BORROWING OPTIONS
FOR ESOP OWNED COMPANIES

	Leveraged ESOPs	Traditional Borrowing
PURPOSE	Invest/Acquire employer securities	Typically fund business cycles and fixed assets
TYPICAL STRUCTURES	Term debt amortized (principal and interest) over a set period of time	• Margined against assets • Lines of credit require interest inly on amount advances • Term loans are amortized with principal and interest payments required
COLLATERAL	All assets on the operating business and possibly unallocated ESOP stock. ESOP term debt will likely be un-margined or considered an "air-ball"	• All assets on the operating business • Accounts Receivable/Inventory (up to 85% an A/R and 65% on Inventory) • Equipment/Real Estate (typically 80% with special circumstances up to 100%)
PRICING	Can have a higher interest rate due to uncollateralized nature and different forms of capital (senior, junior and mezzanine)	Transaction specific but lower interest rate due to a fully collateralized nature
REPAYMENT SOURCE	Cash flow, remaining collateral, sale	Collateral, cash flow, sale
BALANCE SHEET POST LENDING	Negative equity and higher leverage multiples	Equity remains, but debt/equity leverage typically increases
INCOME STATEMENT POST TRANSACTION	Can deduct interest and principal payments	Deducts only interest payments
COVENANT CONSIDERATIONS	Fixed Charge Coverage, Minimum EBITDA, Debt/EBITDA, Maximum Unfinanced CapEx	Debt/Equity, Maximum Unfinanced CapEx, Minimum Equity requirement, Fixed Charge Coverage
PERSONAL GUARANTY	Transaction and structure specific but not typically required	Occassionally, depending on asset makeup and balance sheet leverage