

Ownership Transition Resource List

CEO Name: Gerardine Ferlins

Business & Year Sold: Cirtronics Corporation, ESOP shares sold to employees

Business Description: Electronic contract manufacturer that develops long term relationships with companies who have identified their core competencies in product engineering and marketing. \$40 - \$50 million in revenue

Contact Info: GFerlins@Cirtronics.com or (603) 249-9190

Recommended Resources:

1. **VALUES:** One would have to look at my upbringing and influences in my early education and family in order to fully understand who I am and how I gravitated toward the advisors I've chosen and the ESOP vehicle for transition.
2. **ADVISORS:** Working at Worcester Controls Corporation, gave me insight into organizational structure and participative culture. When given the chance by **Robert C. McCray** to start a company, I wanted to fashion Cirtronics after attributes I saw at his company. I will never be able to express my gratitude or repay all he has offered me not only for his financial backing, his mentoring, but more importantly for the faith he had in me.

John Blackford has been our operational/financial advisor for over 20 years. I met him at SBANE breakfasts that I would attend in an effort to network and learn. I belonged to several **SBANE CEO** groups and for the past 8 years, I have been part of **Vested for Growth's CEO Learning Partnership** that has also influenced my thinking.

3. **BOOKS:** Many books went into furthering my approach, two specifically important are: **Love & Profit by James Autry** and **Servant Leadership by Robert Greenleaf**.

Although I was very proud of our value based organization, our open-book management, our participative culture, profit sharing, etc., there was always a feeling of being disingenuous about not having 'ownership' in the equation.

4. **ATTORNEY:** I began looking at various alternatives with our lawyer, Steve Burke of **McLane Graf**. I did this investigation with my strategy committee, which was our 'senior management'. By including them in the education, I could

also get a sense of what their opinion would be of the route I'd take. They could also give me insight as to how they saw an approach within the organization.

5. **ESOP RESOURCES:** In an effort to continue the evaluation, I attended several seminars offered by **ESOP Association and NCEO (National Center for Employee Ownership)**. I went full circle from not liking ESOP at first, to not liking the alternatives, back to ESOP.

When the decision to go the ESOP approach was made, I conscripted the assistance of **Alex Moss from Praxis Consulting** who worked with an internal committee to design, educate and communicate the plan to our organization.

Ownership Transition Resource List

CEO Name: Matt Pierson

Business & Year Sold: DTC Communications, sold in 2004

Business Description: Designed and manufactured specialty wireless surveillance products for the DOD and Law Enforcement markets. \$30 million in revenue.

Contact Info: mattpierson@comcast.net or (603) 264-6467

Recommended Resources:

1. *NH High Tech Council (www.nhhtc.org).* I have always worked to surround myself with good people, believing that I am only as good as the people around me. NHHTC has been a terrific resource to help me build and expand my network. It not only provides a number of forums (MIT Forum, Product of the Year etc) but also brings together representatives from private and public sectors to promote the growth of technology based companies.
2. *Learning from experienced business owners who have sold their companies.* I regularly sat down with a few other experienced CEOs who had sold. Those conversations provided me with invaluable guidance as I grew and sold DTC. Hopefully one "take away" from VfG's Ownership Transition seminar is to hear from a range of business owners so that you can connect with and recruit others as advisors.
3. *CanaccordAdams are investment bankers.* I interviewed several investment bankers and this group really stood out. (Kevin Dunn, the lead individual there has left and

started Dunn & Partners, www.dunnpartners.com) They conducted an auction process for my company that generated multiple interested parties and resulted in a significant boost in the selling price, reassuring us we were getting the maximum value for our many years of hard work. Also, don't underestimate the value of what you can learn from the interviewing process itself. You can gain insight into your industry by asking prospective bankers to share their market analysis and put forward a predicted range for valuation. We got smarter after each session!

4. *International Trade and Resource Center* (www.exportnh.org). We built up our foreign sales with help from the ITRC which provided good business introductions through trade promotions. ITRC also provided sound advice on export control and of course this helped ensure that we had a clean bill of health from the Department of Commerce when we sold.
5. *Legal Counsel*– For many years we used an outstanding sole practitioner, Robert DeN Cope as our general corporate counsel. He was a great friend and was intimately familiar with our business. I will always remember him counseling us that we (the owners of DTC) served not only our shareholders, but also our employees, their families, our suppliers, our customers and the community. When I think of Bob, I think of “wise”. He is now retired to his gentleman’s farm. I’ve had the good fortune of working with many fine law firms: *Cook, Little, Rosenblatt, and Manson*, (www.clrm.com), general business counsel for entrepreneurs; *Ropes and Gray* law firm (www.ropesgray.com) when you need to bring in the big guns to negotiate with multinationals; *Fish and Richardson*, (www.fr.com) on regulatory matters, such as FCC filings; *Kaye Scholer*, (www.kayescholer.com), on any tricky issues dealing with government contracts or regulations; *Devine Millimet*, (www.dmb.com) for employment law and estate planning.

Ownership Transition Resource List

CEO Name: John Gilbert

Business & Year Sold: GeoInsight, Inc., sold to senior staff December 2008

Business Description: Professional Services (environmental consulting and engineering) to private industry/business – founded in 1993 and grown to \$10 million in annual revenue and three offices with over 60 staff total

Contact Info: john.a.gilbert@comcast.net
ph 603-219-6538

Recommended Resources:

A Note: I have included a more general list of resources rather than focusing solely upon ownership transition-related materials because I believe that they all ultimately affected the nature of our business and its fitness for the internal ownership transition that we accomplished.

Consultants (Brokers/Lawyers/Accountants/Succession planning/Organizational development/pre-sale packaging business/Human resource/Wealth management):

1. Valuation – John Murphy, Atlantic Management Co., Inc., was a highly knowledgeable, experienced resource in accomplishing independent valuations of the company for the purposes of establishing a transaction value. Atlantic's process was extremely thorough and actually helped management understand where some of the key leverage points for increasing value of the business.
2. Legal Counsel – Alan Reische, Sheehan Phinney Bass + Green, P.A., provided an extremely sophisticated level of expertise and advice in developing organizational documents such as articles of incorporation, by-laws, and a shareholders' agreement. The firm provided extremely effective, highly professional one-stop shopping for all legal needs including labor, contracting, and business management.
3. Buyer's Counsel – Peter Burger, Orr & Reno, P.A., provided very technically sound and pragmatic advice for the group of internal management buyers. He approached the transaction from a balanced perspective focused on efficiently reaching a fair deal, rather than from a highly confrontational perspective focused on maximal benefit to his clients only.
4. Seller's Counsel – Scott Ellison, Cook Little Rosenblatt & Manson, P.A., similarly provided very technically sound, pragmatic advice to the seller and worked cooperatively with the Buyers' Counsel to resolve conflicting views on important issues and reaching a fair deal.

5. ESOP – Jim Megson, ICA Group, Boston, MA, provided very knowledgeable advice regarding ESOPs and useful guidance in working through the process of identifying the key attributes of the ESOP plan. He also was instrumental in explaining the benefits and workings of an ESOP to company staff. (Some of the governance and business management implications of majority ownership of the business by the ESOP were not as explicitly addressed – these issues should be fully vetted in the process of deciding whether to implement such a plan.)
6. Organizational Development – Randy Benthein, Benthein & Associates, provided very useful feedback from the employees regarding their desires for more individualized recognition and performance feedback, as well as guidance regarding professional development. His information and guidance were critical to improving the performance management systems of the business.
7. Talent Management/HR – Delise West, Human Resource Partners, provided an extremely valuable independent audit of the business's human resources systems and methods. She provided expert assistance in the development of improved performance management systems. She also provided training for supervisors in performance management. Delise was a resource for addressing difficult personnel management questions and issues.
8. Wealth Management – Paul Makris, UBS (Concord, NH), provided critical financial planning and scenario analyses for the business seller that were critical to the seller in understanding the implications of various transaction elements and structures. His analyses were thorough and careful and explored the full range of possibilities through multiple iterations.
9. Finance – John Bell, Bell Systems, provided excellent financial management input as a part-time CFO. Of particular value were his ability to develop long-term, strategic level financial scenarios that allowed evaluation of the implications of an internal ownership transition in terms of the likely value of the company and the business's ability to finance an internal buyout transaction. His tax experience as a CPA was critical to annual tax planning by the business. His finance-driven perspective was crucial to the development of thoroughly analyzed and understood strategic plans.
10. Outside Accounting – Ted Medrek, Howe Riley & Howe, provided excellent outside auditing and tax preparation services, as well as answering complex questions regarding the tax implications of certain concepts and ideas.

Reading

1. The Discipline of Market Leaders by Tracey and Wiersema was an important book in helping us to clarify what our business was about and the fundamental nature of the value proposition to our customers. The book identifies three main business models, low-cost (think Walmart), technical innovator (think Intel), and customer intimate (think Airborne Express, which situated shipping staff inside its larger clients warehouses). The book strongly recommends that a business pick one of the fundamental models as its primary although, obviously, the other two aspects need attention, as well.

2. The Five Temptation of a CEO by Patrick Lencioni is a book that offers a very simple description of the key things that CEOs can do to be successful in running their businesses. The book proposes that CEOs need to:
 - choose trust over vulnerability (i.e., own up to mistakes and cultivate challenges to your thinking and ideas);
 - choose conflict over harmony (i.e., principle-based argument over the needs of the business rather than avoiding discussion of the tough issues);
 - choose clarity over certainty (i.e., take clear, decisive action on critical issues rather than waiting for all the data to be obtained and analyzed);
 - choose accountability over popularity (i.e., make the tough decisions required for the best interests of the business and its customers); and
 - choose results over status (i.e., focus on the good of the company vs. your own ego).

3. Good to Great by Jim Collins (also “Built to Last” by same author) was a very helpful book in identifying the key attributes of companies that are successful in the long-term based upon extremely detailed empirical research of major corporations over 50 to 100 years (the focus of Built to Last). Good to Great identifies five key elements in building and sustaining a successful business based upon the learning from Built to Last. These elements include:
 - Level 5 leadership, i.e., leaders that are focused on the good of the organization rather than personal reward or aggrandizement and that see their success as directly tied to the success of the company (this concept connects with ideas in The Five Temptations of a CEO);

- first who, then what, i.e., focus on getting the right people on the bus and sitting in the right seats, then focus on making the business more effective, profitable, etc.;
 - confront the brutal facts, i.e., be willing to confront the hard facts of your current reality while never losing faith that you can prevail;
 - identifying your “hedgehog concept,” i.e., understanding where the intersection lies between what you are deeply passionate about, what you can be best in the world at, and what drives your economic engine; and
 - developing and maintaining a culture of discipline at all levels of the organization to stay focused on the “hedgehog concept,” dropping or refusing to pursue activities that are not closely aligned with it.
4. The Four Obsessions of an Extraordinary Executive by Patrick Lencioni was an important book about leadership within organizations and completed “The Five Temptations of a CEO.” The four obsessions include:
- building and maintaining a coherent leadership team that knows each other’s strengths and weaknesses, engages in constructive ideological conflict (connects with ideas in The Five Temptations of a CEO), and holds one another accountable for results;
 - creating organizational clarity about what the business does and does not do, its values, and its uniqueness (this idea connects with and plays into the decisions made pursuant to the concepts in The Discipline of Market Leaders);
 - over-communicating organizational clarity to employees and customers through repetition and simplicity of message;
 - reinforce organizational clarity through human systems by rewarding behavior and performance that is consistent with organizational aims and values in hiring, rewards, and performance management.
5. Stewardship: Service Before Self-Interest by Peter Block was a book that was central to developing a culture that was receptive to and prepared for an internal ownership transition. It emphasized moving away from paternalistic management models and treating employees as responsible adults capable of doing the right things without micromanagement. A key concept was that of the fair exchange, i.e., the company compensates and rewards employees in return for their whole-hearted commitment to goals and objectives of the business and its customers. This key principle was helpful in bringing balance to the “what has the company done for me lately” attitude by broadening the conversation to include “what have you done for the company lately.”

6. The 7 Habits of Highly Effective People by Steven Covey was an extremely useful background book on the philosophy of self-management. Key concepts drawn from this book that underlay much of our business values and philosophy were to cultivate an abundance mentality (i.e., it is never an all-or-nothing proposition in any situation; there is “enough to go around”) and the “degree of freedom” that exists in the stimulus-response model (i.e., the ability to choose your response in a given situation). Another important concept was that of sharpening the saw (i.e., taking down time to relax and pursue activities that are fun, to regenerate mental focus) and short-term imbalance to achieve long-term balance (i.e., the ability to emphasize certain activities above others for the short-term in order to establish conditions conducive to a more balanced life in the long term).

7. Death by Meeting by Patrick Lencioni was extremely useful in bringing great focus to internal management meetings. The focus is to be very clear about the level of management attention at the meeting, i.e., daily vs. tactical vs. strategic, and to avoid mixing the purposes of the meetings. Meetings became far more useful and shorter as they became more focused.

8. Finance for Non-Financial Managers by Lawrence Tuller was very useful in explaining the elements of balance sheets and income statements and their value and utility in managing the business. It is not a book on accounting or bookkeeping, but instead focuses on distilling key indicator information out of the financial statements that are prepared by the company’s accountants and bookkeepers.

9. The Elements of Style by E.B. White is a very simple, highly readable book on writing style. It was an important resource in improving the quality of written communications within the business. The results were greater clarity, focus, and brevity of these communications.

10. The Three Signs of a Miserable Job by Patrick Lencioni provided useful perspective on the sources of employees’ disaffection with their jobs and illustrated the tremendous gains in commitment, quality of production, and morale that can be achieved by attending to recognition, relevance, and measurement of employee contributions to the business. The ideas in this book reinforced those put forward by Block in Stewardship.

11. Harvard Business Review (journal) published by Harvard University Press is a useful publication in stimulating new ways of thinking about the business. Much of what is written is focused on the management of very large corporations, but the articles nevertheless articulate insights and concepts that can be adapted to much smaller businesses.

Ownership Transition Resource List

Selling a Family Business

CEO Name: Edward J. Tomey (Board Chairman)
Business & Year Sold: Southbury Food Center, Inc./2007
Business Description: \$10M/annual sales retail grocery store in growing Connecticut rural/bedroom community

Contact Info: email/phone: etomey@worldpath.net

603-352-6325

Recommended Resources (Books):

1. Carlock, Randel S. & Ward, John, *Strategic Planning for the Family Business*. Palgrave (St. Martin's Press), 2001.

Usefulness: This book goes beyond the usual succession planning and estate-oriented issues. But neither is it a warmed over approach to strategic planning with "family" inserted in it. Rather, it takes a comprehensive and integrative look at making the family business a success while facing up to the tough relationship issues that are always present.

Also see:

www.familybusinesswiki.org/Strategic+planning+for+the+family+business

2. Lansberg, Ivan, *Succeeding Generations: Realizing the Dream of Families in Business*. Harvard Business School Press, 1999.

Usefulness: This is a very gut-level approach to succession planning for family businesses. Lansberg pulls no punches and skips no important topics. The chapters on “the family dream” are unique and helpful.

Also see:

gbr.pepperdine.edu/012/family.html

3. Fleming, Quentin J., *Keep the Family Baggage Out of the Family Business*. Fireside (Simon & Schuster), 2000.

Usefulness: Whew! Fleming’s “Seven Deadly Sins” force the reader to come face-to-face with all the mistakes families can make when running a business together! Helpful guidelines.

Also see:

www.familybaggage.com/

4. Yegge, Wilbur M., *A Basic Guide for Valuing a Company, 2nd Ed.* Wiley & Sons, 2001.

Usefulness: A helpful step-by-step process for the novice who needs to put a dollar amount on a hard-to-assess small to medium sized business. A bit wordy, but *not* one of those hard-to-follow arcane manuals.

Lawyers & Accountants/Brokers

1. Attorneys: Yamin & Grant, LLC, 83 Bank Street, Waterbury, CT 06702.

Email/telephone: jyamin@yamingrant.com

203-574-5175

2. Accountants/Brokers: Zackin Zimyeski Sullivan CPA LLC, One Exchange Place, Waterbury, CT 06702. Email/telephone:

keith@zzscpa.com 203- 753-2200

Ownership Transition Resource List

CEO Name: Mark Godfrey

Business & Year Sold: Felton Brush Inc., Sold 49% to ESOP in 2004, In the process of transferring 10-20% to new CEO

Business Description: Manufacture technical assemblies for sealing, transporting, and surface finishing. 70 employees

Contact Info: mgodfrey@feltonbrush.com, 603-425-0201
(email/phone)

Recommended Resources:

Books/Articles NCEO.org- The NCEO is an excellent resource for information about employee ownership

ESOP Association is an excellent resource for conferences on ESOP's

Advisors

John Bletzer at Caron & Bletzer LLC, jbletzer@caronbletzer.com. Phone- 603-642-4862

John has a lot of experience with accounting for ESOP's. I would definitely suggest using an accountant who is familiar with ESOP's.

Alan Reische at Sheehan, Phinney, Bass, & Green, areische@sheehan.com Phone 603-627-8225.

In 1980, Alan helped the four Executive Managers of Felton buy the company from Emhart Corporation. The transaction became one of the first leveraged buyouts in NH, so without Alan's expertise the deal probably would not have happened. Since that time, Alan has been an integral member of the Board of Directors and has helped the company with several acquisitions and divestitures. He is recognized as one of the best corporate attorneys in New England and I feel Felton has benefited greatly from our association with him.

James Hillman at Mellon Hillman.jk@mellon.com phone 617-722-7387

James and his people at Mellon have done an excellent job at handling the proceeds for my dad from the sale of his stock to the employees.

Alex Moss at Praxis Consulting Group alex@praxis-consulting.com Phone:215-753-0303 x102

Alex is by far the best consultant to work with in terms of employee communication and knowing the ins and outs of ESOP's. He is able to take all the complexities of ESOP's and communicate them in a way that both Attorneys and regular line employees can understand.

John P. Murphy at Atlantic Management Corp. jpm@atlantic-mgmt.com
Phone: 603-436-8009

Felton has been using Atlantic Management for our valuations for many years. They are very knowledgeable in the valuation field. They don't just look at the numbers, but take the time to learn about your business so they can make a fair valuation.