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Sale Gives PR Firm the Benefits of Becoming Employee-Owned

By SIMONA COVEL

Mike Nikolich didn't want to take the money and run.

Mr. Nikolich was ready to start easing out of Tech Image, the technology public-relations firm he had founded nearly 15 years earlier. He didn't want to sell to a much larger PR company, however, because he was concerned the new owner would slash his work force. And he wanted to stay involved in the business.

Costly Path

Given those criteria, employee ownership felt like the right path. By selling shares to employees, he could minimize his own stake but keep running the company. What's more, he had worked at an employee-owned company and knew the benefits of stock-price appreciation for employees. But he quickly learned that the cost of setting up an employee stock-ownership plan could top \$100,000 -- more than his 17-person company could handle.

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In the end, Mr. Nikolich did end up selling the Buffalo Grove, Ill.-based company - to a larger company that itself was employee-owned. It was a way to give employees what he saw as the benefits of employee ownership, without having to incur the costs of starting his own employee stock-ownership plan.

As employee-owned companies have grown in number and become established in the past 10 years, more are buying up other companies, partially because of big potential tax breaks, says Martin Staubus, director of consulting at the Beyster Institute, which focuses on employee ownership at the Rady School of Management at the University of California in San Diego.

Companies being courted often take comfort in the idea that their employees are likely to wind up owning a chunk of their new employer -- inspiring a feeling that the smaller company will have a say in the combined company's future.

When Mr. Nikolich, 50 years old, started to consider exit strategies in 2004, he searched in vain for a business incubator or other organization that would take a strategic interest in his firm, rather than a PR firm just looking for a regional office.

At the same time, he pursued the idea of employee ownership. One day, during a meeting with a client, association-management company SmithBucklin Corp., the conversation turned to ESOPs. The client mentioned that the Chicago

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company was employee-owned and said the process required huge chunks of time and money spent with accountants and lawyers.

At a follow-up meeting a few weeks later with Henry Givray, SmithBucklin's chairman and chief executive, Mr. Givray sketched out the costs on a napkin. Then he offered an alternative idea:

SmithBucklin, with 750 employees and nearly \$90 million in annual revenue, could buy Tech Image.

At first, Mr. Nikolich was torn. He worried about "losing our identity" as part of the much larger company and didn't want to change the firm's business model. He was concerned that if the deal didn't go through, he would have a contentious relationship with a client. And, he didn't want employees to think he was renegeing on his promise to not take the money and run.

The deciding factor: SmithBucklin was employee-owned.

100% Participation

The deal closed early last year for an undisclosed sum; Mr. Nikolich and his partner received both cash and equity in SmithBucklin. Mr. Nikolich can sell his stake and exit the company when he is ready -- though that won't be anytime soon, he says.

When Tech Image's employees were offered their first chance to put money from their retirement accounts into company stock, 100% did so.

"Compared to the various 401(k) programs I've been involved in, the projected rate of return in both the best-case and worst-case scenarios appeared much more impressive with the ESOP," says Dan Green, a media-relations manager at Tech Image.

Mr. Nikolich says owning a chunk of their new company means less of an "us vs. them" mentality because employees know that "everything they do will be reflected back in the price of the ESOP."

Write to Simona Covel at simona.covel@wsj.com

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Mike Nikolich (left) with Dennis Collins, chief operating officer

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