

ESOPs and Government Contractors Discussed at January MAC Meeting in Tysons Corner

By

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On January 18, 2006, the Tysons Corner, VA office of the law firm Squire, Sanders & Dempsey, LLP hosted a presentation on ESOPs and Government Contractors given by Bob Webb and Michael Holzman. The interactive event was both well attended and engaging.

All facets of the ESOP community were in attendance including valuation experts, lenders, ESOP reinvestment specialists, ESOP attorneys, business brokers, and deal makers which made for a lively discussion.

Bob Webb started the presentation which began with an introduction to ESOPs and then proceeded to the nuances of an ESOP sponsored by a government contractor. Michael Holzman highlighted the idea that the combination of an ESOP with a cost-plus government contractor reaches the pinnacle in ESOP benefits, in that, through proper planning, a business owner can (1) sell some up to all of his stock tax-free to an ESOP, while (2) the company deducts the cost, and (3) to the extent of cost-plus contracts, the government contractor is reimbursed by the federal government for the ESOP's cost in purchasing the business owners stock. And all of this ultimately benefits those responsible for the success of the company—its employees. When you add this to the advantage of the company being able to operate tax-free by virtue of being a 100% ESOP owned S corporation, the benefits are unparalleled. The combination of all of these benefits, Michael pointed out, has resulted in area government contractors experiencing tremendous growth and profits with some becoming some of the largest non-publicly traded companies.

Some of the ESOP nuances unique to government contractors that were presented are:

- Designing a plan to preserve 8(a) status for as long as desired by the company;
- the impact of the change of ownership on government contracts
- the unique procedures lenders must undergo to collateralize an ESOP loan with government contracts
- reimbursability of ESOP costs for cost-plus government contractors
- using the ESOP to acquire other government contractors