

How an ESOP can help you achieve your succession goals

BECAUSE OF their flexibility and tax benefits, employee stock ownership plans (ESOPs) are being used more and more in succession planning for family companies, notes James Steiker, president of SES Advisors Inc., a financial and legal advisory firm specializing in ESOPs.

Steiker—whose firm has offices in Philadelphia as well as in New Jersey, Rhode Island and Virginia—explains that an ESOP is essentially a “trust” created within a company. Once established, the trust can purchase stock from shareholders. In order to fund the transaction, a lender often provides financing to the company, and the company then re-loans the proceeds to the ESOP. According to Steiker, here’s how ESOPs can ben-

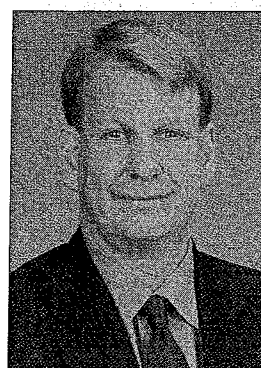
efit family-owned businesses:

- **Business succession planning:**

Unlike other employee benefit plans, ESOPs can borrow money. When an ESOP is used to accomplish succession goals, the plan is often leveraged to acquire company stock from shareholders.

- **Generating liquidity and diversifying assets:** Most business owners’ assets are locked up in the value of their company. Creating an ESOP enables owners to diversify their personal wealth.

- **Estate planning:** If there is no heir who wishes to assume ownership of the com-



Steiker: ESOPs can foster continuity.

pany, the ESOP can act as a friendly buyer. ESOPs can also purchase a minority interest in a company. If just one family member wants to depart, the ESOP can purchase that person’s share of the company.

- **Tax benefits:**

Depending on how much stock is sold and how the proceeds are invested, business owners who sell stock to an ESOP can defer capital gains taxes on the sale of the company. Firms that sponsor an ESOP can repay the ESOP loan with pre-tax dollars.

For more information, contact Steiker at jsteiker@sesadvisors.com.