Leveraged Buy Out Example

Bank

Gives \$50m Loan to Business for ESOP 7 – 9% Interest with 5 Year Term

Gives \$50m Loan to Business

Busines Owner

Receives 50m Distribution from Business

1042 Tax Election into Stocks & Bonds. Tax Deferred

Access to Capital Immediately

Can Still Maintain up to 30% Ownership

Business

(100 Shares)

Receives 50m Loan from Bank for ESOP

Sells 100 Shares to ESOP

Business Receives \$50m Tax Deduction

Pay Off Bank in 3.7 years

Employee Stock Ownership Plan (ESOP)

1m EBITDA & 10 Employees (Entry Point)

ESOP Trustee Group

ESOP

Purchases 100 Shares

ESOP is the Owner of the Business

Distributes Shares to Employees and Phantom Stock

<u>Employees – 80%</u> Implement Vesting Schedule

Can fluctuate up to 65% ES / 45% PS

Phantom Stock - 20%

No Vesting Schedule

