Partners In Progress

ESOP Presentation

3/17/08

Options for Owner's Exit Strategy

- Purchase by Outside entity / person
- "Sell" to kids / family
- Shut it down
- Sell to employee(s)
- Sell to employees via ESOP

Why choose an ESOP as vehicle for sale

- Outside Entities are hard to find for union companies
  - Tax issues may exist – low basis
- Kids family may not have money or may not be qualified
  - Can you get the "value" for the company
- "Shut it down" is last resort

Why choose an ESOP as vehicle for sale

- Employees usually do not have money
  - If they don't loans may not work out
  - If a loan is in place owner usually will want to / have to stay around
  - Could be some tax issues
  - Moral issues for employees who are not buying the company
- ESOP – In many cases the best option
  - Full "Value" is achievable
  - Tax deferred income (depending on how plan is set up)
  - All employees (non bargaining unit) are (can be) involved
    - Big moral boost and "ownership thinking"
  - Principal can leave immediately
  - Principle can sell portion to ESOP and portion to children or others
  - Note: Children cannot be involved in the ESOP for 10 years.

How does an ESOP work

- ESOP is a sole and separate entity
- ESOP can be funded as a loan or “prefunded” before buy-out
- Members are allocated shares prorated to their salaries
- Each Member actually receives stock in the company
- Ownership vesting can be controlled with the plan rules and employee longevity can be promoted.
- Trustee maintains voting control of ESOP shares

Advantages of an ESOP

- Principal can leave immediately
- Tax Deferred Income for the principal
- Employee ownership – ownership thinking – moral
- No ill will amongst employees – all employees become owners
- Promotes Employee longevity
- All dollars to fund the ESOP (either a loan payback or a pre-funding) are pre-tax

Possible Disadvantageous of an ESOP

- Principal must leave immediately
- Children cannot participate for 10 years
- Bargaining unit employees cannot participate
- Careful planning of funds to pay loan, fund ESOP ***and*** buy-out employees who leave
- Could have some bonding company and banking repercussions

What factors should play into your decision

- Principals tax situation
- Strength of leadership team
- Children – How to deal with them and their expectations

Management Team (how do you pick the leaders)

- In theory your team will fall into place in relationship to the company salary structure
- Who has the desire, who has the entrepreneur spirit, risk takers
- Leaders, decision makers, respect and knowledge
- The biggest key is training the leadership to take over
  - Start attending bank, bonding company, insurance meetings
  - Build teams and leadership committees
  - Make sure to build a commitment to Vision, Missions and Values

How do you turn over the reins

- Build the team and keep the goal of regime change in the forefront at all times.

Questions?