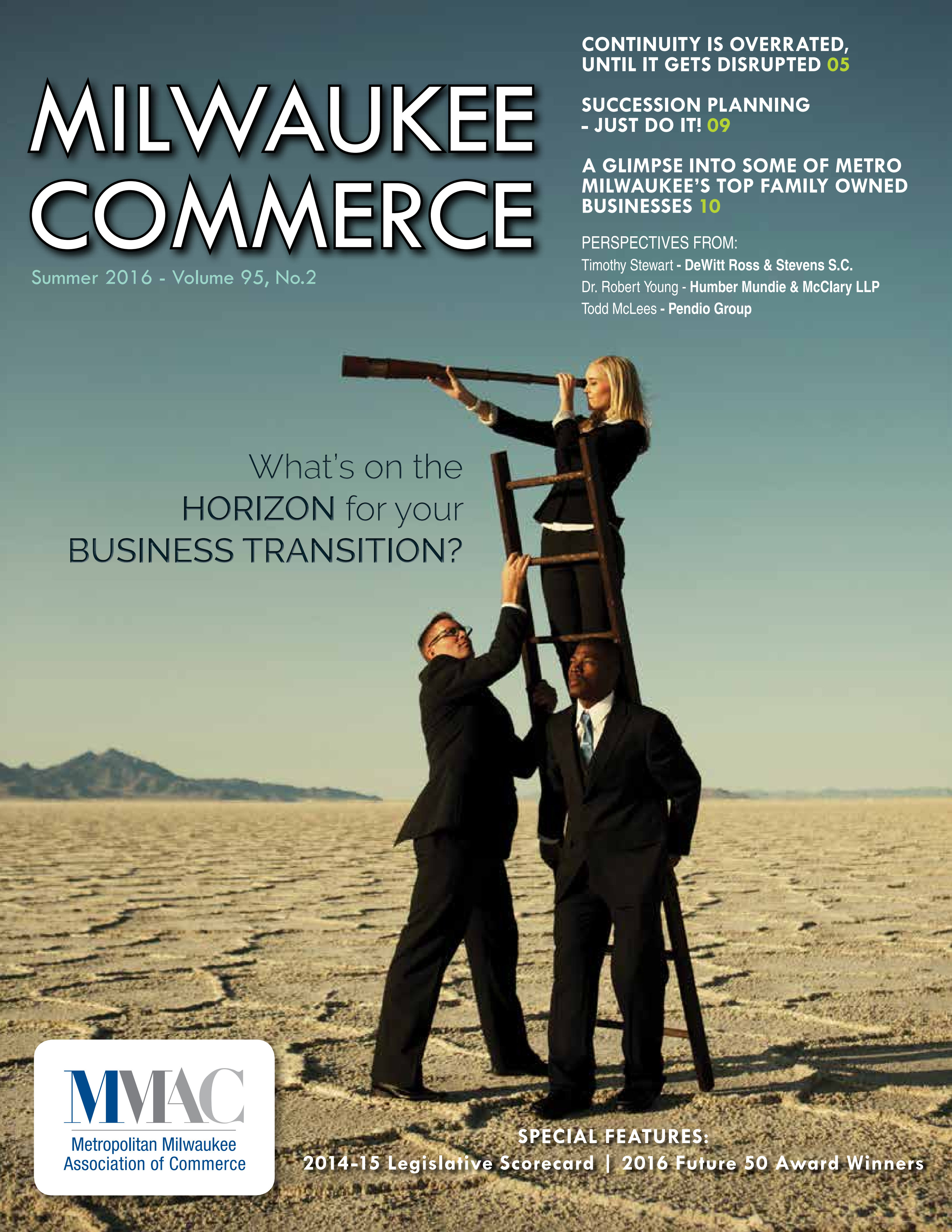

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What's on the HORIZON for your BUSINESS TRANSITION?

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Discerning ESOP fact from ESOP fiction

By TIMOTHY STEWART
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Reviewing the myths and facts about Employee Stock Ownership Plans (ESOP) and family owned businesses

Employee stock ownership plans (ESOPs) can be an attractive way for family-owned businesses to sell their companies and for their employees to gain an ownership stake. ESOPs are qualified retirement plans that buy, hold and sell company stock for the benefit of employees. ESOPs are often dismissed by business owners (and sometimes their advisors) as a legitimate succession planning option due to the many unfounded misperceptions about them.

I would like to dispel some of the most common myths associated with ESOPs. By knowing the facts, you may find that selling to an ESOP is the best alternative and should be at least considered as an exit strategy. This is especially true in cases where the family member owners want to reward employees for their hard work in contributing to the company's success.

MYTH: **After establishing an ESOP, a business owner must consult with employees on day-to-day management decisions.**

Fact Business continues as usual the day after a company becomes an ESOP. The officers of the company (president, CEO and other key leaders often including of family members in a family-owned business) make the decisions in ESOP companies just like in most non-ESOP companies, and they answer to the company's board of directors.

MYTH: **Most family-owned businesses are too small to sell to ESOPs.**

Fact Profitability of the company is more important than size. Many ESOP companies have as few as 12-15 employees with less than $1M in revenue. The company just needs to be large enough to generate a profit to substantiate the annual costs of maintaining the ESOP. In profitable S-corporation ESOP companies, the tax savings will likely be more than enough to offset such annual costs.

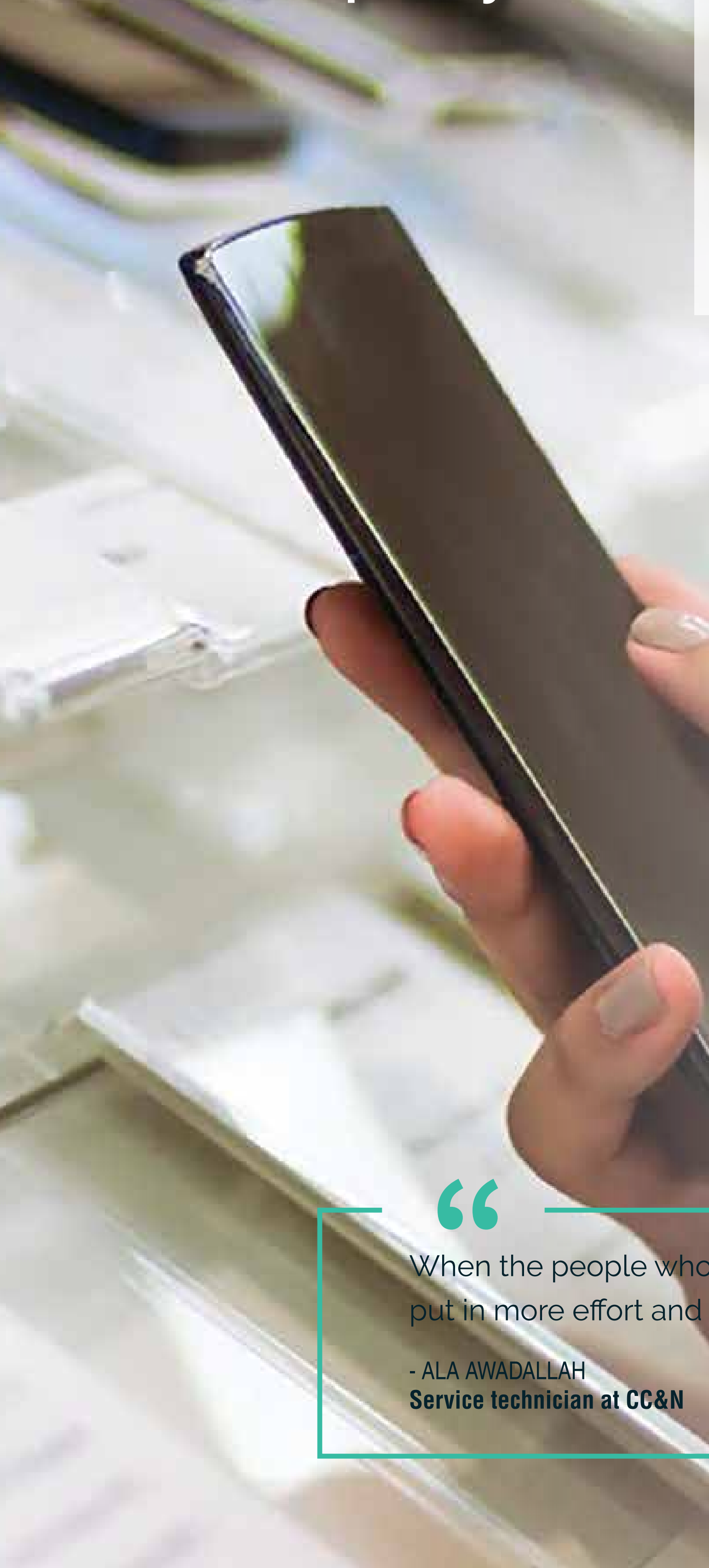
MYTH: **An ESOP transaction requires that a majority of stock be transferred.**

Fact ESOP transactions can be done for as little as 1%, and as much as 100%, of a company's stock, and everything in between. This is particularly important in family businesses with multiple family member shareholders with varying goals and interests.

MYTH: **An owner adopting an ESOP will get a lower exit value by selling to an ESOP than by selling through the open market.**

Fact While a seller may get nominally less by selling to the ESOP, the tax savings generally make it comparable to or more advantageous than selling to a private equity firm or another buyer.

Under ESOP, OwnersEdge becomes diversified holding company



Based in Brookfield, Wisconsin, OwnersEdge is 100% Employee Owned Structure. According to company executives, this structure enables the company to focus on the development of its people, what is right for the customer and what is best for the overall financial health of the organization.

OwnersEdge is the parent company to five "daughter" businesses: CC&N, NEXT Electric, Inc., BAYCOM Inc., TourGuide Solutions and BAYCOM Cellular, Inc. Keeping the motto of "Owning It" in mind, each company within its portfolio is chartered with growth goals and initiatives designed to build the value of its ESOP stock.

Twenty-one years ago, the founders of the original company, CC&N, decided to give back to the employees by creating the ESOP. They created a diversified acquisition growth plan to protect the long term health of the ESOP with an organic growth strategy for each affiliate business. NEXT Electric was launched in March of 2012, the OwnersEdge holding company in January of 2015, and they acquired BAYCOM, TourGuide Solutions and BAYCOM Cellular three months later.

Ala Awadallah, a service technician at CC&N, remarked, "Our company confers the ownership, and therefore the pride, of the business to its employees. When the people who work in a company also own the place, they put in more effort and are more dedicated to the company's growth."

According to OwnersEdge, the largest advantage of an ESOP is the culture of employee ownership that has continued the legacy of the business. Moreover, OwnersEdge's diversified holding company and ESOP structure has provided the company with the opportunity to add three additional affiliated businesses to its portfolio in the future.

> "When the people who work in a company also own the place, they put in more effort and are more dedicated to the company's growth.
>
> - ALA AWADALLAH
> **Service technician at CC&N**

Lemberg Electric Co. able to invest in people, infrastructure

Lemberg Electric Co. Inc. was founded in 1928 by Bill and Clara Lemberg. It has grown to become one of Southeastern Wisconsin's largest electrical contractors with 185 employees, offering electrical construction, building services, sign design, data/communications and energy technologies.

In 1992, the three principal executives moved forward with buying the business from the Lemberg family using the ESOP model. After the buyout, the company was 70% ESOP and 30% privately-owned by the three principals. In 1997, the company transitioned to a 100% ESOP owned company when the principals sold their shares to the ESOP.

Company officials said they transitioned to an ESOP model because the principals wanted all employees to share in the success of the business. Also, knowing they were retiring sooner than the rest of the staff, it was a way to ensure the company structure would remain consistent and stable. The next generation of executive management was already in place to transition into leadership roles when the principals began to retire.

> “
> (The ESOP model) was a way to ensure the company structure would remain consistant and stable.

Lemberg Electric sees the advantages of the ESOP model as twofold. First, the owner trying to sell the business through an ESOP solution will more likely get what the company is worth. Second, the employees will gain an ownership interest - an opportunity they would not otherwise have had.

Lemberg Electric is one of the most financially sound electrical contractors in Wisconsin. Because they are a Sub-chapter S ESOP, the company pays no income taxes on its profits. Also, with no owner taking cash out of the business, the money stays within the company - allowing Lemberg Electric to invest in facilities, buy new trucks, new equipment and invest in new technology.

Paper Machinery remains dedicated to region, employees

Donald Baumgartner and his father, J.R., founded Paper Machinery Company in the 1940s. While supplying the Korean War efforts consumed much of their business through the early 1950s, Paper Machinery eventually evolved to exclusively manufacture the machinery used to create paper drinking cups.

The company has grown to become the world's leading producer of cup and container forming machinery, making paperboard cups and containers for brands like McDonald's, KFC, Starbucks and Tim Hortons in more than 51 countries. With deep roots in Milwaukee and success around the world, Paper Machinery has pledged to remain committed to the region and its employees. When it came time to consider an owner succession plan, the company knew an Employee Stock Ownership Plan (ESOP) was the right fit for the organization and its culture. On April 29, 2016, the company completed its transition to an ESOP.

The ownership group felt strongly about keeping the business and employees in Milwaukee and believed a private equity sale or a strategic buyer would likely result in relocation or downsizing. An ESOP gave the current ownership an opportunity to stay on the board and remain involved. One-hundred percent of the shares are ESOP held, meaning Paper Machinery Corporation is completely employee-owned.

Within nine months after starting to discuss succession options, Paper Machinery Corporation closed the deal, thanks to their expert advisors and bankers. A transaction like this can only work with a stable, mature company with a seasoned management team. Also, the selling shareholders may not get as high of a return as they might from with strategic buyer. However, the plan provides a tremendous upside to the employees, who eventually obtain full ownership of the company at no cost to themselves.

Paper Machinery's culture acts as a motivating factor for current employees because they are now working for themselves. The model is a helpful tool for recruiting and retention, resulting in improved products and customer service and differentiating Paper Machinery from competition.

> "With deep roots in Milwaukee and success around the world, the company pledged to remain committed to the region and its employees.

Paper Machinery is 100% employee-owned.