Surprise. . . this business is Yours. (An ESOP Case Story)

Atlanta Business Chronicle - by Justin Rubner, Staff Writer Friday, October 5, 2007

Nearing retirement, 68-year-old entrepreneur John Farra had a decision to make about his Norcross-based printing supply company. Sell the quiet, but lucrative, small business empire he had created -- or hatch a surprise twist for what might have been an unassuming legacy.

On Aug. 22, Farra, CEO of Laser Supply & Service Inc., treated his 13 employees to dinner and delivered the big news -- he was retiring. Furthermore, he said, the company no longer belonged to him. Visions of layoffs filled the room.

Instead, he explained, the company had been sold and now belonged to new owners.

It belongs to you, he told his workers.

"I said, 'You are now the owners of the business,' " Farra recalls. "I got a lot of clapping. One or two people had tears. Several cheered. It was a very rewarding experience to me."

Low key and unassuming, Farra insists he did nothing heroic. But to his employees, many of whom are hourly workers with no college degrees, partial ownership of a company that posted $3 million in sales in 2006 is pretty spectacular.

And now the entire company, which remanufactures printing cartridges and repairs printers for other businesses, has been sold to them.

Called an Employee Stock Ownership Plan, it functions like a 401(k). But unlike a 401(k), employees need not put in anything but time. Here's how it works:

A trust is created to buy the shares -- 1 million in Laser Supply's case -- from the owners. The trust then borrows money from a specialized lender to purchase the company. The business, until the loan and interest are paid off, is owned by the lender. Over that time, shares are incrementally distributed to the employees, divvied out according to salary. After five years, the employees become 80 percent vested. After eight or so, the employees own all of their shares -- and control the company.

What Farra did was rare. Less than 0.5 percent of all private company sales each year are done in this manner, says Rogers Smith, president of Dynasty Capital Advisors, a financial consulting firm based near New Orleans that is handling the sale. In addition, the company can deduct not only the interest on the loan, but also the principal -- a feat that is impossible with a standard bank loan. As for the seller, he also gets certain tax benefits even though he no longer owns stock.

There is at least one downside, though. For the life of the loan, the company is saddled with debt. And that debt can't be reinvested in the company like normal debt. But in some instances, Smith says, an Employee Stock Ownership Plan makes a lot of sense.

In Farra's case, he is married. Farra, a former Navy officer and accountant who founded Laser Supply in 1988, has no children to give the company to, and he didn't want some competitor coming in, laying off workers and changing the way he's done business for 19 years, he said.

"I had never even heard of it before," said Farra of the ownership plan.

"But it's a process that should be interesting to any number of small-business owners," said Farra, who plans on working for a year before retiring.

Nationwide, there are roughly 10,000 Employee Stock Ownership Plans. About 10 percent of them are grocery stores. Most are small "mom-and-pop" operations. But the biggest such company is Lakeland, Fla.-based Publix Super Markets Inc. Another well-known employee-owned company is Minnesota-based window-maker Anderson Corp.

As for Publix, the company started offering free stock to employees in 1930. Smith says the company has former low-level workers who have retired with more than $1 million in their accounts from their stock. Making that much is rare, he says.
Smith says a worker retiring from a company valued at $5 million with 50 employees could expect $100,000 or more from the stock plan. If Laser Supply in eight years was valued at $4 million -- $1 million more than 2006 sales -- an employee with 77,000 shares could conceivably cash in for $308,000.

While not retire-in-the-Bahamas rich, he says, it is "free money"-- as long as the employee stays with the company long enough to get the full value of the stock.

"If they do that, they will parachute out with a nice check," he says.

Thanks to the trust, Laser Supply cartridge technician Geraldine Banks plans on doing just that. For six years, the 59-year-old mother of three, grandmother of 14 and great-grandmother of two has come to work breaking down and reassembling printing cartridges. Her jeans and apron are stained with ink and she's spent her entire adult life on the clock.

Banks has no grandiose plans for her trust money, she said. Travel. Pay bills. While Banks has thought of retiring, she promises to keep on working -- happily. At least until that certain magical day years from now when her shares are worth full value.

"I am 100 percent vested as of that day," she said with gleaming eyes.