OWNERS AT WORK

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Employee Ownership PIONEERS

ALSO... Maumee Stamping Re-Opens

The Auto Industry and Employee Ownership

Mondragon: Lessons for Ohio?

An Open Letter to President Obama

OWNERS AT WORK

Editor

Jacquelyn Yates • jyates@kent.edu

Staff Writers

Jim Anderson • jander77@kent.edu
Steve Clem • cclem@kent.edu
Chris Cooper • ccooper1@kent.edu
John Logue • jlogue@kent.edu
Bill McIntyre • bmcinty2@kent.edu
Roy Messing • rmessin2@kent.edu
Jay Simecek • jsimecek@kent.edu
Karen Thomas • kthomas@kent.edu

Layout & Design
Chris Cooper

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To receive a free subscription, make an address change, and for other inquiries send relevant information to:

Owners At Work
Ohio Employee Ownership Center
113 McGilvrey Hall
Kent State University
Kent OH 44242
330-672-3028
oeoc@kent.edu
www.kent.edu/oeoc

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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.

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Publisher's Note

This issue of Owners at Work looks backwards (though not quite as far back as the cover photo) to Ohio's ESOP pioneers in the 1970s and the Chrysler ESOP in the 1980s. We bring you the reflections of some of Ohio's pioneer ESOP members. All of these folks have more than 25 years of personal experience with employee ownership in their companies. The NCEO's Corey Rosen, who was a Senate staff member at the time of the previous Chrysler bailout and ESOP in 1979 provides his retrospective account of that event and what it means for today.

It also looks forward to what we can learn from the very successful employee-owned sector in Spain. Two feature articles focus on the Spanish experience with employee ownership. One reports on a Cleveland Foundation-sponsored study group which visited the Mondragon cooperatives in October and what they saw. The level of cooperation and collaboration among the Mondragon employee-owned companies is a major reason why these companies flourish. There's a lot Ohio's employee-owned companies can learn from them.

The other feature examines how the Spanish use lump-sum unemployment compensation payments to start new employee-owned companies. It looks as well at a new Spanish corporate structure for employee ownership (Sociedades Laborales) and at the Spanish support system for new employee-owned start ups. Those start-up companies are far more likely to succeed than ours are; 85% survive for at least five years. There are some lessons here that we should pay attention to.

Finally, we continue to chart the growth of Ohio's employee-owned sector, one company at a time. We profile the reopening under partial employee ownership of the Maumee stamping plant just outside Toledo that Ford shuttered last year. Employees also purchased 100% ownership of Atlas Steel in Twinsburg from the estate of its previous owner. We profile the expansion of employee ownership from a minority stake to 100% at other companies.

Meanwhile 58,000 employees traded wage concessions for warrants to own 22% of YRC Worldwide under a Teamster-negotiated agreement. Publicly traded YRC Worldwide is the largest less-than-truckload trucking firm in the United States and includes the 21,000 employee Roadway division based in Akron.

As we face the worst economic downturn in many years, there will probably be more deals like YRC Worldwide. The reason: Equity ownership offers employees a part of the upside for necessary current wage cuts to keep their employers afloat. If unions have to give concessions anyway, it's smart to get some upside for their members like the Teamsters negotiated at YRC.

We also know (although Wall Street doesn't) that employee-owned companies are less likely to cut employment and more likely to weather the downturn successfully than their conventionally owned competitors. The empirical facts are completely clear on this.

Here's an ownership program for working people that President Obama ought to embrace: see our "open letter" to the President.

100% ESOP-Owned Tribune Company Declares Bankruptcy

"Factors beyond our control have created a perfect storm—a precipitous decline in revenue and a tough economy coupled with a credit crisis that makes it extremely difficult to support our debt." With those words, Sam Zell, Chairman and CEO of the 100% ESOP-owned Tribune Company announced on December 8, 2008, that the company was seeking protection under Chapter 11 of the U.S Bankruptcy Code.

Tribune Company became ESOP-owned in a highly unique and complex transaction in the spring of 2007. (For details see *OaW* Summer 2007.) Zell, a billionaire real estate entrepreneur, invested $90 million equity (warrants) and also loaned $225 million to the company; and the ESOP borrowed $250 million to purchase stock.

Under the Chapter 11 bankruptcy filing, Tribune Company will continue to operate, and the employees will continue to be paid their wages and receive their benefits. Employees' 401(k) accounts will not be affected by the bankruptcy filing. Their ESOP accounts, however, will be affected.

In the General Q&A section of the Tribune website, a question asked what will happen to the company's ESOP. The answer states "The ESOP is part of the ownership structure, so its value and role long-term will be determined in the restructuring." In a bankruptcy, secured creditors are paid first, then unsecured creditors and, lastly, owners. Tribune is declaring Chapter XI bankruptcy because it does not have enough cash to pay its creditors. A Chapter XI declaration will allow Tribune to restructure its indebtedness with the consent of its creditors. It's not a liquidation, so it would be inappropriate to assume that the ESOP stock will be worthless after the restructuring. Some companies go through Chapter XI and emerge to become successful companies. At the moment, though, it's likely that the ESOP stock is worth only a tiny fraction of what the ESOP paid for the stock.

Tribune Company employees will not suffer any personal losses. They were not required to put any of their own personal money into the ESOP, and the ESOP was an add-on benefit as no other benefits were cut when the ESOP was established.

With the bankruptcy, Sam Zell will likely lose both his $90 million equity investment and his $225 million loan as that loan was subordinate to other debt of the company. Zell's ultimate proceeds are subject to the bankruptcy negotiations with creditors.

As the *OaW* 2007 article warned "With the deal structured as it is—with so little equity investment (4%) and such a large amount of debt (96%)—there is significant risk that the debt cannot be paid off." Unfortunately, the perfect storm resulted in the company not being able to pay off the debt.

In Sam Zell's memo to employees announcing the bankruptcy, he wrote "We believe the [ESOP] structure is a valuable asset to the company and that there are strong reasons to preserve it." Restructuring at the Tribune Company will take several months. Perhaps Tribune Company ESOP II will be more successful than ESOP I. Hopefully, the company will have to face only one perfect storm.

58,000 Employees Trade Wage Concessions for Ownership

In the first of what will probably be many "wages-for-equity" deals with troubled, unionized employers, Teamster-organized employees at YRC Worldwide voted 77 percent to 23 percent in early January to accept a 10 percent reduction in wages and suspension of cost-of-living adjustments for the remainder of the contract, through March 31, 2013. In return, they received warrants on a 15 percent ownership stake in the company. The Master Freight Agreement contractual benefit and pension levels were maintained. Non-managerial, non-bargaining unit employees took similar cuts for a 7 percent equity stake.

The trucking industry is under pressure from a one-two whammy: high fuel prices last summer were followed by a declining economy with reduced freight shipments.

The YRC-Teamster contract modification calls for granting warrants to a bargaining unit trust to purchase YRC stock based on the December 31, 2008, closing price of the stock. The trust can exercise the warrants between January 1, 2010 and March 31, 2018. The trustee may exercise the warrants either in part or in full. Profits on the warrants will be allocated among bargaining unit members in proportion to their net wage concessions as a proportion of all wage concessions.

YRC Worldwide is the largest less-than-truckload carrier in the U.S. It's the result of Yellow Freight's purchase of Akron-based Roadway Express in 2003 and the subsequent purchase of USF in 2005. YRC employs about 58,000 nationwide, including 40,000 bargaining unit members. About 21,000 work in the Akron-based Roadway division.

In the early and mid-1980s, the less-than-truckload freight industry underwent a massive crisis following deregulation. As a last-gasp effort, many smaller trucking firms traded equity through ESOP plans for wage concessions made by employees on an individual basis. Some of these deals involved separating real estate and trucking assets from the operating company; only the latter had an employee ownership component. Practically all these companies ultimately failed. This time the Teamsters Union is taking a more active role in structuring an equity quid pro quo for wage concessions by their members at YRC, while seeking transparency in the value of the equity and giving the union some control over how the company uses savings from wage concessions.

GrowNOW, Ohio's Linked Deposit Program, Expands

State Treasurer Richard Cordray renamed, revamped and enriched Ohio's Small Business Linked Deposit Program to raise the ceiling on its subsidized loans and make it easier for companies to apply. Ohio needs the jobs that small enterprises can create, and the new name, GrowNOW, makes that goal perfectly clear.

The Ohio Treasurer's office has shown an interest in assisting employee-owned small businesses through the program. They promoted GrowNOW at the OEOC's 22nd Annual Conference last April and Cordray's staff met with OEOC staff to learn more about employee ownership. Cordray believes employee ownership is a crucial way to keep local businesses open and employing Ohioans. In his opinion, "every ESOP loan should have a linked deposit attached to it."

The program, which effectively reduces (subsidizes) the interest rate by 3% on small business loans for two years, is open to Ohio businesses with fewer than 150 workers. After that time, the rate returns to whatever was agreed in the original loan. There are essentially no spending restrictions on the loan as long as it creates or retains jobs.

Treasurer Cordray increased the maximum loan amount from $250,000 to $400,000, and changed the requirement for job retention or creation from 1 job for each $25,000 requested to 1 job for each $50,000 requested.

The process is simple:

1. Apply for a business loan through a lending institution that is a state depository. A list of Ohio depository banks can be found on the Ohio Treasurer's website under the linked deposits menu;

2. Once the loan is approved by the lender and the Ohio Treasurer, the Treasurer will place a reduced-rate CD for the amount requested at that lending institution. The rate reduction must be passed along to the small business for a term of two years.

In February 2008, the State Treasurer renamed the program to GrowNOW in order to increase the program's user friendliness and better represent the program's ease of use in order to attract more applicants.

$500 million is available through GrowNOW to sustain and create jobs. When Cordray took office in January 2007 only $23 million of that pool was in use. As of the end of December 2008, more than $300 million in GrowNOW funds were in use, helping to create and retain more than 14,000 Ohio jobs.

In November, Cordray was elected to fill out the remaining two years of a term as Ohio's Attorney General. Kevin Boyce, previously a Columbus councilman, will replace Cordray as Treasurer.

Applications for the program can now be completed online at www.grownow.ohio.gov. The web-based process will allow the Treasurer's office to approve applications in just 48 hours, to provide Ohio's small businesses with the timely resources they need.

To learn more about the details of the program, contact the OEOC at 330-672-3028 or visit the Treasurer's web site at http://www.ohiotreasurer.org/ or call the State Treasurer's office at 614-466-6546.

Additional Funds Available for Employee Ownership Lending

Common Wealth Revolving Loan Fund (CWRLF) has received a program-related investment of $675,000 and grant of $75,000 from the Cleveland Foundation to support its lending to Ohio employee-owned companies, especially in Cuyahoga County and, more specifically, the City of Cleveland.

This new investment will permit CWRLF to lend up to $250,000 to a single borrower.

"The Cleveland Foundation's investment enhances CWRLF's ability to fund new employee-owned companies and to support the expansion of existing employee-owned companies," says CWRLF loan fund coordinator Bill McIntyre. "It represents a major step forward in building CWRLF into a major asset for employee ownership in Ohio."

CWRLF is administered by the OEOC.

Steel Company Goes ESOP

One of Ohio's newest ESOPs, Atlas Steel Products, located in Twinsburg, is a metals service center and the world leader in heat and corrosion resistant steel. Early last August, the firm's 85 management and non-management employees bought 100 percent of the company through an Employee Ownership Stock Plan.

The company was previously owned by Lawrence "Bo" Burr, who passed away in the spring of 2008. Following his untimely death, the eight member Atlas Steel management team, headed by President and CEO John Adams, led the successful effort to acquire the company from the late owner's family in only about four months time, a time frame rare in ESOP transactions and a tribute to the kind of culture that already existed in the company before the buyout. The buyout group was concerned that a possible sale of the company to an outside buyer or a competitor could potentially result in the closure of the facility and the loss of employees' jobs.

"Bo always wanted Atlas to reflect the empowerment of all associates who work here," Adams said. "He always treated associates as owners, and under Bo's leadership, each major decision was a true group effort. So it was only natural that we pursue an ESOP, and we are grateful to be in a position to execute a transition that we believe will lead to Atlas Steel's continued growth and success."

The company, currently in the top 50 steel distributors in North America, with sales in the $100 million range, plans to continue its growth and become one of the top 10 by focusing on sales growth, customer service and investing in its associates. As Adams has noted, "We believe in investing in people as much as investing in equipment, and we are committed to quality throughout our organization."

Prentke Romich and Bardons & Oliver New 100% ESOPs

Prentke Romich Company (PRC) celebrated becoming 100% employee owned and having their best year ever with a celebratory brunch on October 30, 2008 at their Wooster headquarters. The firm established an ESOP in 2003 with the goal of eventually becoming 100% employee owned. The mission of PRC is to help people with disabilities achieve their potential in educational, vocational, and personal pursuits and was founded in 1966 by Barry Romich and Ed Prentke who are pioneers in augmentive and assistive communication technology for people with severe disabilities.

PRC's ESOP Education and Communication combines creativity, learning and fun to reach out to the firm's 110 U.S. employees and build awareness of employee ownership. The Committee helped organize the Halloween-themed brunch which included a surprise Super-Hero salute to their senior management team. Dave Moffatt, PRC's President, gave a presentation on the buyout and all toasted to the future success of their company and employee ownership.

Bardons & Oliver, a 120-employee machine tool manufacturer located in Solon, Ohio is now a 100% ESOP. Started in 1891, Bardons & Oliver has established a tradition of quality, reliability, and customer service around the world. It specializes in producing CNC lathes, pipe/tube cut-off and finishing equipment, and contract manufacturing. Its product line services industries such as mining, oil production, fluid power, transportation, specialty machinery, power transmission, motor vehicles and aircraft.

Since it was founded by George Bardons and John G. Oliver, the Company has remained predominantly a family owned and operated business. In 1997, when Heath Oliver's father passed away, he knew there was not a 4th generation of Olivers who were interested in owning the company. He explored the options and decided to establish an Employee Stock Ownership Plan, selling 25% of the Company to the employees.

Mr. Oliver has been implementing a succession plan for some time. Additional stock has been transferred to the ESOP, however not a majority interest. The key management succession task was completed with the hiring of a President, Bill Beattie in 2007. The final step in transitioning company ownership was accomplished effective November 30, 2008.

As a result of this transaction, the ESOP now owns 100% of the outstanding shares of Bardons and Oliver. Financing was completed through a combination of bank debt and flexible seller financing. The parties jointly recognize that Bardons and Oliver is in a cyclical business and servicing a large note with standard, required payments may not be practical. Mr. Oliver will remain on the Company's Board of Directors and maintains a security interest until the loan is repaid.

According to Bill Beattie, "the Bardon & Oliver's employee owners were pleased to hear about Mr. Oliver's decision and are excited to take on the challenges and rewards of working in a 100% employee owned company."

Antioch Declares Bankruptcy

Unfortunately Ohio also had an ESOP bankruptcy since the last issue of *OaW*: The Antioch Company in Yellow Springs.

Ernest Morgan and a fellow Antioch College student started the business as the Antioch Bookplate Company in 1926 to recycle scrap paper from the college into a useful product working after hours at the college press. So the company was born with a commitment to sustainability. It had an equal commitment to employee empowerment and involvement, starting profit-sharing almost as soon as it hired employees; it added non-managerial employees to the board when the company formally incorporated in the late 1940s. These policies continued when Lee Morgan replaced his father in 1968. The company set up a minority ESOP in 1979. The company became 100% employee owned when Lee Morgan retired in 2003.

Over the years it built a solid printing business, particularly printing high value-added items like bookmarks. In the 1990s, the company hit it rich riding the scrap-booking tsunami with Creative Memories, one of the company's largest divisions during recent years. From management's commitment to processes of employee involvement, an employee's suggestion to market Create Memories scrapbooks through home parties launched a new trend within the industry. Employment exploded from 150 to 1150 worldwide, and the share price went up more than twenty times.

The company's financial success created significant repurchase obligations. These were compounded by its repurchase policy choices which were designed for a continuation of the Creative Memories boom: (1) It provided immediate lump sum payouts for retirees on the premise that if it waited to pay them out, it would end up paying a great deal more because of the rising stock price; (2) it has an unusually early retirement age of 50; (3) it offered a three year window following going 100% ESOP for employees to cash out at a diminishing premium above the current stock valuation—to compensate for an anticipated drop in stock value following the new ESOP debt, a drop which did not occur however. In reporting the story, the National Center for Employee Ownership described it as "a cautionary tale about planning for the repurchase obligation."

As the scrapbooking wave ebbed, these repurchase choices created what the company called in its bankruptcy filing "an unintended incentive for many employees to terminate employment in order to lock in their stock value." Between 2004 and 2006, roughly 800 of the company's 1150 employees took retirement or resigned to cash out their accounts. Over the 2004-06 period, the company repurchased $190 million in ESOP stock.

With this cash and talent hemorrhage, the company started looking for a buyer and it did, in fact, sell its book mark and printing business in March 2008. The efforts to sell Creative Memories, however, fell through, and the company filed Chapter 11 in November 2008.

The ESOP was terminated with the Chapter 11 filing, but the 500 remaining employees will be beneficiaries of a membership interest in a trust linked to a successor limited liability company. Antioch emerged from bankruptcy February 6, 2009.

The Antioch Company's sustainability policies and "triple bottom line" reporting was highlighted in OaW *18:2 (Winter 2006-07), pp. 15-16. This article is also available at www.kent.edu/oeoc/OEOCLibrary/Winter06-07.pdf .* OAW

Employee-Owners Revive Their Company

MAUMEE AUTHORITY STAMPING, INC.

Dark economic times did not deter the buyout committee of Ford's former Maumee Stamping plant from moving ahead with the plans to buy the shut down facility and reopen it as an employee-owned enterprise.

No sooner was the plant closed than a buyout committee of former employees was formed in September 2007, even though the closing took place unexpectedly, a full year earlier than anticipated.

Since Ford Motor Company purchased it from Midland Ross in 1974, Maumee Stamping had been a captive supplier to Ford. Ford added approximately 400,000 square feet of manufacturing space and installed the latest stamping presses and controls. The plant produced exterior, interior and underbody parts as well as metal and plastic stampings and assemblies for passenger car and light truck applications. There were four major business activities: Metal Stamping (7 major press lines, 5 minor press lines and three high tonnage blanking presses), Hot Plastic Stamping (7 fully automated lines), Metal and Plastic Assembly, and Warehouse/Storage.

The equipment was well maintained and was in excellent operating condition. Ford had updated some equipment with state of the art press controls and material handling automation. These investments improved safety, quality, speed, reliability and labor efficiency at the plant. In September 2006, Ford announced that the plant would be closed in September 2008. The consolidation of stamping operations was accelerated to September 2007.

Rebirth

As the closing was announced, the buyout committee quickly determined that there was an opportunity to change the traditional manufacturing model by creating an employee-owned company. The committee was not certain of the ownership structure or what percent of the company the employees might own, but they were committed to including employee ownership in the culture of the company they envisioned. They thought that there was a compelling advantage in the value of combining the experienced human capital with the equipment to be included in the venture.

They were convinced that a number of markets existed for products that the plant could produce. Feasibility studies in both automotive and non-automotive markets described a need for low cost, high quality products from locations close to the Detroit area. The committee determined that transportation costs, packaging costs and inventory costs could be reduced to create a competitive advantage for the new company.

Maumee Authority Stamping, Inc. (MAS) was created and registered in the State of Ohio as a corporation whose charter was to purchase the assets of the Maumee Stamping Plant from the Ford Motor Company and operate it as a supplier of metal and plastic stampings and assemblies to both automotive and non-automotive markets.

The 800,000 square foot plant is located on 70 acres in Maumee, Ohio, in the heart of the Midwest at the inter-

section of I-75 and I-80/90. This location places the plant within a 500 mile radius of 93 million people—almost 40% of the population of the country.

Business Development and Market Assessment

New business development is vital to the success of any corporation or business. The Maumee plant had been a captive supplier to Ford since 1974 and had no market presence, reputation or experience as a supplier. The first step for the committee was to test the viability of the plant from the market perspective. Several sales executives, who knew the needs of the market and the capabilities of the plant, did the research. They learned that the market needed a supplier with the capabilities that MAS could offer.

The current market place is often characterized as over capacity. A significant number of existing suppliers are not financially sound or are focused on large quanities in each production run to gain efficiencies. In contrast, MAS will be committed to high quality, low cost manufacturing with the ability to be efficient at differing production requirements—a specialty supplier.

Financial Assumptions

To keep operating and overhead costs of the company low and attract investors and customers, employees' compensation will be less than what is traditional for both hourly and salary employees of the company. On the other hand, wages for all employees will be supplemented with profit sharing programs that will be based on "open book management" practices. Discussions with potential employee owners on compensation package designs indicated that the compensation forecasts included in the business plan would be sufficient to attract them to join the new venture.

All financial models reflect that the company can break even at substantially less than 50% capacity. Armed with this financial model, the committee set out to complete acquisition of the land, building and equipment. They had no idea that it would be a year before they could get the keys to the facility.

Outside Investors

In numerous meetings with state and local officials, it was evident that they supported the acquisition and would agree to directing funds for job creation and retention to paying back the primary investor. MAS contracted Edge Point Capital, a Cleveland, Ohio investment firm, to generate a candidate list of investors to invest into the company.

Inside Investors

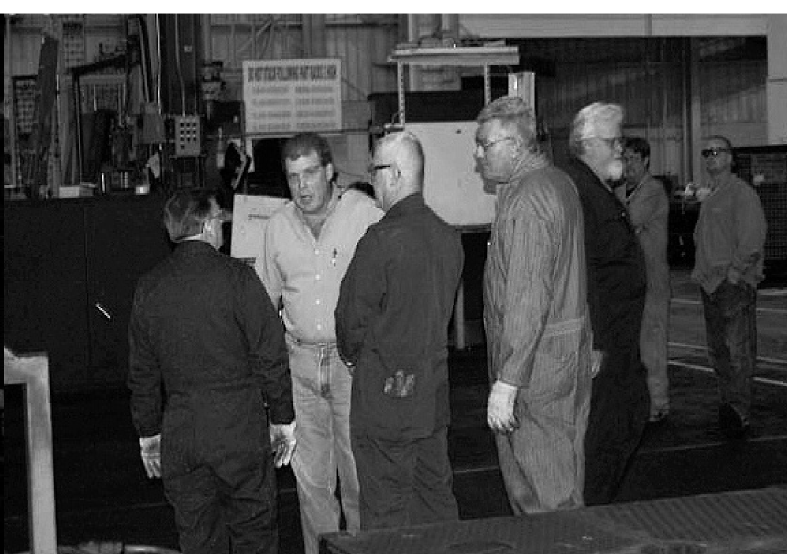
The employees of MAS will also be investors. Each employee will invest a minimum of $16,000 and accumulate shares of the company. 300 shares have been sold and the funds generated will be used as needed to bridge to other funding strategies.

Employee Ownership

As the plant starts up and jobs are created, the new employees will also become owners. The essential difference between MAS and their competitors, states President and CEO Keith Obey, "lies in the hearts of our employees." He expects that for employees who also own part of the company, the company's customers are "their" customers. Obey goes onto say that "it is vital to acknowledge that in order to BE a different kind of company, we will need to ACT differently."

Asked by the buyout committee to join the process, the Ohio Employee Ownership Center (OEOC) led MAS through constructing an employee ownership process. The OEOC participated in several employee information meetings to discuss the concept of employee ownership and the benefits of engaging the employees in the management and operations of a company. The initial design was to create a worker-owned company where rewards of ownership would be shared with all employees. The OEOC also funded the feasibility study to research the viability of the business model in the current economic environment.

The objective of the study was to assess if purchasing the assets of the Maumee Stamping Plant and continuing to operate the plant as a stamping supplier was economically feasible. The study included the following: 1) develop a market plan, 2) recruit a sales team, 3) document plant capabilities, 4) create a quoting function, 5) submit quotes to customers, and 6) solicit letters of intent and interest from potential customers. In a short time, the study produced a list of



10 customers with a strong interest in purchasing products from MAS. The conclusion of the study was that a viable and profitable venture could be formed from acquiring the assets and operating as an employee-owned company.

Customers Are Waiting

From the beginning, Ford Motor Company insisted that the facility was not to be sold with a "book of business." MAS took up the challenge of identifying and developing customer relationships. As members of the sales team talked with prospective customers, commitments were offered contingent on getting the facility up and running. The customers were not questioning the capabilities of the owners and employees; the concerns from the customers centered on when the plant was to become operational. Could this be accomplished in the context of the financial meltdown that was affecting markets throughout the country? During this period, environmental studies were completed, reviewed and became a part of the discussions with the seller.

Let's Go

As preparations for start up are underway, all employee owners are engaged in preparing the equipment to add value and make parts for customer orders. MAS expects to be the supplier of choice for its customers and the employer of choice who is an involved and committed partner in the community.

Update as we go to press: *The acquisition of the plant, property and equipment was completed on January 16, 2009. There are 50 employees working in the company soliciting orders and preparing the processing equipment for the re-start of parts manufacturing at the site. Keith Obey, President and CEO of Maumee Authority Stamping (MAS), stated that "the employees agreed to pay, at a minimum, $ 16,000 for a share of ownership in the company." As orders are accepted, tooling will be scheduled to be received at the plant to be used in the stamping process as orders are fulfilled.* **OAW**

ESOPs in the Auto Industry Round 2?

Corey Rosen

With all the talk about bailing out the automobile industry, some employee ownership advocates are wondering if an ESOP should be part of the mix. As it turns out, I was working on Capitol Hill in 1979 when Chrysler was about to close and turned to Congress for a $1.2 billion loan guarantee. Along with Jack Curtis, a staff member for Senator Russell Long, and Joseph Blasi, working part-time as an advisor to Congressman Peter Kostmayer (D-PA), I drafted a proposal that would require that as a condition of the bailout, and in return for concessions that were required as part of it, employees would get stock through an ESOP.

My boss, Senator Donald Stewart (D-AL) loved the idea, and ESOP champion Russell Long, of course, was eager to see something happen. So along with Kostmayer and Congressman Stan Lundine (D-NY), the four offices put together a proposal. The reception on the Hill, at Chrysler, in the Carter Administration, and at the UAW was not exactly welcoming. The idea of bailing out companies was seen as a radical departure, albeit it had been done earlier with Lockheed (but that, it could be argued, was for national security). The Act's advocates all feared that adding an ESOP would be a deal-killer. Remember, this was 1979. ESOPs were still a largely unknown, and entirely unproven, concept. The first reliable study linking employee ownership with corporate performance would not come out for a few years.

But we were undaunted. It was not so hard to be undaunted when you had on your side the most powerful member of the Senate, Russell Long, then chair of the Senate Finance Committee. On the banking committee, Senator William Proxmire said he could support the idea—although when the amendment came up on the Senate floor, his staff insisted otherwise. His staff director, a seemingly demure woman, punched me rather vigorously in the shoulder after Senator Stewart, a member of the committee, said on the floor that Proxmire supported it. She said it had never happened; sadly for her, the record said otherwise. She too feared that this would kill the bill. It was my first and only chance at martyrdom for the cause.

Meanwhile, Brian Freeman, who was heading Treasury's effort on the bill, strongly opposed the ESOP, as did Chrysler, which sent its highly paid lobbyists to visit. Jack Curtis was an impressive figure, while Joe Blasi and I looked like what we were—refugees (he only temporarily) from academia, and Senator Stewart's staffer was a 22-year old who looked ten years younger (I was 27). They came in their designer suits and shoes of exotic leather, bearing implied threats of political consequences, but they got no satisfaction from our respective bosses. The UAW was more ambivalent. It was not opposed to getting the stock, but worried this might upend the bill.

In the end, we compromised a little, having sought $250 million in stock for the employees and getting $162.5 million. The plan was actually set up in 1981 and terminated four years later, with U.S. employees getting $8,200 each (about $16,000 in today's terms). The loan was repaid, and the government, which had warrants, claimed it made money, although opponents said this was fuzzy accounting. Chrysler did lay off a lot of employees in the process, however.

The ESOP could have been renewed in 1985, but neither the UAW nor Chrysler pursued it. Brian Freeman, who then was in private practice and pursuing ESOP deals, claimed to have dreamed up the idea and championed it on the Hill. Lee Iaccoca, Chrysler's CEO, claimed in his biography that he was one of the idea's creators too. Success, as they say, has many fathers.

The current situation is very different. Then, Chrysler was in trouble, but the auto industry was not. Japanese cars were viewed as cheap inferior products, and Korean cars were a long way from coming to the U.S. The UAW was willing to make concessions, something they have said they do not want to do now. Currently, a number of the large banking firms that recently imploded had widespread employee ownership in one form or another, company stock in 401(k) plans was hammered in Enron and other companies that were fudging their books in the early part of the decade, and company stock in 401(k) plans is being widely attacked as imprudent in the current market collapse. The United Airlines example is still remembered. So getting an ESOP quid pro quo will be quite a struggle. The most likely route will be if Congress requires concessions and the UAW asks for stock in return, making it not a direct government policy.

Many observers would say the best a bailout can do is help create a gradual, more orderly demise of the industry. There does not seem to be any other instance where a major U.S. industrial sector facing such serious competitive and structural problems recovered from the brink to anything like its prior state, albeit some individual companies have done so, most notably IBM in recent years (think steel, textiles, imaging, and furniture manufacturing, for instance). So perhaps we should be careful what we wish for, or at least approach it in a very cautious way. An ESOP or stock options could be mandated for employees if concessions are made—that only seems fair—but I think the inevitable result would be that in at least one of the companies the stock would be worthless and employee ownership would get another black eye.

Meanwhile, it is worth remembering that big, splashy ESOPs used to help save companies are not, and never have been, more than a fraction of a percent of all ESOPs. Almost all ESOPs are set up in successful closely held companies, ranging from very small businesses to some of the largest companies in the country. In that context, they have been strikingly successful, delivering about three times the total retirement wealth per participant as comparable conventional companies, in large part because the ESOPcompanies just perform substantially better. It's tempting to get caught up in large scale economic solutions, but it should only be done with full awareness that if these companies fail, it will be seen as a very public, and very painful, failure for ESOPs as well.

Corey Rosen is the Executive Director of the National Center for Employee Ownership. OAW

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Cleveland Goes to Mondragon

In October 2008, the Cleveland Foundation sponsored a study trip to the Mondragon Cooperative Corporation (MCC) in Spain's Basque region to examine the utility of that model for the Evergreen Cooperatives in the Greater University Circle area in Cleveland. The Evergreen Cooperatives will be a group of cooperative businesses employing residents of the Greater University Circle neighborhood. The first cooperative planned is a laundry serving health care institutions in the neighborhood and beyond

The Mondragon cooperatives prove the viability of the co-op model on a large scale in a market economy. They began in 1956 with one cooperative with five employee-owners making paraffin stoves. Today, they are the 7th largest business group in Spain. They comprise an interconnected group of some 87 industrial cooperatives organized in 11 industrial groups with 71 subsidiaries in Spain and 69 plants abroad (largely in Europe and Latin America); a major grocery and retail cooperative which is the 2nd largest retail chain in Spain; and a financial group that includes a credit union/bank (the Caja Laboral with 19 billion euros in assets and 1.1 million members) and a mutual insurance company. The Mondragon Cooperative group includes numerous secondary co-ops established by the primary cooperatives to provide economies of scale. These include a dozen joint R&D centers to support the industrial cooperatives, a number of training cooperatives, consulting and accounting cooperatives, a consulting engineering company, a cooperative university with close to 4000 students (about half in engineering), and more. Together the Mondragon cooperatives employ over 100,000 and have sales of more than 15 billion euros (€1 = $1.35).

The co-ops are highly innovative. Mondragon's substantial R&D efforts absorb about 5% of the value-added in the industrial cooperatives. Twenty-eight percent of the industrial group's sales in 2008 were new products that weren't sold in 2004.

The Mondragon co-ops put money back into the cooperative sector. Co-ops can deduct their contributions to their industrial group's reserve funds (an average of 20%) and to the MCC funds for investment in new products, new co-ops, the MCC reserve fund and Mondragon University (14%) from what otherwise would be pre-tax profits. Co-ops' statutory income tax rates on the remainder are 10% (vs. 35% for conventional companies), provided the cooperative also contributes 10% of profits (after income tax is deducted) to a social welfare and education fund and earmarks a minimum of 20% of remaining profits for the indivisible reserve fund within the individual cooperative. The indivisible reserve would belong to the public sector, not to the members, if the co-op liquidated. In practice, Mondragon co-ops go well beyond the statutory minimums to put more money into education and individual co-op reserves.

Diagram 1 illustrates the way it works for the average industrial cooperative.

Diagram 1: Distribution of Co-op Profits

Gross profits (after other business costs)
– 20% average to group reserves (ranges from 15% to 40% as determined by the group)
– 10% to MCC investment co-op to invest in new products and co-ops (5% grants, 5% equity)
– 2% to MCC education fund (Mondragon University and R&D projects)
– 2% to MCC Solidarity Fund (to cover individual co-ops' losses)
= Taxable profits

Taxable profits
– 10% tax to government
= Net profits which are split;
10% to Social and Education Fund (each co-op decides how to distribute this money)
45% to indivisible reserves in the individual co-op (Statutory rate 20%)
45% to members' accounts in the individual co-op (paid out at retirement)

This is a very different tax regime than for American ESOPs, especially Sub-S 100% ESOPs, which are tax free and have no obligations to anyone, and certainly none to develop new employee-owned firms. The Spanish system gives a high level of tax relief but only in return for employee-owned firms putting significant sums back into the community and into cooperative development, and the Mondragon cooperatives do more than is required by law. Over time, it also leads to a high level of permanent capitalization in the employee-owned sector, relative to the American ESOP structure in which 100% of value is distributed to employee owners. This system of distributing profits obviously strengthens the coops as a group and increases the long-term viability of the individual employee-owned company.

Unlike American employee-owned companies, the Mondragon co-ops support each other in hard times. Each of the 11 industrial cooperative groups pools a portion of its profits to cover potential losses in member co-ops within the group. Typically this covers about half of losses. The Mondragon Cooperative Corporation backs this up with a pool of 2% of total group profits that picks up 1/3 of an individual co-op's remaining losses. Only the remainder — about 1/3 of the original loss — is debited against the individual co-op's capital (and member accounts). This doesn't continue indefinitely but supports a money-losing firm for 2-3 years to get it past a cyclical downturn or a restructuring. Add that to the fact that the individual co-ops put 45% of profits back into indivisible reserves every year, and you begin to understand why the whole system is so resilient in bad times, despite the small size of the individual industrial co-ops.

Members make substantial investments. To join one of the industrial co-ops, prospective members serve a probationary period of up to three years and then pay a €14,000 membership fee, or roughly $18,000, typically over the next three to seven years. (Even in Eroski, the retail chain that has a lot of people working part-time, membership costs a still-substantial €9,000.) The membership fee helps to capitalize the co-op. In years when the co-op makes money, members receive 7½% interest on their membership fees. They receive 45% of the after-tax and after-social-contribution profits, and that is divided among their accounts on the basis of labor input into the cooperative. Their internal accounts also pay 7½% interest in years when the co-op makes money. At retirement, the member gets the membership fee and the value of his/her internal account paid out over 4 years.

The Mondragon cooperatives prove the viability of the co-op model on a large scale in a market economy.

In addition to interest on capital contributions, the member has a guarantee of employment throughout the Mondragon co-ops. If your co-op is reducing employment, you have a right to employment in another co-op which is hiring. Co-ops receiving members from other co-ops don't have to lay off probationary employees (no bumping rights), but they do have to hire members from downsizing co-ops rather than hire new probationary members. As a result, the co-ops are proud to say that they have never laid off a member in 52 years, though what the future will bring, no one can say.

The co-ops are democratically run. General managers are responsible to the general assembly of co-op members and to the governing council of the general assembly in between general assembly meetings. The Mondragon Co-operative Corporation (MCC) itself is, in effect, a reverse holding company in which the individual cooperatives "own" the corporation, and the MCC's general assembly and governing council is made of representatives from the component cooperatives.

The co-ops promote economic equality in the society generally. Manual workers in the Mondragon co-ops earn 10% more than they would outside the co-operative sector, supervisors earn the same, and managers earn 40% less. Not surprisingly, 98% of managers are promoted from inside the co-ops. That requires a major leadership development program, provided by Otalora, the Mondragon training cooperative.

Management salaries are capped in relation to the minimum salary of co-op members: 92% of the cooperatives cap top manager pay at 4½ times the minimum salary; larger industrial co-ops cap top managerial pay at 6 times the minimum salary; and FAGOR, the largest industrial cooperative, with 4,000 employees, pays its general manager 7½ times the minimum salary. The Caja Laboral pays its general manager 8 times the minimum salary. And the Mondragon Cooperative Corporation pays its CEO 9 times the

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The Cleveland Foundation study trip group at Mondragon University at the memorial to Fr. Jose Maria Arizmendiarrieta. From left to right, Lillian Kuri, Cleveland Foundation; Margaret Hewitt, University Hospitals; Andrew Watterson, City of Cleveland; Christina Ayers, Cleveland Clinic; Bob Eckardt, Cleveland Foundation; Ted Howard, Democracy Collaborative and Cleveland Foundation; Steve Kiel, Hudson Consulting Group; Mary Ann Stropkay, ShoreBank; Jim Anderson, OEOC; Margaret Carney, Case Western Reserve University; Margaret Bau, US Department of Agriculture; and Mikel Lezamiz, Mondragon Cooperative Corporation.

minimum salary. Contrast that with the American Fortune 500 CEO compensation of 410 times the average wage.

European Union statistics say that the Basque region has the most equal distribution of income of any region in Europe, and Basque regional government surveys show that the highest level of equality in the Basque region is in the Gipuzkoa province where Mondragon is located and, within Gipuzkoa, in the Mondragon valley itself. Here are some of the things that impressed the study group:

[T]he most important message was that the Mondragon Co-operative Corporation only works with businesses that they feel are viable and will make a profit. While they do social good, they are not promoting a subsidy program. Their companies are in business to make money and keep people working while adding to the GDP of the economy.

– Margaret Hewitt, University Hospitals

I was struck by the overall unity of the efforts--how the various pieces of financing, governance, worker recruitment, review of whether to accept employees into the co-op, the level of cost for co-op shares, etc – all fit together. This meant to me it was hard to pick up any single piece and move it to US without thinking through how the other pieces fit with it.

– Bob Eckardt, Cleveland Foundation

Visiting Mondragon – meeting the people, seeing the businesses, experiencing the culture – was a real eye opener. For most of us, our only connection to a cooperative is an occasional visit to the local food coop. In Mondragon we walked the floor of an appliance manufacturer producing 800,000 washing machines a year; we saw a multi-billion dollar bank; we met with a professor at Mondragon University. All organized as democratically run, worker cooperatives that are efficient and effectively run businesses. Of course, none of this happened overnight. It all began in the early 1950s with three workers; today Mondragon has grown into a network of 120 plus cooperative companies with more than 100,000 worker-owners. For those of us interested in adapting this model to the realities of Cleveland, Ohio, this study visit to Mondragon provided new insights into critical strategic issues such as moving to scale, financing, governance, nurturing a network of local enterprises, and fostering a culture in which cooperative ownership and management are valued. Funding permitting, I'd urge that we organize additional study visits for other leaders of Cleveland.

– Ted Howard, The Democracy Collaborative

The study team has been an inspiration. Everyone is committed to learn and has been open and diverse in discussion of cooperatives in general and Evergreen in particular. I especially can relate to the need to create the bank early in the Mondragon experience. We have a similar issue with the Evergreen Fund. The Mondragon experience reinforces the need for thorough planning as company start ups are vetted and launched over time. It was gratifying to note the need for profits in order to sustain the enterprise. Also, the commitment to customer service as the priority goal above all other strategies.

– Jim Anderson, OEOC and CEO, Evergreen Cooperative Laundry

As a co-op developer, making the pilgrimage to Mondragon was like I had died and gone to co-op heaven. Mondragon and the Basque area put serious resources into co-op development, and the region is rewarded with an 85% success rate of new business start-ups. Mondragon co-op organizers are quite savvy about keeping abreast of market trends, utilizing cutting edge technology, nurturing competent management, incubating the business idea, and securing ample self financing. What a refreshing alternative to expecting a solitary entrepreneur to shoulder the entire burden of starting a new business – and then lamenting the high failure rate.

– Margaret Bau, US Department of Agriculture Rural Development

We are not angels and this is not paradise.

– Mikel Lezamiz, Otalora, Mondragon training cooperative

The Mondragon Cooperatives have been described at considerable length previously in Owners at Work, most notably in Karen Thomas, "Lessons of Mondragon's Employee Owned Network," OaW, Summer 2000, pp. 5-9, and John Logue, "From Mondragon to Ohio: Building Employee Ownership," OaW, Summer 2001, pp. 16-17. You can read those articles in our website library at http://dept.kent.edu/oeoc/publicationsresearch/Spring2000/EnvisioningEmployeeOwnership.htm (2nd article) and at http://dept.kent.edu/oeoc/publicationsresearch/summer01.pdf respectively. Thanks to Mikel Lezamiz for his assistance in getting the facts right in this article. OAW

A recreation of the study of Father José María Arizmendiarrieta, the driving force behind the Mondragon cooperative system.

Spanish Lessions

Employee-Owned Companies in Ohio on A Mass Scale?

John Logue

Dateline: December 2, 2008. National Bureau of Economic Research announces that US has been in recession since December 2007.

Another recession in Ohio? We are still in the last one! Between January 1, 2000, and November 30, 2007, Ohio lost 255,200 manufacturing jobs—25% of our manufacturing base. Over the same period, total Ohio employment dropped 154,700 or 2.8%. Since the "new" recession began on December 1, 2007 through October 2008, we've lost an additional 23,800 manufacturing jobs and 41,700 jobs over all.

The employee-owned sector is less likely to shed jobs. If we compare the performance of Ohio's Employee-owned Network companies for which we have employment data in 2000 and 2007 (24 manufacturing companies and 37 total companies), the manufacturing firms have shed 1% of their jobs—not 25%—and total employment has grown by 15%—not dropped 3%. If Ohio's manufacturing sector had matched Network companies, we'd have 230,000 more manufacturing jobs than we had in November 2007 (the 2008 data aren't available yet) and close to one million additional total jobs in the state. Now, Network companies aren't representative of the entire employee-owned sector: They are more participatory, more likely to communicate how the business is doing, and more likely to provide training. Moreover, the employee-owned sector as a whole is less likely to shed employment than their conventional competitors, far less likely to offshore or outsource, and more likely to reinvest in new plant, property and equipment in Ohio.

Yet despite these advantages, the employee-owned sector has grown only slowly over the last 15 years.

What can we do to encourage greater growth?

Should we start new employee-owned firms?

One of the big holes in American employee ownership is the absence of employee-owned start ups. ESOPs are far too expensive for start ups. Co-ops don't cost too much, but they are virtually unknown. What Small Business Development Center knows enough about them to suggest a co-op when you come in announcing "My buddy and I want to start a new business"?

Besides, they are hard to capitalize. They aren't designed to include outside capital from non-members.

We need new tools for creating new employee-owned businesses. The most promising ideas come from Spain. They were developed initially to deal with the massive economic dislocations that accompanied Spain's entry into the European Union in 1986. Since then they have been developed sequentially to meet the needs of the times and they have become a substantial source of new business and job creation.

In the Basque region alone, which has a population of 2.1 million, or roughly that of greater Cleveland, between 100 and 150 new employee-owned firms are established annually.

Over the last three decades, Spain has developed three new employee-ownership mechanisms for responding to economic dislocation that we should consider.

The first is a new form of corporation: the Sociedad Laboral (SL), or "Corporation of Labor." It is a form of corporation majority-owned by employees but based on stock ownership and able to include non-employee capital (unlike cooperatives). It's a simple, flexible, and cheap way for employees to buy troubled companies or to start new ones. Since 1997, when the Law on Labor Corporations changed, about two-thirds of new employee-owned companies have used this legal form.

The second is a way to capitalize new SLs and co-ops through lump-sum distributions of unemployment compensation and severance pay. This approach not only capitalizes new employee-owned businesses, it tends to preserve "social capital"—more on this below. Both make business success more likely.

The third is an intense support system that helps new start ups and provides economies of scale for small, employee-owned businesses.

Labor Corporations

The Spanish system of "Corporations of Labor" (Sociedades Laborales, SLs) offers a unique tool to recapitalize companies under employee ownership and to start new companies out of the wreckage of old ones. As a form of incorporation, it's also inexpensive. As a result, there are about 20,000 of these Labor Corporations in Spain today, employing about 130,000.

In October I visited with the general director of the Basque regional association of Sociedades Laborales, Josetxo Hernandez Duñabeitia, in Bilbao, Spain. Hernandez was one of the pioneers of this form of share-based employee ownership in his company in the 1970s, and has worked since 1982 with the Basque regional association of Corporations of Labor ASLE (Agrupación de Sociedades Laborales de Euskadi). Although the initial SLs were, says Hernandez, all industrial companies, today there are about 1000 SLs with a bit more than 13,000 employees in the three Basque provinces in all sectors of the economy.

The core of the Corporation of Labor is the following:

1) It is a form of incorporation in which workers in the company own more than 50% of the shares in the company;

2) No single person can own more than 1/3 of the stock in the company, with one exception: when a public organization takes partial ownership, it can hold up to 49%; and

3) No more than 25% of the hours worked by permanent employees of the company can be worked by non-owners in companies with fewer than 25 employee shareholders and no more than 15% of the hours can be worked by non-owner employees in companies with more than 25 employee owners.

The SLs are part of the "social economy," says Hernandez. They seek "balance between human and business development" and to create "an equilibrium between capital and labor."

SLs come in two varieties. The first is the regular Corporation of Labor (Sociedad Anonima Laboral) which originated as a way to buy companies threatened by shutdown or job loss. It dates in practice to worker buyouts in the late 1970s and was accorded separate legal status through 1986 legislation; it requires a minimum capitalization of 60,000 Euros (about $80,000 at the current exchange rate of €1 = roughly $1.35). The second is the Limited Liability Corporation of Labor, established in 1997, which requires a minimum capitalization of 3,000 Euros and is appropriate to new start-ups. So easy to establish are the SLs that roughly 3 out of 4 employee-owned start ups in the Basque region now take that legal form.

In Spain as a whole, there are 2600 of the former, employing 38,000, and 17,700 of the latter, employing 93,000. Average employment is low (less than 7 per firm), but total employment is a respectable 130,000.

While Sociedades Laborales have modest tax benefits (primarily for incorporation and transfer taxes), the basis of their success is that since 1985 employees can receive their unemployment compensation (24 months in Spain and between €24,000 and €30,000, depending on the number of children the unemployed worker has) in a lump sum to recapitalize the company or to start a new company.

Capitalizing new firms: Financial and social capital

There are two major problems in starting new businesses: (1) capitalizing the firm (financial capital), and (2) building a reliable group of employees who can work together successfully (social capital). "Social capital" is the relations of collaboration and trust between the employees that grew out of years of working together in an existing business. It's lost in plant shutdowns and takes years to rebuild. The failure to create it successfully is one of the major causes of new business failure in the US.

Beginning in the late 1970s, Spain began encouraging groups of employees who lost their jobs to shutdowns or layoffs to jointly start new employee-owned businesses, saving social capital for the new business, and converting worker financial rights into capital for new business start ups.

The initial mechanism for capitalizing new firms was lump-sum distribution of severance pay in shutdown or layoff situations. Spain had a general system of severance pay for valid dismissals — today it is 20 days' wages for each year of service up to a maximum of 12 months' pay. Obviously, bankrupt businesses that are shutting are not going to pay severance to their workers, so the Ministry of Labor lent the employees their severance to help capitalize the new business. Today there's a national severance insurance fund which can provide severance pay when companies can't.

Beginning in 1985, the government also provided lump-sum distribution of unemployment compensation to employees in major permanent layoff/shutdown situations to help capitalize new employee-owned companies through co-ops or Labor Corporations. In order for the employee group to receive lump-sum distributions, they had to have a viable business plan to resuscitate their shut firm or to start a new employee-owned company. The plan has to be vetted by a reputable cooperative or SL development program and to pass the scrutiny of the unemployment compensation system. The unemployment compensation system continues to monitor the new employee-owned business for three years.

The funds are used to capitalize or recapitalize the business by providing working capital (including wages) in the start-up or restart phase. Obviously, this sys-

At work in a Sociedad Laboral: Felix Sarrionandia, one of the workers who took over Izar Cutting Tools in 1991, tends his machine 17 years later in the company's new plant. Izar is an ASLE member.

tem also reduces long-term unemployment by creating new businesses.

What's to keep us from trying a pilot program like this in Ohio?

Support system for employee-owned start-ups

One of the truly astonishing aspects of the Spanish system of employee ownership start-ups is the intense level of services provided by various employee-ownership business development centers. They are well staffed and provide services that go far beyond what our Small Business Development Centers provide.

And they have an extraordinary success rate: only about 1 in 5 cooperative business start-ups fail in the first five years, as contrasted with about 4 out of 5 conventionally owned business start-ups in the US. We visited 3 cooperative business assistance centers which all work just in the Basque region.

Saiolan, located at Mondragon University, is the Mon-

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Izar Cutting Tools

I visited one of the largest of the SLs, Izar Cutting Tools SAL, to see how the form works in practice. Located just outside of Bilbao in a brand new factory which opened in March 2008, Izar traces its origins to 1910. It began as a division of a family-owned automotive supplier, producing cutting tools for the parent company's use. Now it produces drill bits and milling machine tooling for CNC machining centers. .

Under the government of Francisco Franco (1939-1975), Spain sought to achieve complete economic self-sufficiency ("autarky") behind high tariff walls. It sought to be self-sufficient in everything: cars, trucks, etc. At its peak employment before the crisis, Herramientas de Amorebieta, as Izar was known in those days, had more than 1000 employees. As Spain prepared to enter the European Union in 1986, it was apparent that many things had to change. The local Basque government sought to achieve international competitiveness by marrying local companies to foreign "technological partners." By that time, the family had already sold Herramientas de Amorebieta, which was split into an automotive supply company and a cutting tool company. The latter was sold to an Italian investor based in France "who put in nothing but drained a great deal from the company," according to Izar General Manager Carlos Pujana.

This absentee investor was ousted after pressure from the workers, which included strikes, demonstrations, assemblies, and picketing his home in Paris. "He basically got the plant for nothing and we got it back from him for nothing" in a purchase in 1991, says Pujana.

At the time the employees took over the company, it had been subject to substantial disinvestment and needed to be recapitalized. That was financed from three sources:

The first was the payment of 24 months unemployment compensation in a lump sum to the employees to invest in the company. Wasn't this a risk? "Sure, but it was the only option to preserve our jobs," said board president Maria Feli Arrizabalaga, who is an inside sales person with 30 years seniority at Izar.

The second was the advance of severance pay from the national severance pay fund (which backstops insolvent companies for their severance obligations—20 days pay per year worked up to 12 months pay—as a loan to the company. That loan is currently a matter of dispute since the government has twice passed legislation forgiving loans from this fund made for the purpose of keeping firms open as Sociedades Laborales.

The third was a 20 percent pay cut and increase in working hours agreed to by employees. Subsequently the company required additional capitalization in 1997, and the employees put in additional funds.

Izar is governed by an elected administrative board (similar to a Board of Directors) of 7 members. The General Manager is not a member of the board. All of them are inside members (and unpaid), drawn from various areas of the company: inside sales, workshop manager, purchasing, machine operator, quality control, etc. They are elected by the employee owners. Additionally, there is a paid non-member secretary of the board, an outside lawyer. The presence of an outside lawyer in the board is legally mandated. "It's a balanced board that reflects the makeup of the company," says Pujana. The board meets monthly, and Pujana reports to it. The company is also unionized, and Pujana meets with the union on a monthly basis as well. Board officers are elected by the board, but the Izar pattern is to elect the top vote getters among the board members as President and Vice-President.

The company is owned by 130 of its 204 employees as a Sociedad Anonima Laboral (SAL). All permanent employees are owners, and none but employees are owners. Unlike other SALs, all permanent employees are expected to become members. By contractual agreement (which is not a SL legal requirement), employees who retire are required to sell their shares back to the company, and the company is required to buy them. Shares are valued at the price originally paid by the initial SAL members, adjusted for inflation. The current value of the original members' shares is €28,000 (ca. $38,000). New employees put in €14,000 for their ownership stakes. This can be paid through a wage checkoff over a period of up to 10 years, depending of the needs of each employee.

In general the company has reinvested 70% of profits back into the company (and it now has a brand new plant), far above the 10% compulsory reinvestment in the SL sector; and it has paid out 30% of profits to its employee owners in dividends. Today Izar is the largest producer of cutting tools in Spain and one of the top 5 in Europe. OAW

Network **News**

Chilcote's Lean Initiative

Everybody at The Chilcote Company is working to improve the way they work. "We have undertaken a Lean Initiative", explained Matt Moir, VP of Manufacturing who co-chairs the employee project team with Yolanda Feliciano, "to give us a competitive advantage as a world-class manufacturer in all of the markets we serve. We are focused on eliminating waste, respecting our employee owners by empowering them to make decisions, and using continuous improvement techniques."

As Rick Bender, Graphic Designer and Vice-Chair of the ESOP Education Committee expressed, "The Lean Initiative has brought a new spirit to the forefront as we look at how we do things, make efficiency improvements and streamline processes." Carl Buchwald, Chair, and the rest of the ESOP Education Committee, organized the Annual Fall ESOP Luncheon and a different event each month, including 50/50 raffles, breakfasts, and special employee appreciation days. Committee members reach out to employees at work and help send the message that each and every employee owner helps to make the difference.

Falcon Industries Celebrates Growth, Weatherhead Award

Falcon Industries celebrated growth this year with recognition as one of the Weatherhead 100 Award Winners for 2008. This award recognizes the fastest growing businesses in Northeast Ohio with consistent growth over five years. "We know that our success is up to us and the attitude we bring to the job," explained Bob Taylor, Falcon's president. Falcon also built a bigger building in Medina during 2008.

"This expansion was a once-in-a-lifetime chance for us to design a factory to our needs and specifications," said Taylor, "it will enable us to build and repair larger conveyor screws." Employees maintained normal operations during the move over nine days in December. Falcon is a specialized metal fabricator of custom metal screws. The firm is 40% ESOP-owned with 56 employees including 30 in Medina and 26 in Minnesota.

Fun and Cash at JB & Co.'s Annual Meeting

J.B. & Company's ESOP Committee organized their 2008 Annual Meeting as a fun event to celebrate their success together as an ESOP company. They rented a local community barn, brought in bales of hay for seating, and featured good food and cash prizes.

Funded by a customer-paid job completion bonus, a drawing for cash prizes was held every 15 minutes, starting with $25 and adding $25 more for each round throughout the meeting. "We are in our infancy as an ESOP Committee," explained member Jen Daniel, "yet we have passion and a commitment to be successful. We have seen a change in attitudes." JB & Company is a 100% ESOP-owned roofing contractor located in Tiffin.

On-the-Job Mentoring at Lockrey

"An ESOP made sense for us at Lockrey Manufacturing," explained Don Vollmar, CEO, "because of our core philosophy using an incentive-based management system. While manufacturing has gone from Toledo, Lockrey has grown as a precision job shop with core competencies in machining and fabrication." Their focus on training and productivity for all the disciplines in contract manufacturing is supported through an 80-hour Associate Awareness Program of education and training. Operators who complete the training are promoted to Process Technician and receive an additional 15% bonus. Those who repeat for a second year become Mentors who assist in training others, which encourages constant communication. Lockrey is 51% employee-owned with 76 employees.

Garland Industries Raises Roof on Green Energy

Green products and services are the fastest-growing segment of the roofing market, explained Tom Bauer and Brian Lambert of 100% ESOP-owned Garland Industries at the ESOP Board of Directors Forum in September. The Cleveland firm sells vegetative roofs that help prevent rainwater runoff and heat loss; VOC-free roofing materials; and photovoltaic roofing systems that create energy and save money. Tax incentives in California and Colorado have helped launch products. Utility companies in Ohio have a renewable portfolio standard of 25% by 2025. The firm won the 2005 GreenRoof Award of Excellence. The firm established its ESOP in 1985 and now has 465 employees.

Delta Systems' New LEED Building

Delta Systems Inc. celebrated the expansion of their Streetsboro facility with an open house at their 136,000 square-foot building with a fully-automated electronic subassembly area. The firm received funding assistance from

A new Falcon Industries' sign, which was fabricated by the firm's employee-owners, graces the front of their new building in Medina.

Portage County's Port Authority. An employee team planning the expansion used employees' ideas, such as skylights over production areas, which has improved lighting and morale.

The building incorporated environmentally-aware, LEED approaches. LEED is the Leadership in Energy and Environmental Design Green Building Rating System, developed by the U.S. Green Building Council (USGBC). Delta's new facility is heated with recycled heat from their molding machines, and it is ready for future wind power conversion. Delta specializes in electrical switches, hourmeters, and electronic controls for off-road applications. The firm is 30% ESOP-owned with 225 employees.

Mantaline Corporation's Jaime Lox, Marketing Manager; Nancy van Ginkel, VP Finance; and ESOP Committee members Patty Leventry and Charlotte Rowe help celebrate Portage County's Employee Ownership Day.

ESOP Awareness Week at Mantaline

Mantaline Corporation's ESOP Committee encouraged ESOP awareness by organizing a different event each day for one week of ESOP Month in October. Monday was "Muffins and Coffee" Day; Tuesday was a "Candy Game" contest; on Wednesday the firm's ESOP Committee members participated in the ABCs of ESOPs, sponsored by Ohio's Employee-Owned Network; a company-wide luncheon was held on Thursday; and drawings for gift certificates were held on Friday.

The seven-member ESOP committee, headed by Patty Leventry and Charlotte Rowe, funds the committee's events and activities through cafeteria profits. Headquartered in Mantua, Mantaline is 100% ESOP-owned and currently has 90 employees. The ESOP was established in 1989.

Employee Ownership Day in Portage County

Portage County's eight employee-owned firms gathered in celebration of Employee Ownership Month and were honored by Portage County's three County Commissioners who proclaimed Portage County Employee Ownership Day on October 16. The commissioners participated with employee-owners and other public officials in an Employee Ownership reception hosted by Mantaline Corporation.The event was attended by 47 people from seven local employee-owned firms and several community leaders.

Three of the 13 largest privately-held companies in Portage County are employee-owned, including The Davey Tree Company, Automated Packaging Systems and Delta Systems. As a group, Portage County's employee-owned firms provide a little over 1200 jobs in the county, or 3% of the county's total private-sector employment but over 9% of the county's total manufacturing employment.

The 8 employee-owned firms in Portage County are Automated Packaging Systems in Streetsboro; Cornwell Quality Tools in Mogadore; Davey Tree Expert Company in Kent; Delta Systems in Streetsboro; Jet Rubber in Rootstown; Joseph Industries in Streetsboro; Mantaline Corporation in Mantua; and Select Machine in Brimfield.

Mantaline's ESOP Committee members set up display tables for each ESOP company in a meeting room at the Mantua Village Lodge, next door to their corporate headquarters, and served a lunch buffet. Nancy Van Ginkel, Mantaline's VP of Finance, gave a welcome and invited everyone to chat about their experience with employee ownership.

Employee Ownership Month is an annual recognition of employee ownership and the public support for employee ownership in U.S. federal, state and local communities. Public support began when Congress created Employee Stock Ownership Plans in 1974 as a way to anchor jobs in local communities, increase U.S. productivity, and increase the retirement wealth of American workers.

Ohio promotes employee ownership through three economic development tools: the GrowNow fund which provides a reduction of interest rates on ESOP loans to Ohio small businesses; the Prefeasibility Grant Program for firms facing sale or shutdown to explore continuation or transformation through employee ownership; and, ODOD grant funding for outreach and initial technical assistance through the Ohio Employee Ownership Center at Kent State University.

"I worked for the Ohio Department of Development back in the days of 'what's an ESOP?'" recalled Bill Ulik, Portage County's Economic Development Director, "I'm glad to see ESOPs doing so well." He was involved in the effort to get community development funding for the employees' buyout of Jet Rubber.

Portage County leaders stressed their local commitment to support businesses, which includes bonds of $2.5 million and up; SBA financing; block grants; and a revolving loan fund. As Commissioners Christopher Smeiles and Maureen Frederick explained in presenting their Employee Ownership Day Proclamations, "Today we celebrate the value of everyday citizens participating as owners of their economic livelihoods in fulfillment of the American Dream."

Does employee ownership have an impact on the economy of your county? Is it time to celebrate? OAW

Voices of Ohio's
Pioneer Employee Owners

When we think of early pioneers, Davy Crockett comes to mind. But, that person working at the next machine or desk may be a pioneer too — one of Ohio's Pioneer Employee-Owners!

During 2009 *Owners At Work* will recognize Ohio's Pioneer Employee-Owners at firms that established an ESOP in the first decade of 1974-83, following the federal ERISA laws creating ESOPs in 1974. We salute active employees in hourly, salaried or managerial positions who made a long-term commitment to an ESOP company and their companies that made a long-term commitment to providing opportunities of stock ownership to employees.

Essays, poems and names for a follow-up interview were drawn at the OEOC Advisory Board's meeting in September. Thanks to all who entered. We invite other pioneers to submit their stories, poems or comments for the next edition of *Owners At Work*

Here are the voices of Pioneer Employee-Owners from some of Ohio's Pioneer Employee Owned Firms.

Twenty Eight Years and Counting!

"An Employee – owner" means to me
That Fastener Industries is my company,
I'm one of many who happen to be
A part of this great big family.

Becoming an owner is out of sight!
More of a privilege than a right.
Just like a family we can bicker and fight
Or stick together with all our might.

Becoming an owner is no magic cure,
Garbage in is Garbage out for sure.
The magic lies in a change in direction
As each individual makes a selection.

An employee-owner gets to see
Our retirement account get to be
An ever growing pot of gold
To help us once we grow old.

An employee-owner can get to know
That our efforts help the company grow.
Together we celebrate each success
Or mourn the occurrence of a mess!

Things still happen from day to day,
But as an owner we have a say.
We each can choose to do our bit
Knowing we reap the benefit.

Karen Richmond, Programmer and Employee-Owner, Fastener Industries, Inc., Berea

What Employee Ownership Means to Me

Employee ownership has meant a lot to me both in my work life and personally. My company, Fastener Industries, has made ownership real for me by contributing to my ESOP account each year a number of shares equal in value to 15% of my annual wages.

These shares are immediately vested, and provide full pass-through of voting rights to elect members for our board of directors. The company has been paying dividends twice yearly on these shares for several years.

Employee ownership has made a difference in my work life by anchoring my job here in Ohio. It allows for good wages, bonuses, favorable working conditions, promotions from within, and no layoffs. It has also provided for a high level benefits package of health insurance, disability insurance, and accidental death life insurance, as well as optional group term life insurance.

Employee ownership has provided an excellent vehicle for my retirement, as I have been able to help grow the value of the stock in my account through my own efforts. I can sell the stock back to the company when retiring, or hold on to it and receive dividends from the shares for my retirement needs.

Ralph J. Stawicki, Credit Manager, Director, and Employee-Owner, Fastener Industries, Inc.

Eleven Pioneer Employee Owners who work at Voto Manufacturers Sales headquarters in Steubenville, OH.

Voto's ESOP is a Good Thing for Everyone

I started at Voto in 1967 and had an "always do your best" work ethic from before the inception of the ESOP in 1981. But Voto has changed since then. We're a more open company than we used to be. The family owners used to say 'it was a good year' but never told us how good, and we didn't have much input either. As an ESOP, we talk and share more. If I have an opinion, I can go to upper management with my idea. Before the ESOP, the directors were chosen by the family. Now we vote on all board seats and our vote actually counts. Our local steel mills are now foreign-owned, but at Voto we all have a stake. Even with the economy in a slump, Voto has done well. The ESOP is a way to work more efficiently together. We help the local tax base too. The better the company does, the more it benefits each of us.

Sandy Zook, Assistant Manager of Specialty Products, Voto Manufacturers Sales, Steubenville

I started in the sling shop, hose shop, and shipping and delivery before Voto sent me to school for training in machinery repair. Our company meetings let me know what's going on. I am able to vote. The ESOP means I'll be able to retire with security. It's been a wonderful life.

Earl Johnson, Mechanic, Voto Manufacturers Sales, Steubenville.

Chuck Vogelsong, the son of our company's founders, felt the ESOP would be a good thing for everyone. He was right. The ESOP is one of the best things we did. We went employee-owned about the same time as Weirton Steel, but we did our ESOP first. I owned Voto shares directly and sold them back when we went to 100%. Over the years I served as an ESOP trustee and also on Voto's board of directors. An ESOP puts everybody on the same field. What we do affects profits. The ESOP makes us a tighter-knit family that works closer together.

Jack McMillan, Sales Rep, Voto Manufacturers Sales, Steubenville

It's easier to get out of bed in the morning when you're an ESOP. We have an ownership attitude. We've ridden out storms by keeping a close watch and trying to adjust. We are all in this together, and our board recognizes this by sharing rewards on a regular basis through dividends, bonuses, and yearly ESOP contributions.

John Miller, Sales Rep, Voto Manufacturers Sales, Steubenville

The Opportunity to Make a Difference

Upon entering the workforce in 1973 I was ready to take on the world. Youth! Money was important but the feeling that I have made a difference was most important. In 1978 I was hired at this small company, YSI, that had a reputation for being employee and community oriented. Did I think I would be here for 30 years? Nope!

A natural transition for YSI's retiring founders was to sell a percent of ownership to the employees via an ESOP. With strong ownership culture leadership throughout the company, I was given the opportunity/responsibility to participate and share in all aspects of the "pain and gain" of growing a business. These opportunities included the ESOP to supplement my retirement, the chance to impact the growth of that retirement, to serve on YSI's Board of Directors, to vote my shares, to voice my opinion, and—along with my talented, creative, innovative, and loyal co-workers—to feel the pride that I play a part in the success and wealth of YSI.

All this, while working for an employee-owned company that provides the tools and technologies to protect and preserve the earth's natural resources—do I feel I've been fortunate to have had the opportunity to make a difference? You bet!

Deb Stottlemyer, Retirement Administrator
YSI Incorporated, Yellow Springs, OH

The ESOP Is a Blessing

I started out at Webb Insurance in 1970 as a file clerk. We had a profit-sharing plan then which was rolled into the ESOP in 1982, and have been 49% ESOP-owned since 1993. It's rare to find a family-owned company which has two retirement plans funded by the company. The ESOP has been great for me.

I have worked as a claims manager, personal lines manager, computer operations coordinator, and am currently the branch office manager of our Bluffton office and a member of the board of directors. I am also a member of our ESOP committee, which meets quarterly to discuss the financial aspects of the ESOP including our plan contributions.

An ESOP offers motivational advantages which are important for our success. The longer an employee stays with our company, the better their relationship with our clients. As the

continued on pg. 20

A group of Pioneer Employee Owners at YSI Incorporated headquarters in Yellow Springs, OH.

Pioneers *continued from pg. 19*

education coordinator for our agency, I work with new people to set up their education plan and monitor their progress. I stress the long-term benefits of our ESOP and pension plans. Both are set aside without any sacrifice on their part. If they put forth an effort and stick with it, it's a real positive.

Webb Insurance was started in 1906 and we are now the largest independent insurance agency in West Central Ohio with a headquarters in Lima and a branch office in Bluffton. Over the years we purchased other agencies and merged their employees into our office. Many of these employees had no pension. I recall one new Webb employee who had worked at another agency for 15 years with no retirement plan whatsoever; she was dumbfounded when we sat down and she learned that she would have a nestegg when she retired from Webb. Employees here like the benefits, and the ESOP is the biggest one. It's a blessing.

Marcia J. Lammers AIS, C.P.I.W., C.P.C.U. and Branch Manager, Webb Insurance Agency, Lima and Bluffton

Look for recognition of more Ohio Pioneer Employee Owners in the next issue of *Owners At Work*. Are you one of Ohio's Pioneer Employee Owners? Please contact Karen Thomas at the Ohio Employee Ownership Center at kthomas@kent.edu to share your story. OAW

Spanish Lessons *continued from pg. 15*

dragon cooperatives' business start-up center, though it assists conventional business start ups as well as cooperative start ups. It was started in the early 1980s, a time of high unemployment of university graduates in the Basque region and when, coincidentally, the Bank of Spain required that the Caja Laboral, the Mondragon cooperatives' bank, get out of the cooperative development business. Saiolan provides a startling range of services to new businesses, be they co-ops or conventional firms. It maintains an inventory of business ideas which have been vetted for feasibility and which are available with assistance to groups wanting to start new businesses. Saiolan will also do prototypes for new products; it is, after all, located in an engineering school that developed out of a metal trades vocational school.

Saiolan's success rate is impressive: 89% of the business start ups it assisted are still in business after 5 years and 83% are in business after 10 years.

Elkar-lan is the cooperative development center for the Basque region which is jointly supported by two cooperative associations (one representing worker, finance and social service co-ops, the other representing farmer and consumer co-ops) and the Basque regional government's cooperative agency. It has a staff of three professionals who provide start-up services for new co-ops including information, training, feasibility studies, software for business plans, legal services for incorporation, and monitoring and mentoring services. The last includes regular review of financial statements, attendance at co-op meetings, forwarding official governmental information, and handling all sorts of queries. Each new co-op gets a staff member who serves as its advisor during its first year of business. Elkar-lan doesn't handle payroll, tax, and legal services for co-ops on an on-going basis, but it does provide co-op specific advice to the consultants who provide these services as needed.

Elkar-lan has been setting up 30-40 co-ops a year since it was set up itself in 2003, typically creating 150-300 new jobs annually. About nine-tenths of these are new businesses, largely in the service sector; the remainder are ownership conversions.

Elkar-lan's success rate: Of the 38 co-ops set up in 2003, 35—92%—have survived for 5 years.

ASLE, discussed above, is the umbrella organization for SLs in the Basque region. About one-third of the SLs are ASLE members, and they employ about three-fourths of SL workers. ASLE provides a remarkably broad range of general services available to all members as well as specific consulting services on a fee for service basis. These services include accounting, legal services, human resources management, occupational health and safety, agreements with financial institutions, marketing, assistance with government programs, IT advising, quality assurance, and training services. It has a staff of 28.

For new SLs, ASLE assists in preparation of feasibility studies, and screens them for the unemployment compensation system to determine whether the employees starting the SL receive a lump-sum distribution of unemployment compensation to capitalize the new business. It does the legal work for incorporation and business set up. It estimates that it assists about 30 new SL start ups annually out of the roughly 90 established annually in the Basque region.

The impact of this series of measures has been the creation of a vibrant sector of start-up employee-owned businesses. The Spanish system encourages employees who have worked together, but been laid off, to start new businesses that preserve the social capital built over years, capitalizes the new firms with lump sum unemployment compensation and/or severance pay, and provides substantial support in the first several years of business.

This is obviously not a panacea for the ills of modern economies, but it has helped to create one thousand or so new employee-owned businesses employing 13,000 in a region with the population of greater Cleveland with a survival rate that we can only envy.

John Logue is director of the Ohio Employee Ownership Center. He visited Spain in October with the Cleveland Foundation study group and stayed on to visit ASLE, Izar Cutting Tools, and Elkar-lan. He appreciates the assistance and hospitality of Jone Nolte Usparitza and Josetxo Hernandez Duñabeitia, of Carlos Pujana, and of Mirene Arri of those organizations, respectively. OAW

An Open Letter to President Obama

Ohio Employee Ownership Center

Department of Political Science
113 McGilvrey Hall
Kent State University
Kent, Ohio 44242

OEOC

(330) 672-3028
FAX: (330) 672-4063
oeoc@kent.edu
http://www.kent.edu/oeoc

January 20, 2009
Subject: Employee Ownership

Dear President Obama

As you start your term as President under difficult economic circumstances, employee ownership ought to be part of both your short-term recovery package this winter and your long-term economic program.

From 25 years of empirical research, here's why:

- Employee-owned companies are generally more productive than conventionally owned companies.
- Employee-owned companies create real net assets for working families. That's in addition to better than average wages, regular pension coverage, and health benefits.
- Employee-owned companies are less likely to outsource or off-shore their jobs and more likely to retain employees in downturns – like the current one. Why? Because it's their own jobs!
- Employee-owned companies are more likely to reinvest in plant, property, and equipment in the US than their conventional competitors.
- They are more likely to give their employee owners more decision-making rights on the job, and greater control of their economic destiny.
- And they have a higher multiplier effect on the local economy.

If you want to anchor capital and jobs in American communities, employee ownership is the best way to do it!

What can your administration do?

1) Publicly announce your support of employee ownership.

2) Require banks getting TARP assistance to pay special attention to employee ownership loan requests, particularly in situations of threatened plant shutdowns and of employee buyouts of retiring owners. Lack of a business ownership succession plan is the #1 preventable cause of job loss in the U.S.

3) Create employee ownership development center grants to support employee ownership transitions and developing new employee-owned companies – similar to the Department of Agriculture's cooperative development center grants for rural cooperatives.

(Our own Ohio Employee Ownership Center has helped 86 companies become employee-owned and has assisted in stabilizing and retaining close to 15,000 Ohio jobs through employee ownership. Those employee-owners have equity accounts totaling over $344 million. Without employee ownership, their equity would be zero.)

4) Come visit Ohio employee-owned firms. We'll be delighted to make the arrangements for as many visits as fit in your calendar. Just talk with the employee owners. They will tell you the truth about the benefits of employee ownership for working families.

Looking forward to your response,

The Staff of the OEOC

Managing Your ESOP Company in a Recession

Putting Your Employee Ownership Culture to Work

Bill McIntyre

The economy is in a recession. Our US economy declined at a preliminary rate of 6.6% for the fourth quarter – the third worst performance in over 60 years. How does an ESOP-owned company cope with this situation?

First, we all know that ESOPs are not a magic bullet; and simply having an ESOP can not and will not guarantee success. However, ESOP companies with an employee ownership culture have an advantage that non-ESOP companies do not have – their employee ownership culture. Now is the time to let that employee ownership culture work.

During over 15 years as CFO of ComSonics, Inc., a 100% ESOP-owned company located in Harrisonburg, VA, and helping the company navigate the roller coaster from having 130 employees, growing to 195, contracting to 130 again, and growing back to 190 when I left, I tried to manage well and tried to learn from my mistakes. Here is what I learned:

The best approach: communicate … and then communicate some more.

More than ever before, provide information to people so that they can make the best business decision for the company. That means delegating decision making downward in the organization as far as possible. People need to "do it right the first time" because you have neither time nor money to pay for inspections or corrections of errors. Give them the information they need to do it right.

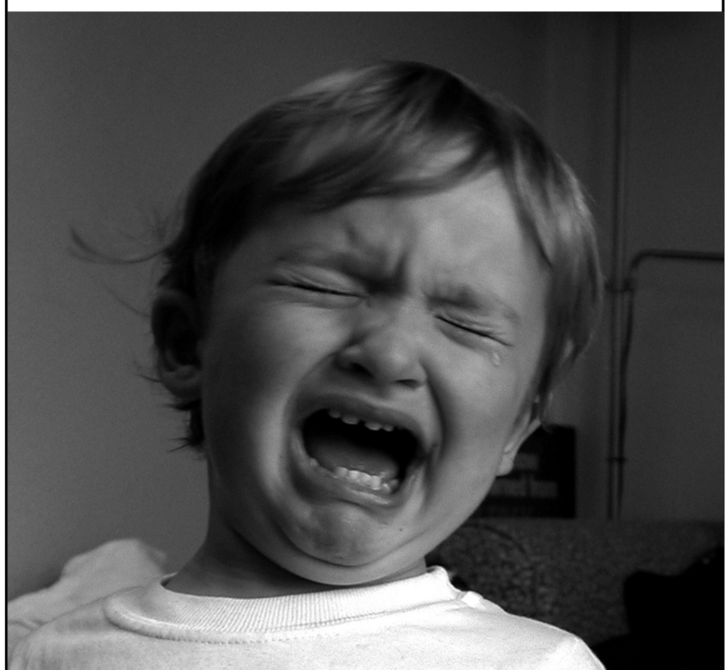
Employees are not stupid. They know if the company is doing well, or not doing well. But rumors will expand to fill in gaps in information. If employees are discussing rumors, they're not working to help the company cope with the crisis. Give them the facts. Share financials. Share your plans and concerns. Give them the opportunity to work productively. Make sure they have the tools they need.

Do not become a dictator. Do not lecture employees about how they have to work harder and smarter. They know they have to work smarter and harder. They don't need you looking over their shoulder. They need you performing your executive, managerial and supervisory roles. They don't need you micromanaging. They need you working smarter and harder at *your* job. They will take care of *their* job. Together, you can maximize your company's ability to cope with the recession and to take advantage of competitors' weaknesses so that you can emerge as a stronger company when the economy recovers.

Trust your fellow employee-owners. Trust your employee-ownership culture. Let it work for you … and for all employee-owners.

Two excellent articles addressing this issue and providing outstanding specific guidance are: (1) "The Economic Downturn: What Does It Mean for Employee-Owned Companies" by Martin Staubus of the Beyster Institute, Rady School of Management at the University of California San Diego, published in their December 2008 *Leading Companies* online magazine and accessible via a click on "Online Magazine" on their website at http://beysterinstitute.ucsd.edu/; and (2) "The Importance of Ownership Culture in Difficult Times" by Ben Wells, ESOP attorney at Dinsmore & Shohl, LLP, in Cincinnati, OH, published in the November 2008 *ESOP Report*, the voice of The ESOP Association, and available to TEA members at www.esopassociation.org. OAW

Economy Got You Down?



You Have An Advantage!

Learn How to Put Your Employee Ownership Culture to Work

at the 23rd Annual

Ohio Employee Ownership Conference

Friday April 17th, 2009 • Akron Fairlawn Hilton

Find out more at www.kent.edu/oeoc

Succession Planning Expands to Southwest Ohio

Welcomes New Staff Member

Closely held businesses are the backbone of the American economy. Some 4.6 million closely held companies provide 76% of private sector employment . Practically all the new job generation in the country is in the closely held sector. A 2004 US Small Business Administration study found that only 15% of these motors of capitalism made it to the second generation and 5% to the third.

Timely and effective succession planning is the most cost effective means of retaining these businesses and the jobs they provide in our communities. While 80 percent of small businesses are family owned, only 21 percent have a written plan for succession. Proper succession planning is the single most preventable cause of job loss in the United States.

Supported by the Ohio Department of Job and Family Services and the Ohio Department of Development, the OEOC has moved into the second phase of an initiative to build a business ownership succession planning infrastructure and to expand previously offered programs throughout the state.

OEOC resources now available for succession planning and employee ownership are:

1) Seminars offered in northeast Ohio led by qualified small business service providers.
2) Interactive, live and archived Webinars.
3) A Business Succession Planning video
4) *An Owner's Guide to Business Succession Planning* manual (2nd edition)
5) Two-day "train-the-trainer" programs on ownership succession for economic development professionals.
6) General, introductory technical assistance service provided by the OEOC for business owners considering various forms of succession tools.
7) OEOC-managed revolving loan fund capacity to help fund these transitions.

Further OEOC succession planning initiatives include expansion of seminars offered, with a focus on southwest Ohio, especially Columbus, Dayton, and Cincinnati; continued production of webinars (16 to be offered in FY '09); wide distribution of the Business Succession Planning DVD and the Owner's Guide; additional Training for Economic Development professionals (to be offered in Cincinnati); employee ownership workshops in southwestern Ohio; development of distance learning capability via the internet through website enhancement; expanded technical assistance for retiring owners and loan fund capability in non-employee ownership situations; outreach to business groups and media via OEOC succession planning presentations; and more business succession planning information, scheduled events, and links on the OEOC website.

To facilitate the succession planning program (SPP) expansion across the state, Roy Messing joined the OEOC staff in October. His primary responsibility is spreading the program's outreach to Southwest Ohio, with an emphasis on the Columbus, Dayton and Cincinnati markets. He brings over 20 years of financial institution experience to the OEOC. Roy has served in business development roles for various banks, including Sky Bank and Fifth Third Bank in Northeast Ohio, working closely with owners of privately held businesses. He has ten years of management experience in the delivery of financial services to commercial clients, including loans, deposits, and specialized accounting services. Most recently, he spent over a year with a Northeast Ohio plastics company as chief financial officer, where he helped launch a new commercial product and direct a financing package for the organization.

Roy has been involved in helping to fund start ups, business expansions, and mergers and acquisitions of existing operations. He successfully completed financing packages with several government programs, including deals supported with Small Business Administration and USDA Rural Loan Guarantee programs. He also has worked with distressed companies to help find funding solutions to their particular financial problems.

Roy earned a BS in Agricultural Economics from Michigan State University and an MBA with a finance concentration from the University of Dayton. He has been active with youth in scouting and in coaching baseball, basketball and soccer.

As a lender, Roy has viewed employee ownership as a viable tool to transition business ownership. Of his new position, Roy said, "I am looking forward to using a business development model to work with business owners and their trusted business advisors to get out the important message about timely succession planning that helps owners reach their goals when it comes time for them to exit their business." OAW

The OEOC's newest staff member, Roy Messing

In Memoriam

Rich Biernacki

The employee ownership community has lost a true leader, advocate, and pioneer. Rich Biernacki, former CEO of Fastener Industries Inc. and architect of its ESOP, passed away in November. Rich was a past chair of the ESOP Association, a National Cooperative Bank board member, and a member of the OEOC Advisory Board.

Rich Biernacki

The Fastener Industries ESOP has often been portrayed as a "model." This tag has stuck not because many other ESOPs look like Fastener. On the contrary, in many ways Fastener remains unique even today. It is a model because it has endured, is admired and is an early example of a transition to employee ownership that was based on sound, principle-centered ideals. This ESOP was one that was created for the right reasons. Its provisions were designed to insure that the Fastener worker-owner would share in the growth of capital at retirement time, share in the governance of the company, and truly share in the responsibility for success.

Fastener Industries was incorporated in 1905 as the Ohio Nut and Bolt Company, a manufacturer of nuts, bolts, levelers and weld fasteners. Located in Berea, Ohio, the company was owned by the Whelan family since 1928. In 1979, the family considered selling the business. Biernacki, who at that time was the treasurer, suggested to the Whelans that the firm be sold to the employees using an ESOP. To Rich, it simply "made sense" that ownership should be shared. Later he was quoted as saying, "After all, it was the productivity of the employees that was responsible for our profits. And by sharing ownership democratically, I figured the company could improve on its already successful track record. And in fact, it has."

In 1991 Fastener was awarded the Center for Economic and Social Justice Global Award for Value Based Management. As a result, Rich participated in the CESJ delegation to Rome that met with Pope John Paul II. Today Fastener remains competitive in an industry that has significantly moved offshore. It has grown, anchored jobs, and shared wealth creation with numerous stakeholders in Northeast Ohio, an area experiencing significant manufacturing sector job loss over the last 30 years.

To be sure, Rich was proud of the success of the company he led and his role in creating it. But by far his greatest satisfaction was seeing how personal effort and growth resulted in reward for all the employees that made it happen. And he would go out of his way to give credit to the entire team rather than take it for himself. His humility was a trademark.

Biernacki was a throwback to the type of leadership our country so desperately needs today. His style was based on a strong set of values shaped in part by his experiences. You knew it as soon as you met him. Integrity, sharing, hard work, fairness, and respect for our country were important to him. Greed was not part of his vocabulary. At the same time he was an extremely tough competitor and knew the definition of teamwork. This was apparent when it came to football. As a product of western Pennsylvania he was of course an avid Pittsburgh Steelers fan, a challenge when your home is in the Cleveland area. For those who ventured into a football conversation with Rich it was apparent he knew what he was talking about. Not only a fan, Rich was a high school football star, and attended college in Boston on a scholarship. Later he served as a pilot in the U. S. Army during the Korean conflict and regularly flew helicopter missions.

Nowhere is there more evidence of his core beliefs than in the design of the Fastener ESOP that he orchestrated. His fundamental belief was in his fellow man/woman. He had absolute faith that "people"—his fellow workers, would do the right thing if given the chance. To those who worked for or with him, Rich was a role model and mentor. He was a tough businessman and set high standards. He believed in capitalism and the power of the will of the people. He would teach that faced with taking on responsibility for something they own, and given the proper tools, the worker would consistently exceed your expectations, and most of the time they would exceed their own expectations!

Often leaders are placed in a position of power where they can control a decision that will affect the lives of a group of people. We need leaders who will make those decisions responsibly, in the best interest of our society, and using some of the principles Rich was passionate about. First, rather than designing a deal where he alone would personally gain and be assured of future control, he opted for 100% employee ownership. Next, he thought it logical that if the employees were taking on the risks of ownership (risking their retirement nest egg on the success of the company they worked for) then it was fair to give them the right, and the responsibility, to have a say in the governance.

The simplicity, fairness, and common sense used to design the plan reflected Rich's values. He was a no frills guy who treated everyone with respect. He ran a lean, flat organization. The resulting policies helped to emphasize the high degree of participation, teamwork, accountability and reward expected by everyone.

Voting? … He passed on control to the employee shareholders based on a one-share, one-vote basis. His own position as CEO and Board Chair was in jeopardy every two years as an election was conducted for the five member board of directors. Board nominations were open to anyone able to accumulate the required employee signatures on a petition.

Vesting schedule? … Why should an employee wait to be vested? They have worked to earn their equity. If they leave, they should be able to take it with them … therefore, immediate vesting!

New employees? … Why should a new employee wait long to be included in the ESOP and to "join the team?" They are participating in the company's performance, just as everyone else … therefore, eligible after 30 days!

And so it went—philosophy and policies focused on the employee group and what is in their best interest. Each of us has our own definition of "fair," but Rich's definition may be the most admirable you will ever see. We will miss him.

Norm Brennan

Members of Ohio's ESOP community remember Norm Brennan, who passed away last September, as an enthusiastic champion of ESOPs, a partnership-builder, leader, advisor and friend. His involvement with ESOPs began as the CEO of employee-owned Dimco-Gray and he later served as a director of several Ohio ESOP companies and organizations, including co-chair of the Ohio Employee Ownership Center's Advisory Board.

Norm Brennan

Norm became President and CEO of Dimco-Gray in 1989, years after the ESOP was established and during a very rocky time. They had what they described as a self-destructive corporate climate of distrust, low morale, low productivity, and adversarial union-management relations. The company lacked direction and the future looked dim. With Norm's encouragement they developed a team approach to planning, operations, HR management, employee training, open book management, and contractually-based profit-sharing. Everybody started to focus on common goals, and profitability quadrupled. "Norm believed in the ESOP," recalled Dollie Mabe, Dimco's HR manager, "and he believed in people. He was a great mentor of others and of new ideas through his service as a director of other ESOPs."

He was an active participant among peer CEOs in Ohio's Employee-Owned Network and an advocate on many issues of good management and governance structures in ESOPs. Dimco-Gray was recognized as Ohio's ESOP Company of the Year in 1996 and Norm served as Vice-President of the Ohio Chapter of The ESOP Association.

Upon his retirement from Dimco, Norm formed Brennan Executive Consulting to help ESOP companies. He served on the boards of several ESOP companies, including Ever-Roll Specialties. As Ever-Roll's President, Ed Kohl, put it, "underlying all of Norm's advice and counsel was an understanding of and compassion for individuals. He genuinely cared for the associates of Ever-Roll and wanted us to succeed both individually and collectively."

Rick Judy

Long-time Youngstown friend of employee ownership Rick Judy, 56, died suddenly after a short illness on January 10, 2009. At the time of his death, he was serving as Chairman of the Board of Directors of the Common Wealth Revolving Loan Fund (CWRLF), a community development loan fund which specializes in lending to employee-owned firms.

Rick Judy

He was serving as well as chair of the board of Common Wealth Property Management, which administers 269 low and moderate income housing units in Youngstown and the neighboring communities. He is a long-time board member and former chair of the board of trustees of the parent organization Common Wealth.

"It is with deep sadness that we learned of the death of Rick Judy, a dedicated activist for peace, justice, and human rights," said Pat Rosenthal, Executive Director of Common Wealth. "His leadership and service to the community have made a lasting impact and Rick will be greatly missed and long remembered."

"Rick Judy chaired the Common Wealth Revolving Loan Fund with deep commitment to CWRLF's dual goals of providing loans for employee ownership and for low and moderate income housing," commented Bill McIntyre, Loan Fund coordinator. "He believed strongly in social and economic justice, and he matched his beliefs with works. His counsel, his wisdom, his belief in the possibility of a better society, and his humor will be much missed."

Rick Judy was a graduate of McPherson College in Kansas, and an ordained minister. He had served for a number of years as church office manager at John Knox Presbyterian Church in Youngstown. At the time of his death, he was serving a part-time minister at the Living Peace Church of the Brethren in Columbus. He attended Midway Mennonite Church in Columbiana. He was involved in many other community organizations including the Youngstown Peace Council and A.C.T.I.O.N. OAW

Book Review

David Erdal, ***Local Heroes: How Loch Fyne Oysters Embraced Employee Ownership and Business Success*** (London: Penguin, 2008), 246 pages. ISBN 978-0-670-91754-9. Price: £14.99.

Loch Fyne, Scotland's longest loch, cuts into the West of the Highlands. It's a beautiful area, but like much of Scotland today, largely devoid of gainful employment. This little volume tells the story of two men who did their part to remedy this. It is a tale "full of heroism," David Erdal promises, "the heroism of ordinary people as well as the two extraordinary men who founded the company" (4). The one is Andy Lane, a marine biologist, salmon-farm employee, dreamer, and would-be oyster grower. The other is Johnny Noble, a local aristocrat and wine merchant who inherited his father's estate, along with its workers, heavy debts, and taxes. Together, in the pursuit of sustainable seafood, they created a successful company that would eventually pass into employee ownership.

Oyster farming is not a route to instant gratification. It takes four years to grow seed oysters to an edible size. Lane and Noble sank years into the business before production reached the point that Noble, a born marketer, had much to sell. But, over twenty-five years, they put together a successful seafood grower that established a brand based on natural purity and sustainability as well as a separate chain of successful seafood restaurants, Loch Fyne Restaurants, that was Loch Fyne Oyster's biggest customer. They did so with a cast of local characters whom Erdal describes with an uncommon attention to detail that makes them all real. He makes adept use of interviews. The only shame is that he never interviewed the "unpredictable, incorrigibly subversive, [and] oyster-obsessed" (83) Johnny Noble, whose sudden death in 2002 triggered the crisis that put the business up for sale.

As is often true in outlying geographical areas, the only outside buyers weren't interested in much of the operations or many of the employees. None of them, certainly, intended to move to Loch Fyne. Lane – a 40% owner -- speculated vaguely about "doing a John Lewis," that is, having the company bought by a trust for the employees like the trust that owns the John Lewis Partnership, one of Britain's biggest retailers.

Unlikely as it seems, Lane found a way to do just that, and that's how the author, David Erdal, came into the story. Erdal runs the Baxi Partnership Trust, a £20 million fund that supports employee-ownership conversions. Baxi put in the subordinate debt that made viable the employee purchase of Loch Fyne Oysters in 2003.

The Baxi model combines partial ownership in perpetuity by a trust for the employees with partial direct ownership by the employees. The former ensures permanent employee ownership; the latter makes the ownership real to the individual. Baxi doesn't invest without a favorable employee vote. When the vote came at Loch Fyne, it was 100% in favor.

The last third of the book is devoted to the experience of employee-owned Loch Fyne Oysters. Erdal's "partnership culture" is the one we are familiar with in America: the combination of employee ownership with employee involvement, free flows of information and enough business education to understand how the company increases productivity and profitability. And so it was at Loch Fyne, though it was all carried out in Scottish brogue.

Erdal has written a remarkable book: a "good read" about employee ownership. It comes with a good dollop on the importance of work, justice and ownership in a good life, and more information about the impact of freezes on trout farming and the fluctuation in salmon prices than you will generally find in a business book. It's lively, touching, often funny, and probably the best written book in our field. Buy it!

John Logue

New Resources for Employee Ownership

Roadmap for Retiring Owners

Steve Clifford and the staff of the Ohio Employee Ownership Center. ***An Owner's Guide to Business Succession Planning.*** 2nd edition. Kent: Kent Popular Press, 2008. Pp. 64. Includes DVD: "Business Succession Planning: the Movie." ISBN: 978-0-933522-26-8 (paper). $19.95.

This new edition of the successful OEOC guide to business succession planning offers a complete, but brief, road map for owners planning to exit their business. It starts with an outline of the process of business succession planning, emphasizing choices that meet the needs of the business owner, his/her family, and the other stakeholders in the business. It continues with a discussion of strategies and tools in succession planning including basics of valuation, continuing with family ownership, buy-sell agreements, gifting of shares, trusts, management buyouts, employee ownership, sale to outsiders, and liquidation.

The volume includes a short list of additional readings, worksheets, and a DVD of business succession planning: the movie, which includes examples of most of the tools and strategies.

The new edition updates tax and legal issues for all strategies and adds sections on valuation and selling to your employees through a cooperative as well as an ESOP while getting the capital gains tax deferral of the §1042 rollover.

Updates Available for ESOP Reference Book

Robert W. Smiley, Jr., Ronald J. Gilbert, David M. Binns, Ronald L. Ludwig and Corey M. Rosen, Editors. ***Employee Stock Ownership Plans: ESOP Planning, Financing, Implementation, Law and Taxation.*** Beyster Institute at the Rady School of Management, University of California, San Diego, 2007. ISBN: 0-9664077-5-X. Two Volumes. $395.

This book, originally reviewed in the Summer 2007 issue of *Owners At Work*, has established itself as one of the best references on everything ESOP. The editors are committed to keeping the book "current" by continually updating the website with revisions as needed. Consequently, the editors have posted current 2008 updates on their website and made them available for purchasers of the 2-volume set. The updates themselves cover a number of important subjects, and are searchable by topic. Information on ordering as well as access to updates can be found at www.esopbook.org. Altogether, an excellent addition to an already excellent resource! **oaw**

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Employee Stock Ownership Plans:

ESOP Planning, Financing, Implementation, Law and Taxation

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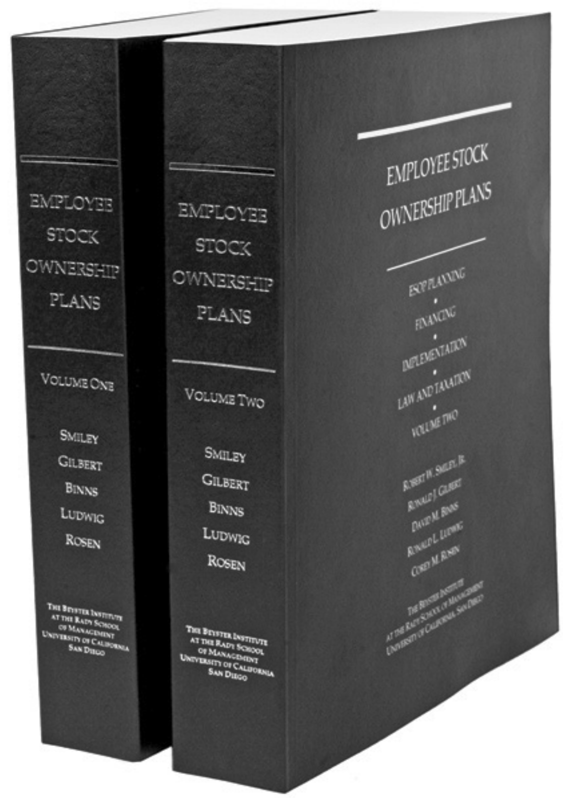

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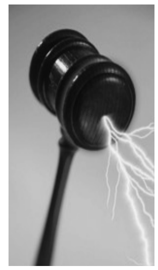

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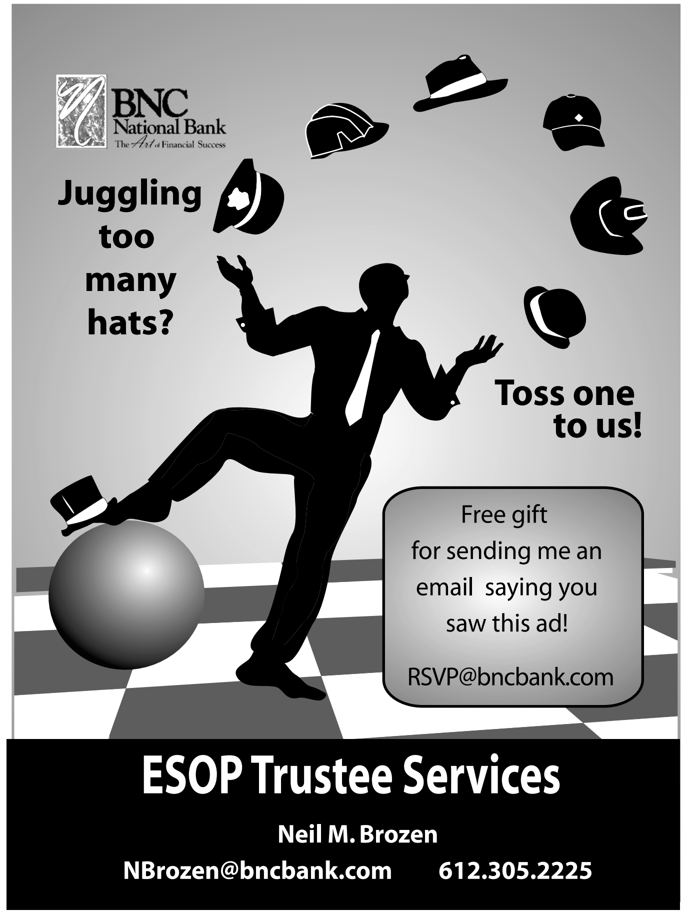

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Employee Ownership Basics: How Can I Affect the Bottom Line?

Wednesday, March 25, Cincinnati
Employee Ownership Leadership: Open Book Management

Thursday, April 16, Akron/Fairlawn
ESOP Communication Roundtable, 3-6 P.M.
CEO—Peer Forum, 3-6 pm
CFO Roundtable, 3-6 pm
Network Dinner, 6-7 pm; Company Showcase Reception, 7-9 pm

Friday, April 17, Akron/Fairlawn
23rd annual Ohio Employee Ownership Conference
"Put Your Employee Ownership Culture to Work"

Spring Date TBA
CEO and CFO Networking Dinner

Wednesday, May 20, Cincinnati
Southwest Ohio Employee Ownership Mini-conference

Wednesday, June 10, Columbus
Employee Ownership Basics: ESOP Communication & Teamwork

Thursday, June 18, NE OH
ESOP Fiduciary & Administration & Forum

Wednesday, June 24, NE OH
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email easinc@eriecoast.com for details

April 22-24, 2009
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Portland, OR
Call 510-208-1300 for details

May 5-7, 2009
National Cooperative Business Association - Annual Conference
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