

# Marin Mountain Bikes, Inc.

**Marin County, California, north of San Francisco is hilly, scenic, and boasts plenty of undeveloped land. It's the perfect setting for bikers and the perfect setting for a bike company. In fact, it's where mountain biking was invented, but has thousands of road bike enthusiasts as well. And it's where Marin Mountain Bikes, Inc., has made its home in the 20 years since it was founded by an avid cyclist named Bob Buckley.**

Buckley still runs the Novato-based company to this day. But it is very different this year. Last year, at the encouragement of a CFO who had worked at two companies with employee stock ownership plans (ESOPs) and another that issued stock options, Buckley decided to put a quarter of the company's stock into the hands of employees in the form of stock options.

Marin Bikes is a distributor of its own branded bikes with 21 full-time employees, a wholly owned subsidiary in Canada that is operated by a full-time independent contractor, and another full-time independent contractor in Taiwan who travels throughout Asia to work with the companies that assemble the bikes.

The 21 full-time employees got incentive stock options (ISOs) in December 2005. The options will vest 20% a year over five years. Once the employees have exercised their options, they can hold onto the stock even if they leave the company. Because the options are ISOs, employees who hold the stock for at least two years after the grant date and a year after exercise will be eligible for favorable tax treatment. They'll be able to pay capital gains rates on the entire spread between the exercise price and the sale price of the stock.

The size of each person's option grant was based on that person's seniority and level of responsibility. Buckley also kept a reserve of shares that he can award as bonuses later. New employees will have to stay at the company for at least a year before they are eligible for stock option grants, he said.

## Profitable Year

The option grants came near the end of a very good year for the company. After years of losses or small profits, Marin Bikes' sales grew in the fiscal year ended Jan. 31, 2006, and it saw a profit, in contrast to a small loss the year before, according to Matt Dowling, the company's chief financial officer and chief operating officer. The main reason for the jump was an increase in gross margin percentage.

Marin Bikes sells about 80,000 bikes a year worldwide—about half of those in the U.S. and Canada. The bikes are manufactured in Taiwan and China by independent assemblers the company has been using for more than 15 years.

## Employee-Ownership Experience

The company was a good fit for Dowling, who joined in autumn 2004. He was himself an avid biker who did triathlons. He and his wife biked across the U.S. from Washington, D.C., to San Francisco in the summer of 1987 when his then-employer, Arthur Andersen & Co., transferred him to the West Coast. Now, depending on how much daylight is left when he leaves the office each night, he rides his Marin bike 11 miles to the ferry terminal, 26 miles to the train, or all 40 miles home.

Dowling had worked at an ESOP company in the late 1980s and for another in the manufacturing industry between 1997 and 2001. He'd held stock options in another employer when it went public, so he was well-versed in employee-ownership vehicles and in a good position to encourage Buckley to consider offering the employees an ownership stake.

For his part, Buckley said he understood the motivational effects of employee ownership, wanted to thank his employees for their loyalty to the company, and at 61 was thinking about the future. In September, he announced to employees that he would cut back to four days of work a week. "I've worked with these people for a good part of their lives and my life and they helped us get where we are today," he said. Since the options were granted, an already motivated team has become even more involved and committed.

## Listening In

Even before the employees all became owners, the company had a distinctive culture. Several employees have worked there for more than 10 years. Many ride their bikes to work, where they can shower in the building. They wear shorts to work and bring their dogs. Birthdays are celebrated with a cake and a round of "Happy Birthday." The Grateful Dead rent part of the building from Buckley, so Marin employees get to listen to their rehearsals or those of other bands that visit the studio.

In May, on "bike to work day," all but one person rode their bike to work. That employee was recovering from hand surgery, but he's someone who usually commutes by bike every day. ■