



ESOPs - Creating a Buyer for the Closely Held Business

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As the baby boomer generation begins to retire in the coming years, RV dealerships will face a massive ownership shift. Owners and operators of these dealerships will confront the dual issues of planning for business succession and generating liquidity for financial and estate planning purposes. As owners evaluate their financial planning options, they will also struggle with what could happen to their employees once their company is sold to the highest bidder.

Earl and Ginny Stoltzfus of Stoltzfus RV and Marine in West Chester, PA, understood this dilemma, and recently used an Employee Stock Ownership Plan (ESOP) to address these issues. After investigating other estate planning techniques, Stoltzfus decided on the ESOP for several reasons. As a succession strategy, the ESOP offered Stoltzfus a return on his lifetime investment and allowed him to remain actively involved in the company. By selling the business to an ESOP, he also ensured that the dealership will remain open after he and his wife finally decide to retire.

RV dealerships like Stoltzfus' are increasingly turning to Employee Stock Ownership Plans to transfer ownership. Interestingly enough, ESOPs were not designed to be an exit strategy. ESOPs are tax-qualified retirement plans created as part of the Employee Retirement Income Security Act (ERISA) in 1974. The theory behind ESOPs and employee ownership is that by offering employees a stake in the company's success, the company itself will be more profitable. And it's working.

The non-profit National Center for Employee Ownership (www.nceo.org) reports that there are about 10,000 ESOP companies nationally covering about 9 million employees and that ESOP companies generally outperform their non-ESOP counterparts, measured by productivity and profitability. Moreover, ESOP employee-owners receive higher average pay and accumulate three times the retirement benefits relative to non-ESOP employees.

Unlike other pension plans, ESOPs are unique in that they must invest primarily in the stock of the company, and they can also borrow money to fund the purchase of employer stock. For this reason, ESOPs can be used by business owners to create an internal market to sell their privately held stock. The ESOP can purchase all or a portion of a company's stock in one or more transactions and may borrow money to acquire a significant block of

company stock in what are called "leveraged transactions."

Congress has provided special tax incentives to spur the creation of ESOPs. Both the company and the shareholders selling to an ESOP may enjoy significant tax advantages. For example, selling shareholders of a C corporation can defer capital gains taxes when selling to an ESOP if they invest their proceeds in "Qualified Replacement Property." QRP is stocks and bonds of U.S.

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operating corporations. The company sponsoring the plan can also deduct contributions to the ESOP. In addition, there are significant planning opportunities for S Corporation ESOPs. Among them, an S corporation's profits are totally tax-free when it has an ESOP that owns 100% of the company stock.

ESOPs can provide significant tax and organizational benefits for RV dealerships. However, they are highly technical and depending on the size and complexity of the deal, they can be costly to implement. It is important to consult with an experienced professional when contemplating an ESOP, so that you are aware of what will be involved with an initial transaction, as well as with the annual upkeep needed to keep the plan compliant with applicable federal laws. Each year a valuation is necessary to appraise the company stock, and annual recordkeeping is needed to allocate stock to participants' accounts.

Nevertheless, the ESOP can be both an attractive exit strategy for RV dealers and a meaningful benefit for their employees. Stoltzfus agrees. Not only has productivity of Stoltzfus RV & Marine improved, but his employees have taken on more of an ownership role in the company. Once Earl and Ginny decide to hit the road in their own RV, their company will be in good hands.

AS SEEN IN THE SEPTEMBER 2005

RV EXECUTIVE TODAY