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Lampin Corp. completes buyout

Stock ownership plan creates employee-owners

BY JEFFREY T. LAVERY

PHOTO/JULIE WILSON

Scott Rossiter, who has sold his company to its employees.

When former Lampin Corp. president Scott Rossiter decided to sell his business, he had two choices: go through the frustration of dealing with a private buyer, or leave his company and reputation in the hands of his employees.

Rossiter chose the latter. And after years of preparation that included finding and training a replacement, hiring financial and legal consultants, and keeping employees informed with regular updates and meetings, the Uxbridge-based precision machined component maker became 100 percent employee-owned this month, completing the private firm's transition to an employee stock ownership plan (ESOP).

Lampin Corp. is one of several Bay State companies operating under an ESOP, along with NYPRO Inc. in Clinton and Danafilms Inc. in Westboro. In some cases, an ESOP is formed with the intention of creating an employee benefit plan, or for the purpose of borrowing money. At Lampin, the ESOP allowed the buyout of then-owner Scott Rossiter and his wife, Lois.

A veteran of two acquisitions prior to Lampin, Rossiter decided that enduring another transaction where both buyer and seller spend more time arguing on price than signing the paperwork was not an option. Coupled with his appreciation for his employees' hard work that built the company to what it is today, Rossiter decided to give it all back.

PHOTO/JACK MITCHELL

The new owners of Lampin Corp. stand in their workshop in Uxbridge.

"I liked the idea of sharing the value of the company with the people that helped to build it," he says.

Spreading the wealth

Rossiter began studying how to form an ESOP in the late 90s. Consulting with anyone from local experts to national associations, he took an initial step, selling 31 percent of the company in 2001, a minority portion of the company that Lampin could afford to self-finance. Rossiter says it was effectively a trial stage, to see how the employees felt about owning just over a quarter of the company. "They were owners, not managers," says Rossiter. "Other than that, nothing else had changed."

Earlier this year, the employee-owners purchased all the outstanding shares of Lampin from Scott and Lois. In the lead-up, Rossiter continued to educate the employees on the ongoing process to full ownership, and the benefits that awaited them should they continue to grow Lampin. It was not just the employees getting an earful about ESOPs, however — Rossiter enlisted the help of several key players to ensure a smooth transition. Four separate entities assisted in forming the

ESOP, including Atlantic Management in Portsmouth, NH, which performed the business valuation, a integral first step in determining the value of the company's stock. Since Lampin is a private firm, its shares are not subject to the public market, but instead are rated on the company's performance. The more successful the company is, the higher the share value. Valuations are performed on a yearly basis, and the 2006 valuation is currently ongoing.

Rossiter also brought in an ESOP lawyer out of Providence who wrote the ESOP plan; a 3rd party administrator who allocates how many shares a person can obtain and determines account values; and a CPA who advised Rossiter on the tax incentives of an ESOP.

While selling Lampin to a private buyer may have brought him a few more dollars up front, Rossiter wanted to avoid the headache of finding a buyer, and to take advantage of tax incentives created for owners selling to their employees. Rossiter says the provision allows the seller to take the gross proceeds without having to pay capital gains tax, saving him an estimated 15 to 20 percent in added fees.

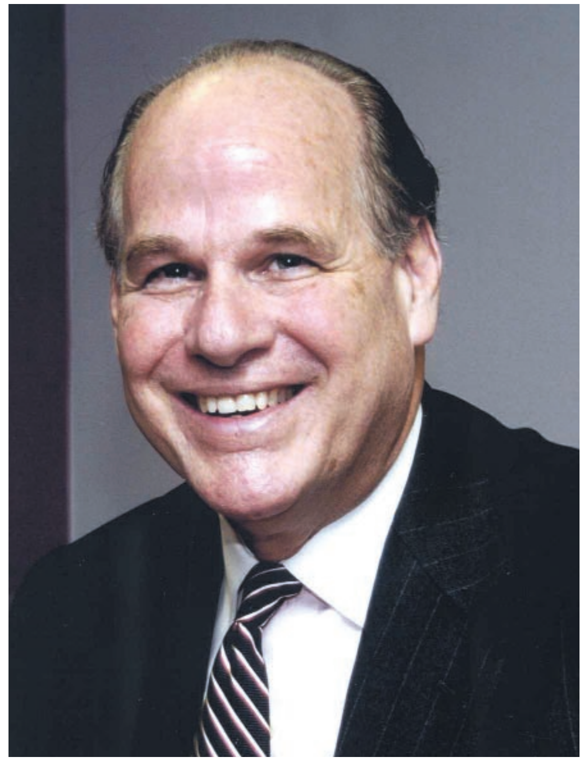
In order to purchase all of the company's 100,000 shares from Rossiter, the employees first had to take out a loan. TD Banknorth secured the loan, but it was not given to the ESOP trust. Instead, the bank will only loan the money to an entity with value — in this case, Lampin Corp. Lampin in turn pledged all of its assets to the bank, and the corporation lent the money to the ESOP. Finally, the ESOP bought the remaining shares from Rossiter and his wife, Lois. Over the next five to seven years, the employee-owners will work to pay off the loan. At the close of 2006, the values of the shares dropped due to the outstanding loan, but as it is paid off and Lampin's business grows, the share value will begin to rise. The 69 percent of shares just purchased won't be released to the employees until the debt is paid down. As each year passes and additional debt is paid off, Lampin will release shares equal to the amount that is paid off.

While this year's statement may show a modest value, Rossiter is confident the loan will be paid off sooner rather than later, and the realization will set in that Lampin now belongs to each of its 25 employees. "Most important to me was the ability to see the employees share in the value, and watch them take Lampin to the next level," says Rossiter.

Stepping aside

In addition to the numerous steps take on his checklist towards employee ownership, Rossiter had one last item to cross off: Removing himself from Lampin. "I do not want the ghost of Scott Rossiter walking around the office," he says. "I'm not going to go down there and get in the way."

PHOTO/COURTESY



The ESOP Association's Keeling hopes more companies will follow Lampin's example.

In fact, ESOP experts say that employee-owned companies generally fare better when they go their own way and the former owner steps down. While Rossiter will remain involved through a new board of directors, his day-to-day presence will be gone. "I wish more people would be like [Scott Rossiter]," says Michael Keeling, president of the Washington, D.C.-based ESOP Association.

To that end, Rossiter found and trained a replacement. Rick Mongeau, a WPI grad and the new president of Lampin Corp., has spent the last three years working side-by-side with Rossiter to see the direction the company was going in to ensure its continued growth. Having worked for start-ups that eventually formed an IPO, Mongeau was no stranger to transition periods in companies where future profits were on the line.

After working for several years at Luxtec in West Boylston, Mongeau heard Rossiter was searching for a replacement. Through months of conversations and visits to Lampin's facilities, Mongeau decided to climb on board, and began taking on day-to-day responsibilities. Mongeau says his experiences with a failed start-up taught him what to look for in a company, and his senses indicated Lampin was a good model for employee ownership.

"If we do what we've done successfully for the past twenty years, then there is no reason we can't continue to succeed," he says.

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