

OWNERS @ WORK

the ONLINE magazine of the
Ohio Employee Ownership Center

Volume XXV No. 1 Summer 2013



Employee Ownership in Ohio

Also in this Issue:

How Risky Are Acquisition Loans for ESOPs?

27th Annual Employee Ownership Conference Highlights

OWNERS AT WORK

Editor

Felicia Wetzig • fwetzig@kent.edu

Staff Writers

Jim Anderson • jander77@kent.edu
 Steve Clem • cclem@kent.edu
 Roy Messing • rmessin2@kent.edu
 Jay Simecek • jsimecek@kent.edu
 Jacquelyn Yates • jyates330@gmail.com

Layout & Design

Felicia Wetzig & Chris Cooper

Staff of the OEOC are not licensed attorneys, tax professionals, valuers, or any other profession requiring licensing, and therefore, nothing in this newsletter should be construed to be legal, tax, valuation, accounting or financial advice. Please see your professional advisor for guidance on the specifics of your situation.

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
 oeo@oeockent.org
 www.oeoockent.org

Front cover design by Chris Cooper

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

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

The OEOC is funded by grants from the U.S. Department of Agriculture and private foundations, as contributions from service provider professional members, Friends of the Center, and the companies that comprise Ohio's Employee-Owned Network.



Ohio Employee Ownership News	3
How Risky Are Acquisition Loans for new ESOPs?	7
"Your story makes the difference."	9
J. Michael Keeling, ESOP Association	
The 27th Annual Ohio Employee Ownership Conference	12
Employee Ownership: Building Jobs, Wealth & Communities	
"Is employee ownership really worth it? "	15
Corey Rosen, National Center for Employee Ownership	
Ohio Employee Ownership Center Awards	18
Ohio's Top 50	20
Network News	21
Book Review: Gar Alperovitz, <i>What Then Must We Do? Straight Talk About the Next American Revolution</i>	22

Editor's Note

As the economy continues its slow recovery, it remains important to look at ways to build jobs that support local economies. Studies continue to show that employee ownership is one means to successfully build jobs, create wealth, and strengthen communities. Our 26th Annual Employee Ownership Conference focused on just that.

On April 19, 2013 more than 370 people gathered from more than 15 states and the District of Columbia gathered at the Hilton in Fairlawn, Ohio to hear from expert speakers in the Employee Ownership World. Our morning keynote speaker J. Michael Keeling, President, The ESOP Association spoke on the importance every employee owner can play in influencing the decisions of ESOP-related legislation. During lunch, Corey Rosen, Former Executive Director and Founder of the National Center for Employee Ownership, explained the importance of employee ownership and its benefit to employees, companies, owners, and society. Edited versions of both keynote speeches appear within this issue, as well as a general overview of conference sessions and activities.

Already this year we've seen award-winning ESOPs from around the state exemplifying what employee ownership can do for a company. Of the 101 companies recognized by the Leading EDGE Awards this year, 11 were ESOP-owned firms. Hopkins Printing of Columbus has been recognized with several awards including being named one of the top places to work in central Ohio and Network Member Perry proTech, was honored at both the National ESOP Association and the Ohio/Kentucky Chapter of the ESOP Association.

Also in this issue, OEOC's research director, Jacquelyn Yates, provides a look at the risk involved with acquisition loans made to new ESOPs and a look at Ohio's Top 50 ESOPs based on the most recent data from the Department of Labor. Felicia Wetzig's review of Gar Alperovitz's most recent book *What Then Must We Do?* examines Alperovitz's argument that the only way to correct the current economic, social, and environmental problems is through the decentralized redistribution of wealth through means such as employee ownership.

Finally, we say goodbye to two long-time members of the OEOC. Steve Clem has retired after 15 years at the OEOC, and Jim Anderson is moving on to take a lead position with Pittsburgh Clean & Green Laundry.

We would like to thank the sponsors of this issue of O@W (you'll see their info sprinkled around the issue) and the generous folks who have contributed to the ongoing work of the Center through our Friends of the Center donation program (see page 8 for a full list.) We thank each of you for your support.

Enjoy your summer!

Ohio Employee Ownership News

Eleven ESOPs honored with this year's Leading Edge Award

Every year Entrepreneur's Edge and Crain's Cleveland recognize innovative mid-sized companies generating economic value for Northeast Ohio through the Leading EDGE Award.

Many ESOPs are being honored this year for the value they bring to themselves, communities, and region. This is measured by regional business support, earnings, employee take-home, and return to shareholders. Of the 101 Leading EDGE winners this year, 11 were ESOP-owned firms. This is fantastic as ESOPs only make up around 6% of the companies that are eligible for the award. The ESOP companies recognized were:

The EBO (Excellence by Owners) Group in Sharon Center is the parent company of PT Tech, TransMotion Medical and IPES sol and provides products to the industrial, medical and renewable energy markets. The company adopted an ESOP in 1990 and became 100% employee owned in 2008.

Falcon Industries is a Medina-based company that provides custom helix flying. Falcon also owns a plant in Cosmos, MN, and both plants are fully equipped to produce, polish and finish products. Their ESOP was established in 2000, and employees currently own 40% of the company.

American Roll Form in Painesville was incorporated in 1960 to provide full-service custom metal fabrication. Their experienced staff of 90 employees, who share in the ownership of the company, is considered to be essential to the quality of their product.

Rable Machine is a 100% employee owned precision machining company located in Mansfield. Their ESOP was established in 1992 and, in recent years, the company has grown an average of 20% per year while investing approximately \$6.5 million in equipment and improvements.

Grand River Rubber & Plastics was sold to employees in 2011 and now is now a 100% owned by the 200 employees through an ESOP. Located in Ashtabula, the company specializes in lathe cut washers, tubular gaskets and flat drive belts and exceeded \$39 million in sales in 2010.

Delta Systems in Streetsboro is 30% employee-owned by its 180 employees through an ESOP established in 1994. The firm produces and distributes electrical

switches, electronics, and FreeRein® wireless control systems, and turnkey contract manufacturing/EMS services.

Fairmount Minerals, located in Chardon is one of the largest producers of industrial sand in the United States. The company has been recognized with the Leading EDGE award since 2007 when they also received the Richard Shatten Civic Distinction Award given to only one Leading EDGE recipient each year.

Garland Industries is a Cleveland-based 100% employee-owned ESOP established in 1986. Garland's more than 500 employees operate out of five manufacturing facilities in OH, GA, AL, AR, and CA. Garland Industries and its 12 operational businesses specialize in high-performance manufacturing, design and installation of commercial roofing and building solutions.

Duramax Marine LLC is a Hiram based company that develops and manufactures of marine propulsion equipment. Each piece of equipment is engineered to increase vessel performance to meet the demands of the ever-changing industry. As of 2011, the 85 employees own 100% of the company through an ESOP.

Columbia Chemical is a leader in Zinc Plating and a key player in offering zinc plating processes that does not require the use of sodium cyanide. The company was founded in 1975 and became a 100% ESOP in 2005.

Bardons & Oliver, Inc has more than 100 years manufacturing experience. In 1997, the company established an ESOP and is now 100% employee-owned. They have become a multimillion dollar company, and continue to make wide range of products that are used by manufacturers of machine tools, mining equipment, oil country equipment and components, fluid power products, transportation equipment, specialty machinery, power transmission equipment, motor vehicles and aircraft.

- Paul Wetzig

30 Mile Meal Program Grows—Linking Consumers to Local Food

The 30 Mile Meal Project is the product of an effort from the Athens County Convention & Visitor's Bureau and the Appalachian Center for Economic Networks (ACEnet) to "support local food producers and food entrepreneurs" and to provide people with the opportunity to patronize establishments that offer



fresh and healthy food grown locally. To complete this mission, ACEnet partnered with the Real Food-Real Local Institute and more than 100 farmers, food retailers, and restaurants.

Director of the Athens project, Natalie Woodroffe, hopes that the 30 Mile Meal provides consumers with a means to reconnect with their food—no longer having to worry about pesticide exposure or growing practices because everyone will be able to "trace the steps back to their food's original sources." Additionally, the practice of buying food locally ensures that the money goes back to their community, making it stronger.

Since the creation of 30 Mile Meal in Athens, more groups have embraced the idea and created their own local food network including the Lake To River OH/PA Project in Youngstown, OH. The Youngstown project operates under the Lake to River Food Hub, a multi-stakeholder cooperative linking farm producers and consumers in delivering high quality locally produced food in the Mahoning Valley area. The OEOC provided initial cooperative training and ongoing technical support in launching and growing the cooperative.

- Felicia Wetzig

100% Employee-Owned Hopkins Printing Honored for Achievements

Hopkins Printing in Columbus, Ohio has been named A Best Workplace in America by Printing Industry of America, received the Better Business Bureau Integrity Award, named a Top Small Company Workplace by Winning Workplaces in 2011, and was featured in Inc. Magazine for its innovative cross-training program. But the accomplishments of this employee owned printing company don't stop there. Just this year, the company has

Employee Ownership News

been recognized in the Print Excellence Awards, ranked as one of the top places to work in Central Ohio, and recognized by The ESOP Association for their role in advocating ESOPs to local government representatives.

In February of this year, the Print Excellence Awards Banquet, sponsored by the Printing Industries of Ohio and Northern Kentucky awarded Hopkins Printing with the People's Choice Award and the Best of Region award. Then, in April, Columbus CEO Magazine, WBNS-10TV, and Workplace Dynamics LLP teamed up to identify the top places to work in Central Ohio. After putting 803 companies through a selection process that analyzed company statistics, employee surveys, and workplace standards, the companies were ranked. One of the companies identified was employee-owned Hopkins Printing. Hopkins was recognized as the 24th best small organization—124 or fewer employees—in the region.

The following month, the ESOP Association also recognized Hopkins Printing, this time for the company's quick response to ESOP advocacy needs. After ESOP Association President, J. Michael Keeling, alerted Association members of Ohio Congressman Pat Tiberi's role in overhauling tax laws, Michelle Waterhouse, Director of Human Resources at Hopkins printing, sent a letter to the Congressman reminding him of his visit to the company and

explaining how the ESOP is important to everyone involved in the company from the employee owners to the customers.

Hopkins Printing is a commercial printing company 100% Employee Owned by its 102 employees. The company, founded in Columbus, Ohio in 1976 is a leader in graphics communication. Their success is likely rooted in strong company values as reflected at the end of their mission statement, "We will treat others as we would like to be treated for the benefit of our customers and our employee owners."

Congratulations to all the employee owners at Hopkins Printing on all of your success this year!

- Felicia Wetzig

Professional Member, Prairie Capital Advisors, Inc. Becomes Employee Owned

Since 1996, Prairie Capital Advisors has been providing ESOP and valuation services and investment banking services to support ownership transition, corporate growth, and business sustainability. Prairie is one of OEOC's professional members, and with locations in Oakbrook Terrace, Atlanta, Cedar Rapids and Chicago, the company is a leading advisor to closely-held companies nationwide. In April, Prairie announced that their company had taken another step in support of employee ownership by becoming 48% employee owned through an Employee

Stock Ownership Plan (ESOP).

In the press release, Ken Serwinski, CEO of Prairie Capital Advisors explained, "As a leading financial advisor to ESOP companies across the country, the establishment of the ESOP aligns the interests of the Firm with our employees. This will further support our sustainable business model while also allowing us to better serve business owners with their ownership transitions." Serwinski also touched upon the benefit of employee ownership in rewarding and inspiring employees, "Our employees are incredibly talented and dedicated. They have contributed tremendously to Prairie's achievements and sharing ownership with them not only rewards their contributions, but also provides them incentive for their continued dedication."

- Felicia Wetzig

Creating Jobs Through Cooperatives Act of 2013

Introduced by Congressman Chaka Fattah (D-PA) to the House of Representatives on June 20, H.R. 2437, "Creating Jobs Through Cooperatives Act of 2013" authorizes \$25 million per year through 2018 to create the National Cooperative Development Program to provide assistance in spurring job creation and developing cooperatives.

This program would exist within the U.S. Department of Housing and



The OEOC's Chris Cooper presents a \$300 check to John Gargan Jr. of Kent Natural Foods Cooperative; the cooperative received the check for winning the First Annual "Cooperative Shark Tank" contest at the 2013 Ohio Cooperative Forum; here, John poses with a number of KNFC workers and volunteers inside the store

Employee Ownership News

Urban Development, and services would include:

- Grants to nonprofit organizations, colleges and universities for technical assistance to cooperative or groups seeking to form co-ops
- Guidance and technical assistance to communities seeking to form co-ops
- Revolving loan fund to provide seed capital
- Funding to train providers in technical assistance and to support professional development for organizations engaged in cooperative development

According to Fattah, "Co-ops bring communities tighter by encouraging residents to pool their skills and resources.... This legislation brings federal resources and a policy priority to that effort."

More than 29,000 cooperatives already operate in all 50 states in various industries from energy and telecommunication to food distribution, health and housing. These cooperatives range in size from small grocery stores to Fortune 500 companies and together account for more than \$3 trillion in assets with more than \$500 billion in revenue.

Contact your local Member of Congress and encourage their support for the legislation. If you would like to learn more, contact R.L. Condra, NCBA CLUSA Vice President of Advocacy.

- Felicia Wetzig

Pro-ESOP Bills announced in the House and Senate

In October of 2010, the US Department of Labor proposed a regulation that would require valuation advisors who recommend stock prices to ESOP trustees to be considered as ESOP fiduciaries—even though this advisor simply makes

a recommendation to the Trustee and the Trustee sets the stock prices and acts as the fiduciary. In our Winter 2011 issue of Owners at Work, Bill McIntyre discussed, "Why Valuers Should Not Be Fiduciaries," and argued that considering valuers as fiduciaries will "imperil the continued existence of established ESOPs and discourage the creation of new ones..." Luckily, the original proposal to make appraisers ERISA fiduciaries was withdrawn, because its passage would have led to confusion over who makes decision about acquisition of shares and it would leave ESOP companies open to lawsuits.

Even though this proposed legislation failed, the Labor Department's intention to propose similar legislation in July 2013, other representatives have moved to attempt to redefine the definition of fiduciary under the Employee Retirement Income Security Act of 1974 to protect ESOPs by clearly stating that the appraisers of ESOPs are not ERISA fiduciaries.

On May 17, 2013, H.R. 2041 was introduced to the House by Congressmen Brett S. Guthrie (R-KY), David Loebsack (D-IA), and Congresswoman Lynn Jenkins (R-KS). The bill is a companion to S.273 which was introduced by Senator Kelly Ayotte (R-NH) on February 11, 2013 which we mentioned in the Spring 2013 issue.

Senator Benjamin Cardin (D-MD) introduced S.742, the Promotion and Expansion of Private Employee Ownership Act, with bi-partisan support. The act which seeks to expand the availability of ESOPs in S corporations and expand opportunities for existing S ESOP corporations. According to economist Alex Brill's 2010 report, the

Macroeconomic Impact of S ESOPs on the U.S. Economy, S ESOPs contribute significantly to the economy. Cardin hopes the passage of S. 742 will allow more Americans to gain financial security by "giving businesses the tools they need to create jobs and promote adequate retirement savings."

Currently both of these bills have been assigned to congressional committees which will consider them before sending anything on. The only way to get this bill out of committee and moving toward passage is to let your Congressional representatives know of your interest and concern. Give them a call. Ask them to co-sponsor the bill.

- Roy Messing

Columbus area Pattycake Bakery becomes a Worker Cooperative

Pattycake Bakery has successfully converted to a worker cooperative effective May 1, 2013. Jennie Scheinbach, the company's founder, sold shares of the business to the newly formed P-Cake Allstars Cooperative, making the company "worker-owned". The Clintonville, Ohio business has successfully operated as a retail and wholesale vegan bakery for nearly ten years. The actual conversion to a worker cooperative is the culmination of years of hard work by Jennie, her staff, and key professional service providers. With the transition complete, the bakery is moving forward with the expansion of its business with the addition of the "City Beet Café" in the adjoining retail space. This will add both bakery production and retail capacity to the business that has grown beyond its current physical space. This expansion, which will be completed this fall, is expected to add at least an additional ten jobs in the community.

While conversions of a private business to worker-owned cooperatives are few in numbers, they typically involve a retiring business owner selling to the workers as an exit strategy. The Pattycake conversion is even more unique, in that Jennie Scheinbach plans on working in the business for the foreseeable future.

Congratulations to all of the new employee owners at Pattycake Bakery who have already helped to get the cooperative off to a good start.

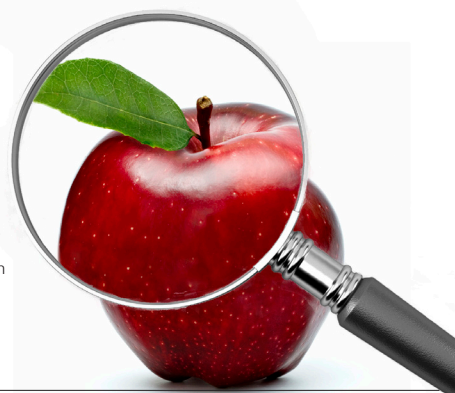
- Roy Messing

Owners At Work Summer 2013

Are you getting every advantage for your ESOP?

When considering an ESOP transaction, are you sure you're getting the maximum tax and strategic benefits from the deal? We've saved our clients hundreds of thousands of tax dollars by carefully planning of every aspect of the transaction. If you're ready to start ESOP planning, add Davin Gustafson and our ESOP experts to your planning team.

We look closer.



ESOPS@APPLEGROWTH.COM
WWW.APPLEGROWTH.COM
CLEVELAND 216.674.3800
AKRON 330.867.7350

Steve Clem and Jim Anderson Leaving the Center

Two long-time staffers—Steve Clem and Jim Anderson—have departed the OEOC as of June 30th.

Steve Clem, who has been with OEOC for the past fifteen years, is retiring. Steve has been instrumental in developing and implementing many of OEOC's programs. Bringing a background in labor research and business analysis, his wealth of knowledge has been a strong resource as the center has pursued new programming and services. He has conducted a wide variety of training programs and served as the center's main contact with state government and union groups. He also assisted the center in researching a variety of employee ownership related issues. Steve's presence will be missed at the center, but he has promised to visit the staff and those connected with employee ownership at future annual conferences. We wish Steve the best of luck in his retirement and continued success on the golf course.



Jim Anderson, who has been involved with employee ownership since his days at Republic Steel, is moving on as well. Jim will be taking the lead position with Pittsburgh Clean & Green Laundry project in Pittsburgh. Jim maintained a lead role in the Evergreen Cooperative Initiatives as the laundry's founding CEO, and was instrumental in developing the feasibility study and business plan for this nationally-known community development project. He led the implementation of the business plan and the launch of the laundry operations. Jim has been active with OEOC's work in the continued development of worker cooperatives as a community development model. We expect to see a good deal of Jim as he is staying connected to the employee ownership world. We wish Jim the best of luck as he moves the Pittsburgh laundry from concept to a business reality.

- Roy Messing

ESOP ADVISORS AND INVESTMENT BANKERS **MENKE & ASSOCIATES,**

The nation's largest ESOP advisor, providing comprehensive ESOP services for over 30 years to our 2,000 ESOP clients in all 50 states

MENKE & ASSOCIATES, INC. specializes in designing and installing Employee Stock Ownership Plans (**ESOPs**). We are the nation's most active firm dedicated to designing and installing ESOPs and have been a leader in the ESOP industry since our inception in 1974. We are one of the few firms in the country providing comprehensive ESOP services, including financial consulting, legal, employee communication, investment banking, and business perpetuation planning.

ESOP Administration Services

We are a national firm with six regional offices, providing annual administration / recordkeeping services for approximately 1,000 ESOPs nationwide.

The Nation's Largest ESOP Advisor

Contact us at: (800) 347-8357

www.menke.com



The Crowe ESOP Advantage[®] Solution

Crowe Horwath LLP has enhanced our Crowe ESOP Advantage website, adding new online functions, including:

- Distribution and diversification request capability
- Beneficiary entry capability
- Proxy voting capability
- Improved administrative capabilities

More Information for Your Participants, Less Work for You

To learn more, visit www.CroweESOPAdvantage.com, or contact Lori Stuart at 614.280.5229 or lori.stuart@crowehorwath.com.

Crowe Horwath LLP is an independent member of Crowe Horwath International, a Swiss Verein. Each member firm of Crowe Horwath International is a separate and independent legal entity. Crowe Horwath LLP and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath International or any other Crowe Horwath International member. Accountancy services in Kansas and North Carolina are rendered by Crowe Chizek LLP, which is not a member of Crowe Horwath International. © 2013 Crowe Horwath LLP BPS14505

How Risky Are Acquisition Loans for new ESOPs?

Jacquelyn Yates

In its broad outlines, the stories of ESOP companies are stories about people who don't have a lot, but through a little luck and a lot of hard work and sacrifice are able to realize material ambitions they never thought to attain. Their good luck is that they worked at a company where the owners wanted to share the company with their employees, and the hard work is what it took to follow in the founders' footsteps to continue and grow the company. These are often stories of business success and personal growth for both owners and employees, where, as in the Dr. Seuss stories, every heart grows a little bit larger and every mind grows a little bit broader. Like all mythic accounts, the story is true in its essence, but overlooks the details and difficulties.

One such difficulty is finding the money to enable the transfer of ownership. Most employees haven't saved enough to pool their wealth and purchase the company outright. And most owners can't afford to give the company away. What is needed is credit—that much neglected lubricant of the market. If employees who want to buy and owners who want to sell can't find timely credit, the sale won't occur and something else will happen—a sale to private equity firms looking for bargains or a competitor who just wants the customer list and closes the company or, more happily, a purchaser that wants to expand or enhance its operations and keeps the company facilities open and the employees retain their jobs. Only the last is a good outcome for the employees.

An important ingredient from 1984 to 1996 was a federal tax credit that allowed banks to take half the interest income from loans to new ESOPs tax free. When that expired in 1996, the number of Ohio's plans reporting acquisition loans fell precipitously.

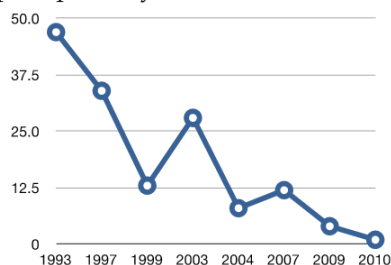


Figure 1. Number of One-Time Acquisition debt Borrowers

No doubt the decline in new ESOP loans was accelerated by the Great Recession, when credit tightened sharply and the value of businesses fell, so that few owners wanted to sell and few employee groups could borrow.

Now that the economy is recovering somewhat, the historical record of acquisition loan payoffs offers evidence of the risk in lending for employee buyouts. Publicly available records of acquisition debt exist in the IRS Form 5500 reports that ESOP plans must file annually (in the past, smaller plans could file triennially). Data is available from the Department of Labor for 1993 to 2010 (the data are released after two years).

The data provides snapshots of the acquisition debt situation of 130 companies taken at irregular intervals between 1993 and 2007. Debts created after 2007 are too new to determine how they will be settled and are thus

excluded from this study. In each snapshot, there are new ESOPs with debt, and following them through successive "family portraits" provides evidence for fairly good guesses about what happened to the debt. We have, in addition, a body of Internet research on what eventually happened to the ESOP and its sponsoring company.

Until the Great Recession, debtors in an initial snapshot tended to bring their debt to zero very promptly, as in the four graphics below. The midpoint year for the reports is in the title, but the data always includes a few in the previous years or even for the year after the midpoint.

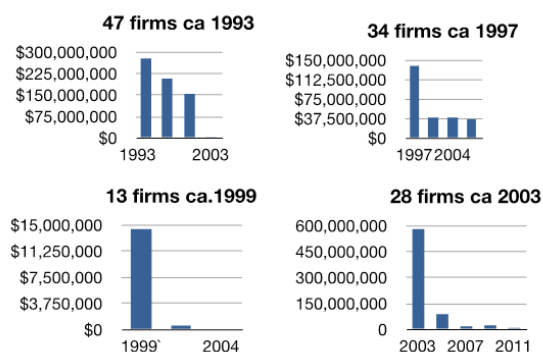


Figure 2. Total Balance on Acquisition Loans, for Loans Initiated in Form 5500 Reporting Periods

As the Great Recession hit, repaying acquisition loans became more difficult, and some companies even increased their debt. The reason for the increase is not clear, but it is easy to imagine plausible scenarios, especially for construction companies and banks, which were especially hard-hit. For the firms that borrowed in depth of the Great Recession and rode it out, however, the pattern is beginning to return to its historical shape, even if loan paybacks are a little slower than before.

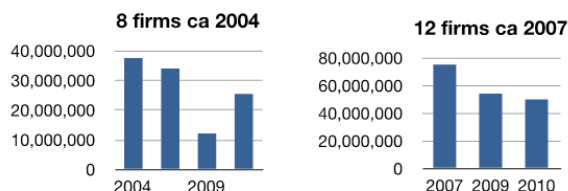


Figure 3. Total Balance for Loans Initiated after 2004

Examining the acquisition debt records for individual companies reveals that most ESOP loans were paid off within five years, and almost all within ten years. Evidence that companies pay off their acquisition loans appears in a pattern of gradually declining debt balances that eventually disappear after two or three "snapshots." A few companies pay down the loan over a longer period, and the balance declines more slowly, but they eventually do reach a zero balance. Even fewer companies do not exhibit the typical pattern and carry a large balance that suddenly disappears. They are usually found to be sold and the ESOP terminated. It is extremely rare for a new ESOP with acquisition debt to just collapse as an enterprise and default on its debt. Just

next page ►

four of 165 plans that reported debt between 1993 and 2010 appear to have failed in business. Four other companies closed with little information available. Of these eight that failed in business or no information about the closing situation can be found, some may have paid off their debts before their financial troubles brought them down. All reported a zero balance on the acquisition loan before ESOP reporting ceased, but in at least two of the cases, the bankruptcy or other announcement was made not more than a year or two before the loan appeared in the Form 5500.

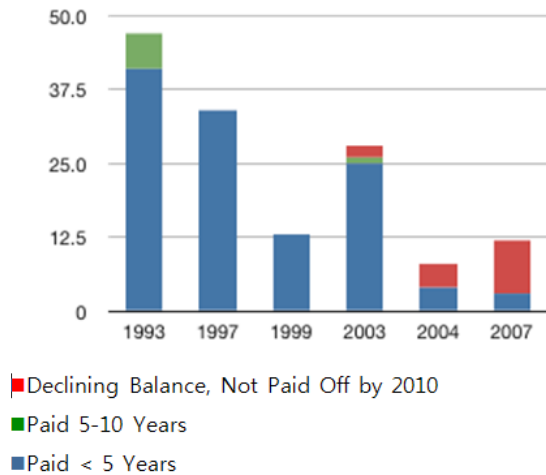


Figure 4. Payoff Histories for Loans Originated 1993-2007

After paying off acquisition debt, companies typically do not borrow through the ESOP again. Less than 10% of

companies had multiple episodes of debt reported by the ESOP. Most seem inclined to finance further purchases of shares from the seller and later acquisitions and expansion out of profits.

While companies are not likely to default on their acquisition loans, looser credit would probably enable more companies to be sold to their employees, as was the case prior to 1996. The value of more ESOPs for employees would be greater job security, higher wages and benefits, and a more comfortable retirement. The value for communities would be the continued presence of the enterprise as a good citizen, tax receipts from employees and the company, and more stable neighborhoods with greater home ownership. The value to the national economy would be a more diverse small business sector and lower costs for social programs.

Since looser credit isn't likely to return as a new tax credit program, other approaches to easing credit for acquisition might include a more formally structured application process that would familiarize bankers and other investors with the process of ESOP creation, and a requirement for successful loan applicants to educate and train their employees in the mechanics and economic potential of the ESOP (a known link to financial performance of ESOP companies).

Instead of individually tailored financing, a more structured and standardized approach might open easier credit for ESOP buyouts. The risk of default appears to be low, and ongoing companies can afford to pay reasonable interest for the short-term loans they need to launch employee ownership. Another possibility would be to create some sort of credit instrument or institution dedicated to financing ESOPs. **OAW**

2012-2013 Friends of the Center Honor Roll

Platinum

Falcon Industries
Davin & JoAnn Gustafson
Martindale Electric Company
Bill McIntyre
Producers Services Corporation
James Steiker

Gold

Ted Becker
Mary Giganti
Grand River Rubber & Plastics
Dave Heidenreich

Silver

Carl Draucker
Bob & Marie Kraft
National Center for Employee Ownership
Robin Industries
Tom & Judy Maish
Reuther Mold & Manufacturing
Vistula Management Co.

Bronze

Per Ahlstrom
Anonymous
Karen & Tom Ard
Joyce Baugh
Eric Britton
Joel Davis
Richard Davis & Karen Rylander-Davis
Eric Geyer
Kelso Institute
Thomas Leary
Larry Mack
Gerry & Bette Meyer
Van Olson
Radd Riebe
Richard Schlueter
South Mountain Company Foundation
Stephen Smela
Floyd Trouten
Karen Youngstrom
Hoyt Wheeler

Other Contributors

Jim Anderson
Brian Cooney
Chris Cooper
ESOP Services, Inc.
Kate Cullum
David Ellerman
Don Jamison
Scott Jacobs
Tim Logue
James Mahon
Joseph Marx
Stephen J. Newman
Ownership Visions
Tom Roback
Zach Schiller
John Shockley
Ralph Stawicki, Jr.
Jaroslav Vanek

Thank You for Your Support!

[Click here to donate to the OEOC](#)

Thank you, Roy, and thank you to all the folks with the Ohio Center for inviting me. I also want to say that my remarks are focused on the model of employee ownership known as Employee Stock Ownership Plan--ESOP. That is not meant in any way to disparage the folks here who are working hard and succeeding with employee-owned cooperatives, but I have to focus on what I know.

The ESOP community faces two negative challenges in our experience as a government advocacy group. ESOPs did not fall from the sky, they are a creature of federal legislation. Thus, the importance of having knowledge, involvement, and an organization that is focused on what happens to federal law, in the tax arena, and in the labor arena under an umbrella basically known as ERISA. For about 25 years or so, there has not been a serious challenge to ESOP laws or ESOP policy. We are facing in this cycle two challenges. One challenge comes from the current leadership of the Department of Labor. The other challenge comes from the oncoming tax reform work that Congress will be doing, and in part of that you wrap in the President's budget.

I've known the current Assistant Secretary of Labor who has run the department's work on ESOPs and ERISA plans for over 30 years. I respect her. Her feelings are not evil feelings. Her feelings are not feelings of misplaced anger. Her feelings are sincere and supported by a lot of folks in America, particularly by a bunch of lawyers with legal reasons, not reasons based on data that employee-owned companies through the ESOP model are more productive, more profitable, more sustainable, locally controlled, and providing adequate retirement income security. Their stance is based on a legal theory about some problems with how ERISA was done and how Congress screwed up in passing the laws justifying ESOPs.

If you read The Wall Street Journal online yesterday, there was a positive story about exiting shareholders, who are exiting their company and who, through the ESOP model, sell their shares to the ESOP on behalf of the employees. This makes up about 95 percent of the ESOPs in America, people who own privately owned companies, not stock market companies. Some very positive companies were mentioned, but yet there were some criticisms of ESOPs. ESOPs are too risky. Employees should not be part of an ESOP. Employees shouldn't put their retirement savings in that ESOP pot. The people that made that comment, of course, were lawyers and had no data or studies backing it up.

Not a one of the lawyers that keep condemning ESOPs know a thing about social science research or economic research.

But here's another one for you -- the financial community. There's a blog about financial advice and you can write in and big financial experts will answer your questions. This

fellow writes in the other day and he says, "I work for a 100 percent S Corp. They put 12 percent of my pay into the ESOP every year for the last seven years. The ESOP share value has increased by over 15 percent on average the last

"Your Story Makes the Difference."

J. Michael Keeling, ESOP Association
2013 OEOC Conference Morning Address, April 19, 2013

Editor's Note: Conference Speeches have been excerpted and edited. View the original in its entirety on our website www.oecokent.org.



seven years." And then he goes on to say, "What should I be doing in terms of, you know, my family and planning for the future?"

There were about 20, 25 responses to that question or comment. About four or five said, "Quit your job. Don't work for that company. Don't be counting on that company in 20 years. You don't know what's going to happen to your company in 20, 25 years. Get out of there." Now, that's an attitude of, well, you can't predict the future, and it's kind of an insult to anyone who ever started a company. All you entrepreneurs out there thinking about selling your company to your employees you shouldn't have done that. You took too big of a risk.

The ERISA rule that there are to be no parties in interest transactions when an exiting shareholder sells to the ESOP. The person selling is a party in interest except the tax committee's created an exception to that rule if the ESOP is acquiring the stock at no more than fair market value.

next page ►

There's another "if" in the eyes of the Department of Labor: if it's in the best interest to plan participants. If in your heart you legally believe and financially believe it's never in the interest of plan participants to be concentrated in company stock in a retirement savings plan, you have created two big ifs which have led the Department of Labor to believe that the ESOP should be rare, and they don't care what the tax committees did in terms of promoting ESOPs.

In fact, one person at DOL held the position, in a deposition under oath, that the only legal ESOPs were wage concession ESOPs and benefit concession ESOPs, meaning all exiting shareholder ESOPs were not legal.

There are some ESOP companies out there that weren't so great. They're out there today. We welcome people going out and making sure that the law is being adhered to as set up by Congress vis-à-vis ESOPs, but we sure as heck don't believe this idea that the ESOPs are failures when all the evidence is pointing the other direction.

Tax reform. A lot of people listen to this on — cable news, MSNBC, Fox News, and so forth — people hooting and hollering at one another and telling you that the Senate and the House will never agree on tax reform. I will tell you what's happening on tax reform is important. The Chair of the House Ways and Means Committee, Dave Camp of Michigan, has dedicated himself and his committee to reporting out a tax reform bill by this summer. He has divided his committee up into 11 task forces with Republicans and Democrats on each one. One of them is the task force on retirement savings and pensions led by Ohio Congressman, Pat Tiberi. He's been a great friend of ESOPs. His Democrat co-leader is Ron Kind of Wisconsin, another good friend of ESOPs. We have

submitted comments to the group and you can read them on our website.

There's another group that's of great interest to the ESOP community the chair of the Ways & Means Committee, Dave Camp, has actually introduced a draft bill affecting S Corps and partnerships.

There are about 4 million S Corps in America. There's about 4,000 S corps ESOP in America, and 70 percent of the members of the ESOP Association right now are S Corps. Of that group, 70 percent are 100 percent S Corp. Camp's proposal's been studied by the S Corp. community and the conclusion is it's good. He does not mention S Corp. tax treatment in ESOPs at all. However, the staff put a place marker in the documents explaining his bill, and making it clear that of all the tax exempt entities that own shares in an S Corp, the ESOP is the only one that doesn't pay a corporate-level tax. They mention that twice in the document.

Even though we've got lots of friends on the Ways and Means Committee, when they do a tax bill they close the door. They're in private. They got a document in front of them with all these proposals and if they put something in there about the S ESOPs and the tax exempt status of the S ESOPs and that's proposed to tinker with that and nobody in that closed room raises their hand and says, "You know, I'm not really in favor of that." Maybe get one or two others to say the same thing, it's in. I've had issues before in my career where they have that meeting and our big champion or friends were in there and they come out after the closed-door meeting and they say, "Oh, I'm sorry. Sorry, Michael. Wanted to help. Tried to help, but no one would join with me," and then later on, my sources tell me no one said anything about the proposal that my group was interested in. So it takes intensity. It takes your friend raising their hand in that private meeting. It has to be on their top five list to watch out for.

And you say, "But the Senate's not going to do anything." If you study the history of tax reform law, they do tax reform in Congress about every 20, 25, 30 years. This is nothing new. They always have the same goal: make it simple, get rid of the loopholes, lower the rate. Nothing new here, folks. They did it in '86. They did it in '54. They did it in '38. They did it in '21. Usually about 80 percent of what the Ways and Committee puts in a bill becomes what lands on the President's desk for signature. The Senate Finance Committee will play with it and even the full Senate floor will maybe tinker here and there, but what they do in Ways and Means this year, whether they pass a bill in the Senate or send one to the President, is likely to be the foundation of what they do next year or in the next Congress or thereafter. So, we need to be on our toes in that regard. We have friends and we just need to be in their face in a nice diplomatic, dignified way, which is, by the way, the style of the ESOP world. I think that's why we do so well, along with our passion, over time.

In the President's budget there's a proposal to repeal what's known as Code Section 404(k) which dates back to 1984 and which permits a C Corporation — keep in mind in 1984 there were no S Corporation ESOPs — to deduct the value of dividends paid on ESOPs stock passed through to the employees in cash and perhaps used to pay ESOP debt.

Given the dominance of S ESOPs, a lot of people saw that

next page ►

Owners At Work Summer 2013

The ESOP Challenge

We have the team for that.

Our attorneys are skilled in all aspects of ESOPs — from implementation and transactions to dealing with regulatory agencies, ongoing legal strategies and solutions.



McDonald Hopkins
A business advisory and advocacy law firm®

McDonald Hopkins LLC
600 Superior Ave., East, Suite 2100, Cleveland, OH 44114 • 216.348.5400

Carl J. Grassi, President **Dale R. Vasek**, Chair, Employee Benefits Practice

Chicago • Cleveland • Columbus • Detroit • Miami • West Palm Beach

mcdonaldhopkins.com

proposal and kind of went, “Shew, not after us. Dodged a bullet. Who cares about all those C Corporations? Mainly they’re just old companies, international companies that are doing stuff. We’re in good shape.” That is until you read the justification in the Administration’s document that explains this provision. It basically says that having employees base their retirement on company stock is too risky, and that if the company has less than \$5 million in revenue a year the employees may be able to understand how their efforts impact the company, implying that those employees who work in companies with more that \$5 million don’t understand such implications, which makes these companies bad for the employees.

Folks, 99.9 percent of the members of the ESOP Association have revenues over \$4 million a year. It is an insult to the employee owners of companies in Ohio and every state in America to say that they’re too stupid to know how their efforts in a company affects the future of that company and the profits of that company. Such an awful statement. Now, did the President write that? No, but it is an official Administration document. I’m happy to say that our friend in Vermont, Senator Bernie Sanders has submitted a question to the Secretary of Treasurer saying, “Where’d you get the evidence that the companies over \$5 million aren’t good for the employees? What data are you using?” And we’ll see what they say.

Let me say something, not President Ford, Republican; not President Carter, Democrat; not President Reagan, Republican; not President Bush-1, Republican; not President Clinton, Democrat, not President Bush-2, Republican ever said that expanded ownership was not a good thing. Yes, in all of those years we had a fuss with an Administration, Republican or Democrat. But never was the position of the Administration based on the idea that employee ownership only worked in companies that had 10 to 20 employees, which is basically what a \$5 million and less company is.

Now, it takes friends to win the fights. Your story makes the difference. We have two challenges. All of the data I have is on the website—less than 3 percent layoffs in the great recession in ESOP companies; over 12 percent in the conventional-owned companies. I could go on and on. But it’s our friends that are going to stand up, based on what they know in their congressional districts and in their states—what companies are doing in the towns, in the cities, in the communities they represent. So when we talk about this, I don’t want to point the finger at the Administration or at the Department of Labor. You know where we’re supposed to look? Look in the mirror. It’s us. It depends on us.

Have a good conference. I appreciate your invitation and best to the entire Ohio effort for employee ownership. Thank you. **OAW**



Employee Ownership: Building Jobs, Wealth & Communities

More than 370 people representing 15 states and the District of Columbia, registered for the 27th Annual Ohio Employee Ownership Conference April 19th at the Hilton in Fairlawn, Ohio, another excellent turnout despite the continuing slow economic recovery from the Great Recession. After words of welcome from Ohio State Representative Kathleen Clyde and introductory remarks by Roy Messing, OEOC Director, the Conference attendees heard from morning keynote speaker, J. Michael Keeling, President, The ESOP Association. You can read his edited remarks elsewhere in this newsletter or you can view the speech on the OEOC's website.

Following the general session, the morning round of concurrent workshops gave folks a choice of seven panels to attend featuring employee owners as well as professional service providers. The panel on *Effective Ideas for Creating an Ownership Mentality* featured Larry Kelly, Fastener Industries and Jim Limbird, Janotta & Herner. The panel was moderated by Jennifer Watson, Ruhlin Company. Folks attending the panel on *Maintaining an Ownership Culture: Is It in Top Management's Job Description?* heard from Jeff Evans, The Will-Burt Company and Bill Leonard,

The Oswald Companies, two top managers who have experienced the task of creating the right culture and then keeping it going. George Cheney, Kent State University, served as panel moderator. Dave Engel, ComStock Advisors; Phil DeDominicis, Menke & Associates; and Brian Bornino, GBQ Consulting, discussed *Emerging Trends in ESOPs: Acquisitions & Divestitures and Current Market Conditions* along with moderator Rob Brown, ESOP Plus: Schatz Brown Glassman Kossow. Folks attending the session on *Fiduciary Issues, Including Department of Labor Audits* got some good advice from panelists Dale Vlasek, McDonald Hopkins; Marilyn Marchetti, First Bankers Trust Services; and Ben Wells, Dinsmore & Shohl as well as morning keynoter, Michael Keeling, The ESOP Association who moderated the discussion.

The Conference Theme panel *Employee Ownership: The Economic Impact* was moderated by Kirk Schuring, Ohio State Representative, 48th District and featured Keith Nichols, EBO Group and Jacquelyn Yates, Ohio Employee Ownership Center. Corey Rosen, National Center for Employee Ownership was scheduled to be on this panel, but

next page ►





travel difficulties prevented his appearance....more about that later. *The Union Cooperative Model* that has grown out of the historic 2009 United Steelworkers/Mondragon agreement was discussed by **Kristen Barker, Cincinnati Union Cooperative Initiative**; **Carmen Huertas-Noble, Community & Economic Development Clinic at CUNY School of Law**; and **Elizabeth Sholes, California Council on Churches**. The panel was moderated by **Michael Peck, MAPA Group/Mondragon Cooperative Corporation**. The nuts and bolts of selling the business to the employees were covered by the panel *Practical Matters in Executing a Sale to an ESOP*. The panel included **Carl Grassi, McDonald Hopkins**; **Davin Gustafson, Apple Growth Partners**; **Rob Ruskowski, Verit Advisors**; and **Tim Stewart, Yoder Industries**. Moderating this panel was **George Brown, Senator Rob Portman's Office**.

Lunch featured an afternoon keynote address by **Corey Rosen, Former Executive Director and Founder of the National Center for Employee Ownership**, who, despite being stuck in Denver because of bad weather, delivered his address via that technological marvel known as Skype.

Lunchtime also featured the presentation of the 2013

Ohio Employee Ownership Awards. The award for *Getting Your ESOP Off to a Good Start* went to **Equity Engineering Group in Shaker Heights, Ohio**. *25 Years of Employee Ownership* awards were given to **Carbo Forge, Fremont, Ohio** and **R.E. Kramig & Company, Lockland, Ohio**. Our highest honor, *The John Logue Employee Ownership Excellence Award* was presented to **Corey Rosen, NCEO** for his many achievements benefiting employee ownership over the years.

The rest of the day featured panel discussions ranging from ESOP technical issues to issues of ownership culture to worker cooperatives.

Valerie Magyari, The Equity Engineering Group, and moderator **Cathy Ivancic, Workplace Development** led a session on *Getting Started (Or Restarted) with ESOP Communication*. The session on *Leadership Succession Issues and ESOP Sustainability* featured **Bill Rosenberg, Columbia Chemical**; **Ted Freeman, Praxis Consulting**; and **Linas Biliunas**. Moderating the panel discussion was **Rick Schlueter, ComStock Advisors**. The panel on the *ABCs of ESOPs for Employee Owners* was moderated by **Scott**

next page ►



Folks attending the session on *Age 55 Diversification Issues* got helpful guidelines from Tina Fisher, The Principal Financial Group; Carol Fidler Kayes, C.A. Fidler & Associates; and Kent Mann, Thompson Hine LLP. The discussion was moderated by Sarah Lowry from Senator Sherrod Brown's Office. The panel on *The Option of Selling to Employees via a Worker-Owned Cooperative* was designed to help folks understand advantages and disadvantages of selling the business to a worker cooperative. The panel included David Baird, Select Machine, Inc.; Eric Britton, Shumaker Loop & Kendrick; Don Jamison, Vermont Employee Ownership Center; and Chris Cooper, Ohio Employee Ownership Center. The panel was moderated by Richard Rebadow, Greater Akron Chamber. A panel on *Minority or Majority ESOPs, Issues and Opportunities* was led by moderator Leslie Lauer, UBS Financial Services and featured Tabitha Croscut, Steiker, Fischer, Edwards & Greenapple; Van Olson, Van Olson Law Firm; and Mark Fournier, Stout Risius Ross Inc.

The session on *Being Comfortable with Sharing Your Financials*, involved a discussion about sharing financial information in an ESOP company led by **John Habanek**,

Following the formal program, at the closing reception, the discussion continued in a relaxed atmosphere. At the end of the day, our position as the best one-day ESOP conference in the country was maintained! We thank everyone who helped make the conference the largest employee ownership event in the region and we look forward to seeing even more folks next year as we celebrate the **28th Annual Ohio Employee Ownership Conference to be held Thursday, April 24, 2013**. Yes, you read that correctly...next year's Conference will be on a Thursday.

A wide-angle photograph of a large conference room filled with people seated at round tables. The room has high ceilings and large windows covered with heavy, dark curtains. In the foreground, several people are seen from behind, seated at a table with a white tablecloth. In the background, a stage area is visible with a long table where several people are seated. A man in a suit is standing at a podium, addressing the audience. A banner on the stage reads "27TH ANNUAL OHIO EMPLOYEE OWNERSHIP CONFERENCE". To the left of the stage, a large screen displays logos for various sponsors, including Apple, Google, Microsoft, and others. The overall atmosphere is professional and formal.

"Is Employee Ownership Really Worth It?"

Editor's Note: Rosen gave his speech via teleconference due to last-minute travel issues. Conference Speeches have been excerpted and edited. View the original in its entirety on our website www.oeockent.org.



Corey Rosen, National Center for Employee Ownership
2013 OEOP Conference Lunch Address, April 19, 2013

Is employee ownership really worth it? Is it a good idea? And how do we measure whether it's a good idea or not? I think we really want to look at four critical criteria. First, is it good for employees? Second, is it good for companies? Third, is it good for owners? And finally, is it good for society? It will be difficult to sustain employee ownership as something that taxpayers support unless it meets all four of those tests.

I think the most critical test is to ask is it good for employees; after all, why should taxpayers pay a few billion dollars a year to support something that helps some owners of closely held businesses with their succession plans. Do we really want to provide taxpayer support to something that's primarily aimed at providing more tax incentives to people that are already pretty well off? And the answer is no. We want to be able to demonstrate that this taxpayer support accomplishes the primary mission of employee ownership which is to broaden the distribution of the ownership of wealth. But people raise a good question about that. What if it does broaden the distribution of wealth, but at a cost to employees that's not really acceptable, there's too much risk? They have to give up their 401(k) plans or their pension plans or they have to substitute wages for getting this stuff? Well, then that wouldn't be such a great idea.

So let's look at what the data tell us. First of all, in ESOP companies, the employees have almost three times the total amount of retirement assets as comparable employees and comparable non-ESOP companies. Secondly, ESOPs are somewhat more likely to sponsor a secondary retirement plan than comparable companies are to sponsor any kind of

retirement plan and ESOPs salaries are somewhat higher. 56 percent of ESOP participants are in plans where they have a secondary plan, compared to only 47 percent of non-ESOP participants. If you dig a little deeper, only 39 percent of all fulltime working age adults between 21 and 64 participate in a plan. In other words, you may be covered by a 401(k) plan, but unless you put something in, that's not doing you any good. ESOPs by contrast, don't say that you can only participate if you put something in; in an ESOP you get to participate because you meet the basic eligibility requirements. Moreover, ESOPs are not nearly as skewed as other retirement plans like 401(k)s which say the more you put in, the more you get, so the highest paid people get not only the highest absolute amount, but the highest percentage amount contribution of pay. Of course, ESOPs can't do that. It's the same percentage for everybody.

When we look at the company contributions to retirement plans, ESOP companies put in about 2.2 times more per year just into the ESOP than comparable companies do into their retirement plans. So, a lot more of the assets that are accumulated by employees in ESOPs are coming from the company rather than from their own savings. ESOPs are much more inclusive than 401(k) plans and the average ESOP participant gets \$4,443 contributed by the ESOPs.

Now, let's look at worker pay. When data started to come around that employees were getting larger benefits in ESOP companies than they were in non-ESOP companies, economists said, "Well, aha. There's no free lunch. In fact, the only way that that can happen is that they must be taking

next page ►

Owners At Work Summer 2013

lower pay.” Well, the data is pretty conclusive—that not only isn’t the case, but ESOP participants have somewhat higher pay. Economists were baffled. This can’t be. Surely you wouldn’t be a rational employer and just give people more? Well, the answer to that question is that you could give people more if part of your business proposition was that by being more pro-employee, your company would perform better and it would generate surplus that it could share with employees.

Just as an aside, we saw that critics of ESOPs say that these high contribution rates could have gone into the 401(k) plan instead. Well, as most of you know the reason that the contribution rates are as high as they are in ESOPs is primarily because of the mechanics of ESOPs being used to buy out departing owners, and once those owners are bought out, then there are amounts that are necessary from year to year to keep the plan going, buying shares back from departing employees. So, it’s not entirely that companies want to put more in; they have to put more in and this is something the critics of ESOPs have a hard time getting their hands around because economic theory doesn’t seem to fit that very well.

In this case, we actually have data and we don’t need to speculate on all kinds of theory, we can say it is or isn’t it good for companies, and the answer is clearly yes. Now, of course, not every company, but overall the rates of growth in closely held companies go up significantly after ESOPs are introduced. Public companies, not so much, and you can imagine why. Public company ESOPs tend to be 3 percent, 5 percent, 7 percent, rarely more. Moreover, public company ESOPs are almost invariably funded simply as a substitute contribution for their 401(k) plan. They are not, as in private companies, stand alone plans that supplement other plans, they’re substitutes for something else and as such they don’t get employees too excited and these companies don’t think of themselves as doing anything other than providing a benefit anyway. They’re not employee ownership companies. So, no impact.

Joe Blasi and [indiscernible] looked at ESOPs and they said, “Well, maybe that ESOP companies perform better than other companies but maybe because that’s because they were better companies to begin with.” But we can say, “Well, let’s look at how these ESOPs compare to their competitors before they set up a plan and let’s compare them after they set up a plan and let’s see what the difference is.” So, Joe’s Auto Body had been growing 2 percent per year faster than its competitors before the ESOP. How did it do after the ESOP, and the answer was it moved up. And so this differential, this incremented performance seems attributable to the ESOP and what they found is the companies grow about two and a half percent per year faster in sales, productivity, and employment. Now, you multiply

that over a period of years, those are really substantial differences over time.

Imagine if our economy were adding 2.5 percent more new jobs per year. We’d be in great shape right now. Everybody would be really happy. There hasn’t been any study of comparable scopes since. There have been studies that generally confirm this but they’re not as utterly persuasive as this one. There are some other studies have shown that ESOP companies have much lower turnover retention, and that generally is related to their performance.

Well, these two things are good. It’s nice that they’re good for companies and it’s nice that they’re good for employees, but people who own these companies aren’t going to do it unless it’s also good for them—not always; there are altruists in the world. Altruism was a wonderful thing we should all aspire to. Altruism is a great personal characteristic—it is a lousy way to create large scale social change. Large scale social change requires that people can align their own self-interest with the change. The magic of ESOPs is that it’s structured to provide benefits to the people who own the companies, to provide a way that owners can transfer ownership of their company to their employees. There are obviously significant tax benefits to doing that, but we also find that the ESOP’s structure means that they continue the legacy of their company. For a lot of people who started businesses, the notion that you turn it one over to somebody else is upsetting. You want to preserve a legacy that you’ve built, so ESOPs let you do that. ESOPs let you honor the people who’ve helped build the business. Selling

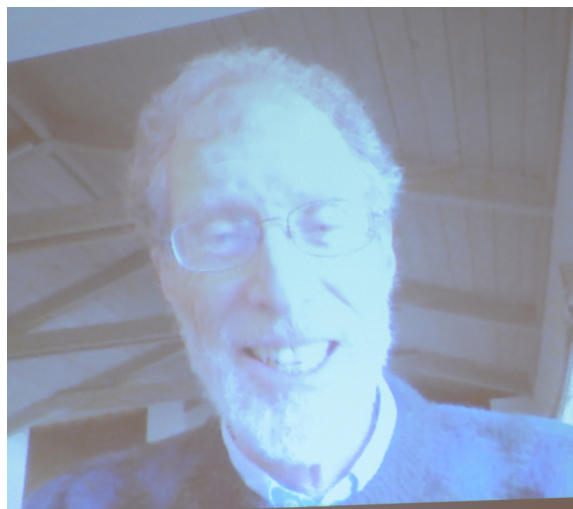
your company to another company doesn’t give you those options. So yeah, it’s good for owners.

Is it good for society? This gets directly to the issue, should taxpayers pay for it? Well, first of all, ESOPs have minimal costs relative to other tax code. I think it’s \$2.5 billion or something a year in tax benefits. Compare that to what states spend on economic development incentives that provide large tax breaks for companies to move from one state to another state with no guarantee whatsoever they will stay in that state, pay people good wages, or do anything else very useful for

very long. \$80 billion a year is spent by the states to move jobs from one place to another. That’s just crazy. This is total zero sum accomplishment we all pay for. ESOPs are a tiny, tiny, tiny fraction of that, generate a great many more jobs and they’re new jobs. They’re not jobs taking away jobs from any other state.

Secondly, we’ve been facing a real crisis in this country. Real wages are stagnant and they have been for 40 years. Returns to capital soared. Dow Jones had five digits last time I checked. It had three in the 1970s, but your paycheck had about the same number of digits in 2012 as it did 1973 when

next page ►



you adjust for inflation, and that creates tremendous social strains, resentment, and a lot of the kind of disaffection that we're seeing in society now.

Third, those smart guys that run private equity firms who do buyouts, they have a default rate of 3.18 percent. ESOPs come out with a default rate of .5 percent. Apparently you guys are a whole lot better running companies than they are. But we provide, through carried interest, billions of dollars in tax benefits to owners of private equity firms. Why do we do that? Why wouldn't we put more money into ESOPs?

And finally, and this is the clincher. If every company had an ESOP and those companies had the same layoff rates as ESOP companies, how much money would the federal government alone save on unemployment cost, and it's a staggering amount—\$13.7 billion in the recession and \$8.1 billion in non-recession years. These are direct savings to the government from having those employees in ESOPs. We save many times what ESOPs cost in tax benefits simply through the money we save on unemployment benefits we don't have to pay and the taxes that those unemployed workers are still paying.

Now, it's important to recognize that not all ESOPs do well. It's only those that combine employee ownership with a high degree of employee involvement and day-to-day decisions affecting their jobs. Every study that has been done on employee ownership comes to that conclusion. ESOPs are not in themselves a way to improve corporate performance, if you want to change behavior you need to change culture. You need to have a culture in which employees can share ideas and information on a regular basis because it's ideas that really make a company move forward. It's not simply people working a little harder doing the same dumb things. There's tremendous resources amongst all of you, ideas, new products, customer service concepts, and you've got to put those to use in a way that the company can take advantage of. It's not easy creating these cultures and I know you're going to talk a lot about this at this meeting.

Well, what's happening with ESOPs? The most remarkable trend is that more ESOPs now are majority employee owned and many 100 percent employee owned. We also know ESOP companies are on an acquisition binge—lots of companies are buying other companies.

Looking outside the United States, we're seeing some significant developments, particularly United Kingdom where employee ownership has become officially endorsed by all three parties as a key part of changing the economy. There's tremendous activity in the U.K. around this. It would be wonderful to see that here. In Europe, they're setting up



ESOP & ERISA Advisory Services

- Assessment of strategic alternatives
- Feasibility analysis and preliminary valuation
- Assisting with transaction structuring and negotiation
- Fairness and solvency opinions
- Litigation support and expert testimony
- Annual valuations
- ESOP loan restructuring
- Trustee advisory
- ESOP termination

SRR
STOUT | RISIUS | ROSS

Mark R. Fournier, CFA

+1.703.848.4946 ■ mfournier@srr.com ■ www.srr.com

employee ownership centers on the recommendation of the European Union to encourage employee ownership in continental European states. South Africa is making some major moves on employee ownership. In China, the largest multinational company, Huawei, for instance, is owned by its employees.

In the U.S., Michael really addressed some of these things more specifically, particularly on tax situations and that's always uncertain, but ESOPs have always survived. So we need to rely on the good work of all of you, and the good work of the ESOP Association in bringing that message to Congress. On the other hand, there are lots of us baby boomers who are retiring. I'm 64. I'm considered to be on the leading edge of the baby boomer group, and as this group retires it's going to be looking for ways to do ownership transition. So in the next few years we're going to see a lot more ESOP candidates by a magnitude of two to three.

I want to thank everybody there for putting up with this odd way to give a speech. I appreciate your attention. **OAW**

Mark Your Calendar

28th Annual Ohio Employee Ownership Conference

Thursday, April 24, 2013

Watch www.oeockent.org for more details!



Ohio Employee Ownership Center Awards

Getting Your ESOP off to a Good Start - Equity Engineering

Cleveland-based **Equity Engineering** (top image, center) was established in 2002, and became 100% employee owned in October 2012. With the ESOP in place, the company's leadership has taken positive steps to affect performance through education, employee involvement, and widespread sharing of information.

25 Years of Employee Ownership - Carbo Forge & R.E. Kramig

Carbo Forge (top image, left), a manufacturing company headquartered in Fremont, has been in operation since 1961 and since establishing the ESOP in 1988, the company has become 100% employee owned.

Cincinnati company, **R.E. Kramig** (top image, right), was established in 1896, and since establishing an ESOP in 1988 and becoming 100% employee owned, the company has pursued development of its ownership culture through communication, training and participation. ,

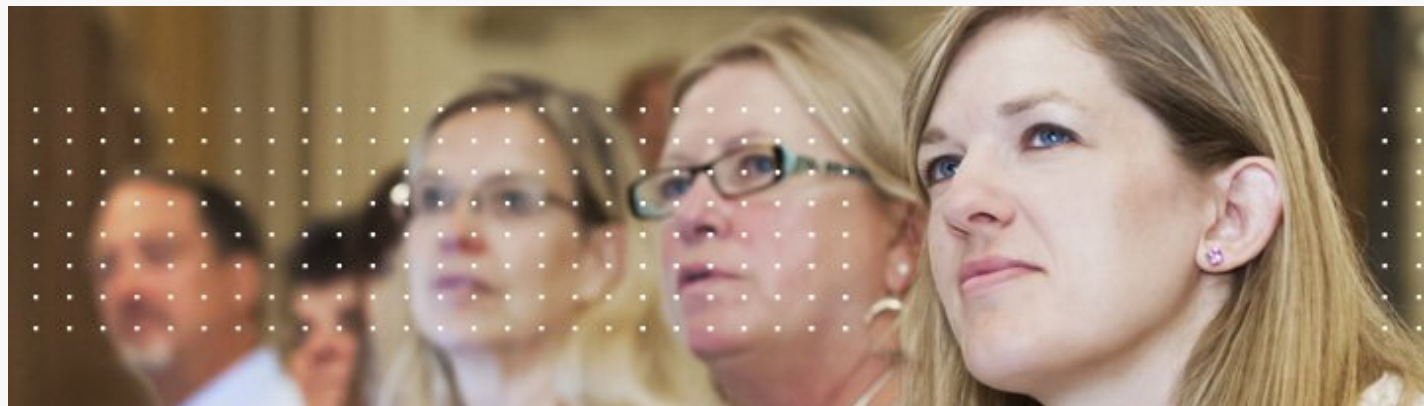
The John Logue Award - Corey Rosen

Corey Rosen (bottom image, accepting award via Skype), is hailed throughout the ESOP community as the founder of the ESOP community. He has functioned as a researcher, drafter of federal legislation, promoter of ideas, and founder of the National Center for Employee Ownership. He also played an instrumental role in advising the OEOC founder, John Logue, in the years before Logue established the Ohio Employee Ownership Center in 1987.





Your Partner In the ESOP Life Cycle



**Business Succession Planning/Ownership Transition
ESOP Feasibility & Transaction Analysis**

ESOP Design & Installation • ESOP & 401(k) Administration, including online administration software • Repurchase Obligation & Mature ESOP Consulting

For 25 years, ESOP design, implementation and administration have been our exclusive focus. We offer turnkey solutions to make your business transition easier.

Visit us online or call:

Jim Steiker
215.508.1600

Tabitha Croscut
802.860.4077

Terry Jones
617.310.6565

Doug Cannon
219.548.3696

TRUSTED Experts > Tailored SOLUTIONS > Sustainable RESULTS

www.sesadvisors.com

Ohio's Top 50

According to the most recent data for Ohio released by the Department of Labor, overseer of the Employee Retirement Income Security Act, the richest 50 ESOPs and stock bonus plans in the year 2010 were, predictably, large corporations with thousands of employees. Ohio-headquartered Procter & Gamble even had two plans that were among the richest, Goodyear had three; Timken, four; Burke, two; and Libbey, two.

The picture looks dramatically different when examined for plan value per participant. The richest plans were mostly smaller firms that are more representative of the typical ESOP company. Tiny Strategic Media Placement, with just eleven participants, reported the highest average value per participant.

Overall, at the end of 2010, Ohio's 316 plans reported a median 88 participants. The typical firm had just one plan, and the median value of those plans was \$2.4 million. The median value per participant was just under \$35,000.

Ohio's Top ESOPs and Stock Bonus Plans By Net Assets

1	Procter & Gamble (2 plans)	\$16,335,452,246
2	Parker Hannifin Corp	\$3,066,229,040
3	American Electric Power	\$2,987,987,381
4	Macys	\$2,782,971,000
5	Eaton Corporation	\$2,741,689,850
6	Firstenergy Corp	\$2,407,096,670
7	Sherwin-Williams	\$2,284,726,152
8	Goodyear Tire & Rubber (3 plans)	\$1,913,951,475
9	Progressive Corp	\$1,796,170,042
10	Keycorp	\$1,429,889,319
11	Timken Company (4 plans)	\$1,202,728,075
12	Fifth Third Bank	\$1,174,502,378
13	Swagelok Company	\$866,780,064
14	Lubrizol Corp	\$775,492,611
15	Cintas	\$653,910,120
16	Diebold	\$460,386,483
17	Applied Industrial Technologies	\$391,471,046
18	Huntington Bancshares	\$372,528,434
19	Polyone Corporation	\$350,116,294
20	Steris Corporation	\$297,860,422
21	Lincoln Electric	\$265,761,157
22	Advanced Drainage Systems	\$263,184,833
23	Garland Industries	\$213,769,094
24	Ferro Corp	\$199,737,124
25	Cincinnati Financial	\$187,868,072
26	Fairmount Minerals	\$178,567,177
27	Libbey (2 plans)	\$147,783,004
28	Great Lakes Cheese	\$138,768,376
29	Chiquita Brands	\$138,545,750
30	Davey Tree Expert	\$135,974,198
31	Firstmerit Corporation	\$135,187,843
32	Allied Mineral Products	\$113,952,219
33	Messer	\$106,917,741
34	Burke (2 plans)	\$75,710,240
35	Park National Corp	\$75,346,670
36	JM Smucker	\$73,364,290
37	Third Federal S & L	\$67,689,483
38	Buckeye Corrugated	\$62,816,455
39	Perry ProTech	\$54,635,916
40	Jones-Hamilton	\$49,108,057
41	Dpl	\$47,167,213
42	DLZ Corporation	\$43,643,484
43	Will-Burt Company	\$41,058,624
44	Automated Packaging Systems	\$39,766,652
45	GBS Corp	\$39,042,031
46	XTEK	\$37,339,923
47	Fastener Industries	\$36,834,368
48	Nordson Corporation	\$34,696,540
49	Lancaster Colony Corporation	\$34,046,779
50	Marfo Company, The	\$31,393,666

Ohio's Richest Participants Total Plan Value/Number of Participants

1	Strategic Media Placement	\$1,002,380.27
2	Producers Service	\$613,426.12
3	Jones-Hamilton Co	\$558,046.10
4	Garland Industries	\$510,188.77
5	Fairmount Minerals Ltd	\$500,188.17
6	Buckeye Rubber And Packing	\$348,685.64
7	Allied Mineral Products	\$345,309.75
8	Deco Tools,	\$328,670.77
9	Strategy Group For Media	\$312,157.00
10	Kraft Fluid Systems	\$309,873.68
11	Great Lakes Construction Co	\$304,073.26
12	Ketchum & Walton Co	\$295,187.56
13	Vi-cas Manufacturing Co	\$259,770.43
14	Marfo Company	\$257,325.13
15	Ohio Valley Supply	\$251,964.78
16	SG Morris	\$247,920.25
17	Goldsmith & Eggleton	\$244,793.35
18	Bowers Insurance Agency	\$235,492.91
19	Sea-Land Chemical	\$225,845.94
20	Hickman Williams & Company	\$218,200.28
21	Procter & Gamble	\$217,110.45
22	Philpot Rubber	\$213,711.88
23	Perry ProTech	\$213,421.55
24	Messer	\$212,983.55
25	Swagelok Company	\$211,874.86
26	U Brothers Brokerage	\$207,120.50
27	Buckeye Corrugated	\$188,638.00
28	Lubrizol Corp	\$176,730.31
29	EBO Group	\$163,417.40
30	Webster Industries	\$156,819.61
31	Fastener Industries	\$154,118.69
32	Specialty Equipment Sales Company	\$146,218.46
33	Will-Burt Company	\$134,618.44
34	Torrence Sound Equip	\$133,793.85
35	GBS Corp	\$131,898.75
36	Mosser Group	\$123,787.63
37	Akron Hardware Consultants	\$121,782.09
38	American Electric Power Service	\$119,797.43
39	First Niles Financial	\$118,769.82
40	Burke	\$112,732.18
41	Firstenergy Corp	\$109,269.45
42	Floturn	\$106,991.60
43	Timken Company	\$106,856.55
44	Libbey	\$104,472.49
45	Eaton Corporation	\$102,313.31
46	Etched Metal Company	\$101,410.21
47	Carbo Forge	\$101,013.65
48	Burke	\$99,123.88
49	Parker Hannifin Corp	\$98,786.33
50	Paul J Ford And Company	\$96,518.61

Perry proTech Recognized by ESOP Association

Each year, the ESOP Association sponsors the Annual Awards for Communications Excellence (AACE). The recipients of this award are chosen by a panel of five judges made up of both management and non-management employee owners, each demonstrating active experience and interest in the field of ESOP communications. Among the many entries for the award, one Ohio ESOP stood out.

Perry proTech took home the AACE Award in category 2-A for businesses with 250 or Fewer Employees. Judges said that proTech had an "original delivery of ESOP content, with many employee owners participating. There is an ESOP song, lots of fun and high energy, good testimonials and good technical quality. . . . There was also a hint of Mission Impossible, and more than a hint of morphing magic. Spirit and pride is evident in the appearance of the numerous employee owners." Perry proTech is a company that believes in communication, and will continue to improve it.

The company also received the honor of "2013 ESOP company of the Year" by the Ohio/Kentucky Chapter of the National ESOP Association. This honor is given to a company who is committed to employee ownership, as evidenced by its involvement with the ESOP Association and its programs, communication with employees, commitment to the vision of the ESOP Association, wealth creation in job and retirement, and individual dignity and worth.

Perry proTech is an ESOP-owned business in Lima, OH. The company was started in 1965, and the ESOP was established in 1985. Currently, Perry

proTech is 100% ESOP. It is recognized as a leading provider of business technology solutions and products throughout Ohio, Indiana, and Michigan.

Congratulations to Perry proTech for all of its success so far in 2013!

- Paul Wetzig

View Three Recorded 2013 Webinars

In March, the OEOC offered a series of webinars for the ESOP community. They have been recorded and archived for easy viewing.

DOL Enforcement and ESOPs; Current Issues-Presented by Dale R. Vlasek, Attorney, McDonald Hopkins LLC This program will discuss the US Department of Labor regulations that ESOP companies should be aware of. It will also examine the proposed fiduciary definition including appraisers and look at the trend of cashing out participants from company stock when they terminate employment.

Explaining Ownership Culture-Presented by Christopher Mackin, President, Ownership Associates, Inc. Ownership Culture is a term that most ESOP employers have heard or seen in newsletters for conference brochures. It sounds good, but what is it? This webinar will explain the core foundations of ownership culture, differentiating between Ownership Facts, Ownership Skills, and Ownership Values and explaining how simple structures for employee participation can help make ownership real.

An Appraisers Perspective on Acquisitions-Presented by Davin Gustafson, Principal, Apple Growth Partners In this session we will get perspectives of an experienced ESOP valuator on how an acquisition may

impact your valuation. He will also provide some strategic thought on structuring an acquisition, discuss some interesting tax and other planning opportunities, point out some of the common mistakes he has made or seen made, and focus on the elements that will help you truly enhance your company's value.

Network Schedule Preview

Ohio's Employee Owned Network members jointly-sponsor a year-round series of education and networking events. Members enjoy group rates and discounts on program registrations; and non-members among the employee owned business community are welcome to participate in most of the Network's programs.

August: ESOP Administration Forum - Managing ESOP repurchase obligations in today's economy; redemption, recycling, leveraging and reshuffling; the role of an ESOP Administration Committee and trustee.

September: Southwest Forum/Conference - Cincinnati ... employee ownership and general business with breakout sessions covering a variety of topics.

October: CEO/CFO Networking Dinner and Tour Hosted by EBO Group, Sharon Center

Fall/winter: Webinars - planned topics include repurchase obligations, building an ownership culture, sharing financials, and ESOP finance.

November: A Workshop for new employee owners and a Refresher for veterans - "Employee Owner Basics."

For more information on any of these programs or Ohio's Employee Owned Network, visit the Network page on our website. **OAW**

2013 Academy of Management Annual Meeting Includes Three Sessions on Employee Ownership

The leading association for management scholars, the Academy of Management, selected three program sessions dedicated to employee ownership for their 73rd annual conference in August. The Academy, with more than 17,000 members, used a competitive review process, which resulted in selection of these sessions: Shared Entrepreneurship: An Alternative Capitalistic Model, We the Owners (Using film to explore shared ownership, entrepreneurship and human-centric models), and Making Worker Ownership Work Economy-wide. Session leads include Frank Shipper, Salisbury University; Mary Ann Beyster, Foundation for Enterprise Development; and Jean Phillips, Rutgers University. Together their sessions involve more than 15 panelists who will cover company, academic, and government perspectives on the role of employee ownership in business and the economy. To register or obtain more information, click here.

Gar Alperovitz, *What Then Must We Do? Straight Talk About the Next American Revolution*. White River Junction, VT: Chelsea Green Publishing., 2013. ISBN 978-1-60358-504-0. Paperback \$17.95.

For anyone concerned with the state of the American economy, and looking for ways to mend the system, respected historian and economist, Gar Alperovitz offers an explanation and a solution.

In his latest book, *What Then Must We Do?*, Alperovitz argues that the problems faced in our nation—economic, social, and environmental—are not problems that will be solved by electing the right politicians; they are long-term problems that indicate a deeper flaw inherent in the system. Our traditional economic system is structured to give elites and corporations large proportions of the capital, and with the capital, they also

receive power. Because of this, both the capital and power in our country are limited to a small percentage of people, leaving the rest to suffer in the economic downturn.

In the first part of the text, Alperovitz illustrates the old ways of trying to change the system aren't working. Instead, Americans must concentrate on the underlying issue—wealth. By redistributing the wealth will in turn redistribute power and will ultimately force the system to change. Alperovitz provides a number of examples of companies, like cooperatives and employee owned businesses, that are already redistributing the wealth in a decentralized way that encourages democratization. These examples show the varying applications of employee ownership and the possibility that they can be formed in any city.

According to Alperovitz this movement has roots in events that began thirty years ago, with the closing of the steel mill in Youngstown. In a

single day, 5000 people lost their jobs. Their attempts at taking over the plant themselves failed, but these attempts succeeded in showing people that there was another way. It led to an educational campaign, and eventually to the creation to the Ohio Employee Ownership Center and the spread of employee ownership through Ohio. More recently, it led to the development of the Evergreen Cooperatives Group in Cleveland.

If left alone, Alperovitz argues, the current system is likely to just keep getting worse, there will be momentary respites from the decline, but the general pain and suffering will continue until people realize that there is a problem and do something about it. *What Then Must We Do?* explains the benefit and need for employee ownership as a means of distributing wealth, the potential for redistribution and change to impact hot spots like banking and healthcare and urges readers to build on what is already here.

- Felicia Wetzig

The Employee Ownership Foundation's

2013 Employee Owner Retreat

Downers Grove/Chicago IL - August
15-17, 2013



A two-and-a-half day, off-site training seminar sponsored by the **Employee Ownership Foundation** and staffed by the **Ohio Employee Ownership Center**.

Program includes:

- Ownership Communication Forum & Knowledge Sharing
- ABCs of ESOPs & The ESOP Game
- Understanding Financial Information & Financial Analysis
- Team Problem Solving Skills
- Sharing Experiences

Employee Owner Retreat alumni say:

"I think this retreat was a positive experience and has given me a lot of good ideas to take back to my company. Very helpful!"

"I learned a lot from presenters and employee owners. Thank you."

"Very valuable, and an opportunity to meet other champions, share ideas, and create resources."

If you have questions or need more information call: The OEOC, 330-672-3028 or the ESOP Association, Rosemary Clements, 202-293-2971

Download a flyer with registration info here