

OWNERS AT WORK

The Ohio Employee Ownership Center's
magazine of employee ownership

Volume XIX No. 2 Winter 2007/2008



Minding the Planet - Social Accounting in the ESOP World

Plus Ohio's Employee-Owned Top 50 - Robert Beyster and the SAIC Story

Owners At Work Winter 2007/2008

OWNERS AT WORK

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Cover Photo: Inset-Toledo Middle School students gather at the edge of East Olalla Creek to photo document the different species of plants in the area as part of a YSI "Who's Minding the Planet" grant. The students will monitor and repair the creek with the funds provided by the grant. Inset photo courtesy of YSI and outset photo courtesy of Scott Liddell and morgueFile.

Owners At Work (ISSN 1046-5049) is published twice a year by the OEOC. Copyright © Ohio Employee Ownership Center of Kent State University. Letters, articles, requests for permission to reprint and subscriptions (which are free) should be sent to the editor. *Owners At Work* is funded in part by the Ohio Department of Development Labor-Management Cooperation Program.

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, as well as contributions from Kent State University, Friends of the Center, and the companies that comprise Ohio's Employee-Owned Network.



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Publisher's Note

In 1969, Bob Beyster founded Science Applications International Corporation (SAIC) with \$20,000, one government contract and 3 employees. Over the next 35 years, he grew it into an \$8 billion company with 43,000 employees. And he did it through a commitment to entrepreneurial and participatory 100% employee ownership.

*That story deserves your attention. It's described in the interview with Bob Beyster and the review of his book *The SAIC Solution*; see pp. 14-17. It's also worth noting on p. 4 that the Beyster Institute is sponsoring the country's first ESOP MBA courses at the Rady School of Management at the University of California-San Diego.*

Since Bob Beyster retired and was replaced by a CEO from a conventional company, SAIC has gone public. Is it possible for SAIC to serve two masters – employee owners and Wall Street? Time will tell. The experience of companies like Ohio's Republic Engineered Steels doesn't make us sanguine.

"I'm here to tell you the transaction from hell is done" said Sam Zell in announcing that the leveraged ESOP purchase of the Chicago Tribune and related enterprises described in our last issue was completed just before Christmas. It's one of the largest ESOP transactions in recent years. For more on how it may work out and the furor in Congress that it has created, see p. 3.

Over the last two years, the OEOC has looked at how ESOP companies can do "social accounting" that takes into consideration the other impacts of employee ownership beyond the traditional corporate financial bottom line. "Minding the Plant" in this issue (pp. 8-10) discusses sustainability reporting at employee-owned YSI in Yellow Springs.

Have a look also at the work of Stow-Glen Retirement Village's "Commitment to Conservation Committee" on p. 18. Sustainability in the workplace makes a difference, and employee-owner committees can have a real impact here.

Finally this issue features analysis of the latest ESOP Form 5500 files. Jackie Yates has charted the performance of Network companies in Ohio against those of non-Network companies on the basis of their IRS Form 5500 filings. "Does membership in Ohio's Employee-Owned Network pay?" asks the headline. The data say "yes."

The ESOP Form 5500 data also provide our biennial account of Ohio Top 50 Employee Owned Companies as the centerfold of this issue. Where else do you get a centerfold like this?

Corrections

In our listing of donors to our Friends of the Center campaign in last issue, we inadvertently omitted Davin Gustafson (Silver) and William Dietrich (bronze). Our apologies.

Employee Ownership News

Tribune Deal Closes: Company to Become the Largest 100% ESOP S-Corp

"I'm here to tell you the transaction from hell is done ... As far as I'm concerned, today is a brave new world." With those words, as reported in the *Chicago Tribune*, billionaire Sam Zell announced on December 20 that his \$8.2 billion bid to buy the Tribune Company and transform it into the largest 100% ESOP-owned S corporation is complete. Zell is stepping in as chairman and chief executive of the company, replacing Dennis FitzSimons, who resigned.

Zell promised sweeping changes in the corporate culture at the company, including a new, hand-picked board of directors. While Zell indicated months ago that he would not be involved in running the day-to-day operations of the company, his intention is to create a more logical organizational structure that will decentralize decision-making and encourage innovation. He commented, "...as long as it's top down, you can't hold anybody accountable. And if you hold people accountable, you produce results."

Study after study of ESOP companies shows that an ESOP by itself does not result in any improvement in corporate performance but that an ESOP combined with an ownership culture results in significant improvement in multiple areas of performance. The development of an ownership culture would be a substantial change at the Tribune Company.

Will Sam Zell seek to establish an ownership culture? Interestingly, even though press coverage of his announcement of the closing of the deal focused on Zell's organizational intentions and actions, there was no mention of the ESOP except for the tax advantages. But Zell's plans for decentralizing, freeing up decision-making, encouraging innovation, giving people responsibility and holding people accountable are consistent with creating a culture in which people take ownership of their jobs.

Sometimes, working for an ESOP company can be difficult, because there is spoken and unspoken pressure to perform well from coworkers as well as supervisors. Some people do not like that pressure. Others take ownership of

their jobs and concentrate on performing to the best of their ability, pleasing their customers and having fun working with fellow employees who have a similar attitude. Sam Zell's comment when meeting *Tribune* employees was, "We're going to have some fun."

He will also be in charge of reducing the *Tribune's* huge \$13 billion debt load, saying, "... the chief operating office in charge of debt reduction will be yours truly." Assets that have been named for possible sale are the Chicago Cubs and Wrigley Field. However, with its 100% ESOP S corporation status, selling its assets to reduce debt may be problematic for the *Tribune* because any asset sales in the first 10 years will trigger a built-in gains tax. Earlier, analysts believed that the tax would restrain Zell from selling off assets. It now appears that asset sales could be structured to push the official transfer of ownership beyond the 10th year, thereby avoiding the tax.

"There's really extraordinary flexibility based on other transactions we've done where we had similar kinds of tax issues. I don't see any reason we can't do that here and we will," Zell said. Creative sales of assets that generate little operating cash but would sell for large sums would help reduce the current large debt load and reduce the company's risk of being unable to ultimately pay off all the debt.

As reported in the Summer 2007 OAW, the *Tribune* transaction is exceedingly complex. However, if the company is able to survive the years of high debt, then the employees stand to benefit by sharing in the success of the company. The employees could do very well ... and Sam Zell could do extremely well. In that case, the *Tribune's* "brave new world" may turn out to be a slice of heaven for all involved.

Proposed Synthetic Equity Tax Threatens Future S-Corp ESOPs

Charles Rangel (D-NY), Chairman of the House Ways and Means Committee, has proposed a bill designed to prevent more employee buyouts like the Tribune Company deal developed by investor Sam Zell. By placing prohibitive tax rates on synthetic equity, Section 3701 of HR 3970 would effectively stop not only Zell-type deals but

might also block many other types of ESOP S corporations that routinely include some kind of synthetic equity in compensation packages for key management and board members.

Synthetic equity includes things like stock options, stock appreciation rights, phantom stock, and warrants. The Rangel proposal would tax the holder of any synthetic equity not only for the gain realized when exercising the synthetic equity but also on the portion of S corporation income the holder would have realized each year had they held actual stock instead of synthetic equity. Larry Goldberg, of the law firm of Sheppard, Mullin, Richter & Hampton LLP in San Francisco, has calculated that the effective federal tax rates could exceed 100% for holders of stock options, 70% for stock appreciation rights, and 80% for warrants. In addition, there would be additional charges for interest on the underpayment of taxes for prior years. His analysis does not include any additional state income taxes due. With tax rates of that magnitude, companies that desired to use such compensation structures would not choose to become S corporation ESOPs.

Rather than stopping only billionaires like Sam Zell from benefiting from ESOP laws, this proposal would punish many existing ESOPs and serve as a deterrent to new ESOPs. According to Loren Rodgers, Director of Research for the National Center for Employee Ownership (NCEO), 40% of all ESOPs are S corporations and 15-20% of S corporation ESOPs offer some form of synthetic



Congressman Charles Rangel of New York's 15th Congressional District

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equity. Thus, this proposal would negatively impact 550-750 existing ESOPs.

At present HR 3970 has no co-sponsors and will not pass "as is." It is unlikely that Congress will tackle a tax overhaul bill during an election year, and there are some who think that Chairman Rangel has deliberately not requested any co-sponsors so that no representative running for re-election has to take heat from this tax bill.

However, Michael Keeling, President of The ESOP Association, notes that with projected tax revenue of only \$60 million, the bill won't get much attention and could be easily added to any new bill and slip into law. If passed, it might serve as a deterrent to the formation of new ESOPs, which Keeling feels should be of concern to everyone in the ESOP world. Keeling encourages ESOP participants and service providers to contact their representatives and senators to voice objection to the proposal. For more information, go to The ESOP Association website, www.esopassociation.org.

UC-San Diego Offers First MBA Course on ESOPs

About a dozen MBA candidates at the Rady School of Management, University of California, San Diego completed the country's first MBA course on employee ownership during the Fall 2007 semester. The skills-based, 2-unit elective course (MGT 219 Topics in Corporate Governance: Techniques in Equity Compensation) was taught by Anthony Mathews of the Beyster Institute, which is affiliated with Rady.

The course teaches the tools and techniques available under current law and practice for implementing employee ownership and corporate equity incentive plans as a compensation and motivation vehicle for employees as well as a tax and cost effective vehicle for assisting in business succession and capital expansion, creating equity participation plans, equity sharing techniques, best practices to maximize results and future trends.

Class topics include ESOPs, qualified and non-qualified plans, performance-based equity, synthetic equity, securities and accounting concerns of equity sharing, legal implications, business succession, corporate finance, ESOP fi-

nancing, benefits and risks of equity as a compensation vehicle and shareholder concerns. Mathews has many years of experience with ESOPs and building an ownership culture and recently retired as a VP and Senior Consultant with Principal Financial Group, served as a consultant to hundreds of ESOP companies, and is a frequent speaker and author on employee ownership.

Caution from IRS: More Than 20% Layoff May Trigger ESOP Vesting Costs

The IRS has issued a ruling that if a company has a reduction in force resulting in more than a 20% reduction in retirement plan participants, then there will be a presumption that a partial termination of the ESOP has occurred.

When an ESOP is considered to be partially terminated, all participants who had their employment terminated because of the layoff automatically become 100% vested in their ESOP benefits. This could significantly raise the cost of laying off personnel.

If a company chooses to lay off employees because it is not doing well, IRS Revenue Ruling 2007-43 paradoxically serves to punish it further. It will be required to pay 100% of each terminated participant's ESOP benefits instead of paying only the fractional percents set forth in the ESOP vesting schedule, hitting the company with large cash demands when they can least afford it.

Because of this ruling, ESOP companies have added incentive to be aware of their ESOP Plan provisions for benefit distributions and their impact on the companies' ability to plan for and manage their ESOP repurchase obligation. ESOP companies that could be hit with layoffs - which would include, potentially, every ESOP - should consider adopting a policy of delaying the commencement of ESOP benefit payouts.

Currently, federal law allows a 6-year maximum delay for participants who terminate employment for reasons other than death, disability or retirement. Such a delay would protect a company from being hit with a large ESOP repurchase obligation at a time of financial weakness.

At a minimum, an ESOP company contemplating a layoff should consider

the additional costs imposed by this IRS ruling.

State Treasurer Cordray Expands Ohio's Linked Deposit Program for Small Businesses

Two important changes to Ohio's Small Business Linked Deposit Program were announced by Richard Cordray, Ohio Treasurer (and five-time undefeated champion on the Jeopardy TV show) when he spoke to the Ohio/Kentucky Chapter of the ESOP Association last October 3 in Columbus. The program, which began almost 25 years ago, allows the treasurer to use up to 12% of Ohio's investment portfolio, about \$500 million, for the purpose of preserving or creating jobs for Ohioans.

Treasurer Cordray has made two changes that should benefit the state's small businesses. He has increased the maximum loan amount from \$250,000 to \$400,000 and he has changed the requirement for jobs retained or created from one job for each \$25,000 requested to one job for each \$50,000 requested.

The program, which effectively



Ohio Treasurer Richard Cordray speaks at the meeting of the Ohio/Kentucky Chapter of the ESOP Association. (photo courtesy of the Ohio/Kentucky Chapter of The ESOP Association).

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subsidizes the interest rate on small business loans by 3% for a period of two years, is open to Ohio businesses with fewer than 150 workers. There are essentially no spending restrictions on the loan as long as it creates or retains jobs.

Said Treasurer Cordray, "Every ESOP loan should have a linked deposit attached to it."

To be eligible, a business must employ less than 150. The majority of them must be Ohio residents. The company must be organized for profit, have offices in Ohio, and operate facilities only in Ohio. Companies apply for the loans through a lending institution that is a state depository. Once the lender and the Ohio Treasurer approve the loan, the Treasurer will place a reduced-rate

CD for the amount requested at that lending institution. The rate reduction is passed along to the small business for a term of two years.

Learn more about the program by visiting Ohio Treasurer Richard Cordray's website at <http://www.ohiotreasurer.org/> or by calling the State Treasurer's office toll-free at 1-800-228-1102. OAW

"Black Monday" Remembered



It was standing room only at the Youngstown Historical Center of Industry and Labor (above) for the 30th anniversary of "Black Monday" on September 19.

Monday, September 19th in 1977, the Lykes conglomerate announced the shutdown of the Youngstown Sheet and Tube Campbell Works, which employed 5,500. The community organized against the steel shutdowns led by the Ecumenical Coalition of religious leaders, local unions, and concerned community members.

"If the company won't run it, why don't we buy and run it ourselves?" asked Gerald Dickey (panelist on right), then an officer at the Steelworkers' Brier Hill local. Dickey is credited with being the first to suggest employee ownership as an alternative to the shutdowns. The proposal for an employee- and community-owned steel corporation became the goal of the Ecumenical Coalition. Had it succeeded, Youngstown might still have a viable steel industry.

While the Ecumenical Coalition's employee ownership efforts ultimately failed, it educated Ohio and the nation on the potential of employee ownership.

Youngstown attorney Staughton Lynd (left) represented the steelworker locals in their case against the subsequent U. S. Steel shutdowns of the Ohio Works and the McDonald Works.

Leading EDGE Awards Honor ESOP Firms for Performance

Companies with ESOPs in Northeast Ohio are a tiny percentage of all firms in the region, but they were well represented among those honored in 2007 by The Entrepreneurs EDGE (Economic Development through Growth & Entrepreneurship), a year old non-profit organization focusing on promoting economic development and entrepreneurial start-ups.

EDGE helps "mid-market" companies with up to \$500M in sales grow by offering a variety of services including training, brainstorming, and networking events.

Its Leading EDGE Award honored 101 Northeast Ohio companies that create value for themselves, their employees, and the region. The award places special emphasis on companies that bring dollars into the region by selling substantial product and services outside the area. Also considered are earnings, total employee compensation in the region, value of purchasing from local vendors, philanthropic activities, and innovative initiatives. The winning firms typically add value to their communities, and that value grows over time.

Nine employee-owned companies were among the list of 101 honorees.

The 2007 winners that currently have an ESOP are (in alphabetical order):

Fairmont Minerals - Chardon
Plasticolors, Inc. - Ashtabula
Prentke Romich Company - Wooster
Radix Wire Company - Euclid
The Chilcote Company - Cleveland
The Davey Tree Expert Company - Kent
The Garland Company - Cleveland
Voss Industries, Inc. - Cleveland
W. P. Hickman Systems, Inc. - Solon

Oswald Companies, which has had an ESOP since 1985 and employs approximately 400, is a participating partner in the Leading EDGE awards program.

Feedback from some of the award winners indicates that having an ESOP can contribute to a culture that plays a part in the performance that EDGE is looking for. Jeff Crago, Director of Human Resources at Plasticolors Inc. says, "Employee ownership is critical to all positive developments in the company, including the Leading Edge Award." Plasticolors, an ESOP since 1988 and a leading supplier of pigment and chemical dispersions to the paint, coatings, caulk, sealants and thermoset plastics industries, is located in

Ashtabula and has approximately 150 participants.

Numerous researchers have found that properly implemented employee ownership contributes to company growth and builds shareholder wealth.

Information about EDGE is available on the website: www.edgef.org

ODJFS Awards OEOC a New Contract to Help Ohio Retain Jobs

The Ohio Department of Job & Family Services (ODJFS) has awarded the Ohio Employee Ownership Center at Kent State (OEOC) a new two-year contract as part of the state's new emphasis on retaining Ohio jobs.

There are two parts of the program. In the core effort, the ODJFS has extended its contract with the OEOC to administer the Prefeasibility Study Grant Program for the State Of Ohio. As an important part of Ohio's job retention toolkit, the program makes monies available for layoff aversion strategies such as prefeasibility studies of avoiding plant closure or mass layoff through an option for a company or group, including the workers, to purchase the facility and continue it in operation. Such studies may also be utilized to assist existing employee-owned companies that are faced with the threat of job loss. The OEOC has been administering the program since 1997.

Saving jobs expands the local labor market and the local economy while saving Ohio many thousands of dollars by reducing the need for unemployment compensation payments and other social services.

To be eligible for a grant, there has to be a threat of job loss or shutdown. The size of a prefeasibility study grant is typically in the \$10,000 to \$25,000 range, but larger grants are possible when there is particular justification. The application process is relatively simple. The first step is to contact the Ohio Employee Ownership Center, 113 McGilvrey Hall, Kent State University, Kent, OH 44242. Phone 330-672-3028. Fax 330-672-4063. E-mail oeoc@kent.edu.

The second part of the new contract allows the OEOC to expand its successful Business Succession Planning Program from Northeast Ohio to the other regions in the state. Closely held businesses, often family owned, are rightfully regarded as the backbone of the American economy and generate most of the new jobs in the

country. Unfortunately, only about 15% of family businesses make it to the second generation and only 5% make it to the third, according to a 2004 study by the Small Business Administration. This failure to plan for business succession is the #1 preventable cause of job loss.

In Northeast Ohio, the OEOC has been running a succession planning outreach program since 1996. Partnering with the Greater Cleveland Partnership, the Council of Smaller Enterprises and the Greater Akron Chamber, the program has reached hundreds of companies and helped them explore their options. The new contract with the ODJFS will allow the program to expand to smaller cities like Youngstown and Steubenville in Northeast Ohio in the first year of the contract; in year two, the program will expand to Cincinnati, Dayton and Columbus. Eventually, the program is expected to reach into Northwest Ohio and Southeast Ohio.

The succession planning program will also develop webinars, distance learning courses, and special programs for economic development professionals.

The new contract enables the OEOC to provide more services to help retain jobs in Ohio. For more information on the business succession planning program, contact Chris Cooper or Jay Simecek at the OEOC.

Transitions

Although Ohio Network companies are only half as likely to terminate their plans as non-network members (see p. 11), a number have recently done just that. Here are thumbnail sketches of three Ohio ESOP firms and a fourth with Ohio operations that have recently sold to outsiders—including, in one case, another ESOP.

Employees and KPS Capital Partners bought Blue Ridge Paper—including its Olmstead Falls, OH, plant—from Champion Paper in 1999 when Champion divested a paper mill and extruding plant in North Carolina and related converting plants that turned the paperboard into milk and juice cartons. Some, perhaps all, of the facilities would have been shut without the employee purchase. The company's 2000 employees received 40% of the ownership in return for wage reductions. In July 2007, KPS and the employees sold the company to New Zealand's Rank Group, which owns other packaging businesses in the US, including what used to be

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International Paper's packaging division. Leo Gerard, president of the United Steelworkers, which represents the employees, congratulated members for "creating a new and successful company out of assets many industry experts said should close." The average ESOP employee received about \$20,000 for his or her stock.

Sims-Lohman Cabinet Company, a 100% ESOP firm in Cincinnati, was recently purchased by Moellering Industries, a lumber products supplier to builders in the Ohio, Indiana and Kentucky region. Sims-Lohman, which designs custom kitchen cabinets and countertops for builders and contractors, saw the merger as a good growth opportunity for its business. The ESOP is being terminated, but the firm's 24 employees supported the opportunity to become a wholly-owned subsidiary of Moellering. They bring new talents, skills and experience to the larger parent company and, in turn, have kept their jobs and gained increased financial support for growth in their operations, including a new 3,000 sq. ft. showroom.

The 280 employee-owners of a Cincinnati-based ESOP-owned engineering firm, H. C. Nutting, also supported their January 2007 merger with Terracon, a larger ESOP-owned engineering firm based in Kansas City. H.C. Nutting, one of the region's largest engineering and consulting firms, is now a division of Terracon. The HCN employees kept their jobs and most of the ESOP participants rolled their ESOP accounts into Terracon's ESOP. The merger provides HCN with a national reach.

Marine Mechanical Corporation, a Cleveland-based 250-employee ESOP firm, was acquired by BWX Technologies, a division of McDermott International, based in Houston. Marine Mechanical designs, manufactures and tests components for the U.S. Navy. MMC was 100% ESOP-owned by its white collar employees (the union had opted out) since 1997.

New OEOC Staff Members

Two very qualified staff members joined the OEOC this fall. Jim Anderson and Jay Simecek will support expanded services to retain and create jobs in the state of Ohio as mandated by the Center's new contract with the Ohio Department of Jobs and Family Services (see related story)

Jim Anderson

Jim Anderson joined the OEOC staff on November 1, 2007 as a Program Coor-

dinator. He brings over 15 years of experience with ESOPs to the group. During the early years of the ESOP at Republic Engineered Steel (RESI), he played a key managerial role in the development of ESOP training for employees at the Canton, Ohio company. From 1994 to 1996, Jim served as general manager and president of the Bar Group at RESI. He was a member of the board of directors from 1989 to 1996.

From 1999-2006, Jim was first executive vice president and then for six years president of Republic Storage Systems Company, an ESOP company. He also served as chairman of the board of directors and initiated the creation of the board's audit committee and compensation committee. Over his career, he has participated in several board member succession activities as well as selections of outside board members.

Jim has served on the advisory board for the OEOC and co-chaired the executive committee. He also co-chaired the Stark County Labor Management Committee from 1999 to 2004. He remains active on several non-profit boards in the Stark County Area.

Jim brings a strong working knowledge of the business world, especially as it relates to employee-owned companies and what it takes to get a deal done. At the OEOC, Jim will be working on job retention, particularly with the automotive industry in Ohio, with Turn Around Ohio grantee companies, with various foundations on employee-ownership projects, and other Center activities. Having been the CEO of an employee-owned company, Jim is available to consult with ESOP company CEOs on issues ranging from board member selection to labor-management relations. He says, "I am excited to be a part of the OEOC and hope to contribute to the development and growth of employee ownership as a realistic option for business success and job retention."

Jay Simecek

Another ESOP veteran joining the OEOC is Jay Simecek. Prior to joining the OEOC staff, Jay enjoyed a varied career spanning 25 years in executive positions, most of which were spent leading an ESOP company. A valuable addition to the OEOC will be his direct, practical experience in transitioning a family-owned company to an

ESOP and managing change to a culture of participation, accountability, and ownership. Jay has served as President of the Ohio Chapter of The ESOP Association, member of the Executive Committee of the State and Regional Chapter Council, and member of the Association's Strategic Planning Committee. He has authored articles, designed education materials, and conducted training on employee owner leadership issues.

Jay's career has exposed him to a variety of business models, including fast growth mid-size companies, large multinationals, successful family owned firms, and small entrepreneurial start-ups. Jay first encountered employee ownership when he developed a succession plan for a privately held, family-owned firm. As Vice-President and General Manager, he led its buyout and transition to an ESOP. More recently, as president of a start-up in the safety/security industry, Jay gained the experience of building a company from the ground up.

Utilizing his hands-on experience with leading an organization into employee ownership, he will provide basic technical direction for those considering an ESOP for the first time. As such, Jay's focus is expanding the Center's Succession Planning programs, creating new ESOPs, and training employee owners. While success from a business perspective is satisfying and necessary for sustainability, in Jay's words "the real passion is sharing the challenges and rewards of a business with the people who both work for and own a company." *OAW*



Jim Anderson (l) and Jay Simecek (r), the OEOC's newest staff members, in the Center library.

Minding the Planet

Sustainability Reporting at YSI

Lisa Abel, YSI, Incorporated and Karen Thomas, OEOC

Editor's note: "Minding the Planet" is the second article in OaW's series on Great Workplaces, featuring exceptional practices such as triple bottom line reporting, where companies report on their social and environmental impact, as well as financial performance. The triple bottom line offers a way to identify, measure, and direct a firm's non-economic impact on stakeholders in local communities or worldwide through its business culture, policies and practices. The Great Workplaces series began with "Employee Ownership Measures up with Social Accounting," in the Winter 2007-2008 issue.

YSI's mission of "minding the planet" reflects a deep concern for the environment as well as the company's vision of itself as a global business building an ecologically sustainable habitat. Ecological sustainability is a philosophy woven into YSI's products, culture and vision.

YSI began in 1948 as Yellow Springs Instruments, a partnership between two engineers, a chemist at Antioch College, and Dr. Leland Clark, inventor of the process for measuring dissolved oxygen in liquids that enabled open-heart surgery. The company specialized in the design and building of specialized instruments based on precision sensor technology for temperature and biomedical applications.

One of YSI's co-founders, Hardy Trolander, believed in the social and community benefits of economically viable and meaningful work. In 1983 he sold his share of the company to employees through an ESOP. At the same time, YSI's new CEO, Malte vonMatthiessen, encouraged the development of an ownership culture and involved employee-owners in management through cross-functional, self-directed teams.

Today YSI is a global company that focuses mainly on environmental monitoring and testing. Headquartered in Yellow Springs, Ohio, it is 30% ESOP-owned, with 278 employees and 16 locations worldwide. The firm designs and manufactures environmental monitoring instruments, such as sensor instrumentation and real-time monitoring systems for professionals who measure, monitor and protect natural resources and aquatic life including water quality, level and flow in oceans, coasts, estuaries, groundwater, surface water and aquaculture. Their products include instruments, software and data collection platforms.

A Commitment to Environmental Sustainability

YSI's environmental efforts began when vonMatthiessen communicated a vision of ecological sustainability for the company and asked employee owners to get involved. Sustainability, in an ecological sense, is the ability of a living system to support all of its diverse forms of life through a closed loop that uses what it has over and over again. In a business environment, sustainability means creating products, processes, and services that do the same.

As a first step, vonMatthiessen brought employee-owners together to form an ecological footprint team. The team started with two projects that were sure to succeed – recycling and saving on electricity usage. Building on these initial successes, YSI established ambitious five-year sustainability goals. The goals involved soil remediation, decreasing energy use in YSI's products, collecting and improving greenhouse gas emissions data, and re-

lating climate and global change issues to YSI's business plans.

In 2001 YSI was made intensely aware of the importance of environmental stewardship within the community when contamination was found in the soils, groundwater and wells at and around their company headquarters. The problem had developed from solvents disposed of in the driveway gravel many years earlier. The company decided to be open about the situation. It organized community meetings, provided fact sheets, and created a library of information about the project on the company website. In lieu of some penalties, YSI funded a community group that contracted with technical advisors on the contamination project, so that citizens could better understand and participate in investigation and remediation plans.

Since 2005, YSI has focused its R&D on water quality and environmental monitoring applications to address a number of worldwide environmental challenges: increasing scarcity of natural resources; major natural disasters; global climate change; and, monitoring systems in water, air and on land.

Management support is a key to implementing YSI's environmental sustainability plan. Company managers' responsibilities to the plan include these objectives:

- Establish targets that consider environmental aspects as integral to business decision making
- Develop employee knowledge and understanding of environmental issues related to job functions
- Promote conservation of resources
- Strive to reduce the generation of waste in operations
- Communicate with customers about ecological sustainability issues
- Consider principles of ecological sustainability in the design of new products

YSI's Sustainability Reporting

Since 2002, YSI has published annual sustainability reports to identify, quantify and communicate their economic, environmental and social performance. "We recognize there is a need to measure the success of our company by more than the valuation of inventory, equipment and the number of products sold," wrote Rick Omlor, YSI's current President and CEO, in the company's 2004 Sustainability Report.

Sustainability reporting is an important part of YSI's commitment to find ways to conserve resources and to communicate these efforts to employees and the larger community of stakeholders. YSI believes that the company should be accountable to its stakeholders, and sustainability reporting helps to build ac-

countability. It provides employees an effective opportunity to tell their story; it is a way to show they are making improvements; and it is an opportunity to take credit for doing good. Sustainability reporting makes sense in an employee-owned firm because it gives all stakeholders transparent information.

Sustainability reporting also promotes organizational learning. Much learning takes place as people throughout the company are contacted to provide data for the report. Reporting provides YSI's Board of Directors and others with an increased awareness of potential liabilities. Environmental and other liabilities are important because the board needs to be concerned

... sustainability reporting offers a competitive advantage.

about the future. Companies today must be concerned about such questions as the future costs of carbon emissions when carbon dioxide is regulated.

Finally, sustainability reporting offers a competitive advantage. When the competition does not report, reporting sets a company apart with customers and employees. Customers can also take into consideration an organization's report when deciding where to place their business.

YSI's sustainability report is associated with two organizations for peer learning and mentoring support: Ceres and the Global Reporting Initiative (GRI). Ceres, an international or-

ganization striving to make industry more environmentally conscious, helps companies get started with sustainability reporting. YSI commits to Ceres' ten principles of environmental accountability and submits the company's report to Ceres for peer review. The GRI developed a baseline of indicators for sustainability and social impact reporting that is widely recognized as the current international standard. YSI writes its annual sustainability report in accordance with the GRI sustainability reporting guidelines.

"We've met many companies through Ceres that are beginning to share information about their environmental and social performance," Danielle Dumont, YSI's Communications Manager, explained. "It's a proactive decision for some companies to begin reporting. For others, it's a reactive decision because they fear a lawsuit if they don't share information. But whatever the reason, once companies start reporting they buy into it because they learn so much about their company in the process."

Getting Reporting Started

YSI suggests the following steps to get started on a sustainability report: identify reporting as a priority for the organization; determine the scope of reporting; select the most relevant indicators; find the data; report and distribute to stakeholders; and finally, seek feedback.

Determine the scope

Consider the concerns of your organization in terms of risks and opportunities. Determine who your company's stakehold-

YSI returned one acre of its campus to native Ohio prairie to promote land conservation and provide a natural habitat for wildflowers, grasses, birds, and insects. Members of the EcoFootprint team stand in the blooming prairie: Laura St. Pierre, Susan Miller, Elisabeth DeForest, Diane Estridge, Amya Mulvaney, and Lisa Abel. (photo courtesy of YSI)





YSI's Employee of the Year is Rigor Ma (right), applications specialist in China. Ma works with customers in Asia to design and install environmental monitoring systems that fit their particular needs, such as protecting a drinking water reservoir. (photo courtesy of YSI)

ers are, your company's level of engagement with each set of stakeholders, what your stakeholders are concerned about, and how you want to involve them with your reporting. Once you have a sense of why you are reporting, consider how much detail to report and how you want your stakeholders to respond to the report.

Select relevant indicators

YSI reviews indicators listed in the GRI to determine what to track, including material use, recycled material use, waste management, energy use, company-wide carbon dioxide emissions, and water use. The company also tracks customer service measures of on-time delivery, repair turnaround time, warranty failures, customer service calls and customer feedback. Social responsibility indicators include employment benefits; health and safety; diversity and opportunity; disciplinary practices; security practices; product responsibility, customer health and safety; customer service; advertising, and privacy. Other indicators include YSI's policies on bribery, corruption, political lobbying, and anti-competitive behavior, as well as indigenous rights regarding the customs and cultures in their worldwide locations.

Developing relevant measures can be a challenge. When measuring your firm's economic performance, for example, do you simply compare your company's pay to the local living wage? Or do you also consider the financial impacts of all the other labor practices of your firm, as well as your company's contributions to global warming and local biodiversity?

An example of a relevant indicator of human capital development is YSI's measure for training. YSI spent \$1,332 per U.S. employee for training in 2004, and compared their investment to

an average of \$900 for benchmarked companies with fewer than 499 employees (this annual, national statistic is available through the American Society of Training and Development).

Find the data

It's often much easier to provide your company's mission, policies and goals than to provide evidence of what the company actually does. YSI includes an organization profile that describes the governance structure and each facility. The company uses the GRI's Facility Reporting Tool to collect data for each of their facilities worldwide, and each of YSI's facilities has a person responsible for gathering appropriate data and forwarding it to the employee who puts the entire report together.

Start reporting

Assemble a team of people with scientific and communication expertise to make the report a living document. Prioritize the information. In trying to be thorough, YSI ended up with 60 pages for their first report. Present

most information in graphs that are easy to understand and show year-to-year progress.

Distribute to stakeholders

YSI displays the Sustainability Report on its website; mails it to shareholders, key customers and members of the local community; and distributes the report at trade shows and conferences.

Seek feedback

YSI encourages feedback. A detachable comment card is enclosed in each report. A few people have sent back comments. YSI also presents the report to a local environmental activist group in Yellow Springs. They have not found comparable interested groups in other communities where they have a facility.

YSI was recognized for its 2003 Sustainability Report by Ceres and the Association of Chartered Certified Accountants (ACCA) with the award for Best Small and Medium Enterprise Sustainability Reporting in the international competition.

Lisa Abel is the Director of Quality and Corporate Responsibility at YSI Inc. Karen Thomas is the Coordinator of Ohio's Employee-Owned Network. Special thanks to the Nathan Cummings Foundation, and the Ohio Labor-Management Cooperation program, Ohio Department of Development, for the funding that made this study possible. For more on sustainability in Network companies, see the Stow-Glen story on pg. 18 of this issue. Learn more about YSI at www.ysi.com. oaw

Available for license to new or existing worker co-op or democratic ESOP

Design for an innovative edge tool sharpening machine for the woodworking craft and hobby market. Professionally designed. Basic features patented. Working prototype available. More information at <http://dept.kent.edu/oeoc/JobOpportunities/JobOpportunities.htm> or contact Martin Gottlieb at martin.gottlieb2@gmail.com.

Does Membership in Ohio's Employee-Owned Network Pay?

Many might think that groups of employees getting together for a little learning, a little visiting and a little eating is just wasting time. But they would be wrong. The Network has proved to be a way for ESOP companies to get richer, faster.

The concepts that underpin Ohio's Employee-Owned Network are simple. The Network offers its member companies a means for employees at many levels to advise each other and to obtain education and training at a low cost. In practice, Network activity has revolved around employees from different member firms, with similar responsibilities, meeting for learning from outside experts and from each other. The group can be as informal as company CEOs hearing a dinner speaker, as competitive as teams of salaried and hourly employees playing ESOP learning games, or as complex and technical as annual updates on ESOP law for CFOs and ESOP managers. At these sessions the employees learn from the presenters and from each other, as participants express concerns, share problems and discover other companies' solutions.

Consistent with the philosophy of learning from each other, the Network is a self-directed group that sets its own training agenda.

The Network offers 12-14 one-day programs throughout the year. Six or more panels at the annual Ohio conference are designed for Network companies, and the OEOC does considerable ownership training in individual Network companies. Generally the marginal costs for Network companies for sending employees to these programs is the cost of lunch – plus employee wages, of course. In the average year, about 3% of Network companies' employee-owners take part in at least one Network event.

What Impact Does the Network Have on ESOP Wealth Creation?

We looked at the most recent set of IRS Form 5500 filings, where ESOP companies report on their ESOP plans: number of participants, assets, year established, payouts, etc. We asked, "How do Network companies compare with non-Network companies?"

Most Ohio ESOP companies have never been Network members. Eighty-four percent of ESOP and stock bonus companies reporting have never been in the Network, even for one year. The largest of these can afford to offer ESOP training for their employees "in-house." The employees get instruction, but they don't meet their opposite numbers in other companies. Smaller companies make varying investments in employee training. Research has shown that most ESOP companies do nothing at all. As of 2004, less than a tenth of 375 companies (7.6%) were Network members for 1-5 years, and less than a tenth (8.7%) had been long term Network members 6 to 15 years. (See earlier reports on the Network in *OaW* Summer 2004 pp. 6-7 and Winter 2000/2001 pp. 1-3.)

Network members pay dues to support the education and training their employees receive, but more costly for them is the employee time required to attend Network events. In view of the cost, it is reasonable to ask, "Does Network membership pay off?" A variety of measures indicate that the answer is yes, particularly for long term members.

What is the Proof That It Works?

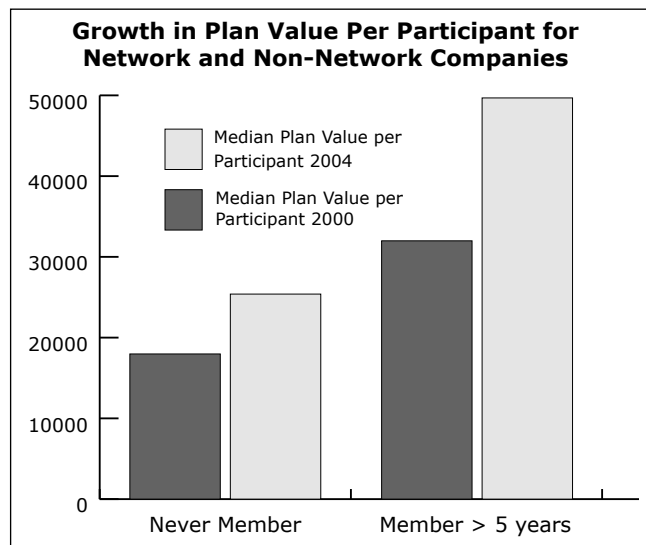
Network members are better at creating pension wealth over the long term. Firms that were never Network members reported a median value of \$25,391 in net assets per ESOP participant, compared to median net assets of \$49,683 for longer-term Network members and \$19,132 for companies that had joined for 3-5 years. Companies with brief membership of 1-2 years probably didn't realize much benefit,

and weren't included in this analysis.

A similar pattern existed in IRS data from 1999-2001. Companies that were never members of the Network reported median value per participant of \$17,976 compared to \$31,987 for longer-term members and \$12,906 for shorter-term (3-5 year) members.

Longer-term Network members have had, however, more time to accumulate wealth for their employee-owners. The median start date for longer-term members' ESOPs is early 1987, while short term network members and firms that were never members started ESOPs in early- to mid-1991. To control for that factor, we looked at growth in value per plan participant over the last five years.

In terms of growth, over approximately five years, the median per participant value of the group of companies that were never Network members increased by 41%, the median wealth of the long-term Network members group increased by 55%, and the wealth of 3-5 year members increased by 48%.



Network members are also less likely to terminate their ESOP plans. Sixteen percent of firms that were never in the Network terminated their plans, compared to eight percent of Network members, including members for just one year. While a terminated ESOP plan doesn't necessarily mean a business failure, it is most likely an admission that a firm couldn't make employee ownership work for it. There is ample research documenting a performance advantage for ESOP firms with transparent, participative management, but no such advantage exists for conventionally managed ESOP firms.

Why do Long-Term Members Do Better?

Over the long term, many of a firm's employees can receive training appropriate for them, ideas can spread among the workforce through the Network's "train-the-trainer" approach, and changes in employee knowledge and attitudes can open opportunities for experimentation to find the right organizational structures and styles for a particular business.

The data for this analysis were drawn from Larkspur Data Resources Pension Datamaster vols. 11.1 and 11.2. The latest reports for each plan were selected. The median year for reports from the most recent data was 2004, and 2000 was the median year for the comparison data. Plans with less than 4 participants were eliminated, as well as terminated plans. *OAW*

Still towering over other Ohio-headquartered employee-owned firms is Procter and Gamble, with net employee stock ownership assets of over \$14 billion and a remarkable value per participant of \$340,800. Since 1890, Procter and Gamble has been committed to employee stock ownership; that is to say, long before the ESOP was even dreamt of.

As one would expect, the largest firms also have the largest asset values, and their wealth weights the average of net assets: \$126,653,233. However, the median value of net assets (\$2,172,292) reveals the wealth of employees in the many small and medium sized firms that are the vast majority of companies with ESOPs.

Tiny Chagrin Falls law firm Neil M. Cornrich & Associates Inc, with just five participants, tops the list of firms ranked by ESOP value per participant. The Cornrich firm exemplifies the use of ESOPs by firms of professionals. It's followed by another professional firm, the equally minuscule Strategy Group for Media, which specializes in creating campaign ads. But also high in value per participant is Producers Service Corporation, with 22 employees. In 1994, Producers Service was slated to be closed, with its equipment sent to China. Another small firm with high per-participant value is Fastener Industries with just 209 employees and a value per participant of \$224,322. It is 100% employee-owned, and dates its employee ownership to 1980. It specializes in the rapid production and delivery of all kinds of fasteners.

The number of ESOP firms in Ohio has grown, but only slightly in recent years. There were 322 companies with ESOPs noted in our last Top 50 report (*OaW* Summer 2006). The latest data reveal 337 companies reporting 355 distinct and active plans.

Meanwhile, the number of plan participants has grown from 429,276 at the time of the previous report to 479,626 in this report, using the same counting method in both years.

The net wealth in Ohio's ESOP companies grew from an inflation-adjusted \$5.8 billion in 1994 to over \$47 billion in 2005 (and nearly \$10 billion since the last report). Average wealth per participant is nearly \$50,000. Even though median wealth per participant is only a little over half the average, that is still \$27,000 more than Ohio's 479,626 employee-owners would otherwise have for retirement.

Data for the Ohio Employee Ownership Top 50 were drawn from IRS Form 5500, as compiled by Larkspur Data Resources' Pension/Benefits DataMaster CDs, volumes 11.1 and 11.2. Firms must file the 5500 form at least every three years. The most recent reports from Ohio ESOPs, leveraged ESOPs and stock bonus plans were selected. ESOPs with less than four participants were not considered, even though a few of them had very high value per participant. In addition, 92 plans were not included because they reported no assets or participants. The reports were made on varying dates, ranging from January 31, 2002 through September 30, 2006. The median Form 5500 reporting date for this article was December 31, 2004. Ten companies reported more than one active ESOP plan, ranging from 2 to 6. For these companies, the net assets of all their ESOPs were combined, as were numbers of active participants. Net assets are total assets of the retirement plan, minus acquisition debt and other liabilities. When companies reported more than one plan, the value per participant was calculated by combining the value of all plans and dividing by the total number of participants.

The Larkspur data probably underreport the total number of active ESOPs in Ohio.

Of course, in Ohio there are additional employee-owned companies, using other forms of ownership, such as direct ownership of stock or cooperatives. These tend to be smaller than ESOP companies. There are also several companies, such as Davey Tree, which have direct stock ownership in addition to their ESOP plans. The value of that direct stock ownership is not included in these tables.

Earlier Ohio Employee Ownership Top 50 lists can be found in *OaW* Summer 2004 and Summer 2006 as well as on the OEOC's website at www.kent.edu/oec/oeclibrary/2006ohiotop50.pdf. OaW

Value per Participant

	Firm	Value per Participant
1	Neil M Cornrich & Associates	\$1,853,689
2	The Strategy Group For Media	\$636,483
3	Procter & Gamble	\$340,800
4	Garland Industries	\$316,679
5	Producers Service Corporation	\$287,438
6	The Richter & Phillips Company	\$259,575
7	J P Sand & Gravel	\$240,158
8	Buckeye Rubber And Packing	\$239,753
9	Fastener Industries	\$224,322
10	First Niles Financial	\$222,304
11	S G Morris Company	\$219,417
12	Richard Goettle	\$216,402
13	Allied Mineral Products	\$201,941
14	Jones-Hamilton	\$196,094
15	Ohio Valley Supply Company	\$180,171
16	Perry Corporation	\$175,024
17	Floturn	\$170,794
18	R E Kramig & Co	\$163,625
19	The Marfo Company	\$160,353
20	Roush Equipment	\$155,708
21	Deco Tools	\$153,763
22	The Wornick Company	\$153,390
23	Messer Construction	\$151,744
24	Akron Hardware Consultants	\$150,560
25	Argo-tech Corporation Hbp	\$145,236
26	Swagelok Company	\$143,302
27	Vi-cas Manufacturing Co	\$137,480
28	Home Loan Financial Corporation	\$120,970
29	Sea-land Chemical Company	\$112,261
30	The Philpott Rubber Company	\$111,957
31	Carter Machine Company	\$107,305
32	P T Tech (EBO Group)	\$106,958
33	Fairmount Minerals Ltd	\$106,806
34	Asb Financial Corporation	\$106,083
35	The Cyril-Scott Company	\$105,720
36	The Antioch Company	\$103,110
37	The Great Lakes Construction Co	\$102,560
38	Wmog	\$101,111
39	Deeks & Company	\$99,452
40	American Electric Power	\$94,884
41	Omg Americas	\$94,527
42	Nordson (2 plans combined)	\$92,423
43	Bowers Insurance Agency	\$92,328
44	Carbo Forge	\$89,956
45	Emory P Zimmer Insurance Agency	\$87,636
46	Webb Insurance Agency	\$87,268
47	John S Bostic D D S	\$83,082
48	Northern Ohio Roofing & Sheet Metal	\$82,727
49	American Light Company	\$80,017
50	J M Sealts Company	\$79,307

Employee Ownership *Top 50*

Net Plan Assets

	Firm	Net Assets
1	Procter & Gamble	\$14,332,326,023
2	American Electric Power	\$2,710,649,959
3	Eaton	\$2,269,018,177
4	Goodyear Tire & Rubber (2 plans combined)	\$2,065,096,000
5	Parker Hannifin	\$2,062,119,671
6	National City Corporation (4 plans combined)	\$2,008,509,902
7	Keycorp	\$1,901,719,053
8	Cardinal Health (3 plans combined)	\$1,481,405,170
9	Sherwin-Williams	\$1,199,887,289
10	Timken (6 plans combined)	\$841,346,770
11	Swagelok	\$459,426,276
12	Cintas Corporation	\$426,853,006
13	Charter One Bank	\$425,439,817
14	Cinergy (2 plans combined)	\$386,895,467
15	Diebold	\$368,624,810
16	Polyone (3 plans combined)	\$323,868,465
17	Applied Industrial Technologies	\$273,378,921
18	Nordson (2 plans combined)	\$241,593,501
19	Ferro	\$189,201,817
20	Lincoln Electric	\$161,853,250
21	The Ohio Casualty Insurance Company	\$149,545,477
22	Advanced Drainage Systems	\$119,351,888
23	The Wornick Company	\$105,838,934
24	The Antioch Company	\$105,687,502
25	Garland Industries	\$87,086,766
26	The Park National Corporation	\$85,090,644
27	Davey Tree Expert Company	\$70,922,231
28	Allied Mineral Products	\$65,630,776
29	DPL	\$63,226,819
30	Messer Construction	\$56,752,192
31	Great Lakes Cheese Co	\$55,959,231
32	Fastener Industries	\$53,164,199
33	Floturn	\$49,701,125
34	Fifth Third Bank	\$47,252,980
35	Chiquita Brands International	\$45,946,301
36	Lancaster Colony Corporation	\$44,238,877
37	The J M Smucker Company	\$44,140,995
38	Excel Polymers Llc	\$43,873,743
39	Argo-tech Corporation Hbp	\$40,956,662
40	Omg Americas Inc	\$40,835,591
41	Great American Financial Resources Inc	\$37,770,291
42	Heidtman Steel Products	\$34,999,840
43	The Marfo Company	\$32,230,961
44	United Community Financial Corp	\$31,751,653
45	Perry Corporation	\$31,504,378
46	DLZ Corporation	\$30,579,105
47	Automated Packaging Systems Inc	\$28,117,772
48	Chemed Corporation (2 plans combined)	\$27,100,644
49	S E Johnson Companies Inc	\$26,811,460
50	The Cyril-Scott Company	\$26,641,385

Number of Active Participants

	Firm	Active Participants
1	Cardinal Health (3 plans combined)	48,058
2	National City Corporation (4 plans combined)	42,646
3	Procter & Gamble	42,055
4	Goodyear Tire & Rubber (2 plans combined)	38,632
5	Cintas Corporation	30,379
6	Parker Hannifin Corporation	30,275
7	Eaton Corporation	28,906
8	American Electric Power	28,568
9	Keycorp	28,546
10	The Sherwin-Williams Company	28,272
11	Timken (6 plans combined)	16,922
12	Charter One Bank N A	10,049
13	Diebold	6,892
14	Polyone Corporation (3 plans combined)	6,567
15	Cinergy (2 plans combined)	5,015
16	Applied Industrial Technologies	4,295
17	Davey Tree Expert Company	3,817
18	Lincoln Electric	3,581
19	Swagelok Company	3,206
20	The Ohio Casualty Insurance Company	2,752
21	Ferro Corporation	2,699
22	Nordson Corporation (2 plans combined)	2,614
23	Chemed Corporation (2 plans combined)	2,559
24	Advanced Drainage Systems	2,173
25	Great American Financial Resources	2,046
26	DPL	1,886
27	The Park National Corporation	1,693
28	Fifth Third Bank	1,582
29	Great Lakes Cheese Co	1,549
30	The J M Smucker Company	1,369
31	Stark Truss Company	1,322
32	Zandex	1,222
33	Heidtman Steel Products	1,216
34	Lancaster Colony Corporation	1,097
35	Excel Polymers LLC	1,046
36	The Antioch Company	1,025
37	Riesbecks Food Markets	891
38	Chiquita Brands International	814
39	Patio Enclosures	783
40	Dlz Corporation	730
41	The Wornick Company	690
42	Automated Packaging Systems	635
43	S E Johnson Companies	632
44	K O I Enterprises	610
45	United Community Financial Corp	602
46	Manfredi Motor Transit Company	534
47	Price Brothers Company	455
48	Omg Americas	432
49	The Chilcote Company	421
50	First Place Bank	419

“I wanted the stock to be shared with the employees who helped build the company. And that’s exactly what we did.”

Interview with Dr. J. Robert Beyster, Founder and Former Chairman and CEO of SAIC.

Editor’s Note: This interview was conducted by Peter Economy and edited and arranged by Joseph Blasi.

Many of us have talked about what it would take to build a large and successful employee-ownership company—Dr. J. Robert Beyster did it. In 1969—with just a few thousand dollars in savings, and a handful of scientists and engineers—he started Science Applications International Corporation (now called SAIC). He went on to serve as the company’s Chairman and CEO for over three decades, until his retirement in 2004. Today, SAIC generates more than \$8 billion in annual sales with over 43,000 employees working on more than 9,000 separate contracts in the areas of engineering, national security, health, environment, energy, communications and more.

When Beyster retired in 2004, the company was almost totally employee owned. Today, SAIC is a public company, #298 on the Fortune 500 list. And, despite the fact that it sold 20% of its stock on the public market it is still substantially employee owned. In addition to leading the company for 35 years, Dr. Beyster is also the founder of the Foundation for Enterprise Development (FED) and the Beyster Institute at the Rady School of Management at the University of California, San Diego. The Institute’s programs focus on teaching, research, and public education on employee ownership.

Question: SAIC is a technology company—exactly how would you describe it?

Dr. Beyster: It was more of an engineering company. Specifically, we focused on nuclear engineering for the Defense Nuclear Agency at the beginning, but then we began moving towards broad engineering work.

How did your personal history influence what you did?

I grew up in Grosse Ile, Michigan. Grosse Ile only had about 1000 people on it when I was there. My grandmother Beyster used to save rubber bands—she was a very frugal person. She didn’t have fancy clothes, although she actually was really well off. She liked me and she invented work for me to do in the summers—mowing the grass and other yard work. She was a very strict person, opinionated about people, and quiet. She was the kind of person you’d expect to see in an

Amish community. She was very plain, and she introduced me to the *National Geographic* magazines. She had a huge collection of *National Geographics* going back to the first one. I don’t know when I found the time, but I would spend hours poring through those *National Geographics*, correlating what I read with what I was learning from my friends and at school. My dad was pretty understated and my mother was more outgoing than my dad. I identified with my Dutch heritage. I was a lonely kid. That’s why I got into stamp collecting and other solitary activities like that.



What were your initial impressions of corporations in your young life?

My dad had a business as a housing contractor and through it had connections with General Motors (GM). I visited the GM Building—and later the Fisher Building—where my dad’s offices were, maybe once a month and I’d see people who were clearly very affluent. I was impressed by the GM Building, and I admired the people who worked there. My mother was press-

ing me to become a lawyer—she really thought it was the right thing to do. But I took some personality tests which indicated that I was more deliberative than intuitive. During this period I also realized just how fragile my dad’s business was—I saw him go from being pretty affluent as a large housing contractor to barely hanging on since the Depression was in full swing. This made me conservative when it came to business.

What did you think of the corporations you worked for in your early career?

After getting my Ph.D. in physics, I worked at the Westinghouse Bettis Nuclear Power Facility in Pittsburgh. I was not impressed with the attitude within that organization. When I worked at Los Alamos, I observed that a lot of people really wanted to be entrepreneurs and have ownership in something that applied the science on which they were working. They were smart people, and many of them eventually drifted away

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from there. A guy I was working with said, "Bob, this is leading nowhere—we need to get out of here." I said, "No I like it here." I liked doing my research at a large basic research facility—I felt Los Alamos was a wonderful place to work. But my wife wanted me to leave, so I started looking. I got several job offers and took the job at General Atomic in La Jolla, California. I wanted to be sure that I could always work on projects that interested me and I saw that other scientists at General Atomic wanted the same thing.

So when you founded SAIC in 1969, what was your vision for the kind of corporation you wanted to build?

I was worried about recruiting—how do I convince people to come to the company when they already had good jobs and halfway decent futures where they were working? I had to convince them to become entrepreneurs and to want to be in a company that they owned. That is not a terribly easy message to communicate. A lot of prospective recruits had kids and families, and they understandably wanted to be sure that they would be taken care of. And here's a new guy—me—who had never run a company, never started anything.

You seemed to believe in the need for employees to participate in financing the company—why was this the case?

In the early days, SAIC was financed by the employees buying stock, along with a line of credit with the bank. It did not appear that we needed much else. However, to please one of my most valued advisors, we found some outside investors who were medical doctors—they kicked in \$200,000. We eventually bought them out for two million dollars. They didn't do a thing to help us, but we did begin to become acquainted with the investment community.

So how did you come to the idea of being an entrepreneur and introducing employee ownership in 1969?

I don't remember the words employee ownership being used early in the game. It was really more of a matter of financial survival so we incentivized our employees with bonus and stock options. Over time, I began to feel that the wealth of many entrepreneurial companies was not shared. I didn't want to make SAIC like them because there the stock was usually held by just one or a few entrepreneurs. I instead wanted the stock to be shared with the employees who helped build the company. And that's exactly what we did.

While your book describes your use of ESOPs, grants of stock, company stock in 401k plans, and stock options, and profit sharing as a shared capitalism package at SAIC in great detail, you say in your book that you used stock options to attract people who would help significantly build the company. How did that work?

Employees initially were awarded options on stock based on performance, and the granting of these options depended on their bringing in contracts. We also had option rewards for bringing certain capabilities or people into the company. Occasionally the option holders didn't meet their goals. That didn't happen very often, but they were usually in my estimation im-

portant enough people to the future of the company that we could ignore it.

Did you want to reward just high performers or everyone?

Employee ownership at SAIC evolved from a notion of stock rewards based on performance to broad-based equity sharing for everybody in the company. We needed everyone pulling in the same direction since we had government workers at every level determining whether our contracts succeeded or not. Sure, there were high performers we also were certain to identify and specially reward. Employees generally want to be part of the stock system and they should have that opportunity. There are always going to be people who are not particularly interested, especially if it costs them any money. And, depending upon the person, that's okay. But we had high participation because employees worked hard and met their goals.

Was your vision just to create a science company or to have employee ownership?

My vision at first was to build an attractive company in which employees could work. Employee ownership came later.

What did employee ownership accomplish for the company and for the employees?

For the company, employee ownership facilitated retention of both superstar and other key employees.

After all the tweaking and effort, would you do employee ownership again?

Yes. I think it's still a useful and important thing to do. I guess that most financial people would not say that today, and would advise that we would have to use some venture capital for initial funding.

I'm curious how tightly you managed employee sales behavior for major contracts with employee ownership?

Employees were awarded the stock once they helped get in a contract. Either they were awarded stock for what they had done, or they were given an option on stock which had 4-year vesting. And we tried to tie employees' options in with what they were bringing in. It was used as a carrot. We were building a company one contract at a time.

Can you talk a little about the extensive committee system you developed to spur participation in management decision making?

I felt that this was key to making employee ownership work. At one point, we had over 100 committees in addition to our more than 50 line (profit and loss) organizations. We had committees at all levels of the company and we had many scientific teams that delivered on our contracts. It was a team-oriented culture. When somebody felt that we needed a committee so that we could establish company policy, or plan a proposal, or just enlighten ourselves on a new business area, they would propose it to the Management Council and a committee was usually

Continued on page 16

established. If it involved only a few people we didn't do it, but if it was 10 or more people we definitely did it. Members of upper management were either invited to talk to the committees or they invited themselves to talk to the committees and it was a very effective way to provide a sanity check on ideas—having to defend them, justify them, or promote them.

The Management Council and Executive Councils were the two most prominent committees. There was a lot of consensus building in the company. Most of the recommendations of the committees were unanimous decisions—we would hear a briefing, and would ask some questions. If we thought a new committee would be useful, some seed money would be offered to get it going. Of course, shutting a committee off was harder to do than you might think. Some of the issues put in the hands of the committees were very important and others were not so important. The not-so-important ones were things like determining the company's paid holidays. That turned out to be a subject of discussion because we wanted to keep the number of holidays to a certain number—around 10—and we didn't want to increase that.

Were any of SAIC's acquisitions brought into upper management through its committees?

One of our most important and profitable acquisitions came out of one such committee. A committee recommended that we get into telecommunications in a big way and came up with the recommendation to acquire Network Solutions, the company that was responsible for all domain names on the Internet.

Would you describe the technical committee that allowed scientists to get more information and give more input on the operation of the company at the board level?

That would be our Technical Environment Committee, and starting it was a key decision. We established that the employee-owners could have a representative at the board meetings to hear what was going on, but this excluded discussions dealing with legal problems or proprietary data. The representative would tell the board what he or she thought, but would not participate in the board meeting deliberations. The representative would be there taking notes and then would brief the committee after the meeting. It was a very effective process and it promoted I would say a good level of contact between the board members and people at the grassroots level—the technical people of the company. The board members were not isolated and there was contact and cross fertilization as a result. I think to some extent it prevented the board from doing some things that might have been well meaning, but could offend the employees.

You spend a lot of time in your book talking about freedom and I find this intriguing. Evidently, ownership and participation were not enough, you had some view about the rights of individuals?

A company misses out if employees don't have freedom to go out and pursue an idea or are restricted from seeing customers. If employees have the opportunity to develop a business in an important area, it is important that they do it. We expected our employees to use good judgment with their freedom—not to misuse it.

Peter Economy is associate editor of Leader to Leader magazine. Joseph Blasi is a member of the School of Historical Studies, Institute for Advanced Study, Princeton, N.J. and Professor, Rutgers University. For more information on The SAIC Solution and related FED publications, research, and granting programs, see <http://www.fed.org/>. For more information on the Beyster Institute's programs, see <http://beysterinstitute.ucsd.edu/>. oaw

Book Review

Robert Beyster with Peter Economy, *The SAIC Solution: How We Built an \$8 Billion Employee-Owned Technology Company* (Hoboken, NJ: John Wiley, 2007), 222 pp. ISBN 978-0-470-09752-6 \$27.95

Bob Beyster founded Science Applications International Corporation (SAIC) in 1969 with an investment of \$20,000, one government contract, and 3 employees. This little volume tells the story of how he grew this unusual company into an \$8 billion corporation with 43,000 employees and, incidentally, one of the largest employee-owned companies in the world.

Today SAIC is a major science and technology company, doing contract work in defense, intelligence, energy, environment, and health and life sciences, primarily for the Federal government. Originally its work was principally in defense and intelligence; after the end of the Cold War, it has reoriented itself to add more energy, environment, and life science contracts.

Unlike most other large employee-owned companies which started with conventional ownership, SAIC was employee-owned from the beginning. The employee ownership structure initially rewarded those who brought in contracts, but, in 1973, it was expanded to all employees. (Note that this was before the Employee Retirement Income Security Act (ERISA) of 1974 formalized ESOPs.) Beyster's goal was to attract and keep talented scientists, and "employee ownership

was the glue that kept them there." (p. 12)

The SAIC Solution is about SAIC as a company under Beyster's management (1969-2004) and about Beyster's philosophy. Employee ownership is only one part of that story, but it is unquestionably the part that will interest *OaW's* readers most.

Initial SAIC employee ownership was through direct stock ownership. If this ownership was to be meaningful, there needed to be some avenue for liquidity, and the company established its own internal brokerage (Bull, Inc) in 1973 to provide that. Bull made a quarterly internal market for the company's stock at its valuation price. Over time, this ownership structure grew to include stock awards, stock options with varying vesting



periods, direct stock purchase, 401(k) stock match, and an ESOP. These various ownership plans are detailed in Chapter 5 (see particularly Table 5.1, p. 62).

"The basic premise of the SAIC stock policy is that those who contribute to the company should own it and that ownership should be proportional to that contribution and performance as much as possible," states the Principles and Practices of SAIC (included as an appendix). Realizing that principle required far more differentiation in ownership than the spread in W-2 earnings that is usually reflected in ESOPs.

Constantly evolving SAIC stock ownership programs were designed to incentivize individual performance.

The SAIC case shows how employee ownership and entrepreneurship can work well in a single company. "Employee ownership provided a magnet for a certain class of individuals," writes Beyster, "very technically competent men and women who wanted a good place to work. These people represented a particular type of entrepreneur—not quite as entrepreneurial as those who would go out on their own and start up companies out of nothing (although some did), but considerably more entrepreneurial than many who were working in aerospace or large defense companies at the time."

However, SAIC was unsuccessful in transferring that distinctive ownership culture when it acquired Telcordia (the former Bellcore), a much more traditional technology company.

To accommodate its high degree of entrepreneurship, SAIC was organized as a decentralized, "loose federation of businesses held together by tight corporate financial controls" (p. 34) of roughly 1,000 semi-autonomous divisions. This encouraged a high degree of freedom for individual employees and units, but with strings of financial responsibility attached. Simple metrics of revenue, profitability, proposals written, contracts won, and time sold were readily computed and benchmarked. This decentralized model permitted rapid growth. Innovation and new contracts created new units, keeping unit size manageable.

Individual units and the company as a whole are characterized by a high degree of employee participation in decision making, as detailed in Chapter 6. "I won't say that having employees participate in governing SAIC was always an easy or a pleasant experience, but I will say that our company was the better for it." (p. 171)

This hybrid ownership and management system is unusual but not unique among American employee-owned companies. Davey Tree is another large employee-owned firm that mixes broad stock ownership through retirement plans with

stock incentives and employee stock purchases.

For a range of reasons, including its business strategy of commitment to long-term relationships with its customers, ownership structure, organization, and employee participation, SAIC prospered. Some of this was being in the right place at the right time.

In 1995 SAIC acquired Network Solutions, then the internet domain name monopoly registry company, for \$45 million. Business grew from 100,000 domain names in 1995 to 3 million in Nov 1998 to 6 million a year later. SAIC sold Network Solutions in 4 steps between 1997 and 2000 for a total of roughly \$6.5 billion, profiting from the high tech boom at just the right moment.

Since 1969, SAIC has had a compounded annualized growth rate of revenue and earnings of 33%, and its stock value increased at an annualized rate of 34%.

Although Beyster had rejected going public and made employee ownership the cornerstone of his management philosophy (He argues in this book that non-capital intensive consulting firms have no reason to go to public markets.), SAIC went public in October 2006, following Beyster's retirement in 2004. Employee owners voted 86% in favor of the IPO, under new CEO Ken Dahlberg, who came from General Dynamics. The IPO raised \$1.1 billion for roughly a 19% stake in the company, but SAIC employee owners continued to control, at least initially, 98% of the voting rights.

The pressing reason for going public? Dahlberg told employees, "Over the past five years, we have used more than \$2.5 billion of cash to balance our stock system [buying stock employees sold in the quarterly markets over and above stock purchased by other employees]. We have maintained excess cash to address the ongoing imbalance and projected that this imbalance would have continued for the foreseeable future. We should be using our cash on hand and cash flows from operations to fund our organic growth as well as strategic acquisitions."

Beyster doesn't discuss this departure from his philosophy in the book. Whether SAIC can maintain its culture of employee ownership and participation under the scrutiny of Wall Street and absentee owners is an open question for the future.

The SAIC Solution is a "must read" for all those interested in employee ownership.

- John Logue

John Logue is director of the Ohio Employee Ownership Center and a professor of political science at Kent State University. oaw

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Network News

EBO Group Launches Alternative Energy Innovations

The 59 employee-owner venture capitalists of EBO Group Inc. in Sharon Center, who strive to foster an entrepreneurial and innovative business culture, identified alternative energy as a fast-growing industry three years ago. In December 2007 they hosted a conference for the Innovative Ohio Network (ION), which includes ten other Ohio businesses and organizations that share the goal of making Ohio the world capital for hybrid drive systems for transit shuttles. ION members include employee-owned Bardons & Oliver in Solon and the Electric Vehicle Institute at Bowling Green State University.

As EBO Chairman Dave Heidenreich explained at the conference of ION members, state officials and local business leaders, the U.S. developed two independent energy systems during the 20th century — the electric “grid” system and the vehicle transportation system. Both systems will interconnect in the 21st century with plug-in hybrid electric vehicles powered on domestically generated electricity, bringing electric utility firms into direct competition with OPEC. This change is explained in *Exponential Solar*, the book published in 2007 by the EBO Group’s subsidiary, IPEssol.

EBO Group is 56% ESOP-owned through an ESOP established in 1990.



Innovative Ohio Network members inspect a vehicle of the future at EBO Group: from left to right are Jeff Pappas, Transportation Equipment Services Co. TESCO (ION Member); Dave Heidenreich, Chairman & Chief Technical Officer, EBO Group; Chuck Calvert, Retired Ohio State Representative; Dave Sattler, Sattler Machine (ION Member); Jeff Major, Bowling Green State University (ION Member); and Jim McGregor, Chairman of the Alternative Energy Committee, Ohio House of Representatives.

The firm and its subsidiaries also develop and produce specialty brakes, clutches and torque limiters for mining and construction equipment, and medical chairs.

Stow-Glen Champions Sustainability

The mission of the Commitment to Conservation Committee at Stow-Glen Retirement Village is to initiate sustainable business practices with a commitment to employee ownership. During 2007 members researched different paths to sustainability and launched the following initiatives: purchase well over 10% locally grown food and products; recycle cardboard, aluminum cans and shredded paper; install low-flow toilets; switch to energy-efficient light bulbs; convert to organic, “green” cleaning products after house-keeping staff testing; install reminders to turn off the lights in restrooms and closets; and publish an on-going “how to be green” column in the employee newsletter.

Positive impacts are many. Employee-owners are proudly empowered to influence company policies on sustainability issues as a way to do good, improve their high standards of care, and grow the value of the business they own. They have achieved cost savings on electricity and waste hauling. The cost of recycling cardboard was offset by elimination of an extra dumpster. Revenues from recycling aluminum cans fund employee involvement committees. Green cleaning products provide a safer environment for more than 300 elderly residents.

Stow-Glen’s 210 employees provide health



HDH Group Board of Directors participated in Hollywood Squares at last fall’s ESOP Workshop.

care services including nursing care, assisted living, independent living, adult day care and home health care. The ESOP was established in 2000 to purchase the business from the family founder. The firm is currently 46% ESOP-owned.

HDH Group’s Board and Owners Play to Learn

Hollywood Squares was the theme for The HDH Group’s 2nd annual ESOP Workshop in October where the company’s ESOP Committee put their Board of Directors to work answering ESOP questions from the Group’s ESOP handbook. The event was a fun and entertaining culmination of a two-month ESOP educational process with a focus on games, including bi-weekly ESOP puzzles derived from the handbook. Everyone who completed a puzzle correctly was eligible to win prizes. ESOP Committee members include Jill Klinefelter, Kathy Davies, Gregg Proud, Doug Nerem, Tom Oles, Laurie Schafer, Maria Murray, and Tiffany Paul. The HDH Group Inc., an employee benefit/risk management firm in Pittsburgh, has 100 employees and is 51% ESOP-owned.

ESOPs Win Local Awards

The Ruhlin Company was recognized as Medina County’s 2007 Corporate Citizen of the Year. One of the largest general contractors in Ohio, the firm specializes in general construction and construction management. Ruhlin’s ESOP was established in 1977 and the firm is



Six employee-owners playing *The ESOP Game* at the Network's ABCs of ESOPs program in Toledo in September include (l. to r.) Patti Badner and Steve Hendrie, Kemner-Iott Agency; Kathy Fultz and Robert Fletcher, Lockrey Manufacturing; Ralph Kersten, Bollin Label Systems; and Teresa Shaffer, Palmer-Donavin Manufacturing.

currently 81% ESOP-owned.

The Will-Burt Company was honored with a 2007 Business Growth Award from the Cascade Capital Corporation for significant growth in manufacturing and distribution. Over the past 5 years the firm has more than doubled its annual revenue, quadrupled its stock price and had employee growth of 35%. Based in Orrville, the firm is 100% ESOP-owned by its more than 300 employees. The ESOP was established in 1985. The firm specializes in telescoping mast products, precision machining, welding, and sheet metal fabrication.

Columbia Chemical Invests in New Facility

The ESOP Communications Committee members at Columbia Chemical Corporation has recently learned about the company's ESOP and plans for expansion into a new 44,000 square foot facility to house their office, laboratory, manufacturing and warehousing operations within their current industrial park location in Brunswick. The anticipated moving date is March 2008. Since 2004, Columbia Chemical is 30% ESOP-owned, with 29 employees who specialize in zinc plating additives and metal coatings.

National Winner Monroe Evening News Employs its Wits

Monroe Evening News, the 2007 National Employee-Owned Company of the Year, spoke at the Network's recent ESOP Communication Forum in Toledo. The oldest newspaper in continuous operation in Michigan, it is located just over the Ohio border in Monroe. Their 100% ESOP was established in 1994 as a succession plan for family owners who wanted the newspaper to remain locally owned. Employee committees are involved in many aspects of the business, including launching new products, technology improvements, and the recent renovation of their downtown headquarters.

As befits a newspaper, communication of business strategies and results is constant and all encompassing, including a quarterly newsletter and a special weekly bulletin called the "Captive Audience News" or CAN, which is posted at eye-level in rest-

rooms. Open-book financial management is practiced through weekly department meetings.

The ESOP Council organizes ESOP education through "Monroe Eating News" events like ice cream socials (because "Our ESOP is cool") and Halloween (because "Employee ownership is a treat"). ESOP Q&As are printed on lunchroom table tents targeted to younger employees to explain how the ESOP can impact their "golden years."

Brainard Rivet Earns ISO/TS Certification

In June 2007 the 35 employee-owners of Brainard Rivet proudly announced the certification of the firm's production and distribution system to the ISO/TS 16949, 2002 (w/o design), International Quality System Standard. Also in 2007, they celebrated 91 years in manufacturing of rivets, fasteners, and pins for the automotive, truck, RV, lawn/garden and metal-working industries. Formerly part of the Camcar Division of Textron, which shut their facility in 1997, BRC was reopened by the employees in 1998 as a 100% employee-owned subsidiary of employee-owned Fastener Industries. Since then, the firm has invested over \$2.5 million in capital improvements. OAW

Columbia Chemical Corporation's expansion to a new 44,000 sq. ft. facility in Brunswick is underway. It will house their office, laboratory, manufacturing and warehousing operations.



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Winter 2007/2008

Volume XIX No. 2

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