

An ESOP Fable: Hardy Diagnostics Employees are now Owners

By STEVE SINOVIC, NEWS-PRESS STAFF WRITER

Published March 02, 2014



Through an employee stock ownership plan, Hardy Diagnostics in Santa Maria now belongs to the people who work there.

Jay Hardy didn't have to go far to find new owners for his company.

He's been looking at some of them for the past 34 years.

The man who built Hardy Diagnostics from the ground up since 1980, now is offering his employees — both long-term and recent hires — the chance to build equity in the company, thanks to an employee stock ownership plan, or ESOP.

The company, which makes and sells petri dishes and test tubes around the world, is

now giving its 230 employees a 70 percent stake in the Santa Maria business through an ESOP, which allows employees to own stock in the company as part of their retirement plans. Mr. Hardy, who will continue in his post as president, retains a 30 percent interest in the business, which is located at 1430 W. McCoy Lane.

"As far as decision-making is concerned, Jay hasn't ceded day-to-day operational control," said Mike Welch, the company's human resources manager, standing in for his boss who was out of town at an ESOP conference.

Mr. Welch said Mr. Hardy "loaned the company the money" to purchase his stock and the business will pay him back over time with the profits generated from the sales of more than 3,500 products used for the culture and identification of bacteria and fungi. It also produces rapid test kits in a ready-to-use format.

An ownership trust makes company shares available to employees over time at no cost to them. The only eligibility requirement to take part in the ESOP is to work 1,000 hours in a calendar year.

"Owning Hardy Diagnostics has been tremendously rewarding for me," Mr. Hardy said in a statement. "Now everyone can share in the joy and reward of ownership, just as I have."

For employees like Rianna Malherbe, who has worked as a technical support specialist for about a year, the timing couldn't be better.

SANTA BARBARA NEWS-PRESS



A study session on employee stock ownership plan at Hardy Diagnostics.

Morale was pretty good already. Now she has even more engagement.

"Having co-ownership means having a commitment to holding a bigger-picture vision, even as I focus on everyday details of my personal role as part of our continuous improvement process."

Prior to establishing the ESOP, a third party established a valuation for the company, much like it would if Hardy was selling the business on the open market.

The valuation, which Mr. Welch would not disclose, is computed yearly and from that is derived the stock price.

So far, about 190 employees have indicated they want to take part in the ESOP, said Mr. Welch, who is leading a book club. A recent one helped co-workers fully understand what being part of an ESOP really means.

At Hardy, it now means having an open book management system, which makes its financials and operations transparent to employees.

While sharing the wealth with employees who have built a successful business is admirable, there are significant tax benefits

for the company, employees and the owner who is selling the business.



Maridel Delacruz, left, and Dominica Perales conduct quality control of the product in petri dishes before they are packaged and shipped at Hardy Diagnostics.

In most cases, employees are vested over time and receive their benefits when they leave a company, according to the National Employee Ownership Center, which tracks the trend, and believes up to 250,000 companies nationwide are good candidates for ESOPs.

Hardy generated \$29.3 million in revenue in 2011, a 20 percent increase from 2008, according to Inc. Magazine in its 2012 fast-growing companies list.

In terms of the microbiology industry, Mr. Welch said there are two multi-national firms making a space in the same business arena, but they are both publicly traded.

"We are FDA regulated, which means there is a high barrier to entry" in this business, said Mr. Welch of regarding culture media.

The company, which ranks in the top 10 of Santa Maria's private employers, joins 11,000 other U.S. firms that are ESOPs, according to Mr. Welch.

email: ssinovic@newspress.com