

ESOPs Reward Employees, Provide Liquidity for Successful Business Owners

Liquidating equity in a closely held company or transferring ownership from one generation to the next can be as demanding as launching a new business, expanding into new markets or dealing with a rapidly changing regulatory environment. "Successful entrepreneurs usually have a history of finding or creating alternative solutions to seemingly impossible obstacles, but transitions in ownership can be particularly challenging," says attorney Stephen D. Smith, Chairman of the Krieg DeVault's ESOP Practice Group.

According to Smith, employee stock ownership plans (ESOPs) can provide business owners with the liquidity they require while perpetuating the company and its culture by placing it in trusted hands. "If properly structured and communicated, an ESOP can be a win-win solution for profitable companies with qualified second tier management teams in place," says Smith who has structured over 100 ESOP transactions for public and private companies across the U.S. "An ESOP creates a foundation for the future, keeping original owners involved while new managers step up to leadership positions. It rewards employees who have invested their own efforts into the company. In addition, the financial stability of the company is protected as much of the cost of ESOP transactions is paid for through the significant tax savings provided by these employee benefit plans."

Smith, who has dedicated his private law practice primarily to ESOPs and structuring ESOP transactions since

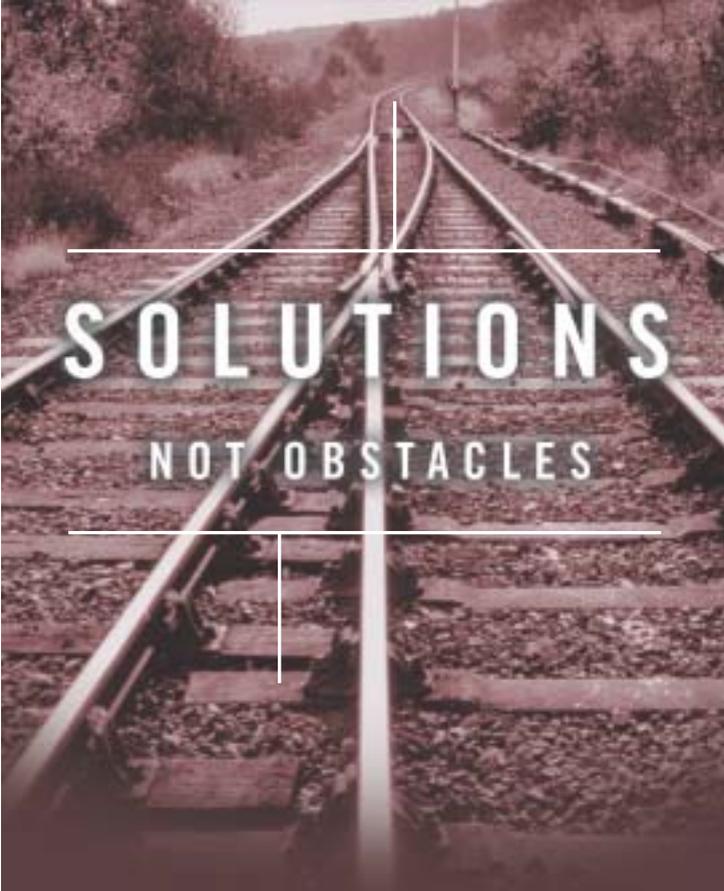
1984, is a nationally recognized innovator in the field. Four of his cases set new precedents including new legislation that enables thousands of workers to enjoy the benefits of employee-ownership. Never successfully implemented before Smith's transaction, ESOPs are now routinely put in place by bank holding companies. Employee-ownership is now possible for those who work for S corporations after Krieg DeVault's lobbying efforts helped pass enabling legislation that went into effect in 1998.

Smith's penchant for innovation was also showcased in two ambitious cases involving professional firms. The first established two separate business entities for a CPA firm that wanted to buy control of the practice back from a large public company. One entity, the professional partnership, handles all "attest" work; the second entity, a corporation, handles all other accounting, tax and consulting services. All employees, even those without professional licenses, could become owners of the corporation. In a similar situation, a

large optometry practice separated its professional eye examination/ophthalmology practice from its dispensary/optical and other services.

Forming an ESOP requires Smith and his team to use more than legal expertise. They demonstrate keen sensitivity as they walk owners and employees through the often emotionally stressful transition and provide supportive services to make the transaction a long-term success.

"Our team has been fortunate to work with employers who are genuinely dedicated to preserving their businesses and acknowledging the contributions their employees have made," says Smith. "Perhaps the most satisfying moment in any transaction is when I attend the ESOP "roll-out" meetings with employees and their spouses. It makes all of the time and effort worthwhile to witness the business owner explain how valued the employees are and why he or she wanted them to reap the rewards of their hard work through the ESOP."



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