

# Closed Case Files Perpetuation Chronicles™

## EXCLUSIVE. THIS BUSINESS DOCUMENT HAS BEEN PREPARED FOR ENTREPRENEURS, BUSINESS OWNERS AND MANAGERS.

The Chronicles come from the exclusive files of Private Capital Corporation (PCC).

*The case stories are true. Only the names and places have been changed to protect the privacy and confidentiality of PCC clients.*

## CLOSED CASE 09

### CASE BACKGROUND

Before the end of the Carter administration, the economic misery index was already off

the charts. Certainly, Steve Love mused, an iffy time to take a risk. But the 30-year-old Oregonian was coming off six years as top salesman in a wholesale lumber business and was in no mood to play it safe. He quit his job in 1980 and took a minority interest in a new lumber venture. The partners located their new distributorship in Boise, Idaho for a single reason—quick access to world-class fishing. They weren't disappointed. The fishing was great. But business proved even better. They landed trophy-sized customers and never looked back. Love buried himself in work and paid a heavy price by putting his personal life on hold. When one of the founding partners decided to leave the firm, Love and the other partner bought and split his shares; then recruited a replacement who became a minority owner with 10%. In 1992, annual revenues reached \$36MM. About this time, when his remaining original partner sold out, Love acquired majority interest and CEO responsibility. In the next eight years, he led the company to sales of \$81MM and achieved his life-long goal—to retire on his 50th birthday. He was financially stable. He had already hand picked and mentored his successor. All that remained was finding the right way to perpetuate the business, protect his investment and assure his payout.

**CASE CHALLENGE** Love knew he could make a killing by simply selling out. Large lumber corporations were eager to roll up smaller fast-growth companies. In the early 90's, venture capitalists had money to burn. But he didn't want to risk the future of the 50 employees who helped build the business—people he knew were instrumental to his own success. He had heard about

using an ESOP (Employee Stock Ownership Plan) as a perpetuation tool and contacted PCC who initially advised him against it. PCC said the company's assets and inventory left the building every night—normally not a good ESOP candidate. But following a Situation Analysis, Focus Study and probing interviews with key employees, PCC discovered uncommon solidarity and reversed its initial finding. The challenge was to create a plan that would not take equity out of the company and put the company at risk, even during hard economic times.

### PCC RECOMMENDED ACTION

- 1 Promote Love's hand picked successor as CEO.
- 2 Establish an ESOP and MSOP to recruit more key employees with "skin in the game." Love sells his shares to the ESOP Trust at a discount when compared to market value in a strategic sale.
- 3 Love takes a five-year note with interest, essentially serving as the bank. Company makes contributions to the Trust to pay off the note.
- 4 Love agrees to become Board chairman until note is satisfied.
- 5 Appoint a six-member Board for oversight and allow board members to purchase stock.
- 6 Expand the key-person group so that all employees can own stock directly.

**EPILOGUE** In 2005, company sales vaulted to \$160MM. Sales per employee ranks #1 in the industry. The ESOP has strengthened the firm's original entrepreneurial culture. Key employee ESOP accounts now approach \$1MM. The firm has experienced zero employee turnover in more than a decade. The Trust paid the Love note in exactly five years. Love remains Board chairman at the request of the Trust and other employee owners. The CEO has begun divesting his shares to continue the company perpetuation. In his first retirement year, Love earned an MBA and thus realized another personal ambition. He invests in other business ventures, but fishing remains his enduring passion.

PCC IS AN INVESTMENT BANKING FIRM, SPECIALIZING IN COMPREHENSIVE PERPETUATION PLANNING. FOR MORE INFORMATION, CONTACT US AT [WWW.PRIVATECAPITALCORP.COM](http://WWW.PRIVATECAPITALCORP.COM) OR [MMURRAY@PRIVATECAPITALCORP.COM](mailto:MMURRAY@PRIVATECAPITALCORP.COM).

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