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MERGERS CREATE AN EMPLOYEE-OWNED TOWING COMPANY

Like many towing company owners approaching retirement age, Geoff Russell, CEO of Kauff's Transportation Services, a large, multi-location, South Florida towing, recovery and transport company, considered his long-term business exit strategy options. Sell? Merge? Pass the business to his children? There was no interest on his family's part on taking over the business, so that was not an option. And like other owners, he'd worked hard for decades with the hope that he would be adequately compensated when it came time to leave the company.

Then, last year, Russell was contacted by a transportation group, separate from the towing industry. They were interested in investing in a like-industry, but outside of their regular customer base. Their selling point was that they were an employee stock ownership plan, an ESOP. They had spoken with some mid-west towing company owners about possible mergers and during these talks Russell's name kept coming up, so they reached out to him.

As Russell learned more about the benefits of an ESOP, he envisioned the strategy he was looking for.

ESOP BENEFITS

According to the National Center for Employee Ownership: "An ESOP is a kind of employee benefit plan, similar in some ways to a profit-sharing plan. In an ESOP, a company sets up a trust fund, into which it contributes new shares of its own stock or cash to buy existing shares. Alternatively, the ESOP can borrow money to buy new or existing shares, with the company making cash contributions to the plan to enable it to repay the loan. Regardless of how the plan acquires stock, company contributions to the trust are tax deductible. Shares in the trust are allocated to individual employee accounts. As employees accumulate seniority with the company they acquire an increasing right to the shares in their account (vesting). When employees leave the company, they receive their stock, which the company must buy back from them at its fair market value."

ESOPs can be used to purchase the shares of a departing owner, the center says, and borrow money at a lower after-tax cost. Significant among the benefits of ESOPs are their multiple tax benefits. But Russell also saw this as a long-term way to offer employees a meaningful role in the company. "ESOPs are commonly used to motivate and reward employees," the center says. "In almost every case, ESOPs are a contribution to the employee, not an employee purchase."

"The purpose of the ESOP is to give employees an ownership stake in the business," Russell says. "And it doesn't come out of the employee's pocket. It comes from the profits of the business."

SHARING THE STRATEGY

Russell met with selected towing company owners to share the strategy of merging businesses under common ownership for the combined benefit of the owners, employees and customers. Not only would the mergers offer the tax benefits of the ESOP, the common ownership and the distribution of ownership among trusted employees should encourage the employees of each company to work toward the good of the ESOP as a whole, increasing the quality of service for the customer base. And while the companies would continue to operate autonomously in their respective areas of the state and maintain their own branding, the mergers would join the companies' strengths (management, employees, equipment, service coverage) as a single, large network covering major interstate highways — including all of Florida's Turnpike.

After much favorable negotiation, Guardian Fleet Services Inc. was established to form the ESOP. Subsequently, early in the second quarter of 2017, "Kauff's Transportation Group of companies entered into a merger agreement with Guardian Fleet Services Inc., and Crockett's Towing LLC of Tampa, Fla.," a Guardian press release states. Guardian then entered into an agreement with RSC Corporation of Orlando to purchase the operating assets of its Ace Wrecker Service subsidiary.

PHOTOS ABOVE: JOE BROOKS PHOTOGRAPHY

HIGHWAYS

By Tim Jackson

"Kauff's and Crockett's merged into Guardian Fleet Services Inc., an employee-owned company," Russell says. "Seventy percent of the company is controlled by the owners and 30 percent by employees. "Our employees have a stake in every service we provide and will benefit as a stockholder in Guardian. The stakeholders account is managed, audited and valued on an annual basis and a portion of profits relative to the stakeholder's ownership is put into a trust account managed by a federal trustee."

The stakeholder employee can claim the stock from his or her account upon leaving the company. There is a six-year vesting period and a three-year withdrawing period.

"The ESOP has the features and benefits of a publicly-traded company without the risks of a publicly-traded company," Russell says.

Russell considers tax benefits a major advantage. "Taxes are deferred," he says. "Instead of paying tax with post-tax dollars, it's paid with pre-tax dollars. It reduces income for tax purposes because new equipment costs are deducted immediately instead of depreciated over time. "If I paid $100,000 on a truck this year I can deduct $100,000."

The size of the company created by the ESOP also creates purchasing power, Russell says. "The merger has allowed Guardian Fleet Services to leverage purchasing benefits for fuel and insurance. We've seen savings in excess of 50 percent. The debt structure is less costly than before."

Russell says that to his knowledge this is the only ESOP in the towing industry, and while he believes the benefits can be many, the business strategy is not for everyone. A company's financial strength, financial information and professional management are some of the factors considered.

Not only does he believe the ESOP will benefit the companies involved, Russell says the benefits will filter into the community as well. "You now have 200 stakeholders in the community," he says. "In time, service levels will increase, and allow ESOP companies to have the best compensated, educated and most involved employees in the industry."

Teaming with companies with fresh, successful leadership, such as Crockett's Towing LLC, owned by Scotty Crockett, also gives Russell confidence in the company's future. "Scotty is 37 years old and an important part of this transition," Russell says. "He is the next generation of leadership in our company."

GUARDIAN FLEET SERVICES INC.

Merger: Valued at $32 million
Employees: 210
Pieces of Equipment: Over 250
Combined Years of Experience: 100
Company Base: Florida, Specifically Orlando, Tampa, South Florida