The New York Times
You're the Boss
The Art of Running a Small Business

DECEMBER 21, 2010, 7:00 AM

A Business Owner Finds an Ideal Exit

By ***ADRIANA GARDELLA***

Courtesy Penmac Penmac managers on the day the company became employee-owned.

Patti Penny had never heard of a staffing firm until months before she decided to start one. At the time, she had been employed in human resources for 27 years and yearned to be her own boss. When her husband mentioned that the manufacturing plant where he worked as a manager used an agency to fill jobs, Ms. Penny had her business idea.

Today, Penmac, the company she founded in 1988, employs more than 15,000 people and serves more than 1,800 mostly manufacturing customers from its Springfield, Mo., headquarters and 26 branch offices throughout the United States. The company projects 2010 sales of $76 million, up from a dip to $58 million in 2009 due to the recession. Recently, Penmac became the sixth-largest employee-owned company in the United States after Ms. Penny chose an employee stock-ownership plan that transferred ownership to her employees. When Ms. Penny, 70, retires as chief executive in June, her daughter Paula Adams, who is now president, will lead the company. Ms. Penny talked about choosing an exit strategy, landing her first clients, and the biggest mistake she ever made. A condensed version of that conversation follows.

Q: *Who was your first client?*

Ms. Penny: I opened the business with the promise of being retained to fill 14 positions at my husband's plant. But after making the agreement verbally, the company reneged, claiming it would be a conflict of interest. I'd already gotten a $16,000 bank loan, leased space, bought the insurance I needed, and brought on a business partner. The hospital where I'd worked until the month before felt sorry for me and said I could send them a candidate for a secretarial job. I sent a friend over, and that was my first placement. After that, a fire damaged my local bank, and they needed a cleanup crew. They contacted me and I had to figure out how to find people. I called my son's high school football coach and had him send some boys over.

Q: *What happened to your business partner?*

Ms. Penny: I bought her out in 1989. We were friends, but she no longer speaks to me. We were different in every way. She was methodical, and I shot from the hip. She wanted to stay small, and I wanted to grow and be well-known. I realized I needed to land a big name client, so I set my sights on Durkee French Foods and knocked on their door. They wanted to retain us, but said we'd have to lower our rates to match our competitors. I raced back to the office, and asked our secretary to type up a proposal quoting a lower rate. But my partner and I had agreed to maintain our rates and she refused to go along with it. Durkee became my first big client.

Q: *Was it a messy split?*

Ms. Penny: No. Luckily, we had a buy-sell agreement. I paid her half of our receivables — $25,000 at the time — and took over the bank loan. But having a partner was the biggest mistake I ever made. I wanted my own business because I wanted to be my own boss, make my own decisions and do what I wanted to do. When the partnership ended, it was like a millstone was lifted from my neck.

Q: *Why didn't you change the name of your business, which combines the first three letters of your last name and that of your former partner's?*

Ms. Penny: At the time, I'd just ordered 100 coffee mugs that said "Penmac" and I wanted to use them. That's how cheap I am.

Q: *What was Penmac's big break?*

Ms. Penny: Being hired by General Electric. They used Manpower Staffing, but I was determined to get their business, and kept calling on them. The door cracked open when the Manpower franchisee sold his franchise to someone in Wichita. Then, in 1993, we had a major flood that knocked out power, heating, and air conditioning units — G.E.'s business. They needed hundreds of workers and called me. People I'd placed during my years in personnel started referring their family members to me. Springfield's a small town, and word got out that Penmac was doing G.E.'s hiring. We left the 1,680-square-foot building that I thought we'd never outgrow, and moved downtown to an old bank. It had a drive-through window, which was great because that's how we paid 1,000 people every payday. There was no room to do it inside.

Q: *How did you decide on an employee stock-ownership plan?*

Ms. Penny: In March, I attended a Staffing Industry Analysts conference and listened to a panel discussion on ways to transition a family business (after my partner left, my husband and two children became owners). They talked about employee stock ownership plans and it sounded like a good idea.

Q. *Why?*

Ms. Penny: Some of the biggest benefits were the tax savings — if the E.S.O.P. is properly structured, the company becomes tax-free, and the owners pay no capital gains taxes on sales to employee stock ownership plans.

Q: *Did you consider other options?*

Ms. Penny: Not seriously. If I sold the business to a competitor, most of my employees would lose their jobs through consolidation. I didn't want that. I considered being acquired by a venture capital firm that would grow the company and sell it in five years. But the same thing would eventually happen — my people would lose their jobs. Keeping the business in the family wasn't an option. This is a huge company. My kids couldn't do it. My son has no interest in the business. My daughter feels the E.S.O.P. will be wonderful for her as a leader. Now she's got all these people invested in Penmac's success.

Q: *How and when did you and your family get paid?*

Ms. Penny: We received our first payment — for a fraction of the total sale — after the October closing. We were paid with excess cash in the company, and will receive the balance over the next several years. We took a promissory note back from the company for the entire sale amount, and our future payments will come from Penmac's cash flow, which will increase dramatically due to the tax incentives associated with the E.S.O.P. Depending on business operations, we expect to be fully paid within five to six years.

Q: *Were you pleased with the price you got?*

Ms. Penny: Very. The E.S.O.P. paid us fair market value for the stock, as determined by an independent valuation firm, so we didn't have to take less than a traditional sale. In fact, the E.S.O.P. was a more attractive option because of the tax benefits. The whole deal has been a huge win-win.

Q: *Why don't more owners choose this exit strategy?*

Ms. Penny: It's complicated and there are numerous misconceptions about E.S.O.P.'s. We repeatedly heard that they weren't a good idea. But after speaking with E.S.O.P. experts, we realized it was an ideal exit strategy.

You can follow Adriana Gardella on Twitter.