



August 2011

Should an ESOP be Part of Your Internal Transition Plan?

Most business owners today are wondering: 'how and when is this economy going to turn around so life will go back to normal?' Beyond those short-term concerns, many of these same owners are going to bed at night thinking, 'how will I transition this business when I get the next chance?' More and more owners are taking a second look at their management teams to assess whether or not these folks who helped create the value within the firm can, in fact, actually run the firm in the owner's absence. Normally, an owner would consider finding an outside buyer as part of their transition, but today's economy has owners faced with lower valuations, less capital available, and fewer buyers to be found.

If you are an owner who is turning to your managers as a transition option, you are not alone. What many other owners are learning about is how an Employee Stock Ownership Plan (ESOP) can also be used to assist with the transition. The ESOP is a vehicle that is very much misunderstood in the marketplace today, but may be the perfect addition to a transition plan that is focusing on a management buyout. An ESOP can actually purchase shares from an owner, as can managers. However, by installing an ESOP in a forecasted management buyout, owners can increase their transition alternatives and sell shares to more than one buyer.

Let's explain this a bit further.

When a company is sold to its managers, there is a great deal of risk that stays with you, the transitioning owner. Assuming that the managers do not have the cash to finance the purchase – which is a very safe assumption – then your payout is going to occur over many years. And, if the

company does not have enough cash flow to support future payments, you may not be able to meet your post-transition goals. Can this risk be reduced?

Well, what if you were to sell a portion of your stock to an ESOP years in advance of selling the balance of the company to your managers? This would take a substantial amount of risk 'off the table' and it would assist you in building a culture of ownership over a number of years that would create a stronger environment for a management buyout. Let's take a further look at this interesting option.

Without going into too many details regarding ESOPs, you should know that you can create a buyer for the shares of stock in your company – that buyer is an Employee Stock Ownership Trust. When the ESOT purchases your shares, the employees - including the managers - become beneficial owners of that stock. And you, as the owner, receive cash or a note for your shares. If you take cash for your shares, the company most likely will be responsible for repayment of a loan that is taken to fund the ESOT and provide you with the cash. Now, the question is – is this strategy any different than the company repaying you through the management buyout? Not really. The primary difference is that you remain in control of the company for the original sale to the ESOP, instead of losing control after the sale to your managers. This strategy allows you to diversify your holdings in the company years before you complete a transaction with your managers. By diversifying your assets away from the company, you lower the risk associated with the MBO (management buyout) transaction.

This strategy gets even more intriguing when you consider the tax advantages of an ESOP. There is also the potential for operational advantages within your company that result from turning employees into shareholders. In effect you are setting the stage for your own departure years in advance of a sale to your managers by selling your first round of ownership to the ESOP and receiving cash in return. This transaction structure also lessens the burden on the managers to purchase the full amount of ownership from you in the future. And, it will discipline your organization to handle the leverage that is associated with the loan required for your original sale of stock to the ESOP.

You see, in today's environment, you need to get creative in order to get the equity out of your business. You do not have the option of following only one transition plan – i.e. the envisioned sale of your business in the future. In order to address today's marketplace, you need several alternatives for a transition as well as a bit of creativity. By adding an ESOP to your envisioned management buyout, you are in a position to achieve liquidity today, while beginning the process of transferring ownership to your future buyers.

Does this sound interesting to you and would you like to know more? Join us on

September 8. The Providence Chapter meeting of Pinnacle Equity Solutions for Exit Planners will focus on ESOPs where guest speakers Chris Ryding, CEO of Gripnail Corp, a 100% ESOP-owned company located in East Providence and Rob Edwards, a founding partner of Steiker, Fischer, Edwards & Greenapple, P.C. located in Providence will present the pros and cons of an ESOP from the owner's perspective. We welcome all owners and advisors to attend this educational meeting. (See details on next page).

And of course, you are always welcome to contact Owner's Edge to discuss how transition planning and all the potential options may fit your particular situation.

Regards,



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Achieving an Exit through the Power of ESOPs and ESOPs: Pros and Cons from an Owner's Perspective

Thursday September 8, 7:30AM – 10:00AM
Warwick Crowne Plaza Hotel, Wickford Room

Rob Edwards, a founding partner of Steiker, Fischer, Edwards & Greenapple, P.C. will outline the financial benefits of ESOPs in transitioning ownership of closely held businesses, discuss the advantages and disadvantages of ESOPs, and suggest particular situations when ESOPs are (and are not) appropriate.

Chris Ryding, CEO of Gripnail Corp, a 100% ESOP-owned company will present Gripnail's ESOP experience and address the pros and cons of ESOPs from the perspective of the ESOP company.

Kindly RSVP by September 6, 2011

You must register on-line at <http://www.RIExitPlanning.com>

For more information contact Tom Stocker at

Executive Briefing: *Business Transition Strategy Planning*

Monday September 11, 8:00AM – 10:00AM
South Kingstown Chamber of Commerce, Wakefield

This free educational breakfast briefing is tailored especially for business owners and their key advisors. Learn why it is important to plan your transition, where you should start, what your transition options are, who is involved in the process and when they need to enter into the process. A continental breakfast will be served. Reserve your seat today and feel free to invite members of your advisory team.

Host: Michael C. Paolino, Financial Advisor, Edward Jones
Co-Host & Speaker: Tom Stocker, Managing Director, Owner's Edge

Kindly RSVP by September 9, 2011
to Bette Lou Parisen at 401-783-7548
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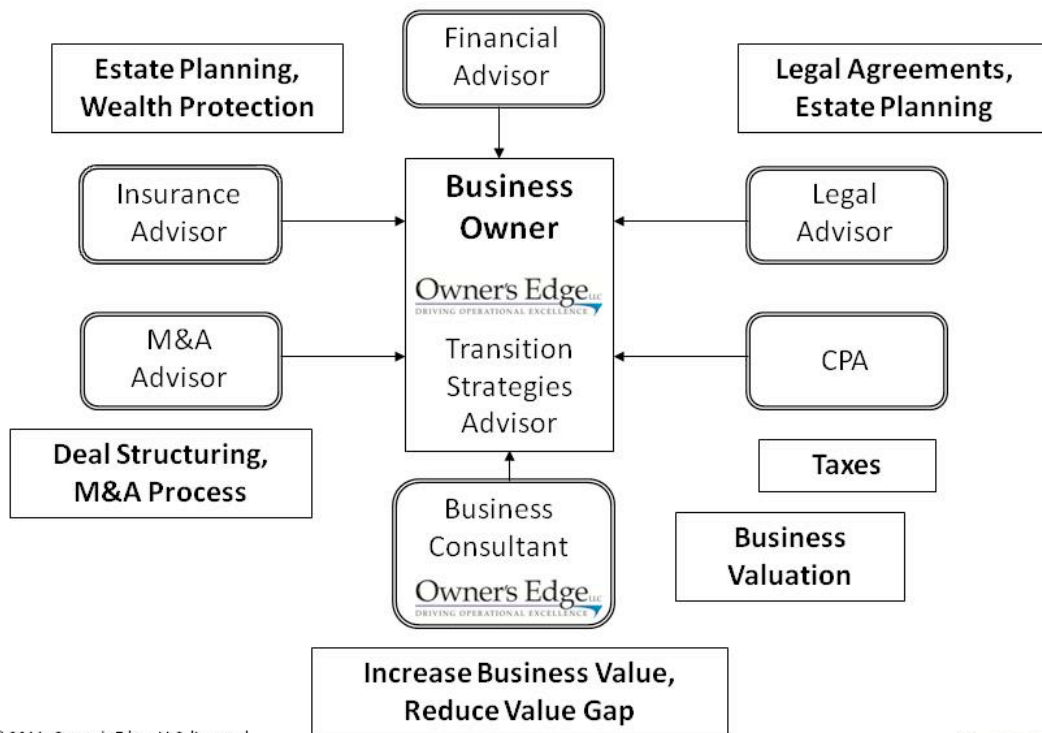
Our Commitment to our Customers

We help our owner/clients articulate and execute the strategies needed to make their profits sustainable and their business transferable. This creates true and meaningful value.

About Owner’s Edge

Owner’s Edge is a business advisory and consulting firm specializing in helping business owners work *on* their businesses by devising and implementing strategies to drive operational excellence every day. We are one of the few advisor firms that can provide a formal and comprehensive Transition Planning service for business owners. Call us for a no-obligation consultation today.

Your Transition Advisory Team



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A professional transition planner such as Owner’s Edge can lead your trusted Advisory Team you already have in place. Don’t try to go it alone! Turn to the professionals at Owner’s Edge to ensure your transition plan is structured and executed to leave your business on your terms.

Do you find it more convenient to use email? To receive our “The Edge Transition Planning Newsletter” by email instead of US Mail, please drop us an email at info@OwnersEdgeLLC.com. We will be happy to convert your delivery to our electronic version.