

Focus: Kelly Finnell, Executive Financial Services

By Jonathan Devin

Tuesday, April 13, 2010

Kelly Finnell literally wrote the book on ESOP, but it's no fable.

By focusing his retirement investment company on a single product -- employee stock ownership plans -- Finnell set himself up to service the needs of thousands of baby boomer business owners.

Finnell opened Executive Financial Services in Germantown in 1981 after graduating from the Cecil C. Humphreys School of Law at the University of Memphis and several summers of working in the pension department of a Massachusetts insurance company.

"We started out focusing on all sorts of company-sponsored retirement plans -- 401(k) plans, pension plans, nonqualified deferred compensation plans, and ESOPs," Finnell said. "Over the years that focus has narrowed."

In the last decade ESOPs have increased in popularity as 401(k) plans suffered heavily in the last two recessions.

"An ESOP is a qualified retirement plan like a 401(k), but with an ESOP a company borrows money, which it relends to the ESOP, and the ESOP uses that money to buy stock from an existing shareholder," said Finnell.

"That stock then becomes the investment in the employees' retirement accounts and the owners have cash for liquidity and for their retirement."

ESOPs come with tax advantages for business owners, too. Owners may receive stock sales proceeds on an income-tax-free basis or pay capital gains tax in lieu of income tax depending on the type of corporation.

The company also gets a tax deduction for money it contributes to service the debt on the ESOP loan, and a tax deduction for principal payment.

"It's unique in that it provides retirement funds for the owner first, then on a deferred basis for the employees," Finnell said. "When a company sets up a 401(k) plan, the people that benefit are the employees, but with an ESOP the employees and the owner benefit."

Employees do not choose their own individual investments with an ESOP, which may be simpler for those who are not stock-savvy. Finnell said that ESOPs are more resilient in a recession because they are somewhat shielded from the effects of consumer fears in the public market.

By focusing almost solely on ESOPs, Finnell says his business has more than doubled in the first quarter of 2010 over the same period last year. In 2009, the credit crunch made it difficult for companies to secure commercial loans for ESOPs, but that, he said, is loosening up.

PricewaterhouseCoopers predicted a 250 percent increase in use of ESOPs over next few years as baby boomers start retiring.

"There are a lot of baby boomer business owners that are looking for liquidity and exit strategies," Finnell said. "We've got all the tax benefits in place; now there's going to be a demographic age wave that will push a big increase in ESOP ownerships."

Bruce Miller, CFO of The Troxel Company in Moscow, Tenn., said that starting an ESOP in 2003 made good sense for the 50-year-old steel tubing manufacturer because family members who owned the company were ready to retire.

"It was perfect for us because Troxel was owned by a family," Miller said. "The owners wanted to sell the business, and with the ESOP you can sell the business to the employees."

The Troxel Company employs about 150 and competes directly with companies in China and Mexico, so it was important to the family that the company stay in its current location with its own employees.

"(Finnell) does a really good job of servicing the account after the fact," Miller said. "A lot of people help you with the transaction, but then the follow-up is critical with an ESOP. Kelly keeps us on top of things and is very responsive."

Finnell looks for companies with between \$3 million and \$250 million in stock to invest in an ESOP, and at least 30 employees. His clients span from Buffalo, New York to San Francisco and are usually referred to him by financial advisers.

Lately, though, he has been traveling to trade conferences to appeal directly to businesses. A conference in Omaha in December yielded four new ESOPs.

Finnell's book, "The ESOP Coach," was released in March.

Executive Financial Services Inc.

President: Kelly Finnell

Address: 7660 Poplar Pike, 2nd floor, Germantown

Phone: 259-7979

Online: execfin.com

Employees: Five



© 2010 Scripps Newspaper Group — Online