

SELLING YOUR BUSINESS IN A WEAK ECONOMY

contributed by Jim West, Our Strategic Affiliate, Vice President of Dynasty Capital Advisors ~~~~~

The stock market is crashing. Government bailouts are rampant. The political climate is uncertain. Credit has all but disappeared for ready buyers if you can even find one. Yet, your dreams of retirement remain. What can you do? There is an answer that you may have overlooked. By understanding the power of an ESOP you could be well on your way to your retirement in the next 90 days.

An ESOP (Employee Stock Ownership Plan) is a tax-advantaged vehicle that enables you to sell your business to your employees. This program was established by Congress in 1974 and today there are about 12,000 ESOP owned companies. Many business owners have either never heard of an ESOP or have a misunderstanding of how it works. Here are some common misconceptions along with solutions to your dilemma.

My employees can't afford to buy my company and they are not "ownership material". In reality, an ESOP doesn't cost your employees anything. The ESOP is created which buys your stock. Your employees are beneficiaries of the ESOP. The ESOP distributes stock to your employees' ESOP accounts each year based on their percentage of the overall payroll. The employees continue to perform their regular duties and answer to management as they currently do. They do not have general voting power or control of how the company is managed. An employee's ESOP account is like a free retirement account that they earn by loyal service to the company. When they retire or leave after becoming vested they take the value of their account with them. Many companies with "blue-collar" employees are ESOP-owned.

I want to retire in the next few years. Who is going to run the company? The beauty of an ESOP is that you can "have your cake and eat it too". An ESOP allows you to create a definite exit strategy while letting you remain in the control of the company for as long as you like. As Trustee of the ESOP you continue to run the company as you do right now and you continue to draw a salary. You are still the boss even though you don't own the company. Your goal will be to work yourself out of a job so you can begin your retirement. That is accomplished by either grooming one of your senior employees to take your place or by hiring a qualified replacement as a manager. That can happen within months if you're anxious to leave or you can stage the transition over several years. The bottom line is that it is always your choice.

Who is the buyer? That's the great thing about selling to an ESOP. You don't need a buyer. The ESOP is the entity that is created to buy your stock. You can create your exit strategy today by enlisting the help of a specialist in setting up an ESOP.

Where does the money come from? Now we're getting down to the real purpose of this article. Typically, specialized ESOP lenders would fund the entire transaction and

you would get a big check at closing. One downside was that a portion of that check was pledged back to the lender to help secure the loan. One of the main benefits of an ESOP is that you can take that cash and reinvest it in stocks and bonds and defer the capital gains tax on your sale indefinitely. But, who wants to put their money in the stock market these days? And, since credit has tightened so much in the last year, it's very difficult to find lenders who will fund 100% of the transaction. Financing is still available for a portion of the transaction depending on the collateral position of the company, but in most cases it's more attractive for you to be the banker yourself and avoid all the red tape that goes along with dealing with banks these days. This structure allows you to collect the interest income rather than paying it to the banks.

Why should I finance the sale of my own company? Typically, if you were dealing with a third party buyer, it would not make much sense at all. It would be like loaning several million dollars to someone you don't know and also giving up control of your company. But, with an ESOP, you still control the company, and by remaining in control you can assure that you get paid in a timely manner. You can structure the loan terms however you want, and if the company should have a bad month you have the ability as the lender to delay or defer a payment rather than risk a default on a bank loan. The biggest question to ask yourself is "What would I be doing with the money if I got cash?" If you are truly selling to retire you are likely going to put it somewhere safe to generate retirement income. You could put it in the bank and maybe get 5% interest, but banks aren't doing so well these days as we have seen in the news, and the FDIC only insures accounts up to \$100,000. By leaving your money invested in the company that you have spent a lifetime building, you know that as long as you are in control it is secured by something of value. And, by properly structuring your finance package to include trustee compensation, stock options, and other perks, your rate of return can exceed 30% rather than 5% at the bank.

How long does it take to set all this up? As the banker, you would avoid a great deal of time and expense by not dealing with an outside bank. Our ESOP Advisors will analyze your company, prepare a Feasibility Study for the ESOP, prepare all plan documents, coordinate outside professionals such as an independent valuation expert and the Trust attorney, and close the sale to the ESOP in less than 90 days.

Will I get my price? A sale to an ESOP is always at fair market value as established by an independent valuation. This means that you will receive the highest price possible that can be supported by factual data. You don't have to deal with buyers who will try to beat you down on your price. Our ESOP Advisors will provide you with a valuation that will come within 5% of the final price for your review at no cost.

How can I find out if this is right for me? Our ESOP Advisors will prepare a Pre-Feasibility Study at no cost for you to determine whether an ESOP is right for your company. You will receive a free stock valuation to help you decide if the money is right. You will also receive an Investment Analysis that will show

the benefits of financing the transaction. There is no obligation for you to explore the benefits of an ESOP transaction.

Selling your business doesn't have to be an uncertainty that is dictated by a weak economy or the woes of Wall Street. By using an ESOP as your exit strategy, you can control everything from the buyer to the banker by eliminating both of them.

And, you protect your employees at the same time while leaving your company in the hands of the people that have helped build it. This is a process that leaves you in complete control of every decision. Now you can design your retirement on your own terms without having to haggle over the price or play the games so typical in a business sale. Call us today and find out how quickly our ESOP Advisors can help you to experience retirement freedom.

For more information about how an ESOP could be the solution to your exit strategy, e-mail us today. We will facilitate initial information collection and put you in touch with our ESOP specialists.