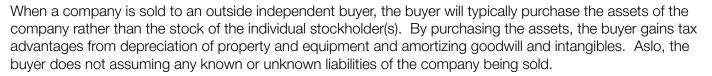
Comparison Of An Asset Sale to a Stock Sale (ESOP)



If the company is taxed as a C corporation, the asset sale creates significant combined taxes for the company and the selling stockholder(s).

When a stockholder(s) sells to an ESOP, it creates capital gains for the selling stockholder(s). It also allows the company to expense the payments related to the acquisition through contributions to the ESOP, which is a qualified retirement plan.

Stock (ESOP)

Stock

EXAMPLE

	Asset Sale	Stock (ESOP) Sale	Sale After Gain Exclusion
Fair market value of business enterprise	\$15,000,000	\$15,000,000	\$15,000,000
Strategic premium paid by independent buyer	3,000,000		
Final Selling Price	\$18,000,000	\$15,000,000	\$15,000,000
Working Capital	\$2,500,000		
Fair market value of property and equipment	\$9,000,000		
Goodwill and intangible value	\$ 6,500,000		
Total allocation of purchase price	\$18,000,000		
Working Capital	\$2,500,000		
Tax basis in property and equipment	\$5,000,000		
Basis in assets sold	\$7,500,000		
Transaction expenses	\$400,000	\$150,000	\$150,000
Gain on sale of assets	\$10,100,000		
Estimated corporate tax at 40%	\$4,040,000		
Net cash to stockholder(s) before individual taxes	\$13,560,000	\$14,850,000	\$14,850,000
Stockholder(s) basis in stock	\$1,000,000	\$1,000,000	\$1,000,000
Taxable gain to stockholder(s)	\$12,560,000	\$13,850,000	\$13,850,000
Federal tax at 15%	(\$1,884,000)	(\$2,077,500)	(\$2,077,500)
State tax at 9%	(\$1,130,400)	(\$1,246,500)	
Net cash to stockholder(s) after taxes	\$9,545,600	\$10,526,000	\$11,772,500

The example assumed the company had no debt. If there was debt, a portion of the proceeds from the asset sale would have to be used to repay the debt if it was not assumed.

This example assumes 100% of the ownership of the company is sold; however, with an ESOP it provides the opportunity for the stockholder(s) to transition a portion of the ownerhsip over a period of time to the employees.