

## **The Mid South Building Supply Employee Stock Ownership Plan How Insured Capital Credit Can Democratize Ownership through Future Savings**

Mid South Building Supply, Inc., headquartered in Springfield, Virginia, became a 100% worker-owned company on December 30, 1985, when the Company's newly-established tax-exempt Employee Stock Ownership Plan (ESOP) purchased all 3,000 shares of Company stock from Norman and Ruth Rales for \$7,300,000. The sales price for the shares was at the higher end of an appraised "fair market value", as determined by one of Washington's most highly respected appraisers of closely held shares.

No employee put up a cent or was required to reduce his or her take-home incomes or past savings to purchase the shares they earned from future Mid-South profits.

Under the ESOP laws, the seller of shares to an ESOP can exempt from Federal taxation the value of initial marketable securities purchased to replace the Company shares sold to an ESOP. This enabled the Rales to make an asset-backed loan guarantee to serve as "collateral" (the equivalent of loan default insurance) for an ESOP bank loan.

Equitable Bank of Baltimore (the Company's commercial bank), provided all the loan funds needed for the sale to the ESOP Trust on behalf of all current and future full-time managers and workers, based on the future stream of pretax profits projected to be earned by the Company within twenty years.

Mid South's original acquisition loans have now been completely repaid in thirteen years through cash contributions and dividend payments made by the Company to its tax-sheltered ESOP for the benefit of original and future employees.

Over the thirty-four years since the loan was made, no new shares beyond the original 3,000 have been added. (This feature is sometimes incorporated into an ESOP's design in order to track growth in share value.) The Company has in the last decade adopted an **S-Corp tax-sheltered ESOP Trust**, which is the sole legal owner of all its shares. This allows the corporation to avoid any future Federal or State corporate income taxes (increased personal incomes are subject to Federal personal income taxes). This allows all dividends, cash bonuses, purchases of shares from the ESOP share accounts of former workers and capital growth projects to be financed with pretax profits of the Company.

Because no new shares are added, as new workers join the Company all annual cash contributions to the ESOP from future profits on behalf of all workers are subject to "rebalancing." This allows new workers to acquire the same **proportion** of shares and cash (e.g., 60% shares and 40% cash) in their ESOP accounts as in the accounts of older employees.

No worker ever put up any money to purchase Company shares from his or her wages, salaries, savings or personal borrowings. Since the ESOP was adopted, the Company has expanded from two locations to eight in two states with over 150 full-time workers. Around fifteen workers have become millionaires through the ESOP.

As of December 31, 2018, the appraised value of the Company's shares increased 270% above the original purchase price. Since the buyout, the Company has increased its workforce by 420%.

Over the years Mid-South has received numerous national awards and accolades as a successful 100% employee-owned company.

