

An ESOP Fable

Geil opts for unique strategy to retain and reward work force

Steve Sinovic — Staff Writer

The 400-plus employees of Geil Enterprises Inc. are on their way to being stakeholders in the Fresno company.

The privately held firm has initiated an Employee Stock Ownership Plan (ESOP) that will give each worker a vested interest in the company's profitability, said Sam Geil, the president of the company, which has operated security and janitorial businesses for over 20 years.

"Typically, it's a company benefit, an annuity paid over time," said Geil, who said the ESOP process took a couple of years of research and planning before it was implemented July 1. Geil declined to disclose the value of the shares being issued to employees.

"We have to pay so much a year based on profits," Geil said. He added that there are tax benefits to implementing an ESOP, but that's not the sole reason to do one. The real reason is the long-term continuity and profitability of the company.

Geil said he isn't aware of any other security or janitorial firm in California that has gone the ESOP route. He said it's a great option, although a complex and not easily understood one, for certain categories of business owners. The company's owners are Sam Geil, his brother,

Steve, Steve's wife Eileen and their sons, Jason and Ryan.

Sam Geil said the firm retained Steve Deis, of Financial Exit Planning, to structure the ESOP. The process, which is tightly controlled by the IRS, involves the company being valued by a third party.

An ESOP is an employee benefit plan, in which the workers of a company become owners of stock in that company. Compared to other employee benefit plans, there are several features that make ESOPs unique.

First, only an ESOP is required by law to invest primarily in the securities of the sponsoring employer. Second, an ESOP is unique among qualified employee benefit plans in its ability to borrow money. As a result, "leveraged ESOPs" may be used as a technique of corporate finance.

Geil said ESOPs are designed to enhance employment opportunity and are a good way to retain skilled employees.

Both the janitorial and security industries are known for high turnover rates. Programs like ESOPs are a benefit that could help make a difference in retaining a workforce critical to the firm's future success, the Geils believe.

Geil said janitorial work nationwide has an annual turnover rate in the 200-300 percent range. By



paying above minimum wage, the Geils are able to keep the turnover rate of their mostly fulltime staff members in the 80 percent range.

Geil's janitorial business is exclusively commercial accounts and includes clients such as automotive dealerships, Comcast Cable, and Educational Employees Credit Union. The work force is evenly divided between men and women.

Ditto for the security business.

"Many of our employees on the security side are usually working toward something such as police work. We know we're helping them learn the basics

of dealing with the public," Geil said of the workforce, which numbers 225 fulltime employees.

Still, for those that want to make security work their career choice, an ESOP is a nice dividend to reward loyalty and tenure.

The next step for the Geils is to explain the benefits of the company's new corporate chapter.

"We haven't had any staff meetings yet to explain the ESOP, Geil said. "How much they grasp the concept will be interesting to see."

Steve Sinovic | The reporter can be reached at 490-3465 or e-mail ssinovic@thebusinessjournal.com