

Employee stock ownership plans as exit strategy

So you've built yourself a successful business.

Congratulations. Now what?

Are you going to continue to run your business forever, or do you want to eventually reap what you have sowed and move on to write new chapters in your life?

Many business owners are uncomfortable talking about aging and retirement, their financial affairs and especially death. The average retirement age is 57, and the U.S. average age at death is 77. That means that the timing is right for many to begin addressing the issue of business succession and estate planning so they can look toward the future with the comfort and security that comes with knowing they and their families are taken care of.

It's never too early to start thinking about estate planning and potential business exit strategies. More than half of family-owned businesses do not survive the transition from founder to the second generation. In the majority of cases, the culprit is taxes or family dissension.

At ABODA (formerly Northwest Suites and Housing Services), our former owner Brenda Handley weighed her business succession options and decided an Employee Stock Ownership Plan (ESOP) was the best one for her and the company.

In 2000, we officially launched the ESOP program by acquiring a small portion of the company's stock and allocating it to the employees. An ESOP is an IRS qualified plan and annual allocations are based on pro rata compensation for each year.

We completed our second transaction in the fall of 2001 by acquiring a larger portion of stock and allocating those shares to employees over the next four years.

In 2005, we culminated the series of transactions by acquiring the remaining outstanding shares, changing the company name to ABODA, and broadening our geographic reach from coast to coast by acquiring a similar company in Boston. We are now nearly 100 percent employee owned, and our employee owners could not be more excited about the future. Employee commitment, enthusiasm, retention, and thirst for information have risen to new levels.

Many ask, "Who is really buying the shares?" and "How can employees afford to buy them?" These are valid questions. First of all, in an ESOP, a trust is set up to acquire the shares and administer the plan. Secondly, employees don't pay anything. The corporation uses its profits to fund the trust's acquisition of the stock and then allocates the stock to the employees. The government encourages the diversification of ownership from the few to the many (President Bush calls this an "ownership society"), so IRS rules allow the corporation tax advantages. The corporation achieves these tax advantages by deducting its annual costs of acquiring the stock, thereby reducing its annual taxable income.

Our selling shareholder was able to sell the business tax free. In some cases, you may be able to, as well. There

EMPLOYEE SUCCESSION



Steve
Bredeweg

▼ In seeking answers to business succession planning questions, surround yourself with qualified experts and leverage the expertise of attorneys, accountants and valuers. It

are more than 11,000 companies with ESOPs and countless other employee owned companies in the United States. This number has continued to grow since ESOPs were first created as part of the Employment Retirement Income Security Act of 1974 (ERISA).

recruiting and training good management that can take over the reins upon your departure.

Departing owners must look at their individual situation and decide what is best for them, their families and their employees. There are several resources to help guide you through the ESOP process including the National Center for Employee Ownership (www.nceo.org) and the ESOP Association (www.esopassociation.org).

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may be equally beneficial to seek out other individuals or companies that have already been through the analysis and journey you are about to embark upon.

Estate planning is not a "one size fits all" program. It takes time and will require some expense to develop a good plan, yet it is well worth the investment and results in peace of mind.

As you consider your own succession plan, it's also very important to spend some time thinking about your goals after you depart. You've worked long hard days for many years and will need to set some goals for how you will spend your time and money when you don't have to go to work every day. An ESOP sale is typically not completed overnight, so think ahead while re-