



*Let us help you manage your benefits cost and risk.*

## Employee Stock Ownership Plan

Employers have long favored broad-based employee equity programs through the use of stock options, employee stock purchase plans and Employee Stock Ownership Plans (ESOPs). These employers have benefited as a result of their employees having a direct financial stake in the company's performance through stock ownership. Research consistently shows that:

- ❖ Stock price performance with significant employee ownership is better than most of the public market averages.
- ❖ Companies with broad-based employee equity programs, such as ESOPs, outperform companies without such programs.

In addition to enhancing employee ownership, an ESOP can also be utilized to meet certain corporate objectives, such as:

- ❖ Financing the purchase of stock from a principal shareholder
- ❖ Refinancing current corporate debt on a pre-tax basis
- ❖ Purchasing the stock of a subsidiary from its parent corporation
- ❖ Replacing an existing retirement plan with a plan that is primarily invested in company stock

Bartlett O'Neill Consulting can assist employers in deciding whether an ESOP meets the company's needs and objectives. If the employer decides to implement an ESOP, Bartlett O'Neill Consulting can assist in the implementation of the ESOP.

### Our ESOP Consulting Services

#### FEASIBILITY STUDY AND DESIGN ANALYSIS

Proper structuring of an initial leveraged ESOP transaction is critically important for the ESOP's future operational compliance with the Internal Revenue Code (the "Code") and ERISA. Areas that are addressed in the feasibility study include:

- ❖ Eligibility requirements for participation
- ❖ Contribution requirements and limitations
- ❖ Vesting issues
- ❖ Definition of compensation
- ❖ Distribution timing and form
- ❖ Voting issues
- ❖ Diversification requirements
- ❖ Whether other company retirement plans need to be modified as a result of establishment of the ESOP

#### FINANCING

We can assist the company in developing the term sheet and assist in marketing the ESOP loan.

#### VENDOR SELECTION

We work with ESOP fiduciaries to select an administrator, trustee and valuation consultant for the ESOP. It is important that the company select experienced ESOP advisors and administrators to ensure future operational compliance of the ESOP with the Code and ERISA requirements. We prepare the RFP, score the results and participate in the interview process.



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## **Our ESOP Consulting Services (continued)**

### **REPURCHASE LIABILITY STUDY**

A privately held company must provide plan participants with a put option that requires the company to repurchase the shares when the participant receives a distribution from the ESOP. This liability needs to be forecasted so there will be no negative implications, including impaired capital investment, impaired human resource investment, reduced corporate growth, or declining net worth. Also, many lenders require a repurchase liability study before entering into an ESOP loan.

### **EMPLOYEE COMMUNICATION MATERIALS**

The information provided to employees about the ESOP and company operations is critical to the employees viewing the ESOP as a benefit and acting like shareholders. We can assist in creating employee communication materials that are required by the Code and ERISA and work with the company on what types of future communications should be distributed.

### **IMPLEMENTATION OF THE ESOP**

Ensuring that the ESOP is administered in accordance with its terms is critical to the successful operation of the plan as well as minimizing future liability for the company officers and board members. We will test the data that is set up by the plan administrator to ensure that the plan is being operated in accordance with its terms and conditions. We will provide the company with an administrator's manual that details the roles and responsibilities of each person that is involved in the administration of the ESOP.