

Excerpts from the **The New York Times**

April 10, 2007

WIN-WIN A retirement plan for Barbara Gabel and Zach Zachowski benefits them and also their employees, like J. P. LaRussa, right.

By LAURA NOVAK...



Ms. Gabel and Mr. Zachowski, both in their 50s, are retiring, something they have been methodically planning for nearly a decade. The couple are not following a standard exit strategy of selling their successful business outright. Instead, they are slowly transferring Zachary's, which now includes three restaurants and lines out the doors, to a trust that will ensure a successful retirement not only for them but also for employees who have helped them along the way. The trust, called an Employee Stock Ownership Plan, is a retirement vehicle that is gaining traction among small-business owners who fit specific criteria. For Ms. Gabel and Mr. Zachowski, an ESOP (pronounced EE-sop) was the only retirement choice that guaranteed longevity for their business and financial security for their employees.

"You don't succeed unless everyone does," Ms. Gabel said. "We worked side by side with these folks for decades. How can you feel good about yourself if you get yours and don't consider the people who have gotten you where you are?"

"The key idea of an ESOP is that it is a way that employees can acquire stock in their employer, but not by purchasing it with their own money," Mr. Rosen (*Executive Director of the National Center for Employee Ownership*) said. "That's an important concept, because employees would not become owners in significant numbers if they had to buy stock with their own money."

Ms. Gabel and Mr. Zachowski said they felt strongly that they didn't want to sell Zachary's to an outsider who might not share their commitment to the employees or the community. The stock ownership plan provided an alternative marketplace for selling equity in the restaurant chain at a pace the couple were comfortable with. Each year, the company uses its pretax profits to buy stock from Ms. Gabel and Mr. Zachowski. Currently, 35 percent of Zachary's is in the ESOP. Ms. Gabel and Mr. Zachowski plan to divest themselves of up to 80 percent of the company.

The restaurant business, however, is not a classic case study for ESOPs. Restaurants typically have low margins and transient employees, and roughly 80 percent close in the first few years. But Zachary's has a core of long-term employees who are committed to keeping the restaurant vital. A strong cash flow also allows the company to use current profits to buy stock from Ms. Gabel and Mr. Zachowski. (Some companies borrow money against future profits to finance the ESOP. This allows owners to get out sooner, and in some cases can provide cash to the company to expand the business.)

One tax advantage for ESOPs is that retiring owners can sell a portion of their shares tax free while employees can acquire stock annually without paying income tax on it.

"Since company profits are not taxed as they are pumped into the ESOP," he (*Kyle Coltman, Chief Executive of Menke & Associates*) added, "this allows them to beat the competition, because all of the money is now available to grow the company."

And that is where J. P. LaRussa, executive vice president of Zachary's Chicago Pizza, finds himself now. Back in 1983, he was the high school junior who knocked on the door looking for work as a dishwasher. Mr. LaRussa is a homeowner and father of three children, and by next year, he will be 100 percent vested in the ESOP. This means that all the money contributed to his account will be his to let accrue in value or take with him if he leaves. Mr. LaRussa says the trust frees him to expand the business in new directions and to realize a gain from whatever he puts into it.

"I'm 40 now, so I was really starting to think about where this place is going and what am I doing," Mr. LaRussa said. "This could be the only company I'll ever work for. And you don't hear that much anymore." For employees like Mr. LaRussa, the only downside of an ESOP is the risk of his not knowing what his stock will be worth when he eventually sells his shares.

Mr. Rosen says that an ESOP is not a magic retirement solution. But for business owners who want to exit slowly and reward employees while enjoying tax benefits, it is worth a serious look. "Success takes a long time," Ms. Gabel said. "You can get on the horse beautifully and ride beautifully, but if you screw up the dismount and fall off, you've ruined the ride."



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The Deep Dish!

Zachary's Newsletter Spring/Summer 2007

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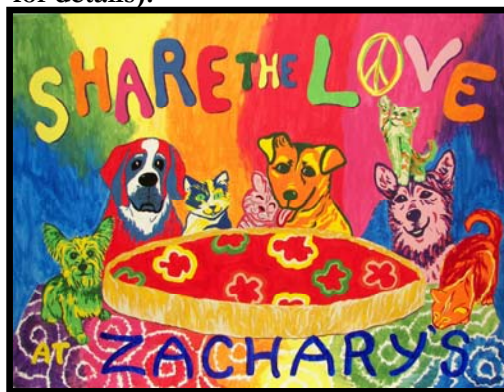
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2007 Art Contest

We have selected winners for our ever-popular Zachary's Art Contest! In the next couple of months, you will see our new winning entries presented at all 3 Zachary's. *Thank you to all of you who entered! You are all so talented!*

This year we have proudly selected one of our favorite entries (there are many!) to produce coffee mugs for sale to benefit the EBSPCA (East Bay Society for the Prevention of Cruelty to Animals). All proceeds from the sale of the mugs will go to the EBSPCA. Congratulations to the winning artist, Lucy Schneider, of Oakland, CA! The mugs will sell for \$10 plus tax at our 3 locations or via mail for \$10 plus tax and shipping (see www.zacharys.com for details).



**COFFEE MUG FOR SALE
TO BENEFIT THE
EAST BAY SOCIETY
FOR THE PREVENTION
OF CRUELTY TO ANIMALS!
\$10.00 plus tax**

ZACHARY'S RECOMMENDS...

- Ordering and picking up a half-baked pizza in the afternoon and finish cooking your pie at home at your convenience. You can even order days in advance!
- When dining in and there is a wait for tables, make sure you pre-order your pizza at the counter. Your pizza will cook while you wait!
- Treating a loved one to a Zachary's Gift Certificate for any special occasion! Available at any Zachary's or via mail. Visit us at www.zacharys.com for instructions.

A FEW OF OUR FAVORITE PEOPLE!

ROACH FAMILY, OAKLAND

Fourteen years ago Nicole and David Roach met and tried Zachary's for the first time. They have been regulars at our College Ave. restaurant ever since and have even added two new Zachary's fanatics to the family. "I actually went into labor with Solomon after eating the Spinach and Mushroom pie 5 hours earlier", Nicole shares. Sela, 5 and Solomon, 8, put it very simply: "I like the pesto," says Sela, to which Solomon responds "I like the pictures." We always light up when we see you, David, Nicole, Solomon, and Sela! We'll have some new Art Contest posters for you soon, Solomon!



YONAN FAMILY, SAN RAMON



Steve and Judy Yonan are true deep dish aficionados from Chicago who relocated with their five kids to the Bay Area in 2001. Steve heard about Zachary's in an article in Southwest Airlines Magazine, and tried our pizza for the first time last year in Oakland. The family was thrilled to hear we were opening in San Ramon, where they live, dined in on opening night, and we have

seen them nearly every weekend since for their favorite Spinach and Mushroom with garlic added. When asked how our pizza compares to the original from Chicago, their response is simple, "it's the best." Thanks guys, we'll see you next weekend!

BUCK SPILLNER, SAN RAMON

Buck Spillner is one of our original San Ramon hosts, starting with the company two weeks before our San Ramon opening last September. His spirit and sense of humor bring joy to all those that know him. Recently, Buck was the victim of a vicious assault. He spent several days in a coma, but we are now pleased to report that he is recovering at a miraculous pace at home. The Zachary's Family and the Spillners thank everybody in the community for their thoughts and prayers... from the bottom of our hearts. As for Buck - We love you, we miss you and we send you all our best for your full recovery.



GUILLERMO GAUCIN, OAKLAND



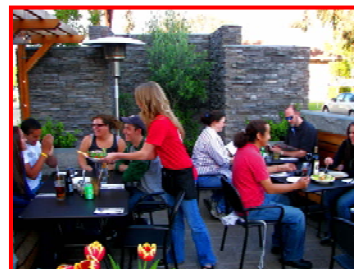
Hailing from Zacatecas, Mexico, Guillermo "Memo" Gaucin came to the states in 1986 and in 1991 came to Zachary's as a dishwasher. He has been our go-to-guy for many years, and was recently promoted to Facilities Manager. We couldn't be prouder of him! "They make you feel like a family here," he says. "Good days, bad days, we support each other. That's what keeps me coming back." Here's to you, Memo!

Zachary's San Ramon

3110 Crow Canyon Place

(925) 244-1222

In September 2006, we opened our third restaurant in San Ramon. We are so grateful for the community's warm reception, and are thrilled to greet familiar faces (loyal fans of Zachary's Oakland and Berkeley) and welcome new fans everyday!



When we first opened, our in-house business was enormous and we had to limit phone orders. At this point we are happy to say that we can accommodate more phone orders! Additionally, our patio is now open for dining (weather permitting)!

We are now taking lunch reservations Monday-Friday from 11-4!

The Future of Zachary's

Being an Employee Owned Company offers crew members great opportunities. The Executive Managers are proud to sustain the principles which the founders set in place 24 years ago: to serve the highest quality pizza; to treat our guests with warmth and respect; to provide a fun, engaging, and productive work environment; and to contribute goodwill to our communities. We proudly lead a team of dynamic, diverse, and talented Managers, Supervisors, and Crew-members to be the best at what we do. As our percentage of ownership increases year after year, we look forward to vast opportunities for business growth and personal fulfillment.



*Executive Management (from right):
JP LaRussa, VP and COO (hired 1983)
Kevin Suto, General Manager (hired 1985)
Leandra Schuler, Asst. GM (hired 1999)*