

Owners At Work

Ohio Employee Ownership Center

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Ford Foundation Salutes Ohio's Leadership in Employee Ownership

The state of Ohio, Kent State University, Ohio's Employee-Owned Network and the Ohio Employee Ownership Center all shared in the glory last October when the Ford Foundation presented its prestigious and much sought after Leadership for a Changing World Award to John Logue, Director of the Ohio Employee Ownership Center and Professor in KSU's political science department. "It was the state, the University, foundations, business owners and employees all collaborating that made it possible to save jobs and develop strong employee-owned companies in Ohio," says Logue.

"The State of Ohio is one of only a handful of states that had the vision and the commitment to help fund the work of a statewide employee ownership assistance program," explained Karen Conrad, Manager of the Office of Small Business in Ohio's Department of Development. "Since 1987, the Ohio Employee Ownership Center at Kent State has provided high quality assistance to promote the establishment and successful operation of employee-owned companies in Ohio," says Logue.

Vision for Ohio's Employee Ownership Future

Ohio's continuing commitment to employee ownership as an economic development strategy was sparked by several local job-saving efforts during the late 1970s and 1980s. The first such effort, the Youngstown Ecumenical Coalition, brought together steelworkers, religious leaders and others in an attempt to save Youngstown Sheet and Tube and the US Steel works by using an employee stock ownership plan (ESOP) to purchase the mills.

Even though their efforts did not succeed, they showed others how an ESOP can be a financial tool to help stave off a plant



OEOC Director John Logue (second from left) with three employee-owners who have helped Ohio lead the way in employee ownership. From left to right, Judy Volpe, Jeff Chine, and John Chesko from Brainard Rivet in Youngstown, a true buyout success story.

shutdown. Their ideas and activism inspired Logue to learn more about employee ownership. The spirit of co-operation set by Ecumenical Coalition convener Bishop Malone demonstrated a collaborative style of leadership among labor, community and church that Logue saw as an effective approach for people exploring the potential of employee ownership. He envisioned a center that could serve as a catalyst in building collaborative relationships among diverse groups, bringing together rank-and-file employees, business owners, local eco-

(Continued on page 2)

Dave Fox Remodeling Now 100% Employee-Owned

ESOP companies that start with a small ownership tend to increase their ownership share over the years. That's how Dave Fox Remodeling became 100% employee-owned.

How did it finally come to be?

Dave Fox said, "It's time." In October 2003, he sold the remaining 32.8% of his namesake company to its 38 employees. The Columbus company, which specializes in residential remodeling, is now 100% owned by its ESOP.

Having reached age 63, Fox reflected on his working life and made the decision to "plan for retirement and preserve the company if something happened to me." Further, he had "a number of employees that have been loyal for years and I want to give them something back after putting up

(Continued on page 2)

Inside...

Investing in Employee OwnershipPage 3
Structuring ESOP loansPage 6
18th Annual Ohio Employee Ownership Conference.....Page 19

Ford Foundation (Continued from page 1)

nomic development officials, unions, trade associations, and citizen groups in order to build coalitions as sources of power, channels of influence, and new opportunities for action.

"One of the things that always impresses me is how many natural, unsung leaders there are in any employee group," Logue says. "Even if these leaders have never held any institutional leadership position, they're willing to step up to the plate on behalf of their fellow employees."

"Employee ownership is one of those rare catalyzing ideas that really pulls the community together," Logue explains, "because employee ownership is compatible with some of our most deeply felt American political views. As Americans, we tend to view ourselves, much as Thomas Jefferson viewed the country two centuries ago -- as a nation of economically independent citizens, even though most are no longer farmers, craftsmen, and proprietors. Employee ownership is simply the modern version of this vision, adapted to the economics of modern business corporations."

After his experience with the Ecumenical Coalition, Logue set up the Employee Ownership Project in 1984, and began educating others in Ohio about employee ownership as a job retention and job creation strategy. His essay titled "Toward a Model State Program to Encourage Employee Ownership," won a prize from the Upjohn Institute for Employment Research in 1985. Upjohn subsequently published the essay, which created the "roadmap" for the 1987 establishment of the Northeast Ohio Employee Ownership Center, with the financial help of the Cleveland and Gund Founda-

tions and Ohio Department of Development. The Center has since been renamed the Ohio Employee Ownership Center.

"There are no panaceas for America's employment problems," wrote Logue in 1985, "neither high tech nor a growing service sector can provide an adequate number of well-paid jobs. The most promising route is to reduce the current rate of job loss. Employee-owned firms, whether wholly or partially owned by their employees, place a higher priority on job security than conventional firms do. Employee owners, by definition, are interested in job retention and equity formation in the plants in which they work. Their time perspective can be measured in years, perhaps decades, rather than quarters. They reinvest in their communities."

As Logue is quick to point out, Ohio's experience with ESOPs demonstrates that direct employee-ownership promotes reinvestment, job creation, and asset-building. With help from the state, the OEOC and their own hard work, there are 13,654 new business owners since 1987, who share an investment in, and profits from, local companies. "Approximately \$300 million dollars in employee assets has been created," according to Logue, "and since the program started, no employee-owned company in Ohio has pulled up stakes and moved to a lower-wage state or country."

Ohio's Legislators Lead the Way

By 1988, the Ohio legislature had gotten actively involved. As former State Representative Jack Cera of Belmont County recalled, "I got interested in ESOPs during my third term when a group of employees who worked at a local auto stamping plant being shut

(Continued on page 12)

Dave Fox (Continued from page 1)

Founder Dave Fox (above), and new CEO Gary Demos (right) of Dave Fox Contracting, Inc.



with me all these years."

While Fox felt it was time to sell the company, he did not want to retire immediately. "I plan to retire within 5 years," he stated. In the meantime, the ESOP allows him to remain active in the business. During one year of transition, he will remain as CEO and Chairman of the Board; and Gary Demos will be President and COO. After the year, Fox will become Sales Manager while remaining as Chairman; and Demos will become CEO.

Demos embraces the ESOP concept and the value of educating employees. He has already held an ESOP participants' meeting to answer employees' questions about the sale. Since the 1997 sale of 67.2% of Fox's shares to the ESOP, the company has been extremely successful, exceeding Fox's expectations. For the past 15 years, it has won a Contractor of the Year Award from the National Association of the Remodeling Industry every year, and it has been a Consumer's Choice Award recipient for the past 3 years.

Unlike the first sale of stock, the current sale did not require a loan. By refinancing its building, the company paid cash for Fox's stock, and that stock was temporarily retired. It will be contributed into the ESOP over the next 5 years at 20% per year.

Under this ESOP structure, Dave Fox will receive an additional benefit—he will be a participant in the ESOP! **OAW**

The **OHIO EMPLOYEE OWNERSHIP CENTER** (OEOC) is a university-based program which provides information and technical assistance to retiring owners, buyout committees, labor unions, managers and community-development organizations interested in exploring employee ownership. Center staff can help locate competent and appropriate legal and financial advisors, and perform initial assessments to determine whether employee ownership is a viable option. The OEOC develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Department of Job and Family Services, the Cleveland Foundation, the Ford Foundation, and the United States Information Agency as well as contributions from Kent State University, *Friends of the Center*, and the companies that comprise Ohio's Employee-Owned Network. **Address:** OEOC, 113 McGilvrey Hall, Kent State University, Kent, Ohio 44242. **Tel:** (330) 672-3028 **Fax:** (330) 672-4063 **email:** oeoc@kent.edu **website:** <http://www.kent.edu/oeoc>



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Loans & Investments Grow Ownership

Editor's note: Investment capital for new and expanding employee-owned companies is a well-understood strategy for economic success. It was key to the success of agricultural cooperatives in the United States. Patient capital for acquisition, recapitalization and expansion fuels growth in the employee-owned sector. In past issues of Owners at Work, we've reported on successful investment funds with a preference for employee ownership. In this issue, we report on two successful funds in the U.S. and announce the beginnings of our management of the Commonwealth Revolving Loan Fund. At the national level, where even a small commitment could vastly multiply the amount of credit available to employee-owned companies, there is good and bad news: an employee ownership bank bill has been introduced in the current session of Congress, but the Small Business Administration has cut off its funding of economic development loan funds that can be used to create employee ownership in economically depressed areas. A broad perspective on funds and their effectiveness can be found in the book, Making a Place for Community, which is reviewed on page 15 of this issue.

Successful Northcountry Fund Is a Model and Investing Partner

One of the funds that the OEOC will be partnering with in its new lending role is the Northcountry Cooperative Development Fund (NCDF) in Minneapolis. In the past, the NCDF has primarily done lending to consumer-owned food cooperatives, but as Margaret Lund, NCDF executive director, says, "we are excited about the opportunity to expand our lending to employee-owned companies through collaboration with the OEOC."

For OEOC director John Logue, cooperation with NCDF means far more than just making additional funds available for lending to Ohio employee-owned companies. "NCDF has an outstanding history of success in helping grow consumer cooperatives through its careful, hands-on lending and support," says Logue. "We look forward to drawing on the experience of the NCDF's talented staff. We really appreciate the NCDF's interest in helping us grow the Common Wealth Revolving Fund."

The Northcountry Model

With a little money and 25 years of experience, the Northcountry Development Fund offers a model for creating and developing community-based enterprises that could be widely implemented to grow employee ownership in the U.S. economy. The NCDF concentrates on loans to cooperatives, but the sound principles and practices they have developed could equally become a basis for an employee-ownership fund. Founded in 1978 by a small group of Twin Cities area co-ops, the NCDF provides capital access and other resources to small consumer, worker, housing, and agricultural cooperatives across eleven states of the Upper Midwest. They have grown a \$4,000 investment pool into an \$8,000,000 fund, with \$6,000,000 of the increase in the last 3-4 years. In 2002, with total assets of \$5.8 million, they loaned \$2.2 million, all in loans to cooperatives.

91% of their loans went to low-income individuals or cooperatives in low-income areas, and their historic loss rate is just 0.27% of dollars loaned. The Fund is a qualified lender for the Rural Development Loan Guarantee Program of the US Department of Agriculture, which dramatically enhances the credit worthiness of their lending.

Their approach is to offer co-ops and socially motivated institutions and individuals a means to pool surplus funds, and then reinvest those funds in the community. Their philosophy is summed up in the 2002 annual report: "We see opportunity where others see only risk; we make our living doing exactly what most people aren't doing; and we do it all with pride. When other lenders retreat, we actually see our markets grow."

"We see opportunity where others see only risk; we make our living doing exactly what most people aren't doing; and we do it all with pride."

By embodying the principle of "cooperation among cooperatives," NCDF acts as a catalyst for the growth and development of co-ops. Over 20% of the money that the Fund uses for lending comes from the savings of member cooperatives. Nearly 40% of NCDF members—both large and small—maintain some kind of savings account with NCDF. As of the end of 2001, equity reserves made up another 14% of total assets.

In addition to their basic program of lending to cooperatives, the NCDF has created the Northcountry Cooperative Foundation (NCF), a non-profit training, education and development affiliate, whose purpose is to assist low-income, low-wealth, and other underserved communities in the development of community-owned and democratically-governed enterprises. The Traveling Cooperative Institute offers training and education and supports the establishment and expansion of these enterprises. It encourages innovation, and facilitates success by providing training, research, education, development assistance, and specially designed research projects. **OAW**

OEOC to Manage Common Wealth Revolving Loan Fund

One key to a vigorous and growing employee-owned sector is creating local financial institutions to support employee-owned enterprises. That is just what happened in Ohio in January when the Ohio Employee Ownership Center assumed administrative responsibility for the operation of the Common Wealth Revolving Loan Fund. CWRLF is a community development financial institution whose stated purpose is to lend money to employee-owned companies for expansion, facilities, equipment and vehicles or for employee buy-outs. It is funded through Social Investment Notes, which are promissory notes to socially-conscious investors. "Common Wealth is very excited to be working with the Ohio Employee Ownership Center to further the mission of the revolving loan fund," says Mark Whipkey of Common Wealth.

The Common Wealth Revolving Loan Fund was incorporated in 1986 and started operations in 1988. It is one of the founding members of the National Community Capital Association, the umbrella organization for community-development lenders. CWRLF has been active in lending to successful employee-owned companies like H.C. Nutting Company of Cincinnati as well as doing low- and middle-income housing lending in the Mahoning Valley. It currently has about \$470,000 in assets. To

date it has made 17 loans and has never had a default.

"We are delighted by the opportunity to deploy the assets of CWRLF to grow the employee-owned sector in Ohio," says the OEOC's Bill McIntyre, who will serve as fund coordinator. "We expect to do secured lending for machinery and equipment to existing ESOP companies that want to grow, and to assist employees in purchasing small companies through co-ops or ESOPs."

"We expect to do secured lending for machinery and equipment to existing ESOP companies that want to grow, and to assist employees in purchasing small companies through co-ops or ESOPs."

"We're particularly pleased to have already partnered with Northcountry [profiled above in this issue] and with LEAF – the ICA's fund in Boston – to leverage our lending capacity," comments OEOC director John Logue. "That gives us the ability to make good-sized loans even before we grow the fund."

Loan interest rates and terms will be competitive and advantageous for the borrowers. Currently, the CWRLF can lend up to \$80,000 directly to borrowers, and with its partners, the Fund has the capacity to lend up to \$500,000 to a single borrower. Those amounts will grow as the Fund grows.

Employee-owned companies and buyout groups interested in applying for a loan should contact Bill McIntyre at the OEOC at 330-672-3028 or by email at bmcinty2@kent.edu. If you are interested in making a deposit to the fund, contact McIntyre as well. OAW

Murex Investments Uses Double Bottom Line

Editor's Note: If the overexuberant expectations of the 1990s stock market had a positive side, it is a more widespread understanding that good investment (not stock fraud and accounting tricks) is what creates growth. Good investment, it turns out, is not a killer IPO where the highest value is on the opening day of sales, but a capital expenditure that stimulates long-term employment, produces real goods and services that people want and need, and enjoys reasonably steady economic growth. That kind of thoughtful investing can build healthy regional economies and anchor jobs and capital locally, like Manitoba's Crocus Fund, among others (Owners at Work Summer 2002). Resources for Human Development, Inc., sponsors just such a fund in Philadelphia.

Murex Investments is a Community Development Financial Institution (CDFI) with a preference for employee ownership. Their latest venture is Murex Investments I, established in 2002 as a wholly owned subsidiary of Resources for Human Development, Inc. (RHD). As a participant in the Small Business Administration's New Markets Venture Capital Program, Murex I manages an investment fund totaling some \$11 million, plus \$3.3 million in operational assistance funds.

The fund is intended to serve approximately 30 companies primarily in the distressed areas of its operating region, which includes the Philadelphia region, encompassing parts

of Pennsylvania, Delaware and New Jersey. Its parent organization, RHD, is a \$100 million diversified nonprofit organization headquartered in Philadelphia.

In many ways, Murex I looks like a traditional venture capital fund; however, it is a "double bottom line" investor that measures fund performance based on both financial and social returns to the stakeholders. The Fund seeks to create jobs and wealth for low-income people, targeting businesses that provide em-

"We want to build profitable companies where investors, entrepreneurs and employees share in the upside"

ployee benefits, a living wage, and opportunities for participatory employee ownership. It is one of only seven such funds approved by the Small Business Administration to di-

rect venture financing to poor urban and rural areas.

The fund invests in high value-added sectors such as manufacturing, and investments generally range from \$50,000 to \$500,000. Murex prefers to invest in businesses in early and later stages rather than the seed stage. "We want to build profitable companies where investors, entrepreneurs and employees share in the upside," says Joel Steiker, one of Murex's two business developers. To date, five investments have been placed—three in software services, one in manufacturing, and one in pharmaceuticals.

Despite its name, Murex Investments I is actually Murex's second fund. The first fund, Murex, Inc., began

as an experiment to see if it could create businesses in poor neighborhoods by employing people from those neighborhoods, paying them a living wage, providing them with benefits and eventually giving them a stake in the business. An important aspect of the Murex approach is that it provides operational assistance to investee companies to improve the prospects for business success. Murex, Inc. has invested more than \$4.3 million in seven companies, all of which are still in existence, and in the process it has created or retained 250 jobs. The SBA New Markets Program that funded Murex has been halted with just seven funds created. **OAW**

Employee Ownership Bank Bill Introduced

Following hearings last June, the United States Employee Ownership Bank Act (H.R. 2969) was introduced by Congressman Bernard Sanders (Vermont) and 17 co-sponsors on July 25, 2003.

The proposed legislation would create a U.S. Employee Ownership Bank within the U.S. Treasury Department. It would provide loan guarantees, subordinated loans, and technical assistance to employees buying at least 51 percent of their companies. The loan guarantees and subordinated loans would be made only to employees who receive a positive determination from an objective third party that the employee stock ownership plan or worker owned cooperative would be profitable enough to pay back the loans, ensuring that taxpayer dollars are not exposed to unnecessary risk. Loan guarantees and subordinated loans would also require that the company's board of directors be elected by all of the employees and that all employees receive basic information about the company's progress and have the opportunity to participate in day-to-day operations.

The bill would also provide for grants to states, non-profits, and cooperative organizations with experience in developing employee-owned businesses and worker-owned cooperatives to provide education and outreach to inform people about the possibilities and benefits of employee ownership of companies, gain sharing and participation in company decision-making, including financial education and training for employee participation in decision-making.

Last summer's hearings, "Financing Employee Ownership Programs: An Overview" were called by the House Subcommittee on Financial Institutions and Consumer Credit. The Ohio Employee Ownership Center, the ESOP Association and the National Cooperative Business Association were among those who presented testimony (*Owners At Work*, Summer 2003).

The bill was introduced to help combat the continuing loss of



Three co-sponsors of the Employee Ownership Bank Bill: (top left, clockwise) Rep. Tim Ryan (D-OH); Rep. Dana Rohrabacher (R-CA); Rep. Carolyn Kilpatrick, (D-MI)

manufacturing jobs and to staunch the continued outflow of American jobs overseas, jobs that the original co-sponsors feel could be saved by helping employees to own their own businesses through ESOPs and worker owned cooperatives. The U.S. has lost half a million manufacturing jobs in the last year, and 2.7 million over the past three years. With 14.5 million total manufacturing jobs as of December 2003, the United States now has the lowest number of factory jobs since July 1958. Says Congressman Sanders in a statement issued January 12th, "Of all of the economic trends that are taking place in our country today, the most significant has to do with the collapse of our manufacturing sector and the loss of decent paying jobs."

The original co-sponsors include members from both major parties:

Robert Andrews (D) New Jersey
Ed Case (D) Hawaii
Donna Christensen (D) Virgin Isl.
Raul Grijalva (D) Arizona
Tom Lantos (D) California
William Lipinski (D) Illinois
Donald Manzullo (R) Illinois
Major Owens (D) New York
Tim Ryan (D) Ohio

Madeleine Bordallo (D) Guam
Julia Carson (D) Indiana
Virgil Goode (R) Virginia
Carolyn Kilpatrick (D) Michigan
Barbara Lee (D) California
Carolyn Maloney (D) New York
Michael Michaud (D) Maine
Dana Rohrabacher (R) California
Jose Serrano (D) New York

The bill has been referred to the House Committee on Financial Services' Subcommittee on Domestic and International Monetary Policy, Trade and Technology. The Subcommittee, chaired by Representative Peter King (NY), focuses on international finance, banking and monetary organizations, including the International Monetary Fund and the World Bank and is also responsible for dealing with issues involving monetary policy, economic stabilization and trade in financial services. The next step, further hearings, has not yet been scheduled. **OAW**

ESOP Loan Structure Impacts Company Performance

Editor's Note: When an ESOP pension trust is established, there is typically a "back-to-back" loan arrangement that sets up two loans: 1) the "outside" loan where the company uses its credit to borrow money and 2) the "inside" loan where the company lends the borrowed money to the ESOP so that it can buy company stock. The company makes tax-deductible contributions to the ESOP, and these are used to retire the "inside" loan. (Later, company contributions help the ESOP to accumulate cash and diversify employees' accounts so that only part of their retirement investment is in company stock.) As the two loans are paid off, company stock is allocated from the ESOP trust to individual accounts. Typically, this transfer of stock mirrors the loan payoff—every dollar of loan payoff releases a corresponding amount of stock to employee accounts, so that when the "outside" loan is paid off, the "inside" loan is paid off too, and all stock has been allocated to the employees. However, the "inside" and "outside" loans can have different terms. The company can pay off its "outside" loan in the usual term of five to seven years, while the ESOP can take longer to pay off the "inside" loan, resulting in company stock moving into employee accounts more slowly. When employees retire, they can withdraw the value in their individual accounts, and if the company is privately held, as are most ESOPs, they must be able to convert their shares into cash, typically within five years, although payment of very large accounts can be stretched out for 10 years. The obligation to convert employees' stock to cash is the repurchase liability of the company and the ESOP. Careful planning is needed to meet this liability. If neither ESOP trust nor company has the cash to buy back (repurchase) shares in retiring employees' individual accounts, it might create a crisis where the company must be sold in order to meet its obligations to retirees. Jared Kaplan, attorney (McDermott, Will & Emery, Chicago) and ESOP consultant, and OEOC Program Coordinator Bill McIntyre have teamed up to write about the advantages and drawbacks of the back-to-back loan arrangement with different terms.

The Back-to-Back ESOP Loan Structure

Jared Kaplan

There is one fundamental reason that the vast majority of leveraged ESOP loans employ the back-to-back structure: it is better for the lender, and better for the borrower.

From the standpoint of the lender, lending to a corporation is a familiar and comfortable technique. The lender typically obtains a security interest in all of the assets of the business, which is released only when the loan is paid in full. The intention of the borrower to onlend to its ESOP is of only tangential interest to the lender. Standard board of director resolutions authorizing the borrowing and legal opinions confirming the good standing of the corporate borrower in a back-to-back ESOP loan look little different from any other loan transaction. By contrast, it is hard to persuade a lender to make a loan to an ERISA-regulated borrower like an ESOP, whose promise to repay the loan could be preempted by federal law, which is organized as a trust rather than a corporation, and which can only give company stock as collateral, especially when that collateral has to be released as the loan payments are made. The fact that a corporation is guaranteeing the loan hardly overcomes these objections.

From the perspective of the corporate borrower, the back-to-back structure affords essential flexibility. The lender, as an outside third party with its own interests to protect, will negotiate to be repaid as soon as the company's cash flows permit. Banking regulatory rules encourage loans with no longer than 7-year terms. But the allocation of company stock to participant accounts in the ESOP is governed by the amortization of the ESOP loan, and so are the company's tax deductions. Benefit



and tax considerations will often dictate either a longer or shorter amortization of the company-to-ESOP loan (the "inside loan") than the bank-to-company loan (the "outside loan").

For example, assume a \$10 million leveraged ESOP transaction involving a company with a payroll of \$4 million, and cash flow available for debt service of \$3 million. The bank will want its loan repaid in 5 years, which would be comfortable for a borrower with that kind of cash flow. But suppose the company is an S corporation. It is limited to contributing \$1 million each year (25% of payroll) to the ESOP to cover the ESOP's principal and interest payments on its loan. If interest is 5%, only \$500,000 of principal could be repaid in the first year. At that rate, it would require a 20-year amortization of the ESOP

inside loan to fit within the rules. The back-to-back structure easily accommodates this situation. The company pays off its loan in the usual time, while the ESOP can take longer. Back to back loans with terms of different length can also protect a company from too-rapid

buildup of repurchase liability when the company needs time to grow or when it needs to make a large capital investment or re-investment.

Another common situation is an S corporation that converts to a C corporation just before the leveraged ESOP transaction to permit its shareholders to defer capital gains tax under section 1042 of the Internal Revenue Code. Under the tax code, the company is not allowed to re-convert to an S corporation for 5 years. Most companies in this case will want to accelerate their tax deductions in these years, because they will pay little or no

Benefit and tax considerations will often dictate either a longer or shorter amortization of the company-to-ESOP loan (the "inside loan") than the bank-to-company loan (the "outside loan").

tax after re-converting to the S corporation form. Therefore, the company might negotiate a special 10-year amortization on the outside loan with the lender, but might want to pay the inside loan at a faster rate to maximize deductions over the early years. Again, the back-to-back structure permits this result.

A third example situation involves a growing and profitable business that can easily repay the outside loan in 3 to 5 years. However, it regards its ESOP as a long term retirement plan, and wishes to allocate the ESOP stock over, say, a 15-year period. If it allocated all of the stock in the ESOP over a 3 to 5 year bank loan, valued employees might find it tempting to leave just to obtain the value of their ESOP accounts, which might be 40% or 50% of their pay over the period, as opposed to a typical defined contribution level of 5% or 6% of pay. The

back-to-back structure addresses these problems, allowing the inside loan to be amortized over 15 years while the company pays back the outside bank loan in 3 to 5 years.

None of this is to say that the back-to-back structure should be used to artificially restrict the magnitude of benefits or to stretch out the allocation period unreasonably. Fiduciaries should be careful to assure that any mismatch between the terms of the outside and inside loans is reasonable and justified by circumstances. But it would be an unusual coincidence for the appropriate terms of the two loans to be the same, as would result from a direct loan from lender to ESOP. Even if such a serendipitous situation were to occur, circumstances can change over time, and most wouldn't want to be locked into such an arrangement. **OAW**

Before You Leap into Short-Bank and Long-ESOP Notes, Read This

Bill McIntyre

The short bank loan and longer ESOP loan structure can enable an ESOP to purchase shares it might not otherwise be able to. But there is the risk of losing an important opportunity to build an ownership culture and benefit from better performance and faster growth.

Many companies establish ESOPs solely for tax, succession or finance reasons and are not concerned with ownership culture. Numerous studies have shown that those companies do not perform any better than non-ESOP companies. The companies that combine an ESOP with an ownership culture are the companies with superior performance. To get that result, it's important to have all policies, procedures, structures and actions consistent with the formation of a strong ownership culture among employee-owners.

There are cultural benefits that can grow out of a short bank loan and a longer ESOP loan.

First, the allocation of ESOP shares is spread over a longer term so that all employees working for the company during a 15-30 year career benefit from the ESOP, rather than a disproportionate benefit going to those employees lucky enough to work at the company during the first 5-7 years of the ESOP, when the bank loan was being repaid. As the loan is repaid, their ownership would increase 15-20% per year, faster than a typical business growth rate of 5-12% per year, and far faster than the typical 5-7% pension plan growth. The longer ESOP loan spreads ownership more evenly.

Second, it helps with the problem of getting shares to new employees after the ESOP loan is paid off without diluting the value of older employees' accounts. With a 15-30 year ESOP loan, that issue gets postponed until there is a steady stream of retirees and terminees cashing in their shares, which can be allocated to new employees.

Third, when most companies with traditional pension plans are paying 5-7% of payroll toward their pension plans, ESOP companies repaying the loan are paying 15-25%. That can jeopardize competitiveness. Extending the ESOP loan can reduce the annual percent of payroll contributed to the ESOP so it more nearly matches industry norms.



Fourth, since the amount of each employee-owner's ESOP account is reduced because of the slower pace of shares being allocated, the ESOP repurchase obligation is correspondingly reduced. This spreads its repurchase obligation over more years and makes it more likely that the company will not have to be sold to meet those obligations.

Fifth, the law provides that for terminations for reasons other than death, disability or retirement (DDR), the payment of ESOP benefit distributions can be delayed until the entire ESOP loan has been repaid. That means payment of non-DDR distributions could be delayed for up to 30 years. That is a huge reduction of current repurchase obligations, making it more likely that the company will survive.

Sixth, with the allocation of shares delayed by a long ESOP loan, the transition from seller control to employee control can take place more gradually, giving everyone time to adjust and work out new and better ways of running the company.

The Dark Side

Each of these good cultural impacts has a dark side. What is really important in avoiding the dark side is that the full implications are communicated to employee-owners in advance, so that the long ESOP loan does not negatively affect the development of an ownership culture. Unless employees understand and agree in advance, the company will face problems in establishing and benefiting from an ownership culture.

First, employee owners during the 5-7 years when the bank loan was paid may have sacrificed to create the ESOP, through wage and benefit reductions or through giving up 401(k), profit sharing, or previous pension plan funds. Or they may have made an indirect sacrifice through slower growth, lower profits, or lower bonuses during the years of bank loan repayment. Chances are those employee-owners will feel strongly that they should receive the shares they sacrificed to buy. It's like buying a car with a 5-year loan but waiting 15 years to assume ownership.

Second, after an ESOP loan is paid off, there are options for

(Continued on page 8)

Short Bank (Continued from page 7)

getting shares to new employees that don't dilute the value of existing shares. Companies can contribute additional shares to the ESOP (unless it's 100% employee-owned to begin with); they can reshuffle existing ESOP account balances so that all participants have an equal percentage of shares and cash in their accounts; they can contribute additional cash to the ESOP, so that terminated, diversifying, and retiring employees receive cash and their shares are recycled.

Third, the company's need to reduce contributions to the ESOP must be real and clearly demonstrated to the employees. Management must explain the need or opportunity fully. Otherwise, employees will feel they are not getting anything in return for waiting longer for their shares.

Fourth, a long loan repayment for the ESOP won't help with repurchase obligations unless there is also careful long-term planning. Repurchase obligation must be managed in any ESOP scenario, with planning to have sufficient funds or a planned sale of the company. If management does not address the repurchase obligation appropriately, then it will still be a problem, no matter how long the ESOP loan is.

Fifth, are employees likely to think it is fair to have such a long loan that terminated employees can't collect the benefit of their ownership for 25 or 30 years? In today's economy, anyone can be laid off, and older workers have particular difficulty finding new employment. While people might be willing to wait for a few years, a long ESOP loan might mean the benefits of ownership went only to their estate.

Sixth, if control of the company is an issue for the sellers, slowing down the ownership process may not help, because management is not likely to be interested in establishing an ownership culture, ever. An ownership culture is most likely to flourish where management looks forward to employees becoming owners and helps to prepare them for participation – in fact, encourages it. Employee-owners who feel they are being

actively prohibited from gaining control because of the ESOP loan structures will not be strong candidates for adopting an ownership attitude.

Fiduciary Concerns

The IRS has already rejected an ESOP loan structure in which zero principal payments were made annually and a balloon payment was made at the end of the loan term. Extending

Are employees likely to think it is fair to have such a long loan that terminated employees can't collect the benefit of their ownership for 25 or 30 years?

their reasoning, an ESOP loan set up with an artificially long term so that annual ESOP contributions are only 1-2% of payroll might be a violation of a trustee's fiduciary responsibility to the ESOP participants.

Summary

In summary, a company trying to establish an ownership culture among its employee-owners should establish a bank loan and ESOP loan structure consistent with that goal, which is usually a bank loan and ESOP loan having the same terms, resulting in shares allocated to employees' accounts as those shares are paid for by their company. This structure facilitates the establishment of an ownership culture and allows the company to reap the improvements in profits and productivity typically seen in an ESOP company with an ownership culture. When an ESOP buyout departs from this model, there should be a good reason, and careful planning and preparation is needed so that the opportunity for establishing an ownership culture is not thrown away. **oaw**



GRASSROOTS ECONOMIC ORGANIZING (GEO) is a bimonthly newsletter about employee-owned, democratically controlled businesses. Our mission is to help build a movement for a cooperative social economy based on democratic and responsible production, conscientious consumption, and use of capital to further social and economic justice. Our newsletter, GEO, has appeared regularly since 1991. GEO articles are posted at www.GEO.coop.

We seek to promote the creation and retention of living wage jobs, promote collaboration and networking among democratically owned and controlled enterprises, promote the development of capital funds that invest in democratically organized businesses, and encourage consumers to buy from local co-ops and employee-owned businesses.

The April/May issue will cover some outstanding cooperative businesses and the national worker co-op conference and founding meeting of the U.S. Worker Co-op Federation, to be held in Minneapolis in late May.

GEO wants to publish articles and photos about your enterprise. Contact editors@geo.coop.

One-year subscriptions to GEO (6 issues) are only \$19.95. Subscribe on line at www.geo.coop, mail check to GEO, 177 Kiles Rd, Stillwater PA 17878, or call 1-800-240-9721.

OEOC Moves Up—Local Rodents Grieve

After 14 years of habitation in the friendly confines of Franklin Hall, the OEOC has moved on up the hill of Lincoln St. to newly renovated digs in McGilvrey Hall next door. The move precipitated much frenzied activity, including packing, tossing out, and much reminiscing.

Franklin Hall has served as home for the OEOC (and our animal friends) since 1990. We hope that McGilvrey Hall will see as many good times! The new address is:

OEOC
113 McGilvrey Hall
Kent State University
Kent OH 44242

In the meantime, an occasional mouser seeks other employment. Contact kitty <oeoc@kent.edu>.



(Above) OEOC staff members take a break from packing and cleaning to celebrate the last "official" day of business in 309 Franklin Hall. L to R, Olga Klepikova, Karen Thomas, John Logue, Steve Clem, Dan Bell, Stephanie Schultz, and Kelley Fitts (mice not pictured); (Top right) Boxes ready for moving in Franklin Hall; (Bottom right) The new digs in McGilvrey (much work left to be done!).



Spring 2004 Business Owner Succession Planning Program

Sponsored by the Growth Association's Council on Smaller Enterprises (COSE), Corporate College, a division of Cuyahoga Community College, and Kent State University's Ohio Employee Ownership Center (OEOC)

Too many successful local small and closely-held businesses have been lost because the owner never got around to planning for retirement and business succession. A well thought-out succession plan is the single best way to avoid business and job loss in our communities. The Succession Planning Program provides business owners with a low-cost series of seminars to help them learn about succession techniques and begin the planning process.

Spring 2004 Schedule

Thursday February 26th—(This session will run approximately 2 hours and 45 minutes)

Cash Flow Planning as a Component of the Succession Planning Process—Neil Waxman, Capital Advisors

Government Financing Programs—Gerry Meyer, Growth Capital Corporation, Greater Cleveland Growth Association

Thursday March 11th—Estate Planning Techniques for Family and Closely-Held Businesses—James Aussem, Brouse McDowell

Thursday March 25th—Buy/Sell Agreements—Carl Grassi, McDonald Hopkins LLP

Thursday April 8th—Selling to Your Employees: Employee Stock Ownership Plans (ESOPs)—Peter Chudyk, American Express Tax & Business Services

Thursday April 22nd—How Much is my Company Worth? The ABC's of Valuation—Roseanne Aumiller, Barnes Wendling

Thursday May 6th—Mergers, Acquisitions, and Sale Transactions in Succession Plans—David Howell, Valuemetrics

Cost: \$40 (COSE members \$30) per seminar or all six for \$135 (COSE members \$100).

Seminars are held at Corporate College West, 25425 Center Ridge Road in Westlake, OH 44245 from 8:00 a.m. to 10:00 a.m. (The first session will run an extra 45 minutes). Parking is free and refreshments are included. Directions will be faxed prior to each seminar.

For more information on these seminars, contact: Bill McIntyre or Chris Cooper
Business Owner Succession Planning Program, Ohio Employee Ownership Center
330-672-3028 oeo@kent.edu www.kent.edu/oeoc/spp

Ohio Employee Ownership Center Annual Report FY 2003

Key Numbers and Accomplishments

Our core program promotes broader employee ownership in Ohio and greater employee participation.

- We provided technical assistance to 26 companies and employee groups investigating whether employee ownership made sense in their case; these employed 2720.
- Five companies that we worked with became employee owned in FY03; we helped them create 395 new employee owners.
- We screened 28 projects for the Ohio Preliminary Feasibility Study program we administer for the Department of Job and Family Services, approved 7 grants and had 7 studies completed. One company was purchased by an outside buyer and kept open; two are in the process of becoming employee owned. This program helped stabilize or retain 144 jobs.
- We did in-company training in 4 employee-owned companies for 290 employees.
- Four-hundred-fourteen employees from the 60 member companies of Ohio's Employee-Owned Network took part in 21 days of joint Network programming.
- Circulation of our magazine *Owners at Work* rose from 10,000 to 12,000.
- The 17th annual Ohio Employee Ownership Conference, held April 10, attracted 325 participants; it's by far the largest state employee ownership meeting in the country.
- Forty-seven owners from 41 companies employing 1792 attended our Succession Planning Program seminars in Greater Cleveland. One in five expressed an interest in exploring employee ownership as an ownership succession strategy.
- The preliminary study we did to quantify the wealth creation effect of our work estimated that the companies we have helped become employee owned created between \$37 million and \$50 million in new wealth for worker owners annually. A more detailed study to determine the accuracy of this phenomenon is underway.



The OEOC continues to undertake new initiatives

Here are the three that began in FY03 which we hope will impact our economic landscape in the future.

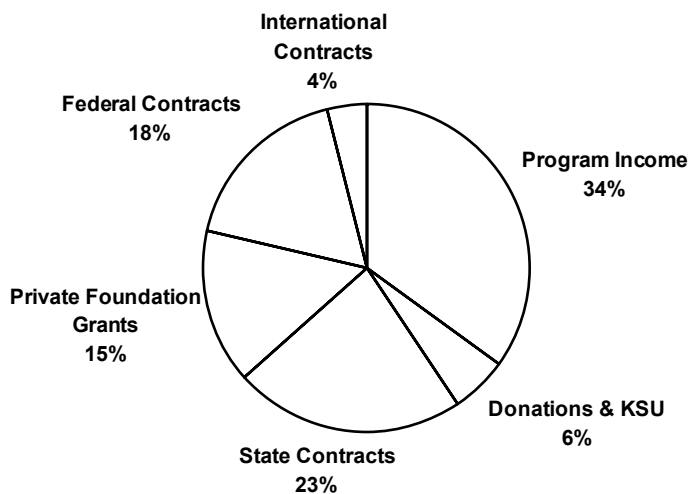
- We established a purchasing co-op for the 60 employee-owned companies that are members of Ohio's Employee-Owned Network. This purchasing co-op pools buying power to access non-core business services at rates far below what could be achieved without the cooperative, such as overnight delivery for \$6.05. Cooperation works!
- In September 2002, ComDoc CEO (and OEOC Executive Committee member) Riley Lochridge initiated a series of Network CEO and CFO dinners that have begun to build more of a community among the top managers of Ohio employee-owned companies and helped the Network expand its membership.
- In May 2003, we co-hosted with the Ohio AFL-CIO a successful state-wide "Working Capital" conference on establishing a labor-sponsored investment fund that would pool pension fund dollars to reinvest in the local economy. We need to refocus pension fund investment on growing locally owned and operated businesses that create jobs and anchor capital in our communities.

While 90% of our work is in Ohio, here are a pair of national and international highlights worth noting.

- The National Steel/Aluminum Retention Initiative (NSARI), which we coordinate for the Department of Labor, worked with 16 buyout groups, firms, and plants with 2974 employees. (Our partners in this national effort are Steel Valley Authority in Pennsylvania, the ICA Group in New England, the Center for Labor and Community Research in Chicago, and the Business Retention and Expansion Program of the Washington Department of Commerce.) Two-hundred-sixty-five threatened jobs were retained in 5 of these companies.
- The Capital Ownership Group, which we staff with Deborah Olson, held a very successful 3-day international conference in Washington in October 2002 with 125 participants from all over the world. As of 6/30/03, the COG website (<http://cog.kent.edu>), had received over 2 million hits from people in 152 countries. By the last quarter of FY03, it was averaging 120,000 hits per month. This reflects real international interest in employee ownership.

Financial Report FY 2003 (July 1, 2002 - June 30, 2003)

Unfortunately the financial part of this report makes less pleasant reading than our program activities. Reductions in state and foundation funding in FY2003 reduced the OEOC's income by \$41,000 while health care cost increases raised our benefit costs by \$15,000 (our health care costs have almost doubled in the last 4 years). Despite slashing costs, we ended the year with a \$32,000 loss.

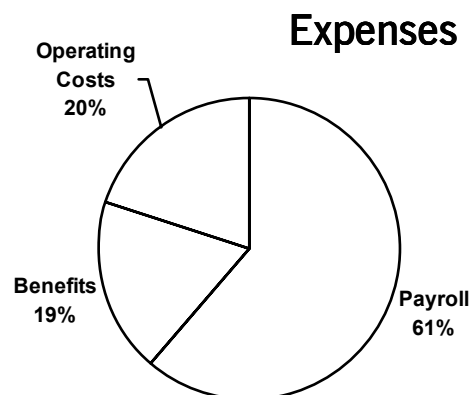


Income

Income \$ 512,876

Expenses \$ 544,329

Deficit \$ 31,453



Expenses

Friends of the Center

Our thanks go out the people who, through their generosity, have made our work possible.

Platinum

Dominion East Ohio
International Association of Machinists

Gold

Bardons & Oliver Foundation
David Heidenreich
Mary Landry

Silver

Joyce Baugh
Mark Bogart
Raymond B. Carey Foundation
Kelso Institute
Michael Friedman
Bob & Marie Kraft
Kraft Fluid Systems
John Logue
Tom Logue
William Melton
Ownership Advisors
Western Building Products

Bronze

Anonymous

Anonymous
Anonymous
Karen & Tom Ard
Carol Bretz
Newton Campbell
Community Action Agency of Columbus
Ken Galdston & Jan Saglio
Karen J. Gibson
Robert Ginsburg
Davin R. Gustafson
Michael J. Hostler
Jared Kaplan
Stephen R. Larsen
Riley Lochridge
Tim Logue
Mid America Cooperative Council
Moreno Miller
David Morris
Stephen Nieman
Stephen J. Newnam
Chris Redfern
Edward Schmitt
James Schubert
John Shockley
Ralph Stawicki Jr.

Alexander E. Teodosio
Lynn R. Williams

Individual

Arther Printing
Paula Consolini & James E. Mahon
Nat Dickinson
William Dietrich
David Ellerman
Julie Graham
Sarah Hernandez
Justin McLaughlin
Carol B. Oberdorfer
Karstin Olofsson
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Harold Schacht
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David Sprintzen
Ralph Stawicki Sr.
Hoyt N. Wheeler
Deborah Wiese
Karen Youngstrom
Eliot M. Zashin

If you would like to make a **tax-deductible** donation to the "Friends of the Center" campaign, send a check or money order payable to: KSU Foundation/OEOC, and mail to: OEOC, 113 McGilvrey Hall, Kent State University, Kent, OH 44242; or log on to <http://dept.kent.edu/oec/FriendoftheCenter.htm>

And, as a token of our appreciation, all donations of \$100 or more will receive a complimentary copy of *The Real World of Employee Ownership*. Your **tax-deductible** donation will help us to continue to spread the good news of ESOPs and employee ownership to the ESOP community, the country, and beyond.

Ford Foundation *(Continued from page 2)*

down by International Harvester approached me about an employee buyout. By then we had few good-paying manufacturing jobs left down in the Ohio River Valley and we had all heard about Weirton Steel."

"I was very frustrated with the lack of information about ESOPs that was available until finally someone told me to call John Logue up at Kent State. He and the staff at the Center there helped us. I saw that employee ownership and ESOPs could help our local industry."

"I was the original sponsor of House Bill 676 which authorized the Employee Ownership Assistance Program in 1988 by unanimous vote of both Houses. The legislation was renewed by unanimous vote of both houses in 1994, and again in 2000. I am delighted with the number of employee-owned businesses in our area now. Legislation has helped raise awareness, although the OEOC has been the real champion here in Ohio."

Ohio's Employee Ownership Assistance Program authorized the Ohio Department of Development to provide information and preliminary technical assistance to individuals, companies and organizations throughout the state promoting the establishment and successful operation of employee-owned firms in Ohio. The OEOC is the state's agent to fulfill that mandate.

Governors Support Employee Ownership

Nor has political endorsement of employee ownership been limited to the state legislature. Ohio's governors have also consistently supported employee ownership, starting with the administration of Governor Richard Celeste. As the former Governor recalled, "Back in the 1980s, we recognized that Ohio's employees needed a voice in the vital decisions being made in response to global competition which was reshaping manufacturing. In Ohio's strategic plan, developed in 1983, promoting labor-management cooperation was given high priority."

As labor-management cooperation efforts worked to save Ohio jobs, Celeste noted, "Evaluating opportunities for employee ownership and providing support for such initiatives wherever possible became an important thrust of Ohio's labor-management cooperation program." The Employee Ownership Center joined with other labor-management cooperation programs statewide in providing information and education assistance to local businesses as part of the Ohio Labor-Management Cooperation Program managed by Ohio's Office of Small Business.

Governors Voinovich and Taft also proved consistent supporters of employee ownership in Ohio. In his message to the 17th Annual Ohio Employee Ownership Conference last April, Governor Taft noted, "Employee ownership and cooperative enterprises save jobs and companies, anchor capital, benefit local economies, create new wealth for employee owners and improve the lives of their families. As an economic development strategy, employee-owned companies are a positive influence to improve job security that also benefits the communities where they operate. Employee-owned companies also increase productivity and efficiency by enhancing employee motivation. They make Ohio's economy stronger."

Employee Buyouts Save Jobs

More assistance for Ohio's employee buyout efforts emerged in 1989 through the creation of Ohio's Rapid Response Unit, then

part of the Ohio Bureau of Employment Services, now part of the Ohio Department of Job & Family Services (ODJFS). The unit was established as the result of federal legislation initiated by former Ohio Senator Howard Metzenbaum. Under the Job Training Partnership Act (JTPA), where the threat of plant closure or mass layoffs existed, federal funds were available to the states for the purpose of funding studies to explore the feasibility of having a company or group, including the workers, purchase the plant and continue it in operation. Such funds were first used to help labor leaders and managers fund a marketing study for Gencorp's soft vinyl plant in Toledo, which eventually became 100% employee-owned Textileather. "Ohio is second only to New York in using the federal Rapid Response money to promote employee ownership," said Logue.

In Ohio, this assistance is the Ohio Preliminary Feasibility Study

"Since the program started, no employee-owned company in Ohio has pulled up stakes and moved to a lower-wage state or country."

Grant Program, first funded under the Job Training Partnership Act (JTPA). It now falls under the Workforce Investment Act's (WIA) provisions for displaced workers. The Ohio Employee Ownership Center has administered the program since late 1997. In 2002, ten prefeasibility studies were funded for employee and management efforts to explore using employee ownership to avert shutdown. In 2003, seven studies were funded.

The Ohio Employee Ownership Assistance Program also continues to achieve economic development goals by providing ownership succession strategizing for small business. Since 1996, the OEOC has coordinated the Business Owner Succession Planning Program in Northeast Ohio in partnership with the Greater Cleveland Growth Association and its Council of Smaller Enterprises (COSE), and, since 2003, also in partnership with the Corporate College of Cuyahoga Community College. The Succession Planning Program provides business owners with information they need to begin planning for their retirement, helping the owner to get fair value out of the business and take care of his/her family, while the business remains a viable Ohio employer. Sometimes the succession plan includes selling to the employees. Many successful

(Continued on page 14)

Highlights from Ohio: (top left, clockwise) Employees from Brainard Rivet demonstrate for an ESOP; employees at the Ohio Nut & Bolt Co. (Fastener Industries), Ohio's oldest 100% ESOP company; RJ Martin Electrical Contracting employees celebrate their new ESOP; La Casa Nueva Mexican Restaurant, Ohio's largest worker cooperative; worker-owners at Reuther Mold & Manufacturing; employee owners at YSI, Inc. celebrate the company's 50th anniversary; Falcon Industries' Medina employees get their ESOP off to a good start; OEOC Director John Logue receives plaque from KSU President Carol Cartwright; (center) Logue receives LCW Award from Ford Foundation President Susan Berresford.



Ford Foundation (Continued from page 12)

local businesses have been lost because the owner never got around to planning for retirement and business succession.

Ohio not only helps business transitions to employee ownership, but it continues to help afterwards as well. As Conrad explained, "The OEOC encourages the development of cooperative, high performance workplace practices in employee-owned companies through training and organizational development. The OEOC is part of a statewide network of training organizations that work with clients to provide labor-management cooperation programming. The Ohio Labor-Management Cooperation Program (OLMCP) grantees provide workplace assessments, help in the establishment of high-performance work systems, and offer assistance in improving labor and management cooperation."

"The program grantees provide cost-effective training and consultation to both private and public Ohio companies and organizations," added Conrad. "This has a significant impact on Ohio's industrial competitiveness. This proven effort helps to retain jobs and encourages expansion in Ohio."

With its public support as leverage, the OEOC provides some 4,000 hours of leadership training per year to employee-owners, as follow-up to encourage the long-term success of the new company. Since 1987, it has provided assistance to more than 438 Ohio companies, employing 783,000. Of these, 64 have become employee-owned.

Public-Private Partnership

Since funding for employee ownership is already in place through federal tax breaks, the role of state and local governments should be to provide accurate and timely information and technical assistance which helps business owners and employee groups help themselves.

Kent State University has provided a home for the center since its inception. Says KSU President Carol Cartwright, "The Ohio Employee Ownership Center is an important outreach initiative for Kent State. We are very proud to serve as a home to a center that consistently gets results that change people's lives in direct and important ways."

The program, developed in Ohio as a public-private partnership between the Ohio Department of Development, a public university, and the public sector has proven to be very cost effective for the state. In 2002, the cost per job retained, created, or stabilized through Ohio's Employee Ownership Assistance Program was \$423 per job in Department of Development funds. Compare this to tax breaks and other incentives to business that have amounted to as much as \$250,000 per job in other states.

In addition to being a cost-effective economic development strategy for job retention, creation, and stabilization in Ohio, employee ownership yields long-term economic benefits for the state in four additional areas: (1) employee-owned firms reinvest in capital improvements in existing facilities at a higher rate than other firms; (2) employee-owned firms reinvest in their human capital at a higher level than is common in the region; (3) employee-owned firms have a higher economic multiplier effect in their communities through higher levels of home ownership, purchases of con-

sumer durables, and higher retirement benefits; and (4) employee-owned firms create significant assets for Ohio families. Through their ESOP plans, the 13,600 Ohio employee owners have built at least \$300 million in assets, adding at least \$20 million annually. That is locally anchored capital that helps solidify the economic base of Ohio communities.

Ohio's Employee-Owned Network

The spirit of collaboration continues among Ohio's employee-owned firms. In 1989 leaders from a dozen ESOP companies met for roundtable discussions at an OEOC conference and asked the OEOC to create a process for ongoing inter-company collaboration. Ohio's Employee-Owned Network, which now has more than 60 company members, sponsors a year-round series of leadership development programs through which employee-owned companies explore effective management. Companies in the Network generally perform better than other employee-owned companies (see

"Company Networks Improve Performance," *Owners at Work*, v. 12, no. 2, pp. 1-3), and there is some evidence that the Network plays a role in helping them to that achievement. The Network also provides education and training

for employees of member companies, and it sets its annual training curriculum in response to what member companies say they need.

The Leadership in a Changing World Prize

The Leadership in a Changing World (LCW) Prize, launched in September 2000, is a program of the Ford Foundation in partnership with the Advocacy Institute in Washington, D.C. and the Robert F. Wagner Graduate School of Public Service at New York University. The program seeks to recognize, strengthen and support leaders and their organizations, and to highlight the importance of community leadership in improving people's lives. Leadership for a Changing World hopes to facilitate a new appreciation that leadership comes in many forms and from many different communities.

The 2003 awardees join 40 previous recipients. LCW provides financial and other support for their programs and leadership, and engages them as partners in ongoing research about leadership. The \$100,000 prize will help to further the work of the OEOC. The prize provides an additional \$15,000 for Logue to explore opportunities for further development of the OEOC.

"These awards recognize the achievement of remarkable people, such as John Logue, working to bring positive social change to their communities and beyond," said Susan V. Berresford, President of the Ford Foundation.

Logue is the first LCW winner from Ohio since the award's inception. As a national awardee (one of 17), he will participate in several leadership symposiums during 2003-2005 and also be part of a national media effort to communicate stories of the OEOC's efforts and the importance of employee ownership as an economic development and redevelopment strategy. Since the award was announced early last October, Logue has appeared as a guest on more than a dozen radio talk shows from San Francisco to New York to Kent, OH and has appeared on LCW's "Leadership Talks" online interview. The LCW interview can be found at www.leadershipforchange.org/talks/ **OAW**

"Employee ownership is one of those rare catalyzing ideas that really pulls the community together."

Book Review:**Saving Communities, Saving the Country****Jacquelyn Yates**

Thad Williamson, David Imbroscio and Gar Alperovitz, *Making a Place for Community: Local Democracy in a Global Era* (New York and London: Routledge, 2002) \$29.95

Here is a book that will take the reader a very long way toward understanding the connections between troubling problems of local economies in the U.S. -- plant closings and economic decline—and the economic theories and governmental policies that contribute to them. Authors Thad Williamson, David Imbroscio and Gar Alperovitz lead the reader through economic theory and hundreds of concrete examples without ever using an equation or retreating into social science jargon. What is more, the authors propose moderate, gradual, and practical remedies that could be accomplished all at once or piecemeal.

The book opens with a challenge to the widespread assumption that the ups and downs of local economies don't matter as long as the national economy overall is prosperous and friendly to private enterprise. Instead, the authors see local economies as the very building blocks of democracy, "where diverse citizens join together in self-governance," where civil society can develop and where social capital is created. When local communities are shaken apart by excessive economic change, the result weakens the foundation of democracy, and for that reason, efforts to preserve and stabilize the economies of geographic localities are essential. They cite research showing that long-term residents of stable communities are more likely to vote, more likely to be involved in local groups and politics, more likely to have social trust and to create more inclusive governments with more equitable policies.

The beneficial impact of economic stability on democracy and civil society can best be seen when it is lacking, as in an economically blighted community, where people are so concerned with survival that they don't have time for participation, where turnover in schools is high and learning suffers, where young adults have to leave to find employment, where people don't have time to look after their homes and neighborhoods because they must travel long distances to find work, where neighbors move so often that no one knows names and routines, so homes become vulnerable to break-ins and vandalism. The

fallout wastes individual and community capital when housing stocks depreciate because of economic weakness and community infrastructure is abandoned long before it is obsolete.

What is more, much economic instability at the community level arises from government policies that could be altered to mitigate the problems they create. For example, the decades of redlining denied federally insured mortgages in poor neighborhoods, and neoconservative trade policy opens investment opportunities abroad and allows profits from those investments to flow into tax havens, making the movement of jobs offshore an irresistible strategy for increasing profits. Not only is offshore labor cheaper for the company, but profits can be directed to offshore tax havens.

But if the authors skillfully show the problem, they also propose a remedy, or rather, a raft of remedies. Many of these are simply local economic development strategies. Employee buy-outs are one approach, but there are others—public enterprises, public venture capital funds, governmentally owned corporations, community development financial institutions, targeted pension investments, community development corporations, local currencies, small-business incubators, community land trusts. Each type of organization is described with several working examples. The variety and extent of ongoing activity is remarkable. Descriptions in the text are supplemented with an indexed appendix of the organizations' contact information.

Remedies are also proposed for the national and international level, such as increased trade adjustment assistance, limited and negotiated protectionism, new roles for international financial institutions, and a tax on international currency speculation.

This is a vision of local communities with sufficient economic activity to comfortably support the local population. The authors' goal is not to freeze economic change, but to slow down harmful change and avoid the trauma of rapid and massive economic shifts, as when huge facilities are built or abandoned within the space of a few months, with devastating impact on the people living there and often at great expense to taxpayers. Helping communities develop strategies to buffer against swift and massive economic change, they argue, is not only compassionate, it is fundamental to strengthening democracy. **OAW**

**Don't forget to mark your calendars for the 18th Annual
Ohio Employee Ownership Conference, Friday April 16th, Akron Fairlawn Hilton
*Turn to page 19 for details***

Ohio's Employee-Owned Network News

Safety Training Saves Money and Protects Ohio's Employee-Owners

The Ohio Employee Ownership Center has revived a popular and money-saving safety training program tailored for employee-owned companies in the state. The training program, offered in connection with the Ohio Bureau of Workers' Compensation, can lead to savings in workers' compensation premiums.

The training, *Taking Ownership of Safety*, incorporates the BWC *10-Step Business Plan*. It was developed in a series of workshops organized by Ohio's Employee-Owned Network in the late 1990s. It includes a set of case studies on the safety management process. Employees from Burt Manufacturing, Bush Transportation Systems, Dimco-Gray Company, Plasticolors and YSI all assisted in writing.

BWC cost-saving programs that include the *10-Step Business Plan* as the primary component include the Premium Discount Program+, Drug-Free Workplace Program, and D Free EZ.

With the Premium Discount Program+, any company with a .90 or greater experience modifier can receive premium discounts of up to 10%. Participants can also earn refunds of 10% by achieving a claims severity reduction of at least 15%, another 5% refund for reducing claims frequency, and an additional 5% bonus for reaching both targets.

Because the Ohio BWC believes reducing drug abuse will reduce accidents, the Drug-Free Workplace Program offers dis-

counts ranging from 10% to 20%. At Level 1, the company establishes a written policy and certain types of drug testing. At Level 2, random drug testing is required along with annual employee education, the implementation of five steps of the *10-Step Business Plan*, and expanded employee assistance. Level 3 builds on level 2, expanding random drug testing to 25% of the work force and requiring the full *10-Step Business Plan*. Implementing the Drug Free Workplace Program requires an environment of cooperation among company leadership and the workforce, and the safety training provides a way to enhance ownership culture by working together on an important human and business issue.

For smaller companies, the BWC also offers help with labor-management cooperation processes. The D Free EZ Program offers grants of up to \$7500 for companies with 25 or fewer employees to pay for outside assistance in developing labor-management cooperation and implementing the *10-Step Business Plan*.

Several Ohio employee-owned companies have already helped their employee owners improve the bottom line by reducing workers' compensation premiums and the costs of accidents. For assistance, contact the Bill McIntyre at 330-672-0332 or call the OEOC reception desk at 330-672-3028. **OAW**

Ohio's Employee-Owned Network News

Group Purchasing Co-op Saves Network Members Money

The MainStreet Group Purchasing Co-op is saving money for members of Ohio's Employee-Owned Network of companies. The purpose of the group purchasing co-op is to provide preferred vendor partners for services used by virtually all companies. The MainStreet Cooperative Group selects the vendors and enters into an agreement with them to provide quality services to Network members at low cost.

To date, four programs have been introduced:

- DHL Overnight Delivery—a phenomenal \$6.05 rate for an overnight letter
- MainStreet Insurance Group—10-25% savings on total group health insurance
- Boise Office Solutions—OEOC is saving 27% on a market-basket of office supplies
- Branders.com—promotional and logo items offer guaranteed satisfaction at an exceptional price.

In addition to the low costs, each vendor will rebate a portion of Network members' purchases to the company at year-end via a rebate on their amount of purchases. MainStreet will deduct

each company's \$100 annual fee from this rebate, so there is no out-of-pocket cost to Network members.

The services included in MainStreet's programs are those incurred by all companies but not the core business of any of them. The programs already rolled out are good examples. Future programs to be offered to Network members include:

- vehicle leasing
- payroll processing
- credit card processing
- waste management

In total, MainStreet plans 24 programs that will be rolled out and offered to Network members.

If you have questions about the MainStreet Group Purchasing Co-op or are interested in joining Ohio's Employee-Owned Network of companies to take advantage of the group purchasing co-op, please contact either Karen Thomas (kthomas@kent.edu) or Bill McIntyre (bmcinty2@kent.edu) at the OEOC at 330-672-3028. **OAW**

Ohio's Employee-Owned Network News

The Chilcote Company Annual ESOP Luncheon

The Chilcote Company celebrated ESOP month in style with a series of programs including an employee-owner luncheon and speakers on October 30. From left to right: **Bill Chilcote** (Vice Chairman), **David Chilcote** (President), **Mike Prokop** (Chairman -Education Committee), **Bill Beckenbach** (Director -The Quadrangle), **Dave Hein** (Chairman - CEO), **Bob Marn** (Vice President - CFO), and Director of the OEOC John Logue. The Chilcote ESOP celebrates its 20th anniversary in 2004.



Ohio's Employee-Owned Companies Gather for Golf



The first annual **Ohio Inter-Company ESOP Golf Event**, organized and hosted by Scott Carter of Chilcote Co., was designed to bring Ohio's employee owners together to build friendships and connections. It was held Sunday July 20, 2003, at Cherokee Hills Golf Course in Valley City. Forty-three Ohio employee owners from **Albums, Inc., Bardons & Oliver, ComDoc, Foresight Technology Group, Ohio Employee Ownership Center (OEOC), Rable Machine, The Chilcote Company, and Sharon Stair** came together this year to celebrate ownership on the golf course. Tied for first place at the end of the day with a score of 6 under par were two teams: (left, l to r) Bill McIntyre of OEOC, Scott Carter of Rable Machine, Stuart Weinstein and Adam Reidel of Sharon Stair and (right, l to r) Brent Dehlinger, Mark Dehlinger of The Chilcote Company and Bryan Covall and Jim Marchione of ComDoc Inc. The tie-breaker was won by the Rable Machine/Sharon Stair/OEOC team. The event is open to all Ohio employee-owned companies and next year will be hosted by Rable Machine.

OEOC Establishes Professional Membership Category

For many years, our friends among ESOP service providers have responded to our several annual appeals and supported the OEOC and its activities with newsletter and conference program ads, attendance and participation in the annual conference, participation in training programs and purchases of our publications. We now invite them to become professional members of the OEOC, to share in our success and the growing reach of our technical assistance and training programs. *Owners at Work's* mail circulation has reached 12,000 and continues to climb, and our programs are increasingly reaching a national clientele.

Professional membership is \$150 per firm. Professional members are listed on the OEOC website (www.kent.edu/oec) by area of expertise, company name, and individual member's name with direct links to their websites. They receive discounts on conference registration fees, newsletter and conference program ads, and OEOC publications. If you are an ESOP professional, join and take part in the OEOC's activities!

We invite ESOP service providers who work in Ohio to join us as professional members. For information, contact Bill McIntyre at 330-672-3028 or bmcinty2@kent.edu.

Ohio's Employee-Owned Network

2004 Upcoming Events

Employee Owners' Basics of Business Retreat

Thursday - Friday, March 4 - 5

Atwood Lake Conference Center

An educational program for non-managerial employee-owners—plus an optional Train-the-Trainer session with materials to take back and use at your company. Learn about the financial side of an ESOP business and how businesses fit strategies to the larger US and global economy. An extra half-day session on how to educate others at your firm.

CEO and CFO Networking Dinners

Join peers at this series of get-togethers hosted by Riley Lochridge and Steve Owen of ComDoc, Inc. to build inter-company relations among ESOP firms.

CEO Networking Dinner

Hudson Country Club, Hudson

Wednesday, March 3

CEO Networking Dinner

Silver Lake Country Club, Cuyahoga Falls

Wednesday, March 10

CEO and CFO Networking Dinner

Firestone Country Club, Akron

Tuesday, September 14

18th Annual Ohio Employee Ownership Conference: "Building an Economy that Works for All of Us"

Pre-Conference Events

Thursday, April 15

HR/ESOP Communication Roundtable

Understanding What Drives Stock Value: Educating Employee Owners

CEO/CFO Roundtable

Company Showcase Reception

Ohio Employee Ownership Conference

Friday, April 16, Akron/Fairlawn

ESOP Fiduciary and Administration Programs

ESOP Fiduciary Workshop

A session for trustees, ESOP administration committees, and Directors.

May 26, Dayton

December 8, Kent

ESOP Administration Forum

An update on relevant legal, administrative, and tax concerns for ESOPs.

November 11, Dayton

December 9, Kent

ESOP Communication and Education

ESOP Communication Forums: Building an Ownership Culture

May 27, Dayton

November 10, Dayton

Employee Owners'

"Thinking Like an Owner" Retreat

September 16-18

Atwood Lake Conference Center

Provides a basic orientation to ESOPs, understanding business financials, and the roles of employee owners.

Leaders' Forum

October 21 - 22, NE Ohio location TBA

A forum for those in operational leadership roles on communicating the facts about ESOPs, the values of ownership and business performance goals which promote involvement.

Ohio's Employee-Owned Network's Mission is to provide a forum for those working at all levels in employee-owned businesses to learn from each other how to make employee ownership work more effectively at their firms; to organize networking opportunities, roundtables, and training sessions which address the unique challenges of ESOPs.

For more information or to register for Network programs, contact Karen Thomas at 330-672-3028 or oeoc@kent.edu

The 18th Annual Ohio Employee Ownership Conference

Building an Economy That Works for All of Us

Friday, April 16, 2004

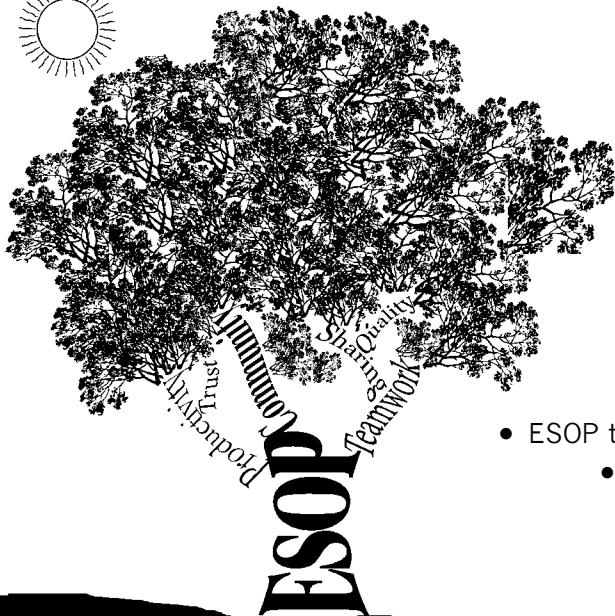
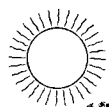
Akron Hilton West,

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Jim Parker
CEO
Southwest Airlines



Keynote Speaker
"Creating an Owner
Mentality: How
Southwest Airlines'
Culture Makes a
Difference"



Panel topics include:

- ESOP technical and administration issues
- Teamwork and participation skills
 - Financial training
 - Ownership culture
 - Co-ops
- Selling to your employees
-and more.

Conference Registration

\$75.00 (before 3/28/04)

\$125.00 at the door

\$85.00 (between 3/29/04 - 4/14/04)

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OEOC

Ohio Employee Ownership Center

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*In Memoriam***Darrel Cox**

Darrel Cox, the retired President of Jet Rubber in Rootstown, leaves a valuable legacy to the employee-owners of Jet Rubber—a spirit of pride in employee ownership and effective worker-manager relations. Supporters and members of Ohio's ESOP business community join his family members and many colleagues in mourning his recent death, which occurred in January, 2004.

Cox was a 50-year veteran of the rubber industry, a charter member of the Northeast Ohio Rubber Group, and active in the American Chemical Society Rubber Division. A strong proponent of ESOPs, he was also an enthusiastic supporter of Ohio's Employee-Owned Network and an active participant in the Network's multi-company CEO forums. A resident of Garrettsville, Cox worked previously for Chardon Rubber and Neff Rubber. He joined Jet Rubber, a custom rubber molding operation, in 1972 and became President in 1993. Cox led efforts to develop a spirit of open communication at Jet (see Celebrating Ten Years as an ESOP, Owners At Work, Summer 2003.)

Frank Brubaker, former President of Jet Rubber, praised Cox for his business skills. "The way he handled our quotes (to customers) was one of the main reasons we've been in business all this time."

"Darrel's legacy of leadership and his enthusiastic support

of Jet's ESOP will continue to make a significant difference here in northeast Ohio to the employee-owners at Jet and to their families and communities," said Karen Thomas, OEOC Associate Director and coordinator of Ohio's Employee-Owned Network. **OAW**



Darrel Cox (center) with Jet Rubber's ESOP Steering Committee members (l to r) Mary Parkinson, David McGunigal, Jeff Nichols, and Karen Crooks.

New Canadian Center to Offer Course in Employee Ownership and Participatory Management

A Center for Employee Ownership has been created at the University of Manitoba to administer a course in participatory management and support and fund research and further implementation of employee ownership in Manitoba. The course, which the Crocus Fund helped to develop and launch as a continuing education course four years ago, graduates about two dozen people a year.

"There is all sorts of research that indicates a company's performance increases significantly when employee ownership and participatory management plans are implemented," said Crocus CEO Sherman Kreiner. Crocus has assisted in the establishment of 18 employee-owned firms in Manitoba.

The University of Manitoba's I.H. Asper School of Business, the Crocus Fund and three Crocus investee companies—Friesens Corp. of Altona, Cando Contracting of Brandon and National Leasing of Winnipeg—contributed startup cash to the new center, which will be launched with an annual budget of about \$180,000 Canadian. Rob Warren, executive director of the University of Manitoba's Asper Centre for Entrepreneurship, will be the interim head until an executive director can be hired in spring 2004. **OAW**

Has your next Employee Owner Check-Up been scheduled yet?

Every employee owner goes through a life cycle, from the initial orientation to the final distribution; from understanding ESOP basics to mastering the skills to participate effectively under open book management. The Ohio Employee Ownership Center of Kent State University offers an annual Employee Owner Check-Up. We'll help you identify those employees reaching key ESOP milestones in the current year, and systematically provide them with the corresponding information and training.

***Don't let any of your employee owners fall through the cracks!
Call Dan Bell at 330-672-3028 for more details***

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Business Valuations, Inc. is an independent valuation and financial consulting firm. ESOP services include feasibility studies, valuation, equity allocation, securities design, and annual update valuations. Other valuation services include gift and estate tax valuations, litigation support, fairness opinions, securities analysis, shareholder buy/sell agreement valuations, and merger and acquisition consultation. Staff analysts are Chartered Financial Analysts (CFA) and/or Certified Business Appraisers (CBA).

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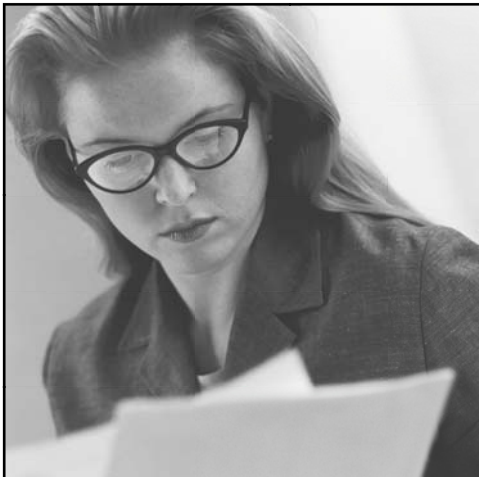
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OWNERS AT WORK

Volume XV No. 2

Winter 2003/2004

<i>Ford Foundation Salutes Ohio</i>	1-2, 12-14
<i>Dave Fox Remodeling Becomes 100% ESOP</i>	1-2
<i>Loans & Investment Grow Employee Ownership</i>	3-5
<i>Northcountry Cooperative Fund</i>	3
<i>OEOC to Manage Commonwealth Fund</i>	4
<i>Murex Investments</i>	4-5
<i>Employee Ownership Bank Bill</i>	5
<i>Debate on ESOP Loan Structure</i>	6-8
<i>OEOC Moves</i>	9
<i>Spring Succession Planning Program Schedule</i>	9
<i>OEOC Annual Report</i>	10-11
<i>Friends of the Center</i>	11
<i>Book Review: Making a Place for Community</i>	15
<i>Network News: Safety, Purchasing Co-op,</i>	16-17
<i>Golf & more</i>	
<i>OEOC Establishes Professional Membership</i>	17
<i>2004 Network Events</i>	18
<i>18th Annual Ohio Employee Ownership Conference</i>	19
<i>In Memoriam: Darrel Cox</i>	20
<i>New Canadian Center for Employee Ownership</i>	20
<i>Owners At Work Sponsors</i>	21-23

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UPCOMING NETWORK EVENTS – 2004

Employee Owners' Basics of Business Retreat

Thursday - Friday, March 4 - 5 Atwood Lake Conference Center

CEO and CFO Networking Dinners

Wednesday, March 3
Wednesday, March 10

CEO and CFO Networking Dinner

Tuesday, September 14

18th Annual Ohio Employee Ownership Conference: "Building an Economy that Works for All of Us" Akron/Fairlawn Hilton

Pre-Conference Events
HR-ESOP Communication Roundtables/CEO-CFO Roundtables/Company
Showcase Reception

Ohio Employee Ownership Conference Friday, April 16

ESOP Fiduciary Workshop

May 26
December 8

ESOP Administration Forum

November 11
December 9

ESOP Communication and Education

May 27
November 10

Employee Owners' "Thinking Like an Owner" Retreat

September 16-18

Leaders' Forum

October 21 - 22

Mark Your Calendars !!
Friday, April 16, 2004 Akron
The 18th Annual
Ohio Employee Ownership Conference

OTHER EVENTS OF INTEREST

Ohio/Kentucky Chapter of The ESOP Association Annual Spring ESOP Conference

Reynoldsburg, OH, March 23, 2004, Grand Host East
www.esopassociation.org/meetings/2004_OHKY.pdf

National Cooperative Business Association (NCBA)

~~2004 Cooperative Conference~~
2004 Cooperative Conference, Stow, OH
Washington, D.C., April 27 - 29, 2004, The Hamilton Crown Plaza
www.ncba.com
Preston Country Club, Akron, OH

National Center for Employee Ownership (NCEO)/Beyster Institute Joint Annual Conference 2004-New Visions in Employee Ownership

Chicago, April 28-30, 2004, Palmer House Hilton
www.nceo.org
Thursday, April 15
www.beysterinstitute.org

ESOP Association

27th Annual Conference

Washington, DC, May 12-14, Renaissance Washington Hotel
www.esopassociation.org

ESOP Association (staffed by the OEOC) Employee Owner Retreat

Downers Grove, Illinois, August 5-7, Doubletree Guest Suites
www.esopassociation.org

Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Department of Job & Family Services preliminary feasibility grant program. This program is designed to provide financial assistance for groups who are interested in contracting a study to explore employee ownership as a means to avert a facility shut down. For more information, please contact the OEOC at 330-672-3028 or oecoc@kent.edu.

The National Steel/Aluminum Retention Initiative (NSARI), administered by the OEOC, provides preliminary technical assistance to buyout efforts in the steel and aluminum industries. The program can also provide technical assistance to existing employee-owned companies in these industries. For information, call Steve Clem or John Logue, at 330-672-3028 or at <http://www.kent.edu/oecoc/nsari/>.

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