Deprosti will move into the president position, succeeding John Doe and Jim Johnson, while Katie Bell, John Smith and Mary Turner will support Frank Deprosti in operations.

The Companies' shareholders/partners and ownership percentages are as follows:

	John Doe	John Smith	Jim Johnson	Bob Jackson	Frank Deprosti
RealCo	25.00%	25.00%	25.00%	25.00%	-
TransportCo	-	42.50%	-	42.50%	15.00%

### Employees

The Companies currently has 19 non-union, full time employees.



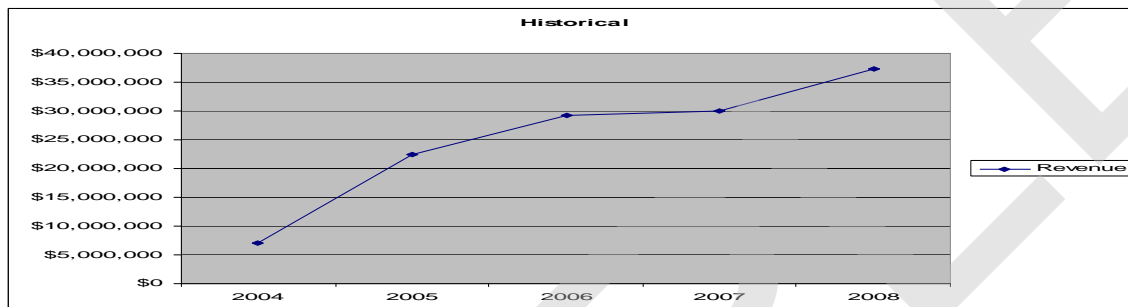


## III. Company Financial Overview

### Revenue

Over the past three years, the combined entities have grown, on average, approximately 20%. Individual company performance is included in the Appendix.

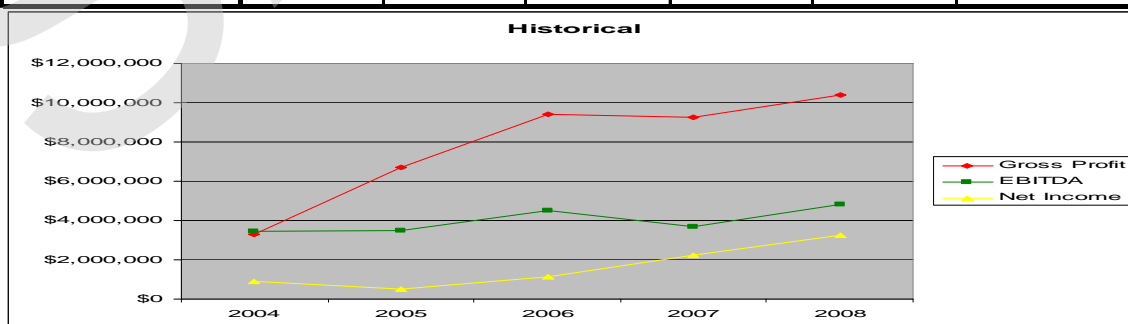
	2004	2005	2006	2007	2008	3 Year Average
<b>Revenue</b>	\$7,016,699	\$21,861,368	\$28,426,637	\$29,098,866	\$36,483,048	\$31,336,184
<b>Revenue</b>	x	211.56%	30.03%	2.36%	25.38%	19.26%



### Income and Cash Flow

The combined entities have shown notable average growth in Gross Profit, Net Income and EBITDA. The last three years have resulted in average Net Income and EBITDA growth of 85% and 14%, respectively. Individually, TransportCo has led the way with average 3 year growth in Net Income and EBITDA of 85% and 53% respectively.

	2004	2005	2006	2007	2008	3 Year Average
<b>Gross Profit</b>	\$3,282,403	\$6,382,347	\$8,906,437	\$8,676,039	\$9,914,951	\$9,165,809
<b>EBITDA</b>	\$3,462,222	\$3,501,537	\$4,516,383	\$3,700,703	\$4,838,797	\$4,351,961
<b>Net Income</b>	\$896,141	\$536,434	\$1,148,137	\$2,230,686	\$3,300,250	\$2,226,358
<b>% Change</b>						
<b>Gross Profit</b>	x	94.44%	39.55%	-2.59%	14.28%	17.08%
<b>EBITDA</b>	x	1.14%	28.98%	-18.06%	30.75%	13.89%
<b>Net Income</b>	x	-40.14%	114.03%	94.29%	47.95%	85.42%



# ESOP Feasibility Analysis



## Proforma Financials:

According to the Company, top and bottom line growth is anticipated to be at or above 20%. To arrive at the combined proforma numbers, we calculated Gross Profit, EBITDA and Net Income as a percentage of revenue in each of the last five years. We then averaged each of those percentages over the last three years resulting in average Gross Profit, EBITDA and Net Income as a percentage of revenue of 29.4%, 13.96%, and 6.92% respectively. Based on management's projections, we then grew revenues at 20% per year and used the average combined three year margin to calculate Gross Profit, Net Income and EBITDA. The results are below.

	2004	2005	2006	2007	2008	3 Year Average
Revenue	\$7,016,699	\$21,861,368	\$28,426,637	\$29,098,866	\$36,483,048	\$31,336,184
Gross Profit	\$3,282,403	\$6,382,347	\$8,906,437	\$8,676,039	\$9,914,951	\$9,165,809
EBITDA	\$3,462,222	\$3,501,537	\$4,516,383	\$3,700,703	\$4,838,797	\$4,351,961
Net Income	\$896,141	\$536,434	\$1,148,137	\$2,230,686	\$3,300,250	\$2,226,358
<b>% of Revenue</b>						
Gross Profit	46.78%	29.19%	31.33%	29.82%	27.18%	29.44%
EBITDA	49.34%	16.02%	15.89%	12.72%	13.26%	13.96%
Net Income	12.77%	2.45%	4.04%	7.67%	9.05%	6.92%

	Projections				
	2009	2010	2011	2012	2013
Revenue	\$43,779,658	\$52,535,589	\$63,042,707	\$75,651,248	\$90,781,498
Revenue	20.00%	20.00%	20.00%	20.00%	20.00%

	Projections				
	2009	2010	2011	2012	2013
Gross Profit	\$12,889,301	\$15,467,162	\$18,560,594	\$22,272,713	\$26,727,255
EBITDA	\$6,109,988	\$7,331,986	\$8,798,383	\$10,558,060	\$12,669,672
Net Income	\$3,028,212	\$3,633,855	\$4,360,625	\$5,232,750	\$6,279,301
<b>% Change</b>					
Gross Profit	30.00%	20.00%	20.00%	20.00%	20.00%
EBITDA	26.27%	20.00%	20.00%	20.00%	20.00%
Net Income	-8.24%	20.00%	20.00%	20.00%	20.00%

## Current Debt

RealCo holds the trailers and owes approximately \$4.7M in trailer loans spread between two banks. The debt is being repaid quickly and most of the loans mature in two years. TransportCo maintains a \$2.5M Line of Credit that is drawn and paid back as needed for operating purposes. According to the Company, outstanding balances on the line have been approximately \$1.5M on average. A summary of the Company's existing debt can be seen below. Total debt service in 2009, assuming a \$1.5M average line draw, is approximately \$2.3M.

Existing Debt	Committed	Maturity Date	Interest Rate	Type	Amortization	2009
Acct #13320025243	\$ 1,032,326	7/30/2013	5.40%	P & I Monthly	55	\$279,125
Acct #13320023453	\$ 888,756	3/1/2013	5.40%	P & I Monthly	51	\$258,685
Acct #5190293	\$ 335,599	6/30/2010	5.40%	P & I Monthly	18	\$232,401
Acct #5194527	\$ 188,605	5/30/2011	5.40%	P & I Monthly	29	\$86,101
Acct #5195441	\$ 31,454	7/3/2011	5.40%	P & I Monthly	31	\$13,903
Acct #5160361	\$ 22,752	4/5/2009	5.40%	P & I Monthly	4	\$6,299
Acct #5164033	\$ 175,087	4/10/2010	5.40%	P & I Monthly	16	\$139,927
Acct #5164207	\$ 116,978	4/13/2010	5.40%	P & I Monthly	16	\$92,950
Acct #5191754	\$ 475,083	11/18/2010	5.40%	P & I Monthly	23	\$268,657
Acct #5194147	\$ 445,821	4/25/2011	5.40%	P & I Monthly	28	\$210,716
Acct #5195367	\$ 106,832	6/26/2011	5.40%	P & I Monthly	30	\$47,530
Acct #5192224	\$ 500,433	12/28/2010	5.40%	P & I Monthly	24	\$269,359
Acct #5164603	\$ 212,726	1/28/2010	5.40%	P & I Monthly	13	\$197,742
Acct #5165477	\$ 121,554	4/28/2010	5.40%	P & I Monthly	16	\$93,898
LOC	\$ 1,500,000	-	6.00%	I Only	24	\$90,000
<b>Sub-Total</b>	<b>\$ 6,292,354</b>					<b>\$2,287,293</b>



# ESOP Feasibility Analysis



Note: According to the Company, it is in the process of purchasing 75 new Monster Trailers for approximately \$3.8M. This debt will be amortized over 5 years and will require an additional \$934k annual debt service obligation. According to the Company's projection of cash flows, the revenue generated by adding the drivers necessary to pull these trailers should produce approximately \$3.75M in cash flow; therefore, an additional \$934k in annual debt service should not be an issue. Going forward, in order for the Company to continue growing, it must add trailers and drivers. For every \$300k in revenue, it first must add 1.5 trailers at \$50k apiece. Our projections will illustrate the debt and debt service necessary to fuel the growth of the Company going forward.

## Competition:

The Company's competition consists of numerous other 50 to 100 truck operators spread across the country. By comparison, the Company currently works through 200 owner/operators with plans to add an additional 50 by July. None of these competitors are viewed as a threat to the Company's niche business.

## Concentrations of Customers or Suppliers

TransportCo currently does business with two customers who together make up 20% of its revenue, Food Inc. (6%) and Healthy Eating Inc. (14%). The Company has long-standing relationships with each of these customers dating back to 1990, and the Company is planning on growing these relationships when it receives the new trailers. Otherwise, four additional clients collectively make up approximately 40% of the Company's revenues: King Sofas Inc., Bed and Bath, Inc., SuperCo, and MeatCo. Therefore, 60% of the Company's revenues are earned from six customers with the largest customer (Healthy Eating Inc.) comprising 14% of the revenue total.

## Other Real Estate and Investments:

Currently, there are several assets on the Company's balance sheet that the sellers plan to remove prior to the transaction. These assets are comprised of buildings and other miscellaneous non-real estate investments. We do not believe that the removal of these assets will reduce the value of the Company as a going concern. The assets that will be removed are: "Buildings 2 and 5," "Account 12478," "Account 25783," "Account 32598," "123 Main St. New York, NY" and "321 Main St. New York, NY."

## Ratio Analysis

Based upon our benchmarking of TransportCo (the true operating company) against 423 other companies of similar SIC codes within and outside the region, the Company's performance in key areas is good. In the most recent periods, most ratios were well above the peer group as can be seen below.

# ESOP Feasibility Analysis



	Sageworks Benchmarks (423 Financial Statements)	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008
<b>Liquidity Ratios</b>						
Current Ratio	1.37	0.99	1.04	1.20	1.31	1.83
Quick Ratio	1.14	0.99	1.04	1.16	1.27	1.64
Working Capital		-8,730.00	78,960.00	312,344.00	530,452.00	1,243,124.00
<b>Financial Leverage / Coverage Ratios</b>						
Debt-to-Equity Ratio	3.49	20.33	8.75	3.99	3.21	1.19
Debt Service		N/A	\$790,632	\$1,284,397	\$1,218,229	\$1,227,346
Debt Service Coverage Ratio		N/A	0.79	0.86	0.61	1.30
Interest Coverage Ratio	7.98	48.84	16.13	16.35	9.19	23.41
Senior Debt to Cash Flow		0.00	0.00	0.00	0.00	0.00
Debt to Cash Flow		0.00	0.00	0.00	0.05	0.00
Debt to Capitalization		95.31%	89.74%	79.94%	76.27%	54.24%
<b>Profitability Ratios</b>						
Operating Profit Margin	3.21%	1.11%	2.98%	4.12%	2.69%	4.72%
Net Profit Margin	2.26%	1.02%	2.78%	3.85%	2.38%	4.51%
Return on Equity	14.93%	94.42%	265.55%	246.64%	115.81%	118.79%
Return on Assets	5.69%	4.43%	27.24%	49.47%	27.48%	54.36%
<b>Activity / Efficiency Ratios</b>						
Accounts Receivable Days	36.71 Days	85.51 Days	33.83 Days	26.70 Days	33.68 Days	29.65 Days
Accounts Payable Days	16.35 Days	17.41 Days	10.20 Days	6.23 Days	8.23 Days	5.16 Days
Inventory Days	1.71 Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days	0.00 Days
Fixed Asset Turnover	6.19	32.40	76.48	91.00	95.09	120.99

## Valuation

Cash flow information for valuation purposes was obtained from the 5 years' financial statements and tax returns provided by the Company. We have also given consideration to the proforma information provided by the Company.

For the purposes of the Feasibility Analysis, we will assume that the Company's stock will be valued at \$23M calculated as follows:

	2007	2008	2009
<b>Adjusted EBITDA</b>	<b>\$3,712,703</b>	<b>\$4,850,797</b>	<b>\$6,121,988</b>
4x	\$14,850,812	\$19,403,188	\$24,487,954
5.3x	\$19,677,326	\$25,709,224	\$32,446,539
6x	\$22,276,218	\$29,104,782	\$36,731,931

## Market Value:

- \$29.0M** – Avg. (rounded) of '08 and '09 Adj. EBIDTA at 5.3x Multiple
- \$ 6.0M – Less Current Debt on the Balance Sheet (rounded)
- \$23.0M** – Adjusted Value Net of Debt



## IV. SUMMARY OF EXPECTED FACTS

The ESOP will be utilized primarily as a vehicle to assist with the transition of the Companies' shareholders/partners who wish to sell all of their interest in the combined Company. However, three key observations have been made that should be addressed prior to the ESOP transaction itself.

First, the Owners collectively have capital account/AAA balances of \$2.3M on which they have already paid tax. Prior to the owners selling their stock to the ESOP, we would recommend that each entity distribute those account balances to the sellers, tax free, in the form of a promissory note. The capital account/AAA distribution would reduce the value of the Company on a dollar-for-dollar basis as follows: \$23M value less \$2.3M capital account/AAA equals \$20.7M net.

Second, under the law, ESOPs can only purchase stock of corporations. Therefore, RealCo (currently a partnership) will need to incorporate and make an election to be taxed as an "S" Corporation prior to the sale. The stock could then be sold to the ESOP.

Third, management should consider whether the current multi-company structure is the best structure for the future or whether this may be an occasion in the Company's history to merge the two businesses into one. If the two companies are merged, the stock of the surviving S-corporation will be sold to an ESOP sponsored by the merged company. All of the employees of the two companies will be employed by the merged company and will be participants in its ESOP. If the two companies are not merged, each company will sponsor an ESOP with each of the other companies signing on as "adopting employers." The net result of this structure would be two ESOPs with all of the employees participating in each of the three ESOPs.

### Recommended Transaction Structure:

An ESOP provides the most tax-efficient means available to transition ownership to "insiders." There are many ways to fund an ESOP's purchase of stock, but based on the goals of the sellers, the ESOP's purchase of stock will be funded fully with promissory notes which will be held by the sellers and repaid by Company cash flow.

We are recommending that the Company consider the following structure:

*Distribute the capital account balances/AAA to the owners in the amount of \$2.3M followed by a sale of 100% of the Company today to the ESOP for \$20.7M (\$29M Value less debt {\$6M} and capital account distribution {\$2.3M}).*

Selling 100% of the Company in a single transaction would lock in the value of the Company's stock at today's price.

### Promissory Notes' Repayment Structure:

Concerning the structure of the repayment of the Notes, we recommend that the Sellers consider the following strategy.

The Sellers would each receive two promissory notes – one for the value of the capital accounts/AAA (the Capital Account notes) and one for the value of the stock they sell

# ESOP Feasibility Analysis



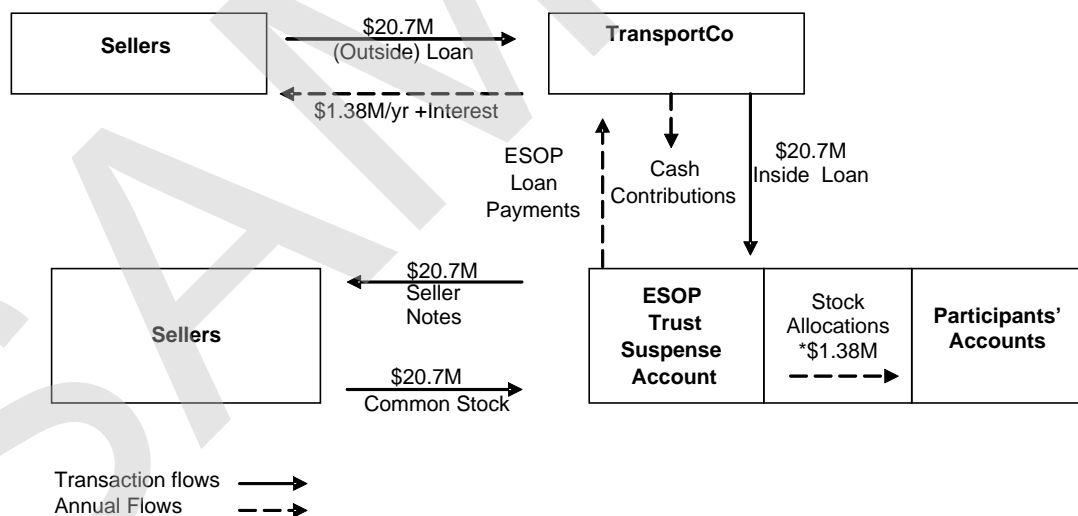
(the ESOP notes). We recommend a 15 year amortization period for each of the notes, even though we believe the Company will be able to fully pay the notes in less than half this time. We recommend this extended repayment period so that the notes do not put undue stress on the Company's cash flow. The note provisions will allow the Company to pre-pay the notes without penalty and as quickly as financially feasible without putting the Company under any financial pressure. Under the recommended strategy, the Sellers would elect Installment Sale tax treatment on the ESOP note and will pay capital gains tax each year on the principal paid on the ESOP note. Principal payments on the Capital Account notes will be tax-free, since these notes represent Company income on which the owners have been taxed previously.

The ESOP Transaction Structure can be illustrated as follows :

## Step I: Distribute Capital Accounts In Exchange for Promissory Notes

Capital Acct Balances						
	John Doe	John Smith	Jim Johnson	Bob Jackson	Frank Deprosti	
RealCo	\$263,129	\$263,129	\$263,129	\$263,129	-	\$1,052,518
TransportCo	-	\$538,978	-	\$538,978	\$190,227	\$1,268,183
<b>Total</b>	<b>\$263,129</b>	<b>\$802,107</b>	<b>\$263,129</b>	<b>\$802,107</b>	<b>\$190,227</b>	<b>\$2,320,701</b>

## Step II: Sell 100% Stock in Company to ESOP in Exchange for Promissory Notes:



\*Assumes a 15 year Inside Loan

# ESOP Feasibility Analysis



## Limited Incremental Cost to the Company as a Result of the Transaction:

As a result of the tax benefits provided under the ESOP, our Analysis reveals that the ESOP structure will result in tax savings sufficient to fully cover the transaction cost to the Company over less than ten years. The tax savings over the first five full years alone is \$10.7M.

The tax savings to the Company over the first five years compared to the \$23M transaction debt service are illustrated below. At a 20% growth rate (as projected by management) and on a straight 10 year amortization, the tax savings generated by the ESOP covers 21% of the Transaction debt service in year one (partial year of ESOP ownership), 48% in year two, 60% in year three, 75% in year four, 94% in year five and 100% + thereafter. Assuming a ten year amortization, the tax savings are 120% of the transaction debt service. This effect is more substantive as the Company grows.

	2009	2010	2011	2012	2013	10 Yr. Total
S Distribution Savings	\$605,642	\$1,322,010	\$1,607,457	\$1,950,835	\$2,363,764	\$29,445,737
ESOP Debt Service on a 10 Year Amortization	\$2,871,167	\$2,779,167	\$2,687,167	\$2,595,167	\$2,503,167	\$24,571,667
% of ESOP Debt Service Paid by Tax Savings	21%	48%	60%	75%	94%	120%



## V. ESOP FEASIBILITY FACTORS

Set forth below is a summary of the financial, tax and legal consideration which we believe are applicable to your decision to adopt and implement the ESOP. Please recognize that the actual adoption and implementation of an ESOP will require a review of certain additional factors and alternatives in order to further tailor the ESOP to your particular circumstances. A review and discussion of those alternatives in designing your particular ESOP would be addressed in a subsequent phase of the ESOP adoption process.

### 1. Analysis of the Impact of the Company's Existing Governing Structure on the ESOP

A company's governing structure is usually determined under its corporate charter documents. These include Articles of Incorporation and Bylaws. This could also be determined by separate shareholder, buy-sell or management agreements, as well as applicable regulatory requirements.

Prior to implementation of the ESOP, this Feasibility Analysis should be reviewed with the Company's attorney to determine whether that counsel, based on their knowledge of the Company's structure and operations finds that the ESOP poses additional legal matters to be addressed, including any special regulatory matters.

### 2. Analysis of Company Value

Valuation of the Company is perhaps the most important step in establishing an ESOP. Applicable Federal law provides that an ESOP may not enter into transactions at prices in excess of "fair market value." This value should be determined by an independent third party appraiser who would perform a written appraisal. The value determined in such an appraisal may often be different (and sometimes significantly different) from the price which a "strategic" buyer might agree to pay for a particular business. This could be based on various factors, including such a buyer's view of the business, its expected growth potential and expected synergies.

As discussed above, we will assume that the value of the stock of the Company will be \$20.7M (after the distribution of the capital accounts).

Should the Company decide to proceed with an ESOP, an opinion of fair market value will be needed from an independent appraiser. This appraisal should occur early in the process, and it is important that the appraiser be independent. The appraiser's only role in the ESOP process should be that of appraiser and financial adviser to the ESOP. The appraiser should not have a formal connection to anyone who has another role in the ESOP process. We want to avoid the risk of conflict of interest, whether real or perceived which could risk invalidation of the appraisal.

# ESOP Feasibility Analysis



## 3. ESOP Tax Benefit for the Company

There are many tax benefits available to companies that sponsor ESOPs, but the major benefit to an S-Corporation which sponsors an ESOP is elimination of tax distributions to shareholders to pay tax on the earnings of the company. Subchapter S status allows a company not to pay tax at the corporate level. Instead, all earnings are allocated to owners, who pay the tax at personal tax rates, whether they actually receive these earnings or not. Since the ESOP itself is a tax-exempt entity, to the extent the ESOP owns S corporation stock, neither the corporation nor the owners pay taxes.

In the case of the Company, 100% of its stock will be sold to the ESOP, which will result in there being no federal income tax due by the shareholders on the Company's earnings. Therefore the Company will no longer need to make distributions to the shareholders so that they can pay tax on earnings. The effect of this benefit can be seen below, projected over the first five full years. We assume that in 2009, the ESOP only owns stock beginning in July.

Corporate Income Tax Savings w/ ESOP:						
	2009	2010	2011	2012	2013	2014
Projected Taxable Income	\$3,028,212	\$3,633,855	\$4,360,625	\$5,232,750	\$6,279,301	\$7,535,161
Tax Rate	40%	40%	40%	40%	40%	40%
Normal Distributions Required to Pay Tax	\$1,211,285	\$1,453,542	\$1,744,250	\$2,093,100	\$2,511,720	\$3,014,064
Projected ESOP Deductions	\$157,612	\$327,833	\$340,947	\$354,585	\$368,768	\$383,519
Taxable Income After ESOP Deduction	\$2,870,600	\$3,306,021	\$4,019,679	\$4,878,166	\$5,910,533	\$7,151,642
Distribution Required Post Deduction	\$1,148,240	\$1,322,408	\$1,607,871	\$1,951,266	\$2,364,213	\$2,860,657
Taxable Income After ESOP's 100% Ownership	\$1,514,106	\$0	\$0	\$0	\$0	\$0
Tax Rate	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
Distribution Required After ESOP	\$605,642	\$0	\$0	\$0	\$0	\$0
<b>ESOP SAVINGS</b>	<b>\$605,642</b>	<b>\$1,322,408</b>	<b>\$1,607,871</b>	<b>\$1,951,266</b>	<b>\$2,364,213</b>	<b>\$2,860,657</b>
Accumulated ESOP Savings	\$605,642	\$1,928,051	\$3,535,922	\$5,487,189	\$7,851,402	\$10,712,059

The savings illustrated above indicate why we say an ESOP is the most financially efficient means of structuring a sale to an insider. As can be seen above, the 100% S-owned ESOP structure will save the Company approximately \$11M in shareholder tax distributions over the first five years, 48% of the value of a \$23M transaction. Over 10 years, the Company will save \$29M, 126% of the transaction.

## 4. Analysis of Company Cash Flow Coverage

With a leveraged ESOP, it is important to analyze whether the Company will generate sufficient cash flow to service the ESOP debt. In reviewing this factor, it is important that the Company take into account any presently existing or future potential, alternative commitments of earnings or cash flow. Maintaining and growing any company requires a certain level of capital. If the ESOP transaction restricts your Company's ability to maintain or to grow itself, based on the other competing needs for capital, then the ESOP itself or the level of the ESOP transaction should be reconsidered and possibly not adopted or at least scaled back. We do not want to create an ESOP transaction which is beyond the realistic capabilities of the Company to implement or sustain.

# ESOP Feasibility Analysis



## Historical Adjusted EBITDA:

In analyzing a company's ability to service debt, lenders generally evaluate a company's adjusted EBITDA. The adjustments to the Company's EBITDA consist of \$12k annually resulting from the suspension of the Company's 401k match.

	2004	2005	2006	2007	2008
<b>Adjusted EBITDA</b>	<b>\$3,468,513</b>	<b>\$3,494,200</b>	<b>\$4,753,070</b>	<b>\$3,701,102</b>	<b>\$4,820,496</b>

## Projected Cash Flow

At the 20% rates of growth in revenues described before, the Company will have approximately \$5.5M of tax-effective cash flow in 2009, and trending upward, to service ESOP debt. The chart following illustrates the proposed debt package, based upon various assumptions, for financing the transaction. In addition, based on recommendation of management, we have illustrated the annual effect of adding 1.5 new trailers for every \$300k increase in revenues. We layer this debt on the Company annually at the beginning of each year. We assume that these trailers (\$50k each) are financed by the bank and that each tranche is amortized over a five year period at 5.4% (the rate on the most recent tranche).

## ESOP Debt Package

The scenario below illustrates the ESOP debt package (including the Company's current obligations). We assume the Shareholders distribute their capital account/AAA balances in exchange for promissory notes and sell 100% of the Company in a single transaction funded with promissory notes. For debt service calculations, we assumed a lower rate of revenue growth of 10% just to be conservative.

The top box illustrates the Company's current debt package as it stands today plus the 2009 trailer debt and the trailer debt added each year. As modeled, the Company pays off all of its current bank debts in 2014. The second box illustrates the Company's proposed ESOP package which consists of the Capital Account notes and the ESOP Seller notes. This scenario is a "fast payoff" approach. We assume that the Company grows at 10% and that all cash flow in excess of what is necessary to cover the Company's bank debt on a 1.25:1 ratio is used to repay the new transaction debt. Under this "fast payoff" 10% growth scenario, all transaction debt is repaid in 2015, six and one-half years following the transaction (we assume debt repayment begins in July 2009).



# ESOP Feasibility Analysis



Existing Debt	Proceeds	Committed	Am	Total Debt Service							Total
				2009	2010	2011	2012	2013	2014	2015	
Acct # 13320025243		\$ 1,032,326	55	\$279,125	\$266,798	\$254,471	\$242,144	\$154,581	\$0	\$0	\$1,197,120
Acct # 13320023453		\$ 888,756	51	\$258,685	\$247,090	\$235,495	\$223,900	\$54,163	\$0	\$0	\$1,019,334
Acct #5 190293		\$ 335,599	18	\$232,401	\$130,080	\$0	\$0	\$0	\$0	\$0	\$362,481
Acct #5 194527		\$ 188,605	29	\$86,101	\$81,896	\$39,371	\$0	\$0	\$0	\$0	\$207,369
Acct #5 195441		\$ 31,454	31	\$13,903	\$13,230	\$7,406	\$0	\$0	\$0	\$0	\$34,539
Acct #5 160361		\$ 22,752	4	\$6,299	\$0	\$0	\$0	\$0	\$0	\$0	\$6,299
Acct #5 164033		\$ 175,087	16	\$139,927	\$45,039	\$0	\$0	\$0	\$0	\$0	\$184,966
Acct #5 164207		\$ 116,978	16	\$92,950	\$29,918	\$0	\$0	\$0	\$0	\$0	\$122,868
Acct #5 191754		\$ 475,083	23	\$268,657	\$234,455	\$0	\$0	\$0	\$0	\$0	\$503,112
Acct #5 194147		\$ 445,821	28	\$210,716	\$200,384	\$80,444	\$0	\$0	\$0	\$0	\$491,543
Acct #5 195367		\$ 106,832	30	\$47,530	\$45,218	\$21,742	\$0	\$0	\$0	\$0	\$114,490
Acct #5 192224		\$ 500,433	24	\$269,359	\$255,931	\$0	\$0	\$0	\$0	\$0	\$525,290
Acct #5 164603		\$ 212,726	13	\$197,742	\$16,012	\$0	\$0	\$0	\$0	\$0	\$213,754
Acct #5 165477		\$ 121,554	16	\$93,898	\$90,223	\$0	\$0	\$0	\$0	\$0	\$124,121
LOC		\$ 1,500,000	24	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$630,000
2009 Trailers		\$ 3,750,000	60	\$472,031	\$913,688	\$873,188	\$832,688	\$792,188	\$380,906	\$0	\$4,264,688
Additional Trailers		\$ -	60	\$0	\$249,050	\$512,205	\$788,385	\$1,076,510	\$1,387,953	\$1,526,043	\$5,540,145
<b>Sub-Total</b>		<b>\$ 10,042,354</b>		<b>Sub-Total \$2,759,324</b>	<b>\$2,849,013</b>	<b>\$2,114,322</b>	<b>\$2,177,117</b>	<b>\$2,167,442</b>	<b>\$1,858,859</b>	<b>\$1,616,043</b>	<b>\$15,542,119</b>
New Company Value	\$23,000,000			Adj EBITDA	\$5,057,651	\$6,172,905	\$6,788,996	\$7,466,695	\$8,212,165	\$9,032,181	\$9,934,199
Capital Account Distribution	\$2,320,701			-(D/S x 1.25)	\$3,449,155	\$3,561,266	\$2,642,903	\$2,721,396	\$2,709,303	\$2,323,573	\$2,020,053
Balance	\$20,679,299		Avail to service ESOP	\$1,608,495	\$2,611,639	\$4,146,093	\$4,745,299	\$5,502,862	\$6,708,608	\$7,914,146	\$33,237,142
<b>Growing EBITDA w/ Trailers</b>											
ESOP Seller Note	\$20,679,299	\$20,679,299	1st to ESOP	\$1,538,874	\$2,472,397	\$4,006,851	\$4,606,057	\$5,363,620	\$6,569,366	\$2,466,008	\$27,023,172
Capital Account Note	\$ 2,320,701	\$ 2,320,701	2nd to Cap	\$69,621	\$139,242	\$139,242	\$139,242	\$139,242	\$139,242	\$2,459,943	\$3,225,774
<b>Total ESOP Debt</b>	<b>\$ 23,000,000</b>	<b>\$ 23,000,000</b>	<b>Sub-Total</b>	<b>\$1,608,495</b>	<b>\$2,611,639</b>	<b>\$4,146,093</b>	<b>\$4,745,299</b>	<b>\$5,502,862</b>	<b>\$6,708,608</b>	<b>\$4,925,951</b>	<b>\$30,248,947</b>
			<b>ESOP Loan Balance</b>	<b>\$22,081,505</b>	<b>\$20,794,756</b>	<b>\$17,896,348</b>	<b>\$14,224,830</b>	<b>\$9,575,458</b>	<b>\$4,647,123</b>	<b>\$0</b>	
			<b>Total DS:</b>	<b>\$4,367,819</b>	<b>\$5,460,652</b>	<b>\$6,260,415</b>	<b>\$6,922,416</b>	<b>\$7,670,304</b>	<b>\$8,567,466</b>	<b>\$6,541,993</b>	<b>\$45,791,066</b>
<b>Total \$</b>	<b>23,000,000</b>	<b>\$ 33,042,354</b>									

## Ratio Analysis:

The ratio calculations above assume a transaction that maintains debt service coverage of 1.25:1 on the debts being repaid to banks. All cash flow in excess of this 1.25:1 coverage is being used to repay ESOP debt. The bank's existing covenants are going to require that its debts be repaid prior to the subordinated debt, or at a minimum, they will want their debt covered first and a reserve built for the future. If the Company maintains a 1.25:1 coverage, it will retire the bank debt on schedule in line with the bank's covenants, and the Company will build a nice cash reserve. All excess cash flow will go to repay ESOP debt.

Debt Service Coverage can be explained as follows: Debt Service Coverage (DSC) is the number of times that annual cash flow from operations covers the annual debt service (including principal and interest) on all of the Company's outstanding loans. Lenders like to see at least a 1.25:1 or higher coverage ratio. From a DSC perspective, the deal is acceptable assuming projected 2009 cash flows.

## Additional Scenarios:

### Static Growth

In addition to running our debt repayment scenario assuming 10% growth, we also assumed 2008 EBITDA with no Company growth. Under this scenario, the transaction debt including existing Company debt with trailers would be repaid in 9.5 years.

### 20% Growth

We ran a third scenario which assumes 20% Company growth. Under the 20% scenario, all debts are repaid in 5.5 years. A full schedule of each scenario can be found in the Appendix.

# ESOP Feasibility Analysis



## 5. Analysis of Eligible Payroll Limitation

Another limit on the ESOP's purchasing power and the overall ability to service the debt arises under ESOP law based on the eligible covered payroll. This refers to the limitation based on the compensation of employees who are covered under the ESOP. Federal tax law limits the amount which may be contributed and allocated through an ESOP. For S-Corporations the limits include principal plus interest needed to repay the ESOP indebtedness.

In the case of the Company, a 100% ESOP-owned S Corporation is not hindered by the rules regarding the Eligible Payroll Limitation. The ESOP loan will be repaid using contributions and distributions.

Assuming total eligible Company payroll of approximately \$1.26M (not including Brokerage employees), the maximum Company contribution to the ESOP would be \$316k per year (25% of eligible payroll). Since under a 15 year traditional amortization the Company would need to pay \$1.38M per year (plus interest) to service the ESOP debt, the Company would make an S-distribution of \$2.26M per year calculated as follows:

Principal on ESOP Loan	\$ 1.38M
Interest (year 1)	1.20M
Maximum Annual Contribution	< \$ 316k >
Net/S-distribution for Debt Service	\$ 2.26M

## 6. Analysis of Interaction of ESOP and Other Company Contracts and Loan Agreements

If the Company is a party to or subject to any contracts or business commitments which would be breached or hindered by the adoption and implementation of the ESOP, then the Company would need to undertake an amendment, where possible, to such contracts and commitments. Prime examples of where these types of contractual and business commitments could exist would be in loan (and personal loan guaranty) documents, customer contracts, lease agreements and vendor agreements.

We suggest that Corporate counsel review any such agreements or commitments to which the Company is subject.

## 7. Analysis of Effect on Employees and Management

When an ESOP is adopted and implemented by a company, typically many changes occur. It's important that the Company's senior management be cognitive of the expected impact of the ESOP announcement and implementation on employees and other management of the Company.

A key fact to be considered with regard to the impact of the ESOP on employees relates to any actual or perceived adverse effect on the Company's existing employee benefit



## ESOP Feasibility Analysis



plans. To the extent that implementation of the ESOP results in a reduction of other employee benefits, this may be perceived as a negative move by the Company's employees.

With respect to the Company's existing employee benefit plans, the chart below illustrates the impact of the anticipated structure on the Company's employees.

<u>Type of Retirement Plans</u>	<u>Annual Today</u>		<u>Annual with ESOP</u>	<u>% Change</u>
401k - Company Match	\$12,000		\$0	
ESOP Allocation	\$0	*	\$316,000	2533%

Based on these considerations and our discussions, the implementation of the ESOP, in conjunction with the existing employee benefit plans, would appear to be favorably received by the employees, provided it is appropriately communicated by the Company with the assistance of those advisers who are implementing the ESOP.

### 8. Analysis of Future Repurchase Obligations

Federal law imposes a "put" requirement on employers which requires the employer (not the ESOP) to repurchase the employees' stock upon the occurrence of a distributable event (generally, employment termination, retirement, death or disability). Generally, departing employees have the right to "put" their stock back to the Company at the then fair market value. Payments can be made in a lump sum or on an installment method. When the installment method is utilized, a market rate of interest must be paid on the outstanding balance, adequate security must be provided, and the payments must be made over a period not to exceed 5 years. Distributions from ESOPs which are sponsored by publicly traded companies are not subject to this put option because the employees can sell their stock on the open market. This latter provision, of course, does not apply to you.

In addition to this repurchase obligation, certain diversification options and requirements exist. Employees who have attained the age of 55 and who have participated in the ESOP for at least 10 years may elect each year, over the subsequent six-year period, to diversify up to 25% of their ESOP holdings. In the last year of this period, the qualifying employees have the opportunity to diversify up to 50% of their holdings, reduced by amounts previously diversified.

The scope and extent of the above repurchase obligations depend on many variables. These include the future fair market value of the shares, the vesting schedule, the expected near-term "puts" from those employees who depart, and the expected form and timing of payments to the employees. The size and extent of the repurchase obligation might also affect the fair market value of the stock itself.

There are a number of strategies

which exist to plan ahead for this



# ESOP Feasibility Analysis



repurchase obligation. These may include funding the repurchase obligation with cash contributions to the ESOP, cash accumulations at the Company level, the purchase of life and disability insurance, a public offering, or the future sale of the Company.

## 9. Analysis of Seller Income

Prior to the ESOP, the owners were taking nominal salaries and receiving large distributions as compensation. Below is a chart that outlines the compensation for each owner from the past 5 years.

		2008			2007			2006			2005			2004		
		Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total
D	John Doe	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750
	John Smith	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750
	Jim Johnson	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750
	Bob Jackson	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750
	<b>Total</b>	<b>\$2,518,800</b>	<b>\$0</b>	<b>\$2,518,800</b>	<b>\$976,000</b>	<b>\$0</b>	<b>\$976,000</b>	<b>\$383,000</b>	<b>\$0</b>	<b>\$383,000</b>	<b>\$1,182,000</b>	<b>\$0</b>	<b>\$1,182,000</b>	<b>\$383,000</b>	<b>\$0</b>	<b>\$383,000</b>
T	John Smith	\$327,675	\$0	\$327,675	\$204,000	\$0	\$204,000	\$330,544	\$0	\$330,544	\$161,500	\$87,679	\$249,179	\$0	\$0	\$0
	Bob Jackson	\$327,675	\$0	\$327,675	\$204,000	\$0	\$204,000	\$330,544	\$0	\$330,544	\$161,500	\$307,616	\$469,116	\$0	\$75,541	\$75,541
	Frank Deprosti	\$115,660	\$65,221	\$180,871	\$72,000	\$68,891	\$130,891	\$116,663	\$55,210	\$171,873	\$57,000	\$55,211	\$112,211	\$0	\$8,941	\$8,941
	Jim Johnson	\$0	\$156,000	\$156,000	\$0	\$260,507	\$260,507	\$0	\$369,549	\$369,549	\$0	\$156,000	\$156,000	\$0	\$87,000	\$87,000
	John Doe	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$307,616	\$307,616	\$0	\$75,541	\$75,541
	<b>Total</b>	<b>\$771,000</b>	<b>\$221,221</b>	<b>\$992,221</b>	<b>\$480,000</b>	<b>\$319,399</b>	<b>\$799,399</b>	<b>\$777,750</b>	<b>\$424,759</b>	<b>\$1,202,509</b>	<b>\$380,000</b>	<b>\$914,121</b>	<b>\$1,294,121</b>	<b>\$0</b>	<b>\$247,024</b>	<b>\$247,024</b>
Combined	<b>Total</b>	<b>\$3,289,800</b>	<b>\$221,221</b>	<b>\$3,511,021</b>	<b>\$1,456,000</b>	<b>\$319,399</b>	<b>\$1,775,399</b>	<b>\$1,180,750</b>	<b>\$424,759</b>	<b>\$1,585,509</b>	<b>\$1,562,000</b>	<b>\$914,121</b>	<b>\$2,476,121</b>	<b>\$383,000</b>	<b>\$247,024</b>	<b>\$630,024</b>

Going forward, there will be no need to make distributions to pay tax or “withdrawals” as they were called in prior years. According to management, the Sellers will continue taking W2 income totaling \$600k, but in addition to that, they will be receiving interest and principal payments on their notes.

The interest and salary income will be subject to ordinary income tax rates (40%). The Capital Account Note proceeds will be received tax free. The Sellers will elect Installment Sales tax treatment on the ESOP Note payment and pay capital gains tax at the rate in effect when they receive each payment.

Based upon the 20% “fast-pay” scenario, over the next 5.5 years, the Sellers will receive salary, principal and interest payments after-tax totaling \$26.1M.

As mentioned above, in prior years, the sellers had been taking compensation in the form of salaries and distributions. The average pretax salaries and distributions over the last 5 years to the sellers collectively total \$1,995,615.

Going forward, the sellers will each receive compensation in the form of salary plus payments of principal and interest on their notes. Assuming the 20 percent 5.5 year “fast payoff” scenario, the average compensation to the group is \$6,023,623 (excluding the partial 2009 year).

An illustration of the historical pre-tax salaries and distributions as well as the projected salaries and payments of principal and interest specific to each owner can be found in the Appendix.

# ESOP Feasibility Analysis



	Year 2					Year 3				
	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax
John Doe	\$150,000	\$718,025	\$265,811	\$1,133,836	\$859,808	\$150,000	\$858,118	\$239,659	\$1,247,778	\$963,196
John Smith	\$0	\$986,809	\$365,314	\$1,352,123	\$1,057,976	\$0	\$1,179,345	\$329,373	\$1,508,717	\$1,200,067
Jim Johnson	\$300,000	\$718,025	\$265,811	\$1,283,836	\$949,808	\$300,000	\$858,118	\$239,659	\$1,397,778	\$1,053,196
Bob Jackson	\$0	\$986,809	\$365,314	\$1,352,123	\$1,057,976	\$0	\$1,179,345	\$329,373	\$1,508,717	\$1,200,067
Frank Deprosti	\$150,000	\$94,865	\$35,119	\$279,984	\$191,706	\$150,000	\$113,374	\$31,664	\$295,038	\$205,366
<b>Total</b>	<b>\$600,000</b>	<b>\$3,504,533</b>	<b>\$1,297,369</b>	<b>\$5,401,902</b>	<b>\$4,117,274</b>	<b>\$600,000</b>	<b>\$4,188,300</b>	<b>\$1,169,728</b>	<b>\$5,958,028</b>	<b>\$4,621,891</b>

	Total	
	Before Tax	After Tax
Salary	\$3,600,000	\$2,160,000
Principal on ESOP Note	\$22,056,490	\$18,748,016
Principal on Capital Acct Note	\$2,320,701	\$2,320,701
Interest on ESOP Note	\$4,042,282	\$2,425,369
Interest on Capital Acct Note	\$765,831	\$459,499
<b>Total</b>	<b>\$32,785,304</b>	<b>\$26,113,585</b>
Salary and Interest Tax Rate		40%
ESOP Note Principal Tax Rate		15%



## VI. Cost-Benefit Analysis

The chart below examines the cost of implementing an ESOP as a percentage of the tax savings and as a percentage of the total transaction. As you can see, the ESOP is an extremely cost effective way to transition the ownership of the Company compared to other strategies which can often be four to eight percent of the transaction alone without factoring in the fees of the advisors who help facilitate the legal, accounting and financial due-diligence necessary to accomplish the transaction.

<b>ESOP Cost/Benefit Analysis</b>	
Value of Stock Purchased by ESOP	\$20,700,000
Distribution of Capital Accounts/AAA	<u>\$2,300,000</u>
Total To Shareholders	\$23,000,000
<b>Total Tax benefit over 10 years</b> (elimination of S-Distribution)	<b>\$29,445,737</b>
<b>ESOP Cost</b>	
EFS	\$100,000
Valuation	\$10,000
Legal	\$20,000
Misc	\$5,000
Total	\$135,000
Cost of ESOP as a % of Tax Savings	0.46%
Cost of ESOP as a % of Total Transaction	0.65%



### **VII. Implementation**

Once the Company has made the decision to pursue the implementation of an ESOP, it should then address the viability of obtaining the ESOP financing it has envisioned. Once the Company is confident that it can obtain this financing, the next step will be to have the Company valued. We will assist with selecting a valuation consultant. Assuming the Company is able to obtain an acceptable valuation it will be poised to proceed with the ESOP implementation process.

SAMPLE



## VIII. Feasibility Statement

Following is the result of the analysis performed under each of the key feasibility areas which ultimately determine whether an ESOP is feasible for the Company

1. Is the Company's current governing structure favorable to an ESOP? – **NO – However, this will be resolved after RealCo converts to an S-Corporation as discussed earlier.**
2. Does the Value of the Company fall within the realistic range of the owner based upon the current marketplace and the financials of the Company, and should an independent valuation firm be able to support it? – **YES**
3. Does the ESOP provide sufficient tax benefit to the Company to justify the cost of implementing the Plan - **YES**
4. Does the Company have sufficient cash flow to service the debt related to a transaction of up to \$23M (as presented) – **YES**
5. Does the Company have sufficient eligible payroll to reap the maximum tax benefit while remaining within the parameters of Section 401(a)? – **N/A – The Company will be operating as a 100% non-taxable entity.**
6. Will the ESOP interact positively with any of the Company's existing Contracts and Loan Agreements? - **YES** (Confirm with Company counsel)
7. Will the current employees and managers receive a benefit from the Company greater under the ESOP than they do under the Company's current 401k/profit sharing plan? - **YES**
8. Is the future Repurchase Obligation created by the ESOP something that may prevent the Company from adopting the ESOP for its Employees? – **NO**
9. Will the transaction result in ample income for the sellers compared to their current ownership compensation - **YES**

**Based upon the due diligence performed within this report, our finding that an ESOP is Feasible for RealCo and TransportCo, Inc. "the Company" to use as a vehicle to purchase up to \$20.7M of Company stock.**





**IX. Financial Data**

SAMPLE



**Appendix**

SAMPLE



**A. Growth & Valuation Summary**

- **TransportCo**
- **RealCo**
- **Combined**

SAMPLE





**Combined**  
Growth Charts And Valuation

	2004		2005		2006		2007		2008		3 Year Average		5 Year Average		Projections					
<b>Revenue</b>	\$7,016,699	\$21,861,368	\$28,426,637	\$29,098,866	\$36,483,048	\$31,336,184							\$24,577,324	\$43,779,658	\$52,535,589	\$63,042,707	\$75,651,248	\$90,781,498		
<b>% Change</b>	x	211.56%	30.03%	2.36%	25.38%	19.26%							67.33%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
<b>Gross Profit</b>	\$3,282,403	\$6,382,347	\$8,906,437	\$8,676,039	\$9,914,951	\$9,165,809							\$7,432,435	\$12,889,301	\$15,467,162	\$18,560,594	\$22,272,713	\$26,727,255		
<b>EBITDA</b>	\$3,462,222	\$3,501,537	\$4,516,383	\$3,700,703	\$4,838,797	\$4,351,961							\$4,003,928	\$6,109,988	\$7,331,986	\$8,798,383	\$10,558,060	\$12,669,672		
<b>Net Income</b>	\$896,141	\$536,434	\$1,148,137	\$2,230,686	\$3,300,250	\$2,226,358							\$1,622,330	\$3,028,212	\$3,633,855	\$4,360,625	\$5,232,750	\$6,279,301		
<b>% Change</b>	x	94.44%	39.55%	-2.59%	14.28%	17.08%							36.42%	30.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
<b>Gross Profit</b>	x	1.14%	28.98%	-18.06%	30.75%	13.89%							10.70%	26.27%	20.00%	20.00%	20.00%	20.00%	20.00%	
<b>EBITDA</b>	x	-40.14%	114.03%	94.29%	47.95%	85.42%							54.03%	-8.24%	20.00%	20.00%	20.00%	20.00%	20.00%	
<b>Net Income</b>	x																			

	2004		2005		2006		2007		2008		3 Year Average		5 Year Average		Projections				
<b>Unadjusted EBITDA</b>	\$3,462,222	\$3,501,537	\$4,516,383	\$3,700,703	\$4,838,797	\$4,351,961							\$4,003,928	\$6,109,988	\$7,331,986	\$8,798,383	\$10,558,060	\$12,669,672	
<b>Excess Comp</b>	\$0	\$314,121	\$0	\$0	\$0	\$0							\$62,824	\$0	\$0	\$0	\$0	\$0	\$0
<b>401K Adjustment</b>	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000							\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
<b>Adjusted EBITDA</b>	\$3,474,222	\$3,827,658	\$4,528,383	\$3,712,703	\$4,850,797	\$4,363,961							\$4,076,753	\$6,121,988	\$7,343,986	\$8,810,383	\$10,570,060	\$12,681,672	
<b>4x</b>	\$13,896,888	\$15,310,632	\$18,113,532	\$14,850,812	\$19,403,188	\$17,455,844							\$16,315,010	\$24,487,954	\$29,375,945	\$35,241,534	\$42,280,240	\$50,726,688	
<b>5.3x</b>	\$18,413,377	\$20,286,588	\$24,000,430	\$19,677,326	\$25,709,224	\$23,128,993							\$20,393,763	\$32,446,539	\$38,923,127	\$46,695,032	\$56,021,318	\$67,212,862	
<b>6x</b>	\$20,845,332	\$22,965,949	\$27,170,298	\$22,276,218	\$29,104,782	\$26,183,766							\$24,472,516	\$36,731,931	\$44,063,917	\$52,862,300	\$63,420,360	\$76,090,033	



**B. ESOP Allocation Analysis**

SAMPLE

Combined

Table Input	
Payroll	315,224
ESOP Transaction	315,224
% of Company Sold	100.00%
Shares Outstanding	1,000,000
Period (Yrs)	15
<b>Total:</b>	<b>315,224</b>

25% of Payroll  
\$ 315,224.37

Participant Name	Payroll	Ratio	Growth Rate															Average Growth 4.36%
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	
Frank Deprosti	\$150,000	11.90%	\$37,500	\$39,000	\$40,560	\$42,182	\$43,870	\$45,624	\$47,449	\$49,347	\$51,321	\$53,374	\$56,043	\$58,845	\$61,787	\$64,877	\$68,120	\$1,021,807
Steve Dinoit	\$21,341	1.69%	\$5,335	\$5,549	\$5,771	\$6,002	\$6,242	\$6,491	\$6,751	\$7,021	\$7,302	\$7,594	\$7,974	\$8,372	\$8,791	\$9,230	\$9,692	\$145,379
Tim Holt	\$71,219	5.65%	\$17,805	\$18,517	\$19,257	\$20,028	\$20,829	\$21,662	\$22,529	\$23,430	\$24,367	\$25,342	\$26,609	\$27,939	\$29,336	\$30,803	\$32,343	\$485,144
Mary Helens	\$57,741	4.58%	\$14,435	\$15,013	\$15,613	\$16,238	\$16,887	\$17,563	\$18,265	\$18,996	\$19,756	\$20,546	\$21,573	\$22,652	\$23,785	\$24,974	\$26,222	\$393,337
Christopher Allen	\$12,836	1.02%	\$3,209	\$3,337	\$3,471	\$3,610	\$3,754	\$3,904	\$4,060	\$4,223	\$4,392	\$4,567	\$4,796	\$5,035	\$5,287	\$5,552	\$5,829	\$87,438
Douglas Goldstein	\$27,781	2.20%	\$6,945	\$7,223	\$7,512	\$7,813	\$8,125	\$8,450	\$8,788	\$9,140	\$9,505	\$9,885	\$10,380	\$10,899	\$11,444	\$12,016	\$12,617	\$189,248
Patrick Hobbs	\$49,599	3.93%	\$12,400	\$12,896	\$13,411	\$13,948	\$14,506	\$15,086	\$15,690	\$16,317	\$16,970	\$17,649	\$18,531	\$19,458	\$20,430	\$21,452	\$22,525	\$337,868
William Walst	\$93,204	7.39%	\$23,301	\$24,233	\$25,202	\$26,210	\$27,259	\$28,349	\$29,483	\$30,663	\$31,889	\$33,165	\$34,823	\$36,564	\$38,392	\$40,312	\$42,327	\$634,910
Erik Canoyer	\$52,641	4.17%	\$13,160	\$13,687	\$14,234	\$14,804	\$15,396	\$16,012	\$16,652	\$17,318	\$18,011	\$18,731	\$19,668	\$20,651	\$21,684	\$22,768	\$23,906	\$358,596
Michael Rice	\$54,314	4.31%	\$13,579	\$14,122	\$14,687	\$15,274	\$15,885	\$16,520	\$17,181	\$17,869	\$18,583	\$19,327	\$20,293	\$21,308	\$22,373	\$23,492	\$24,666	\$369,993
Percy Dylan	\$46,870	3.70%	\$11,668	\$12,134	\$12,620	\$13,124	\$13,649	\$14,195	\$14,763	\$15,354	\$15,968	\$16,607	\$17,437	\$18,309	\$19,224	\$20,185	\$21,195	\$317,921
Katie Bell	\$47,136	3.74%	\$11,784	\$12,255	\$12,745	\$13,255	\$13,785	\$14,337	\$14,910	\$15,507	\$16,127	\$16,772	\$17,611	\$18,491	\$19,416	\$20,387	\$21,406	\$321,090
Mary Turner	\$49,032	3.89%	\$12,258	\$12,748	\$13,258	\$13,788	\$14,340	\$14,914	\$15,510	\$16,131	\$16,776	\$17,447	\$18,319	\$19,235	\$20,197	\$21,207	\$22,267	\$334,005
Catherine Strauss	\$44,841	3.56%	\$11,210	\$11,659	\$12,125	\$12,610	\$13,115	\$13,639	\$14,185	\$14,752	\$15,342	\$15,956	\$16,754	\$17,591	\$18,471	\$19,394	\$20,364	\$305,462
Chloe Parker	\$32,542	2.58%	\$8,135	\$8,461	\$8,799	\$9,151	\$9,517	\$9,898	\$10,294	\$10,706	\$11,134	\$11,579	\$12,158	\$12,766	\$13,404	\$14,075	\$14,778	\$221,675
John Smith	\$75,000	5.95%	\$18,750	\$19,500	\$20,280	\$21,091	\$21,935	\$22,812	\$23,725	\$24,674	\$25,661	\$26,687	\$28,021	\$29,423	\$30,894	\$32,438	\$34,060	\$510,904
Bob Jackson	\$150,000	11.90%	\$37,500	\$39,000	\$40,560	\$42,182	\$43,870	\$45,624	\$47,449	\$49,347	\$51,321	\$53,374	\$56,043	\$58,845	\$61,787	\$64,877	\$68,120	\$1,021,807
John Doe	\$75,000	5.95%	\$18,750	\$19,500	\$20,280	\$21,091	\$21,935	\$22,812	\$23,725	\$24,674	\$25,661	\$26,687	\$28,021	\$29,423	\$30,894	\$32,438	\$34,060	\$510,904
Jim Johnson	\$150,000	11.90%	\$37,500	\$39,000	\$40,560	\$42,182	\$43,870	\$45,624	\$47,449	\$49,347	\$51,321	\$53,374	\$56,043	\$58,845	\$61,787	\$64,877	\$68,120	\$1,021,807
<b>Total:</b>	<b>\$1,260,897</b>	<b>100%</b>	<b>\$315,224</b>	<b>\$327,833</b>	<b>\$340,947</b>	<b>\$354,585</b>	<b>\$368,768</b>	<b>\$383,519</b>	<b>\$398,859</b>	<b>\$414,814</b>	<b>\$431,406</b>	<b>\$448,663</b>	<b>\$471,096</b>	<b>\$494,650</b>	<b>\$519,383</b>	<b>\$545,352</b>	<b>\$572,620</b>	<b>\$8,589,296</b>





**C. Debt Scenarios**

SAMPLE

**Combined**

Debt Scenarios  
 Static 2008 EBITDA w/ Trailers

	Total Debt Service												Total					
	Existing Debt	Proceeds	Committed	Maturity Dat	Rate	Type	Am	2009	2010	2011	2012	2013		2014	2015	2016	2017	2018
Acct #1320025243		\$ 1,032,326	7/30/2013	5.40%	P & I Monthly	55	\$ 279,125	\$ 266,798	\$ 254,471	\$ 242,144	\$ 154,581	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,197,120
Acct #1320023463		\$ 888,756	3/1/2013	5.40%	P & I Monthly	51	\$ 258,685	\$ 247,080	\$ 235,495	\$ 223,900	\$ 54,163	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,019,334
Acct #5190298		\$ 335,599	6/30/2011	5.40%	P & I Monthly	18	\$ 322,401	\$ 130,080	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 362,481
Acct #5194527		\$ 188,605	5/30/2011	5.40%	P & I Monthly	29	\$ 86,101	\$ 81,886	\$ 39,371	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 207,369
Acct #5195441		\$ 31,454	7/3/2011	5.40%	P & I Monthly	31	\$ 13,903	\$ 13,230	\$ 7,406	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,539
Acct #5160361		\$ 22,752	4/5/2009	5.40%	P & I Monthly	4	\$ 6,299	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,299
Acct #5164207		\$ 175,087	4/10/2010	5.40%	P & I Monthly	16	\$ 139,927	\$ 45,039	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 184,966
Acct #5191754		\$ 475,083	11/18/2010	5.40%	P & I Monthly	23	\$ 92,960	\$ 29,918	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 503,112
Acct #5194147		\$ 445,821	4/25/2011	5.40%	P & I Monthly	28	\$ 268,657	\$ 234,455	\$ 80,444	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 491,543
Acct #5195367		\$ 106,832	6/26/2011	5.40%	P & I Monthly	30	\$ 47,530	\$ 200,384	\$ 21,742	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 114,490
Acct #5192224		\$ 500,433	12/28/2010	5.40%	P & I Monthly	24	\$ 269,359	\$ 255,931	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 525,290
Acct #5164603		\$ 212,726	1/28/2010	5.40%	P & I Monthly	13	\$ 197,742	\$ 16,012	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 213,754
Acct #5165477		\$ 1,500,000	-	6.00%	P & I Monthly	16	\$ 93,688	\$ 30,223	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,500,000
LOC		\$ 3,750,000	-	5.40%	P & I Monthly	24	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 900,000
New Trailers		\$ 3,750,000	-	5.40%	P & I Monthly	60	\$ 472,031	\$ 913,688	\$ 873,188	\$ 832,688	\$ 792,188	\$ 470,906	\$ 470,906	\$ 470,906	\$ 470,906	\$ 470,906	\$ 470,906	\$ 4,264,688
Sub-Total		\$ 10,042,354	-	5.40%	P & I Monthly	60	\$ 2,759,324	\$ 2,599,963	\$ 1,602,117	\$ 1,388,732	\$ 1,090,932	\$ 380,906	\$ 380,906	\$ 380,906	\$ 380,906	\$ 380,906	\$ 380,906	\$ 10,271,974
New Company Value		\$ 23,000,000	-				\$ 4,190,747	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 4,850,797	\$ 48,850,797
Capital Account Distribution		\$ 2,320,701	-				\$ 3,449,155	\$ 3,249,953	\$ 2,002,646	\$ 1,735,915	\$ 1,363,665	\$ 588,633	\$ 588,633	\$ 588,633	\$ 588,633	\$ 588,633	\$ 588,633	\$ 112,500
Balance		\$ 20,679,299	-				\$ 741,592	\$ 1,600,844	\$ 2,848,151	\$ 3,114,882	\$ 3,487,132	\$ 4,262,164	\$ 4,738,297	\$ 4,738,297	\$ 4,738,297	\$ 4,738,297	\$ 4,738,297	\$ 35,007,952

	Static w/ Trailers	
	1st to ESOP	2nd to Cap
ESOP Seller Note	\$ 20,679,299	\$ 20,679,299
Capital Account Note	\$ 2,320,701	\$ 2,320,701
<b>Total ESOP Debt</b>	<b>\$ 2,320,701</b>	<b>\$ 2,320,701</b>
<b>ESOP Loan Balance</b>	<b>\$ 22,999,999</b>	<b>\$ 22,999,999</b>
<b>Total DS:</b>	<b>\$ 3,500,916</b>	<b>\$ 4,500,268</b>

	Static w/ Trailers	
	1st to ESOP	2nd to Cap
ESOP Seller Note	\$ 20,679,299	\$ 20,679,299
Capital Account Note	\$ 2,320,701	\$ 2,320,701
<b>Total ESOP Debt</b>	<b>\$ 2,320,701</b>	<b>\$ 2,320,701</b>
<b>ESOP Loan Balance</b>	<b>\$ 22,999,999</b>	<b>\$ 22,999,999</b>
<b>Total DS:</b>	<b>\$ 3,500,916</b>	<b>\$ 4,500,268</b>







**D. Owners Income Schedule**

SAMPLE

Historical Owner's Compensation

	RealCo	2008			2007			2006			2005			2004			5 Year Avg			
		Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	Distribution	W2	Total	
	John Doe	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750	\$272,140	\$0	\$272,140	
	John Smith	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750	\$272,140	\$0	\$272,140	
	Jim Johnson	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750	\$272,140	\$0	\$272,140	
	Bob Jackson	\$629,700	\$0	\$629,700	\$244,000	\$0	\$244,000	\$95,750	\$0	\$95,750	\$295,500	\$0	\$295,500	\$95,750	\$0	\$95,750	\$272,140	\$0	\$272,140	
	<b>Total</b>	<b>\$2,518,800</b>	<b>\$0</b>	<b>\$2,518,800</b>	<b>\$976,000</b>	<b>\$0</b>	<b>\$976,000</b>	<b>\$383,000</b>	<b>\$0</b>	<b>\$383,000</b>	<b>\$1,182,000</b>	<b>\$0</b>	<b>\$1,182,000</b>	<b>\$383,000</b>	<b>\$0</b>	<b>\$383,000</b>	<b>\$1,088,560</b>	<b>\$0</b>	<b>\$1,088,560</b>	
	TransportCo	John Smith	\$327,675	\$0	\$327,675	\$204,000	\$0	\$204,000	\$330,544	\$0	\$330,544	\$161,500	\$87,679	\$249,179	\$0	\$0	\$0	\$204,744	\$17,536	\$222,280
		Bob Jackson	\$327,675	\$0	\$327,675	\$204,000	\$0	\$204,000	\$330,544	\$0	\$330,544	\$161,500	\$307,616	\$469,116	\$0	\$75,541	\$75,541	\$204,744	\$76,631	\$281,375
		Frank Deprosti	\$115,650	\$65,221	\$180,871	\$72,000	\$58,891	\$130,891	\$116,663	\$55,210	\$171,873	\$57,000	\$55,211	\$112,211	\$0	\$8,941	\$8,941	\$72,263	\$48,695	\$120,958
		Jim Johnson	\$0	\$156,000	\$156,000	\$0	\$260,507	\$260,507	\$0	\$369,549	\$369,549	\$0	\$156,000	\$156,000	\$0	\$87,000	\$87,000	\$0	\$205,811	\$205,811
		John Doe	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$307,616	\$307,616	\$0	\$75,541	\$75,541	\$0	\$76,631	\$76,631	
	<b>Total</b>	<b>\$771,000</b>	<b>\$221,221</b>	<b>\$992,221</b>	<b>\$480,000</b>	<b>\$319,399</b>	<b>\$799,399</b>	<b>\$777,750</b>	<b>\$424,759</b>	<b>\$1,202,509</b>	<b>\$380,000</b>	<b>\$914,121</b>	<b>\$1,294,121</b>	<b>\$0</b>	<b>\$247,024</b>	<b>\$247,024</b>	<b>\$481,750</b>	<b>\$425,305</b>	<b>\$907,055</b>	
	<b>Combined</b>	<b>Total</b>	<b>\$3,289,800</b>	<b>\$221,221</b>	<b>\$3,511,021</b>	<b>\$1,456,000</b>	<b>\$319,399</b>	<b>\$1,775,399</b>	<b>\$1,160,750</b>	<b>\$424,759</b>	<b>\$1,585,509</b>	<b>\$1,562,000</b>	<b>\$914,121</b>	<b>\$2,476,121</b>	<b>\$383,000</b>	<b>\$247,024</b>	<b>\$630,024</b>	<b>\$1,570,310</b>	<b>\$425,305</b>	<b>\$1,995,615</b>

Projected Owner's Compensation

	Year 1					Year 2					Year 3				
	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax
John Doe	\$150,000	\$282,165	\$141,370	\$573,536	\$414,663	\$150,000	\$718,025	\$265,811	\$1,133,836	\$859,808	\$150,000	\$858,118	\$239,659	\$1,247,778	\$963,196
John Smith	\$0	\$387,790	\$194,291	\$582,081	\$446,196	\$0	\$986,809	\$365,314	\$1,352,123	\$1,057,976	\$0	\$1,179,345	\$329,373	\$1,508,717	\$1,200,067
Jim Johnson	\$300,000	\$282,165	\$141,370	\$723,536	\$504,663	\$300,000	\$718,025	\$265,811	\$1,283,836	\$949,808	\$300,000	\$858,118	\$239,659	\$1,397,778	\$1,053,196
Bob Jackson	\$0	\$387,790	\$194,291	\$582,081	\$446,196	\$0	\$986,809	\$365,314	\$1,352,123	\$1,057,976	\$0	\$1,179,345	\$329,373	\$1,508,717	\$1,200,067
Frank Deprosti	\$150,000	\$37,279	\$18,678	\$205,957	\$132,894	\$150,000	\$94,865	\$35,119	\$279,984	\$191,706	\$150,000	\$113,374	\$31,664	\$295,038	\$205,366
<b>Total</b>	<b>\$600,000</b>	<b>\$1,377,191</b>	<b>\$690,000</b>	<b>\$2,667,191</b>	<b>\$1,944,612</b>	<b>\$600,000</b>	<b>\$3,504,533</b>	<b>\$1,297,369</b>	<b>\$5,401,902</b>	<b>\$4,117,274</b>	<b>\$600,000</b>	<b>\$4,188,300</b>	<b>\$1,169,728</b>	<b>\$5,958,028</b>	<b>\$4,621,891</b>
	Year 4					Year 5					Year 6				
	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax
John Doe	\$150,000	\$1,137,007	\$188,172	\$1,475,179	\$1,169,359	\$150,000	\$1,496,796	\$119,952	\$1,766,748	\$1,434,248	\$150,000	\$502,401	\$30,144	\$682,545	\$606,448
John Smith	\$0	\$1,562,631	\$258,612	\$1,821,244	\$1,483,404	\$0	\$2,057,104	\$164,854	\$2,221,958	\$1,847,451	\$0	\$690,468	\$41,428	\$731,896	\$709,775
Jim Johnson	\$300,000	\$1,137,007	\$188,172	\$1,625,179	\$1,259,359	\$300,000	\$1,496,796	\$119,952	\$1,916,748	\$1,524,248	\$300,000	\$502,401	\$30,144	\$832,545	\$696,448
Bob Jackson	\$0	\$1,562,631	\$258,612	\$1,821,244	\$1,483,404	\$0	\$2,057,104	\$164,854	\$2,221,958	\$1,847,451	\$0	\$690,468	\$41,428	\$731,896	\$709,775
Frank Deprosti	\$150,000	\$150,221	\$24,861	\$325,082	\$232,604	\$150,000	\$197,756	\$15,848	\$363,604	\$267,601	\$150,000	\$66,377	\$3,983	\$220,359	\$158,233
<b>Total</b>	<b>\$600,000</b>	<b>\$5,549,496</b>	<b>\$918,430</b>	<b>\$7,067,926</b>	<b>\$5,628,130</b>	<b>\$600,000</b>	<b>\$7,305,556</b>	<b>\$585,460</b>	<b>\$8,491,016</b>	<b>\$6,920,999</b>	<b>\$600,000</b>	<b>\$2,452,115</b>	<b>\$147,127</b>	<b>\$3,199,242</b>	<b>\$2,880,679</b>
	2010-2014 Average														
	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax	Salary	Principal	Interest On Notes	Total	Total After Tax
John Doe	\$900,000	\$4,994,512	\$985,109	\$6,879,620	\$5,447,721	\$150,000	\$942,469	\$168,748	\$1,261,217	\$1,006,612	\$150,000	\$942,469	\$168,748	\$1,261,217	\$1,006,612
John Smith	\$0	\$6,864,148	\$1,353,872	\$8,218,020	\$6,744,869	\$0	\$1,295,271	\$231,916	\$1,527,188	\$1,259,734	\$0	\$1,295,271	\$231,916	\$1,527,188	\$1,259,734
Jim Johnson	\$1,800,000	\$4,994,512	\$985,109	\$7,779,620	\$5,987,721	\$300,000	\$942,469	\$168,748	\$1,411,217	\$1,096,612	\$300,000	\$942,469	\$168,748	\$1,411,217	\$1,096,612
Bob Jackson	\$0	\$6,864,148	\$1,353,872	\$8,218,020	\$6,744,869	\$0	\$1,295,271	\$231,916	\$1,527,188	\$1,259,734	\$0	\$1,295,271	\$231,916	\$1,527,188	\$1,259,734
Frank Deprosti	\$900,000	\$659,872	\$130,152	\$1,690,024	\$1,188,405	\$150,000	\$124,518	\$22,295	\$296,813	\$211,102	\$150,000	\$124,518	\$22,295	\$296,813	\$211,102
<b>Total</b>	<b>\$3,600,000</b>	<b>\$24,377,191</b>	<b>\$4,808,114</b>	<b>\$32,785,304</b>	<b>\$26,113,585</b>	<b>\$600,000</b>	<b>\$4,600,000</b>	<b>\$823,623</b>	<b>\$6,023,623</b>	<b>\$4,833,795</b>					



**E. ESOP FAQs**

SAMPLE



## A. How does an ESOP create a shareholder liquidity alternative?

- The ESOP creates a “friendly” buyer for the stock and is designed to enable a business owner to achieve the following objectives:
  - Sell Stock to an ESOP and still be able to help manage the company (The ESOP, however, must be operated under ERISA guidelines).
  - Sell stock to an ESOP over time when it is convenient (rather than all at once, as a traditional purchaser would requires).

## B. If I sell a portion of my company to an ESOP today, will that make my company less attractive to investors or buyers at a later date?

No. Because the ESOP acts as a single, integrated entity, it should be viewed as simply another shareholder whose acts are controlled by a sophisticated investor (the trustee) who is often a trust department of a bank or a trust company.

## C. What is a tax-qualified employee benefit plan?

A tax-qualified employee benefit plan is a retirement plan that meets special rules for tax qualification under Section 401(a) of the Code. Employer contributions to tax-qualified plans are tax-deductible within certain limits.

## D. What is a defined contribution plan?

In a broad category of tax-qualified employee benefit plans, there are two general categories of plans:

- *Defined Benefit Plans* provide a fixed schedule of benefits for an employee upon retirement with varying, but mandatory, annual company contributions.
- ESOPs, by contrast, are *defined contribution plans* to which the company makes annual contributions, which may vary year to year. The income an employee receives from an ESOP upon retirement is a function of the contributions made to the plan and the performance of plan investments (primarily employer securities), rather than a pre-determined benefit based on a fixed formula.

## H. How does an ESOP differ from other types of defined contribution plans?

In general, while defined contribution plans may invest all or a portion of their assets in employer stock, ERISA suggests that defined contribution plans (other than eligible individual account plans) invest in a *diversified* portfolio of securities.

However, ESOPs are designed to invest primarily or exclusively in company sponsor stock and may borrow money to make these investments.

## I. Which government agencies regulate ESOPs?

Several government agencies may oversee ESOPs and the transactions into which they enter because of the fiduciary responsibilities of employee benefit plans under ERISA, the qualified tax status of ESOPs and other concerns in regulated industries.



## ESOP Feasibility Analysis



- Department of Labor (DOL) – The DOL enforces those provisions of ERISA involving reporting, disclosure, fiduciary conduct and procedures.
- Internal Revenue Service (IRS) – The IRS enforces the requirements to tax-qualify the ESOP. In addition, the IRS enforces certain provisions of ERISA.
- Other Agencies – Other governmental agencies such as the Securities of Exchange Commission (SEC) may be involved, particularly in regulated industries such as commercial banks or insurance companies that have capital or surplus requirements and/or filing procedures for changes in ownership. For companies, which provide services or products to the federal government, ESOP implementation and ongoing administration is subject to regulatory review by the Defense Contract Audit Agency (DCA). In public companies, there are both federal and state securities law issues that may involve securities regulatory bodies such as the SEC. In other situations, such as in the defense or health care industries, allowable reimbursement of costs may include ESOP contributions to pay principal on an ESOP's indebtedness and may require regulatory approvals.

### J. What is the difference between a “non-leveraged ESOP” and a “leveraged ESOP?”

As the name implies, a non-leveraged ESOP does not use debt to obtain company sponsor stock. In a non-leveraged ESOP, the ESOP obtains company sponsor stock via tax-deductible stock contributions or tax-deductible cash contributions that are subsequently used to purchase company sponsor stock (cash or stock contributions are generally limited to 15 percent of covered payroll). There is no need for debt funding since the ESOP either receives stock via the stock contribution or purchases company sponsor stock from the company sponsor or existing shareholders with the cash contribution it already received. Non-leveraged stock and cash contributions are shown below in Figures 1A and 1B, respectively. As cash or stock contributions are made over time, the ESOP's ownership percentage increases while other shareholders' ownership percentage decreases.

Figure 1A

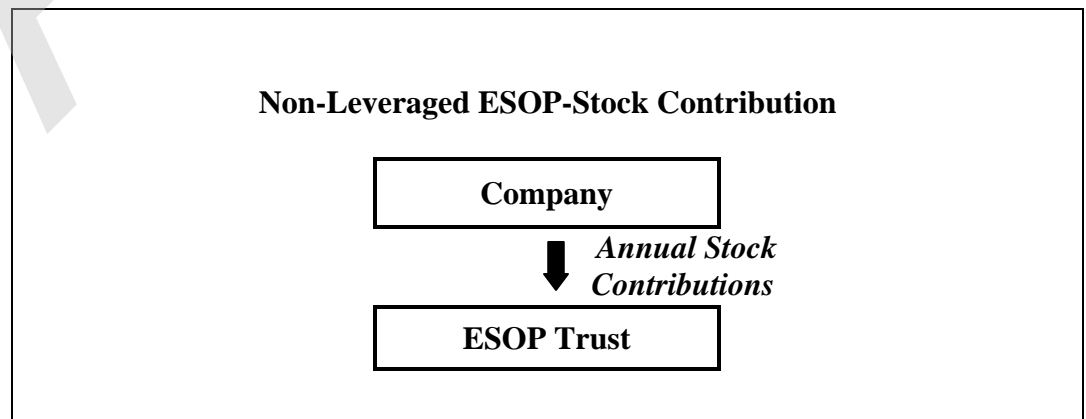
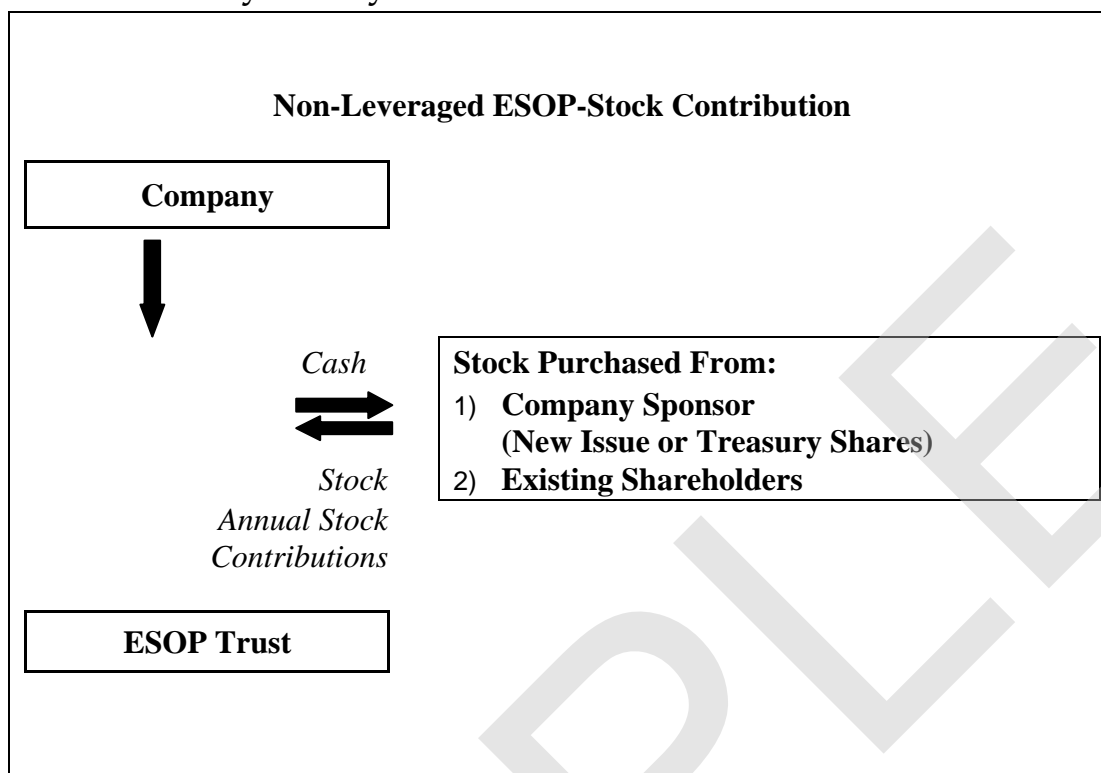


Figure 1B



Leveraged ESOPs are distinct from other types of employee benefit plans. A leveraged ESOP borrows funds from either the company, the selling shareholder(s), or a third-party capital source (hence “leveraged”) and purchases either:

- Stock from existing shareholders or
- Newly issued stock.

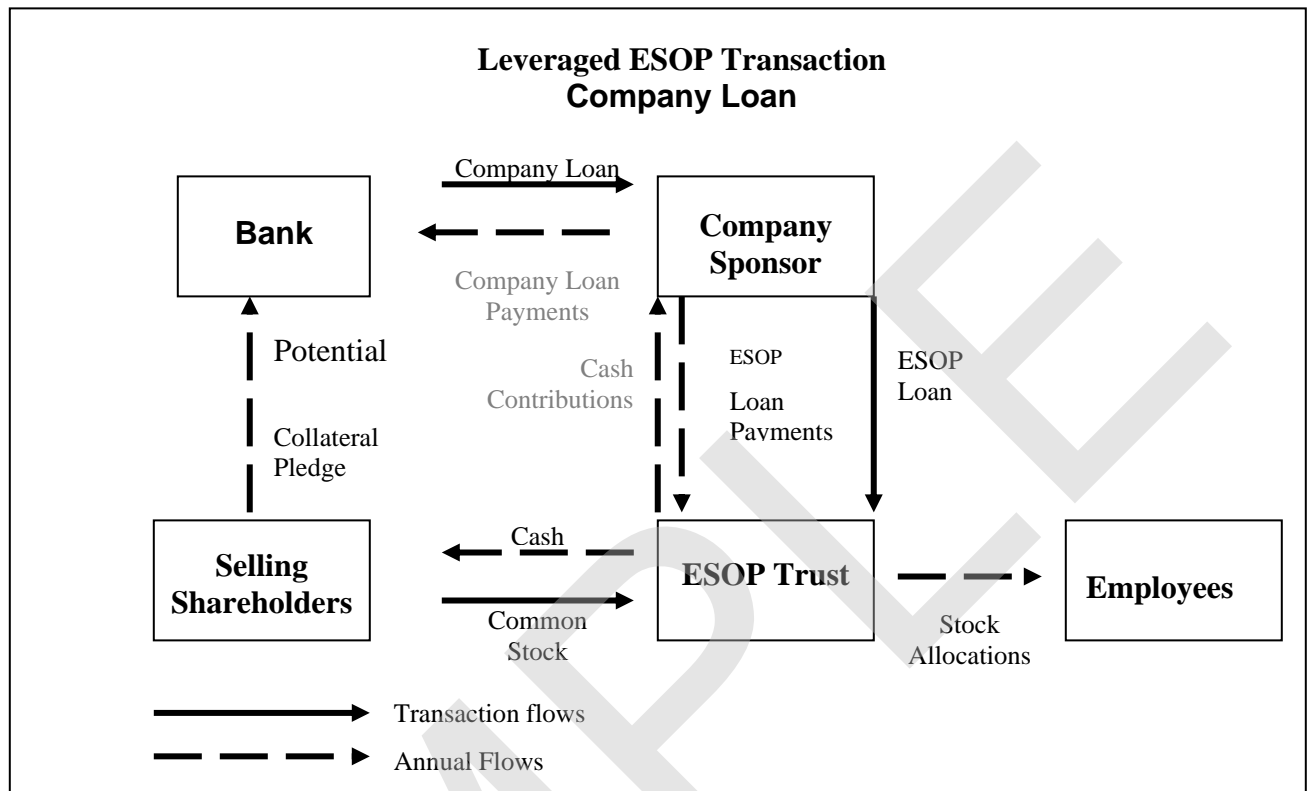
Leveraged ESOPs are economically attractive for the following reasons:

- Contributions by the company sponsor to pay both interest and principal payments on ESOP debt are tax-deductible within certain limits (generally limited to 25% of covered payroll plus interest). Thus, annual tax-deductible ESOP contributions are used to repay the principal and interest on the outstanding ESOP indebtedness.
- Cash dividends on ESOP stock used to repay ESOP debt may be tax-deductible.

Figure 2 below illustrates how an ESOP purchases stock from existing shareholders by borrowing funds from the company sponsor. The company sponsor, in turn, borrows funds from a third-party capital source. The company sponsor makes contributions to the ESOP, which the ESOP uses to repay its loan with the company. The company simultaneously pays down debt to the third-party capital source. This type of transaction is very common: the company borrows funds from the third-party capital source, the ESOP borrows those funds from the company to purchase stock from existing shareholders who elect 1042 Rollover treatment. There are numerous variations to this theme, depending on the desired company, selling shareholder, and ESOP objectives, but the general core concept remains the same.



Figure 2



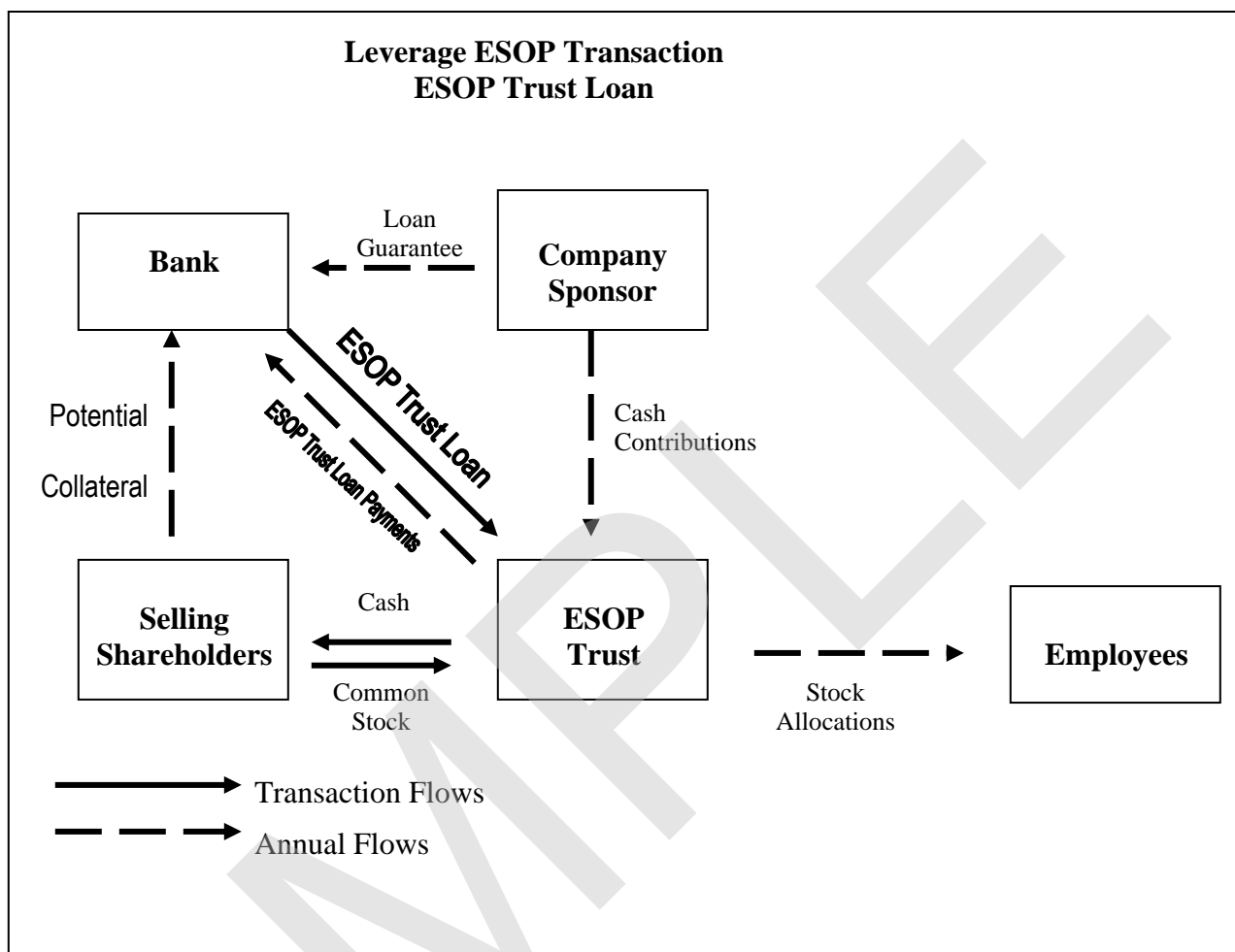
Leveraged ESOPs may hold only voting common stock or preferred stock convertible at any time into voting common stock of the company. If the company (or any related company) has publicly traded common stock, the ESOP must purchase that class of publicly traded common stock or preferred stock convertible into such publicly traded common stock.

**K. Can an ESOP Trust borrow money from a lender for a leveraged ESOP?**

Yes. In certain situations, due to ESOP structural or industry-specific regulatory issues, the company cannot, or may not desire to, be the direct obligor. Therefore, a variation in ESOP borrowing is for the ESOP Trust to borrow the funds directly from a lender, with the company and/or selling shareholder(s) guaranteeing the repayment, as illustrated in Figure 3. In this case, the company makes annual tax-deductible contributions (and/or pays tax-deductible cash dividends), which the ESOP uses to repay the lender.



Figure 3



## L. Are lenders motivated to make ESOP loans?

Yes. The tax advantages of a company borrowing through an ESOP (via the pretax principal repayment) actually enhance a company's cash flow and is a critical component of credit quality.

## M. How is the ESOP debt accounted for?

Regardless of the form of the ESOP loan, the American Institute of Certified Public Accountants (AICPA) requires that the ESOP debt be reflected as a liability on a company's balance sheet, with the offsetting balance sheet entry reflected as a *contra-equity account*, as illustrated and contrasted below in Figure 4A (pre-deal) and Figure 4B (post-deal). Certain other rules are promulgated, including: ESOP compensation expense is recorded on the income statement generally by multiplying the number of shares released to participants (during the fiscal period) by the estimated stock value at that time of release; dividends paid on unallocated ESOP shares are treated as a compensation expense; and so on.

NOTE: The accounting treatment for a leveraged ESOP may result in the company sponsors reporting *negative book value* post-transaction. While sophisticated lenders and investors recognize and distinguish between *economic value* and *book value*,

# ESOP Feasibility Analysis



some creditors, regulators, and other parties may lack the experience to assess such situations. Consequently, a company and its ESOP advisors are encouraged to address the implications of the ESOP debt accounting treatment and compensation expenses accounting treatment at the onset of the transaction.

Figure 4A

<b>Pre-Deal Company Sponsor Balance Sheet (\$ Millions)</b>			
<b>Equity</b>	<b>Assets</b>	<b>Liabilities and Stockholders'</b>	
Assets	<u>\$10</u>	<b>Total Liabilities</b>	<b>\$2</b>
		<b>Stockholders' Equity</b>	<b><u>8</u></b>
<b>Total Assets</b>	<b><u>\$10</u></b>	<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$10</u></b>

Figure 4B

<b>Post-Deal Company Sponsor Balance Sheet (\$ Millions)</b>			
<b>Equity</b>	<b>Assets</b>	<b>Liabilities and Stockholders'</b>	
Assets	<u>\$10</u>	Liabilities	\$2
		ESOP Debt	<u>5</u>
		<b>Total Liabilities</b>	<b>\$7</b>
		Retained Earnings and And Paid-in-Capital	8
		Unearned ESOP shares	<u>(5)</u>
		<b>Total Stockholders' Equity</b>	<b>3</b>
<b>Total Assets</b>	<b><u>\$10</u></b>	<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$10</u></b>

\*Per AICPA Statement of Position 93-6, assuming a \$5.0 mm ESOP transaction.



### **N. Is my existing lending relationship a potential source for ESOP financing?**

Perhaps. ESOPs, in general, often require a cash flow-based lender, depending on whether, or to what extent, the selling shareholders are willing to guarantee part of the loan. The economic and legal nuances of ESOP's often require a lender experienced in ESOP lending.

### **O. What are the sources of ESOP financing?**

Sources of ESOP financing include regional and national banks, insurance companies, credit and finance companies and private investors.

### **P. What criteria do lenders evaluate when considering an ESOP transaction?**

ESOP transactions compete with other transactions on the basis of credit quality. The components of credit worthiness of the company sponsor are numerous, and include:

Protection of Principal – Lenders assess the risk of ultimate repayment by analyzing the value of underlying company sponsor assets for collateralization; where they perceive a shortfall, other sources of repayment, such as third-party guarantees or pledges from selling shareholders may be requested.

Predictability and Stability of Cash Flow – Lenders assess the ability to service debt obligations based on the predictability and stability of a company's cash flow. In general, this is a function of historical and projected performance of the company sponsor and the overall health of the sponsor company's industry.

Experience and Continuity of Management – ESOP loans are, in general, made on a *secured* basis. Consequently, lenders assess the company's ability to repay the loan based on expected future cash flows from operations. This requires that lenders assess depth of management and management's ability, based on management's experience and track record, to operate the company efficiently and profitably. Changes in management that may affect the company's future profitability, as a result of the transaction, will be considered.

Equity (Investment) Supporting the Financing – Lenders sometimes require buyers to put equity into any transaction to protect the lenders' loan. Lenders may require a fair level of equity and prefer that management be investors with some of their own capital at risk (with a commensurate potential return). The company's ESOP advisors can assist in identifying creative ways to generate or provide for the requisite equity necessary to structure an ESOP transaction.

### **Q. What is a business worth?**

A business may have substantial value to its owner. However, an outside investor will assess the value of a business based on his expectations of future returns and the associated risk of eventually realizing those returns. The negotiated price usually results in what is known as *fair market value*.

### **R. What is fair market value?**



Fair market value is generally defined as the price at which an asset would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, and both parties are able, as well as willing, to trade and are well informed about the asset and the market for such an asset. The listed price of a security traded on an active exchange (like the New York Stock Exchange) is generally regarded as fair market value.

Wherever a “generally recognized market” is nonexistent for a company’s securities, the DOL defines adequate consideration as fair market value as determined in good faith by the appropriate plan fiduciary. The “good faith” requirement typically requires the fiduciary to obtain an independent appraisal from the qualified financial advisor.

Fair market value is always stated as of a specific point in time. Fair market value may change from day to day, as it does with publicly traded stocks.

### **S. What price can an ESOP pay for stock?**

ERISA stipulates that an ESOP must not pay more than adequate consideration for the security. Absent a nationally recognized exchange (over-the-counter stocks are discussed later), closely held stock, in general, requires an independent appraisal by a qualified financial advisor.

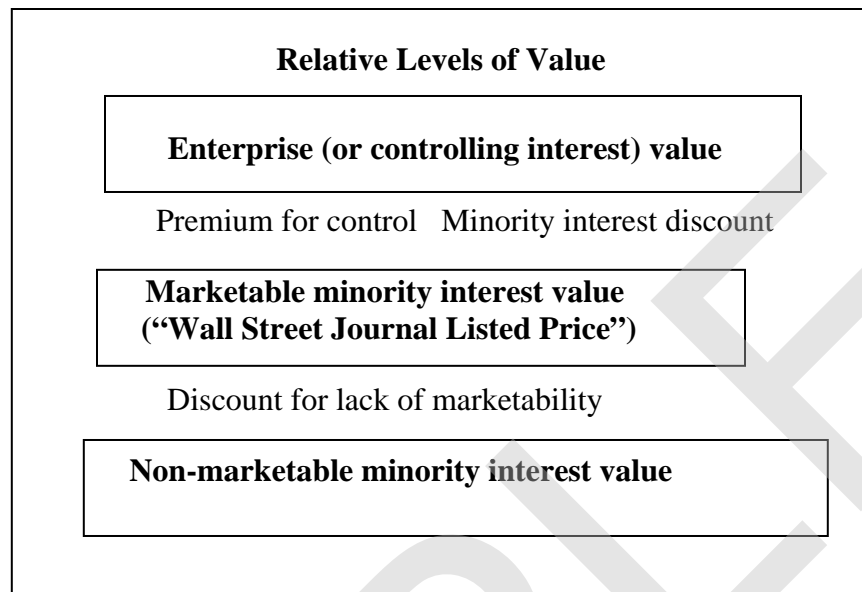
### **T. Is a controlling interest worth more per share than a minority interest?**

Yes. Controlling shareholders (those who own more than 50 percent in most cases) have the power to declare dividends, sell assets, change corporate bylaws and alter other major corporate policies. Empirical evidence on the amount buyers are willing to pay for control can be seen in the premiums above the historical trading prices paid in tender offers for public companies. This is commonly referred to as a *control premium*.

As illustrated in Figure 5 below, there are three general levels of value. As mentioned above, the enterprise or controlling interest level is the highest value for a company. The next level is known as a marketable minority interest value, which is most commonly recognized as the price at which a share of stock would transact similar to those shares trading on the New York Stock Exchange (i.e., Wall street Journal listed price). Shares of stock that lack liquidity generally are valued on a non-marketable minority interest basis.



Figure 5



**U. Who determines the fair market value of the shares of a privately held company when acquired by an ESOP?**

The Code requires that this determination be made on the date of the acquisition (and on the date of a stock contribution in the case of a non-leveraged ESOP) by an independent appraiser.

**V. Do "over-the-counter" and "pink sheet" prices reflect fair market value?**

In general, over-the-counter stocks may not be "actively traded" and need to be analyzed to determine whether they, in fact, represent "fair market value." Pink sheet prices typically reflect sporadic trading and shares listed on the pink sheets need to be independently appraised.

**W. What limits are placed on company contributions to an ESOP?**

In general, a company can contribute up to 15 percent of covered payroll annually to a non-leveraged ESOP (25 percent in certain limited circumstances) and up to 25 percent of covered payroll to a leveraged ESOP. In certain cases, the company can contribute up to 25 percent to the ESOP just to repay principal on the ESOP's debt. In addition, interest expense on the ESOP's debt is tax-deductible. ERISA provides that the contribution to each individual participant cannot exceed the lesser of \$30,000 or 25 percent of the employee's annual compensation. In effect, this rule creates a contribution cap for individuals earning over \$120,000 annually. Other contribution rules may apply.

**X. How is stock allocated to an employee's account?**

In general, stock allocations for both non-leveraged and leveraged ESOPs are based on a formula using individual participants' relative compensation. In a leveraged ESOP shares are released and allocated as the ESOP loan is paid.





## **Y. Can ESOPs contain vesting provisions?**

Yes, An ESOP must, however, comply with one of two minimum vesting schedules under ERISA:

1. 100 percent vesting after five years of employment or
2. 20 percent vesting per year beginning in year three and continuing through year seven.

## **Z. Do employees vote their stock in the ESOP?**

It depends on the type of stock and the circumstances. Generally, in situations where the ESOP holds publicly traded stock, ESOP participants vote the shares allocated to their ESOP accounts on all matters subject to shareholder vote.

In situations where the ESOP holds securities in a privately held company, employees have the right to vote on certain major corporate issues such as the sale of the assets of the company, liquidation, etc. On other matters and with respect to shares not yet allocated to participants' ESOP accounts, the ESOP trustee or fiduciary typically exercises voting rights, following the fiduciary guidelines under ERISA. A plan sponsor may also voluntarily expand voting rights for ESOP participants.

## **AA. While ESOPs are, by their very nature, essentially undiversified benefit plans, are there any diversification options or requirements?**

Yes. Employees who have attained the age of 55 and have participated in the ESOP at least ten years may elect each year, over a subsequent six-year period, to diversify up to 25 percent of their ESOP holdings. In the last year of this period, qualifying employees have an opportunity to diversify up to 50 percent of their holdings, reduced by amounts previously diversified.

## **BB. How do employees sell the stock they receive from the ESOP?**

After receiving a distribution of company sponsor stock upon the occurrence of a distribution event (generally, employment termination, retirement, death or disability) ESOPs in privately held companies provide a "put option" to the employees who receive stock (rather than cash) from the ESOP. In general, departing employees have the right to "put" their stock back to the company (or the ESOP) at *fair market value*. Payments are made in a lump sum or on an installment method. If the installment method is used, a market rate of interest must be paid on the outstanding balance, adequate security must be provided, and payments must be made over a period not to exceed five years.

Distributions from ESOPs in publicly traded companies are not subject to this "put option" requirement because employees can sell their stock in the open market.

## **CC. Do ESOPs create a repurchase obligation for the company?**

Yes. The burden of the repurchase obligation should be considered. Proper corporate planning can easily address this obligation. Many strategies exist, including funding the repurchase obligation with cash contributions to the ESOP or cash accumulations at the company level, purchasing insurance, a public offering or

## ESOP Feasibility Analysis



ultimately a sale of the company.

Furthermore, the magnitude of the repurchase obligation is a function of many variables, which include the fair market value of the shares, the vesting schedule, the expected near-term “puts” from departing employees and the expected form and timing of payments to the employees. In addition, the magnitude of any repurchase obligation may affect the fair market value of the stock itself.

SAMPLE