

Steady performance puts ESOP experts in Hall of Fame

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SPECIAL TO THE BUSINESS JOURNAL

Jim Steiker doesn't mind being a big fish in a small pond.

In fact, that position has been pretty good to Steiker and his company, SES Advisors Inc. The business has grown at a steady rate of about 30 percent per year for a decade, most of that from helping company owners sell their businesses to employees through tax-exempt trusts known as employee stock ownership programs, or ESOPs.

"We are obviously a for-profit, but we're also very mission driven," said Steiker, founder and president. "We believe that employee ownership is a good thing and I think we get very excited about facilitating it and making it happen."

Years of steady growth put SES Advisors at No. 59 in the Philadelphia 100 list of fastest-growing companies. The company was also initiated this year into the Philadelphia 100 Hall of Fame, a recognition awarded to companies that appear on the list five times or more.



Steiker

ESOPs are a relatively little-known part of the corporate governance-

world, but they are a stable and well-tested management option for certain kinds of companies.

"You're dealing with people who have founded and built a company and who are anxious to get a fair value and reap some of the rewards and tax incentives the ESOP provides, but who are also anxious to reward the people who have helped build up the company and will help the company succeed in the future," Steiker said.

ESOPs are tax-exempt retirement plans administered by trustees on behalf of a company's employees. A company owner can sell all or part of a company to the employees by selling to the trust. The buyout is usually financed by a bank or an investment firm, allowing the employees to do a sort of leveraged buyout that would normally be out of reach to small investors.

There are many advantages to this system, Steiker said. The arrangement allows the business founder to defer capital gains taxes and, in certain situations, it can effectively exempt the company from income taxes, because the company is now owned by a tax-free retirement trust.

Under the ESOP, the company remains a private company, held in trust for the benefit of the employees. "This is not the same as handing each employee a share of stock," Steiker said. "It is the trust that acts on the behalf of the employees rather than the individual employees. We are not creating a radical democracy. This is not a case where everybody votes on the employer's [decisions] or votes on the employees' salary. But people have a stake."

An example is Modern Group Ltd., a Bristol-based firm that distributes construction equipment such as forklifts. The company was founded 60 years ago by Joseph McEwen. In 2000, he decided to sell the company to his 600 or more workers. "We didn't want to see the company sold off," said Chief Financial Officer George Wilkinson, now himself an employee owner under the ESOP. "We have a good team and we wanted to keep everyone in place and continue to grow and help the employees understand that this is a great opportunity for wealth accumulation."

Wilkinson and the McEwens sought help from Steiker and SES Advisors.

"I really liked Jim Steiker's firm, particularly Jim. He had away of taking really complicated explanations and making them simple, that everyone could understand," Wilkinson said.

The company was so pleased that they put

Steiker on the board of directors, serving alongside McEwen, who remained active in the company. Until March of this year, McEwen was a manager.

That kind of orderly, slow transfer is what ESOPs are all about, Steiker said.

"This is a company with a longtime culture of being very employee driven, of having a lot of focus on how to reward people for performing well. The ESOP was a natural extension of that and how to get for the founder and his family fair value for the company without having the company sold off to someone that might do radically different and perhaps bad things to the company he built," he said.

The kind of work SES does, he said, is not like some flashy initial public offering, or some high-dollar cash-out of the sort the world saw during the dot-com boom. Owners get fair value for the company, he said, but "its not the kind of thing where you go to the country club the next day and say, 'Gee, someone paid me some exorbitant amount of money for the company.'"

Instead, he said, "it's a very solid way that fits with people's sense of values and purpose."

SES has dealt with about 1,000 different clients over the years, Steiker said. Every year, it does about 75 ESOP-related transactions. The company also does ongoing record keeping for about 150 ESOPs, many of which were set up elsewhere but come to SES to take care of the complex paperwork and reporting requirements.

Most clients are midsize companies with anywhere from 20 to 1,000 employees and valuations from \$1 million to \$100 million.

Nationally, there are about 9,200 ESOPs, said Scott Rodrick, direction of publications and information technology for the National Center for Employee Ownership in Oakland, Calif.

The company, which started in 1987, operates mostly in the mid-Atlantic and New England, but the firm is doing more business in Florida and may some day soon look to open an office there.

"Our strategy over the next five years to some degree is more of the same," Steiker said. "We believe we are evangelical about employee ownership and ESOPs. We don't view ESOPs as financial products, we view ourselves as providing a service related to ESOPs and employee ownership. I think we've done that well."

UP CLOSE

COMPANY: SES Advisors Inc.

LOCATION: Philadelphia

PRESIDENT/FOUNDER: Jim Steiker

YEAR FOUNDED: 1987

STARTUP CAPITAL: Less than \$5,000

2005 SALES: \$4.8 million

2005 EMPLOYEES: 23

2003-2005 GROWTH RATE: 134 percent

SES Advisors' typical clients are companies built and owned by entrepreneurs who are looking for a way to sell off their companies without taking them public or selling them to an owner who might destroy them or break up loyal work forces.