

Employee stock ownership plans, known as ESOPs, are gaining in popularity. There even was federal legislation introduced earlier this year to expand their use.

An ESOP transfers some or all of company ownership to its employees. Typically, the company makes tax-deductible contributions to a trust set up to facilitate the plan. The trust then uses that money to buy stock from the current owners.

It takes time and money to set up, but has tax benefits, retirement benefits for the original owners and for the new employee-owners, and can provide a succession strategy.

Midwest Wheel Companies, Des Moines, Iowa, and Inland Truck Parts, Kansas City, Mo., are two major independent heavy-duty aftermarket distributors that have gone this route. Inland Chief Financial Officer Greg Klein is even chairman of the Employee-Owned S Corporations of America association.

Klein, writing in an op-ed piece on *The Hill* website earlier this year, noted that studies have shown that S-Corp ESOP employees have retirement account balances three to five times higher than the average 401(k) or defined contribution plan.

We spoke to Klein about Inland Truck Parts' experience and about ESOPs in general.

HDAJ: How did Inland Truck Parts become an ESOP?

Klein: Inland has been around since the mid-1940s. By 1982, the four orig-

Is it time for an ESOP?

inal owners were retirement age and wanted to start getting out of the company. Like many in this industry, they had employees who helped them build the business. They really felt like rather than bring in new ownership or selling it to some third party that didn't understand the culture, they would sell it to the employees. So we started a profit sharing plan, and that used the contributions the company was making to buy the stock of the departing shareholders.

Inland Truck Parts' Greg Klein talks about why distributors might want to look into an employee ownership plan.

Eventually the employees owned more than 50% of the stock, so in 1992 it was converted to an employee stock ownership plan, an ESOP, which is the more commonly referred to language these days. By around 1995, we owned the entire company.

HDAJ: How does it work?

Klein: The ESOP is a retirement plan. You can't have all the employees run the business, so there's a trustee or trustees, which can be internal or external, and those trustees act like typical shareholders would and elect a board of directors, and from that point it acts as any normal company would. The unusual part is the ESOP with its trustees that are watching out for the employee owners' interests.

HDAJ: What should distributors keep in mind?

Klein: A lot of times the bank won't finance the whole thing, so the seller has to carry part or all of the note. So, you have to ask yourself, am I willing to finance any part of this deal to make this happen? Especially if you want to sell it all at one time. Otherwise you can sell portions of it over time. And the more debt you put in the company, you risk whether the company's going to be able to pay that off.

Sometimes there's private equity that will pay more than the business should be sold at. So the owner sometimes has to be willing to demand not the highest price out there, but demand a fair price. I think the most successful ESOPs out there, the owners weren't as concerned about getting the highest price possible as they were about their employees.

HDAJ: What's involved?

Klein: Beyond that, it's all technical. You just bring in the smart professionals and they make sure you cross your T's and dot your I's to follow the rules.

HDAJ: Why is an ESOP good for heavy-duty aftermarket distributors?

Klein: It's the perfect setup for a stable business, a stable industry, like ours. As you can imagine, in a volatile business, it's harder for the employees to handle stock fluctuations.

You grow the business, you know all the employees – a lot of times it's run very much like a family – and people are very worried about what happens to their employees after they sell the business and they're gone.

We have a motto here: We act like we own the place, because we do. ■