Owners At Work

Ohio Employee Ownership Center

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New Ohio ESOPs Secure Employees' Future

Ohio continues to be a national leader in growing employee-owned companies. From 1991 to 2001, the Ohio ESOP population grew by 60%, as compared to about 15% nationally.

What fuels this growth?

For an answer, let's look at five new Ohio ESOPs.

These five companies are all closely held -- like the overwhelming majority of new ESOPs. Though they are in very different industries and produce very different products and services, a common thread runs through their stories: the desire by the sellers to secure the future of the business, to reward employee service and commitment, and to attract and retain quality employees. Employee ownership fits the way they want to do business.

What makes these companies tick? And why did their owners choose to sell to their employees?

Contract Sweepers' President CEO Gerry Kesselring presents selling owners Tom & Judy Maish with a compilation of "Maish Memories," a scrapbook written by people who have interacted with them over the years.

Contract Sweepers & Equipment Brushes Up on ESOPs

Contract Sweepers & Equipment, based in Columbus with a branch in Cincinnati, became a 100% employee-owned company last summer in a textbook case of business succession planning. The company's 100 employees provide industrial and commercial street and parking lot sweeping services and also offer sales and service of industrial floor and pavement cleaning equipment. Contract Sweepers operates throughout Ohio as well as parts of Kentucky and Indiana.

The company was founded in 1960 by Tom Maish and has grown from "one sweeper and two guys" to become Ohio's largest sweeping contractor and, in fact, one of the largest pavement maintenance companies in the nation. Maish, who has now retired, and Gary Kesselring, President and CEO, both regard the conversion to employee ownership as a great way to reward employees who have helped grow the business over the years while helping to insure that the company goes forward.

The OEOC's Bill McIntyre took part in the ESOP kick-off. His profile of the Contract Sweepers' road to employee ownership appears on page 5.

Kemron Shares Its Success

Kemron Environmental Services, one of the most respected names in the environmental business, became an employee-owned company in December 2003 when its 175 employees, including 72 in Ohio, acquired a 31 percent stake in the company. According to Kim Bruckner of the company's Corporate Marketing Group, "the employees are very enthusiastic about their new role as employee owners."

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What Makes ESOPs Work?

Ray Lancaster

Editor's Note: In this article, Ray Lancaster, with a new Ph.D. from the Weatherhead School of Management at Case Western Reserve University, reports on major findings of his dissertation research. A partner in South Franklin Street Partners in Cleveland, Lancaster manages a fund that invests in ESOPs. The fund recently participated in an ESOP buyout of the Hedwin Corporation in Maryland, contributing to job retention and wealth creation for its new employee owners, and saving 375 jobs from outsourcing.

What factors are associated with positive work behavior in ESOPs? My research looked for an answer to that question at four successful, small manufacturing companies in Ohio.

For many years academic research suggested companies with ESOPs outperform comparable companies without such plans.

Why do companies with ESOPs exhibit this superior performance?

Many people believe it is the result of employees who are also owners working smarter and better. My research examined the effect the size of an ESOP account had on individual work behavior. All four companies had ESOPs in place for at least four years and the ESOP owned a significant part of the company. All the companies were profitable in at least four of the

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Kemron, headquartered in Vienna, Virginia, provides environmental services ranging from emergency response services to site remediation. Among its more noteworthy undertakings was the removal of anthrax from Senate Office Buildings in Washington, D.C. a couple years ago. The company focuses on the Eastern Seaboard and parts of the Midwest and has a number of regional offices, including two in Ohio, in Marietta and Cleveland. It has served industry and government for 30 years.

Why did Kemron Environmental become employee owned? "The transition of Kemron from a closely held private company to an employee-owned business provides all eligible employees ownership of the highly successful company they helped create," says Juan J. Gutierrez, President and CEO. "I see this as both a reward for the loyal members of this firm and a strategic component in the long-term retention of our valued employees. It marks a significant milestone in the evolution of the firm."

(Above) Prentke-Romich CEO Barry Romich with Travis Christner, a visibly satisfied user of P-R's speech generation device; (Right) Members of Kemron's Applied Technologies Group perform soil testing in the Laboratory.

Prentke-Romich Transition to ESOP a Logical Choice

Both the factors—business succession and rewarding employees who had built the company -- played into the introduction of employee ownership at Prentke-Romich Company, one of Ohio's newest ESOPs. This Wooster company was founded in 1966-67 by Barry Romich, an engineering student, and Ed Prentke, an engineer at Highland View Hospital in Cleveland. The mission of the company is to help people with disabilities achieve their potential in educational, vocational and personal pursuits.

Prentke-Romich is a world leader in the development and manufacture of augmentative communication devices, computer access products and other assistive technology for people with severe disabilities. The company's primary products are speech generation devices for people who cannot speak. These devices enable much greater communication opportunities for many people who were previously able to communicate only basic needs to their attendants. Thanks to Prentke-Romich, they can join in conversations, write letters, take notes, give speeches, use the telephone and participate in electronic communication through the Internet.

The decision to become an employee-owned company came from the desire to secure Prentke-Romich's continued success while, at the same time, rewarding employees "who are committed to changing the lives of their customers." The transition to employee ownership began in September 2004. Initially, the eighty-five employees, mostly based in Wooster, will have a 5 percent ownership in the company, but President Dave Moffatt expects that in 3-5 years, the company will be 100 percent employee-owned. Says Moffatt, "Our employees believe in their jobs and the mission of the company. The ESOP structure gives us the ability not only to reward our current employees, but also to attract and retain future generations of PRC employees with the same commitment to our mission."

While the company had other options, employee ownership was clearly the most logical choice for the future of the company. As Chief Financial Officer Joe Durbin says, "The key thing exciting to us is that we already had the ownership culture, and we wanted to be sure the employees were rewarded for their contributions to the company's success."

Software Solutions' ESOP a Win-Win Proposition

At Software Solutions Inc (SSI) in Lebanon, Ohio, President and founder Jay Rettig turned to an ESOP to provide long-term stability for the company, continuity for the management team, continuing innovation to meet the needs of customers and a retirement benefit for employee owners to help attract and retain key employees. "The vast majority of mergers and acquisitions fail to meet the needs of customers and employees," says Rettig. "I wanted something better for SSI. Our customers and employees deserve to be rewarded for many years of loyalty. I have re-

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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Software Solutions employee-owners. Bottom row: Missy Meeks, Kathleen Rettig, Jay Rettig, Terry Moore Middle row: Larry Hollingshead, Nick Zito, Diana Steck, Laura Singleton, Brenda Farley, and Mike Ott. Back row: Jay Brewsaugh, Pat Glavic, Rob Schmidlapp, Shad Bissell, and Dave Christensen Jay

Five New Ohio ESOPs *(Continued from page 2)*

searched ESOPs for several years and have seen that it is a win-win proposition for employees and for customers. The ESOP allows us to build on the past and to share the future."

For over a quarter century, SSI has provided accounting and billing solutions to local governments and utility agencies. Their systems are now used by more than 200 small and mid-size counties, cities, villages and townships in Ohio, Kentucky, Indiana, Michigan, Pennsylvania and New Jersey.

In October 2003, on its 25th anniversary, Software Solutions announced the establishment of an Employee Stock Ownership Plan. Just one year later, the company and its twenty-five employees had completed the transition to 100% employee ownership.

In its first year of employee ownership, SSI had an impressive performance. The company's revenues increased by 11% and profitability grew by 208%. Terry Moore, Vice President and Director of Operations, attributes much of that to employee ownership: "The ESOP had a very positive impact during its first year. SSI is a well-managed, profitable company with a growing employee ownership culture. The ESOP has increased employee motivation and commitment to SSI and its valued customers."

Technology Imaging Services Employees Take Ownership

At Technology Imaging Services (TIS), founder Randy Okane saw the 2004 conversion to employee ownership as the best way to reward the dedicated long-service employees responsible for the company's success and make sure they had a brighter future. Okane, who started TIS in 1991, continues with the company as its Chief Executive Officer.

Technology Imaging, which has always emphasized outstanding customer service, is a supplier of a comprehensive line of quality products to the nuclear medicine, nuclear cardiology and positron emission tomography markets. Caryn Weinberg, the company CFO, puts it in somewhat less technical language when she says, "We are like an Office Max to the nuclear medicine field." The company prides itself on being able to treat each and every customer on an individual basis.

Technology Imaging Services' 20 employees staff offices in Youngstown and Chagrin Falls. The ESOP process started in late 2003 and closed in May 2004. Says Weinberg, "The conversion to an ESOP was a major learning experience. We are very excited about employee ownership and the benefits for both the company and its employee owners."

The company is now 100% employee-owned.

Making choices

The five new Ohio ESOPs were created as most ESOPs are created – with benign intentions, a win-win solution for sellers and buyers, and high hopes for future success. Now they have the opportunity, while hopes and enthusiasm are high, to realize the power of employee ownership. The choice is largely in the hands of company management.

Without employee involvement and participation, most ESOP companies perform no better than traditional firms, and the company's operational performance and profits remain about the same. The prior level of performance may have been quite satisfactory when ownership rested with a handful of owners, but when it is divided among all the employees, it may be a disappointing return, especially while the ESOP is repaying the acquisition loan.

However, companies with ESOPs can exceed the performance of traditional companies by using employee involvement along with communication and training to help employees understand the operations and financial position of their company. There is no one right way to start the process, but research has suggested that holding regular meetings of the employees, along with ownership education and financial training, are centrally important. Electing non-management employees to the board seems to play a large role as well.

What kind of economy do we want?

Increasingly, it seems that our economy is at a cross-roads. Through mergers, acquisitions, outsourcing, and off-shoring, we eliminate jobs that pay good wages and benefits and replace them with jobs that pay lower wages and fewer benefits. We have 245,000 fewer people working in Ohio than we did in September 2000, and manufacturing employment is down by 19%.

Further, as we replace local ownership with absentee ownership, we reduce the local "multiplier effect" – the degree to which money spent locally recycles within the local economy. Local ownership matters.

Two recent studies of the book industry in Maine and Texas found that locally owned stores had a local multiplier effect that was three times as great as that of chain stores selling exactly the same products.

That local multiplier helps keep your friends and neighbors working. As SSI's Rettig says, the sale of small businesses to absentee owners rarely produces good results for employees or customers. The same is true for the community.

The five successful, entrepreneurial companies profiled here don't "offshore" jobs to China or push down employee wages and benefits. Instead, they talk about "rewarding employee loyalty and commitment." And it's not just talk: they are broadening ownership among all their employees.

These five companies have acted to anchor jobs and capital in our communities, creating the potential for faster economic growth, more local jobs and real wealth accumulation over the years. Employee ownership is about real choices for our future. OAW

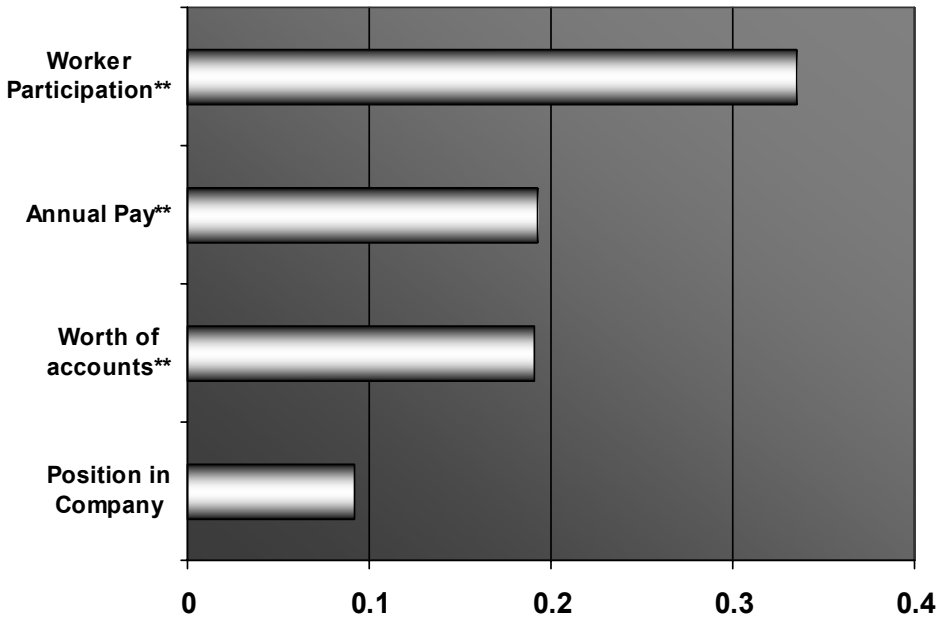
Ray Lancaster *(Continued from page 1)*

last five years and had no securities trading in the public markets.

How was the study completed?

Information was gathered from interviews with company management and from a questionnaire that was administered to every participant in the ESOP. Of the employee-owners receiving the questionnaire, approximately 65% returned the completed questionnaire. The questionnaire asked the employees to report on their work behavior as well as answer questions about their ESOPs and their individual accounts.

Worker involvement in company matters was measured by the extent to which the employee owner was encouraged by management to be a part of the company decision-making. Areas of interest included whether the company and department information was provided to the employee owner, whether the supervisor asked the employee owner's advice on job related matters, and whether the company had a program to involve the employee owner in improving the company operations.



***Beta Weights p<.01*

Figure 1: Relative Importance of Factors Increasing Proactive Work Behavior to Improve the Company.

What were the results of the study?

When the results from employee questionnaires for the four companies were combined, there was a strong positive relationship between workers' behavior and the size of the workers' ESOP accounts, the employees' wages, and the employees' level of participation in work related matters. Stated differently, workers with larger ESOP accounts, who were paid well, and participated in company decisions, exhibited proactive work related behavior. These employees were the better workers and they cared about how the company performed. They were more likely to say something to other employees who were not doing their jobs. Being an owner as well as part of the company team made for superior employee owners.

When the original study was designed it was not anticipated that worker participation or worker involvement would be such a strong influence on worker behavior.

Were there any differences among the four companies?

In the better-performing small companies, the value of the employee owners' ESOP accounts and employee participation were important. At the two companies that had slightly lower operating results, employee owner participation was very important: the people who were better employees were involved in company decisions. Companies that have high levels of employee participation have a meaningful competitive advantage because the employee owners look at their positions with the companies as more than just a job.

What has the research and experience taught us?

For strong worker involvement to be successful, it appears communication must flow in both directions. Employee owners should be provided as much information as practical about how the company operates. At the same time, the employee owner should communicate with others at the company about how to improve operations. It appears that people should communicate as much as possible. Good, open communication will encourage employees to participate in helping the company succeed.

For example, if the profitability of a product is below expectations, everyone involved should play a part in correcting the situation. Production workers, purchasing agents, sales people, engineers and whoever else may influence the product or the customer should be part of the discussions. As owners, all employees should contribute to the problem's solution.

Although not directly proven by the research, there were two areas of concern that were noted. First, some supervisors may feel threatened by employee owners who are quick to make suggestions. Second, some workers have difficulty being more than a "hired hand," and their willingness to accept the risks of ownership may be low.

Why study small companies with ESOPs?

Small businesses now account for over 50% of the private sector jobs and they are expected to account for a large percentage of future job growth. Over 85% of the 11,500 companies with ESOPs have annual sales of less the $100 million. This small business sector is vital to the United States' economy, and successful ESOPs increase the likelihood of small companies' success.

For employee owners or the ESOP participants, not only do they receive their wages, but they also share in the economic benefits of being an owner, and through participation they have a more interesting, challenging job. OAW

ESOP Purchases 100% of Contract Sweepers

"I will dispel all rumors right now... The company has been sold. The buyers are some of the greatest people I have had the privilege to know... The new owner of Contract Sweepers & Equipment is you, me, and every other employee… We together have bought Contract Sweepers & Equipment through a process called an ESOP," so began Gerry Kesselring's announcement to all employees of the successful purchase by their ESOP of 100% of the company.

Kesselring, President and CEO, is definitely excited about the ESOP and about the opportunities and prospects for an energized, new-ownership mindset among Contract Sweeper's employees. He wants the company to "continue down the path of building an ownership culture, one that focuses on trust, open dialogue and team work."

The company, founded in 1960 by Tom Maish as "one sweeper and two guys," has grown to its current size of 100 employees in Columbus and Cincinnati, Ohio, providing industrial and commercial pavement maintenance and sweeping services, and sales and service of several brands of regenerative air street and parking lot sweepers to the two cities and surrounding areas.

Maish is also very pleased with the ESOP transaction as being the best way for him to reward the hard-working employees who helped grow the company. In the spring of 2003, Maish let it be known to key managers that he was ready to sell the company. He had been approached by several outside buyers and by some inside people who wanted to buy the company.

Kesselring explains, "Through long discussions, Tom, Bill Miller (CFO), Greg Maish (VP Operations) and I agreed to explore the ESOP option. "Maish contacted Bill McIntyre of the OEOC and was referred to leaders of several ESOP companies. The group met with people from ESOP companies, attended some OEOC and Ohio Chapter of the ESOP Association programs, and met with attorneys and bankers to see if an ESOP was feasible. "By February 2004," says Kesselring, "we were confident that it was feasible."

Shortly thereafter, Kesselring and Miller began meeting with key division and operations management people. Kesselring always warned people, "This may blow up," and there were times when it almost did. Rumors were rampant because he was acting strangely – wearing suits and having closed-door meetings – and the rumors became a problem.

In June 2004, several key hourly employees participated in an Ohio Chapter ESOP company visit at YSI, Inc., in Yellow Springs, Ohio. Those employees were sold on the ESOP concept after that visit and were very helpful in communicating the ESOP to other hourly employees.

The ESOP transaction was executed on July 6, 2004, and the company had two "all-employee" meetings on the 7th and 8th, one in Columbus and one in Cincinnati. Both meetings had the same format, and all ESOP service providers were at both meetings. Kesselring gave the key speech outlining the ESOP transaction. Nancy Crooks and Patrick Henthorne of Bank One provided 100% financing for the transaction. Rob Stutz of GBQ Partners performed the ESOP valuation. Bob Peck of Peck and Martin is the ESOP Trustee. Mark Swanson of Jochim Co., LPA, is the ESOP Administrator, and Tim Jochim is the ESOP attorney. McIntyre of the OEOC explained the ABCs of ESOPs, what it meant to be an owner and also what it did not mean.

Kesselring made several awards to a clearly touched Tom and Judy Maish. A highlight was the establishment of a Tom and Judy Maish Small Business Scholarship at Ohio State University.

Clearly, Contract Sweepers' ESOP got off to a good start. Kesselring wants to continue that good start on into the future. With that in mind, they have established two committees:the Communication Committee and the Profitability Committee. No officers, or even division managers, serve on the committees. Kesselring elaborates, "These committees are made up of night operators, mechanics and sales people. These are the people who are asking: 'How can we make our company better?'"

For his part, Kesselring is committed to talking with employees, teaching them what it means to be an owner, inspiring them "to take responsibility for their actions every day, in every way," sharing financial information with them, and ultimately having them understand what their business is truly about and how they are a part of it. He knows it will be a long process, but that it will be worth it in the end. He concludes, "And in the process, we all win." OAW

Business Owner Succession Planning Program
Spring 2005 Schedule of Seminars

Too many successful local businesses have been lost because the owner never got around to planning for retirement and business succession. The Succession Planning Program, a partnership between the OEOC and COSE, provides business owners with the information they need from the experts in the field.

Thursday March 10th—Succession Planning: Where It All Starts—Neil Waxman, Capital Advisors

Thursday March 24th—Succession Planning in a Changing Estate Tax Environment—James Aussem, Brouse McDowell

Thursday April 7th—Family Matters in Succession Planning—Cathie Scanlon, Cardinal Consulting Group

Thursday April 21st—How Much is my Company Worth? The ABC's of Valuation—David Howell, Duff & Phelps

Thursday May 5th—Growing Your Business for the Purpose of Selling Your Business- Michael Pappas and David Menning, Barnes Wendling CPAs

Thursday May 19th—Selling to Your Employees: Management Buyouts & Employee Stock Ownership Plans (ESOPs)— Carl Grassi, McDonald Hopkins Co. LPA

Seminars are held at Trinity Commons, 2230 Euclid Avenue, Cleveland, Ohio 44115 from 8:00 a.m. to 10:00 a.m.

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

A Tale of Three Sales

There probably isn't anyone connected with employee ownership who isn't happy to hear about the creation of new ESOPs, with management and employees sharing the risks and rewards of owning a company. When ESOP companies are sold to conventional firms, however, the reaction is more complicated. It's sad to see the company of people who were embarked on the project step away from the commitment of being owners. But when they receive substantial gains from the sale of their company, the gain in personal wealth is an immediate benefit. Every story is a little different. Here are three tales that offer some food for thought.

The Wornick Company's ESOP Participants: From Zero to $213,000 in 10 Years

Editor's Note: The details of this story are based on public information and not the statements of any company officers or employees.

The ESOP participants of The Wornick Company, a 100% ESOP-owned company with headquarters in Cincinnati, Ohio, have elected to sell the company to Veritas Capital for $160 million. As a result, the ESOP, founded in 1995, is being terminated and its assets distributed to its 705 participants. After paying off the $10 million balance on the ESOP note, the average participant will receive over $213,000 in ESOP benefit distribution.

In a sale of this size, it is likely that some participants will receive more than $1 million, and many may receive over $500,000.

The Wornick Company was formed in 1979 and manufactures Meals Ready to Eat, or MREs, for the military. In 2000, the company expanded into the consumer market with its Homestyle Express® brand. The products are manufactured in Wornick's Prepared Foods division in Cincinnati. In McAllen, Texas, the company's Right Away division specializes in individual- and group-feeding meal solutions, with the military as the primary customer.

Retiring owner Ron Wornick, Wornick's namesake and founder, sold his 5 million shares, representing 100% of the company's stock, to the ESOP in 1995 for $34 million. After the purchase, Wornick's stock price dropped to nearly zero, because of its acquisition debt.

It was not until 2001 that the stock price exceeded the original purchase price. In 2002, benefiting from the Iraq War, the stock price jumped from $7.05 to $17.44 per share. 2003 was another record year for the company, and a large increase in price was likely. Consequently, the company faced a suddenly large and looming ESOP repurchase obligation.

Because the transaction was structured as a sale of assets, federal law required that the participants vote their shares directly on Veritas Capital's offer of approximately $31 per share.

The sale would solve the repurchase obligation issue and would occur at a time when the company was having its best year. The price offered by Veritas was very attractive, too.

Participants Vote to Sell Concrete Technology to a Larger Firm

Editor's Note: CTI's situation highlights important issues for companies that have made a long term commitment to employee ownership. How to respond to tender offers? When should offers be presented to the ESOP Administration Committee? How does the company ensure the neutrality of the ESOP administration committee or an "eye single" devoted to the interests of ESOP participants, as mandated by ERISA? In light of ERISA, companies may be well served by presenting tender offers in excess of the current market value of ESOP stock to the ESOP administration committee; and, by including employees who are ESOP participants, outsiders, or others who are not part of company management as members of the ESOP administration committee.

A majority of the 200 employee shareholders of 100% employee-owned Concrete Technology Inc. voted to accept a purchase offer from High Concrete Structures, Inc. of Denver, Pennsylvania, after an 18-month process of negotiation that included two lawsuits by ESOP participants directed to the Board members and ESOP fiduciaries. Final approval of the acquisition was announced on November 9, 2004, creating a new company that is one of the nation's largest structural and architectural precasting firms.

The company faced a suddenly large and looming ESOP repurchase obligation.

CTI, with 200 employees and sales of $28 million, is a leading producer of architectural precast products in the Midwest, with production facilities in Springboro, Ohio and Paxton, Illinois. The company has produced exterior panels for many of the Midwest's most recognizable buildings, including the award-winning COSI project in Columbus and the OSU stadium expansion. High Concrete Structures, with production facilities in Denver and Williamsport, Pennsylvania, is the nation's largest producer of precast parking structures and serves the Mid-Atlantic market.

Back in May 2003 Marv Hartsfield, President of CTI, was approached by High Industries, a privately-held company, about launching a merger or other relationship for doing business in Ohio. CTI had an ongoing association with High, primarily for benchmarking purposes. The CTI Board hired a valuation firm and considered the offer but ultimately turned it down because the construction market was in a down cycle and CTI was committed to remaining an independent, employee-owned business.

In November 2003 High Industries reappeared with an offer to purchase CTI at a price of $30 per share, a $10 per share premium over the end of 2002 share value. The rank and file employees heard about the offer. As Bill Farwell, CTI's VP of Construction and now director of field manage-

ment for the new firm, explained the situation, "a group of long-term employees approached me to be their spokesman in considering the offer. I asked them to prove to me that they represented the majority of the ESOP participants. This request resulted in the circulation of a petition to find out if their concerns were shared by a majority of the ESOP participants. After checking that the signers' shares represented in excess of 60% of the ESOP's shares, I took the petitions to an attorney so the employees could get appropriate counsel."

In January 2004, representatives of the ESOP participants sued CTI's board to force its reconsideration of the purchase offer. The board agreed to a settlement of the suit in June 2004 and hired FMI to offer the company for sale A majority of employees (80%) voted in July 2004 to approve the settlement. An interim board was elected with two members elected by the ESOP participants. Hartsfield, who started out 26 years ago as an engineer at CTI, was asked to stay on as president through September, when the transition was underway. A letter of intent for the acquisition was signed at the end of September, 2004, subject to due diligence and a shareholder vote. In early October, the employees voted on the final terms and conditions to sell the company.

The sale of assets was completed on November 10, 2004. CTI is liquidating the corporation but will remain in existence, with funds held in escrow, until CTI's current projects are completed and outstanding receivables are collected. The IRS must approve the termination of the ESOP plan.

The ESOP participants also sued the members of the ESOP Administration Committee, all of whom directed the outside trustee and also served as Board members. The personal liability suit contended that the ESOP fiduciaries failed to present the purchase offer to a vote of the ESOP participants as called for in the ESOP plan. The board contended that the offer was not put to a vote by participants because it was not beneficial to participants.

ERISA attorneys Gary Greenwald and Anne Marie La Bue discussed CTI's situation at a recent ESOP forum. "When ESOP participants see an established downward trend in stock value and decide it is in their best interests to sell, the ESOP fiduciary is required to protect the value that plan participants have in the company. The ESOP owns the company," commented Greenwald.

CTI was founded in 1969 and enjoyed immediate success. The ESOP was established in 1993 as an owner succession strategy, and the firm became 100% employee owned in 1998. In 1999, the company opened a new plant in Illinois to serve the Chicago and St. Louis markets.

Top company leaders were champions of the ESOP and felt that key strengths of the business were the skilled craftsmen and engineers. Employees and managers shared a commitment to education, communication, open book management, and profit sharing. CTI's ESOP Communications Committee won an award for its education and community initiatives and members and managers were active supporters of Ohio's employee-owned business forums.

Management's philosophy was to share profits with employees, and managers held monthly shareholder meetings. An incentive compensation plan went to all employees in monthly bonuses based on profitability. In good years everybody got bonuses of 15-16 weeks' pay.

The construction economy is cyclical and tends to follow the general economy by two years. CTI stayed independent and successful longer than other companies of its size within its industry. It prospered through several downturns over 30 years of operations because it was flexible and able to change its customer focus as the economy changed. CTI got offers from larger firms, but, as an ESOP, was not interested.

But in 2003, CTI laid off some employees (from the Illinois plant) for the first time in its history.

"Employees saw their company suffering in the economic downturn and got very concerned that the company may not survive."

As Farwell described it, "employees saw their company suffering in the economic downturn and got very concerned that the company may not survive. High Industries offered us stability and an opportunity for growth through a merger."

Please note: employee-owners were unavailable for comment on this article.

See www.highconcrete.com and www.ctiprecast.com for more information.

Foresight Technology Group Now A Berbee Company

Foresight Technology Group, a 27% ESOP-owned firm with 87 employees in Brecksville, was acquired by Berbee Information Networks Corporation in July, 2004, enabling Berbee to extend its sales territory and offer a wider array of business products. Foresight, one of the top 20 IBM partners in the Great Lakes region, was established in 1993 by Jim Dunn and Rich Croll, who established an ESOP in 1999. Dunn has recently retired, and Croll will be managing director for Berbee's Ohio region.

Berbee, based in Madison, Wisconsin, with 450 employees, is a leading distributor of Cisco And Microsoft software. Combined revenues for the two companies will exceed $280 million in 2004, with Foresight accounting for about 25% of the total. All the Foresight employees will retain their jobs and have the same responsibilities as before. The new firm expects to add jobs.

Consolidation among IBM distributors in the marketplace was a major consideration, said Michael Grone, Foresight's HR manager. "We were competing with bigger firms whose margins are greater. Selling now made sense for us. As the largest Cisco partner in the US, they offer synergies in products and services. Their culture is similar to ours, too."

ESOP participants voted on the proposal and showed widespread support for the acquisition. An independent fiduciary will represent them during the merger transaction and termination of the ESOP plan, which is expected to take 16-18 months.

The firm has about 80 job openings including a current need for IT people locally. For more information contact mike.grone@berbee.com. OAW

How to Succeed in (an Employee-Owned) Business:

ESOP Leaders and Managers are Going Back to School

New University-Based Executive Education Programs Roll Out in 2004

The same participative model that works well within ESOP companies is being used by several new university-based executive programs in the U.S. and Canada. Drawing on the skills and experience of successful CEOs, managers and consultants, the programs provide substantial opportunities for students to share experiences and ideas about the unique challenges and possibilities for employee-owned companies. Even some from the first generation of ESOP company leadership, who were largely on their own to adapt to employee ownership, say they have profited from enrolling in the programs.

In the first article of a two-part series, *Owners at Work* looks at two U.S. programs that began in the fall of 2004:The Employee Ownership Management Program at the University of Wisconsin – Madison and the ESOP CEO Leadership Program at the University of Pennsylvania.

Both programs provide a series of classes over a broad time frame, encourage peer interaction and company-to-company networking, and offer a certificate upon completion.

The programs differ in their content focus and target audience. The Wisconsin program is for managers with supervising relationships at any level, and focuses on key management skills and marketing approaches to maximize the potential of an ESOP. The Pennsylvania program is for CEOs or CEO designees with a focus on leadership values and involvement in building an ownership culture.

Front row kneeling (l to r), Ginny Vanderslice, U Penn faculty and Praxis Consulting Group; Alan Barstow, U Penn faculty; Andy Lamas, U Penn faculty; and Habitat owner: Middle row standing (l to r), Mike Foley, Reflexite Corporation; James Woods, DCS Corporation; Gerry Jones, Parametrix; Kim Jordan, New Belgium Brewing Company; Jennifer Vervier-Orgolini, New Belgium Brewing Company; Cheryl Musselman-Brown, EBIA; Habitat staff person; Steve Sheppard, Foldcraft Company; & Bill Carris, Carris Reels, Inc.: Third row (l to r): Habitat owner; Victor Aspengren, Owner Revolution, Inc.; Eric Sletten, Sletten Construction Company; Paul O'Reilly, Newport Harbor Corporation; Don McCandless, Restek Corporation; Mike Bolen, McCarthy Building Companies; Michael Curran, Carris Reels, Inc.; and John Donohoe, Moretrench American Corporation.

The Employee Ownership Management Program in Wisconsin

The Employee Ownership Management Program at the University of Wisconsin in Madison, sponsored by Executive Education in the School of Business and the UW-Madison Center for Advanced Studies in Business, Inc. together with a diverse group of experienced ESOP leaders, features employee ownership courses combined with relevant for-credit management courses.

The program is designed to provide executives, managers and supervisors with the knowledge and skills to manage in an employee-owned organization, to help people think and act as owners, and to position and market an employee-owned organization. The Employee Ownership Management Certificate requires 12 days of study, including six days of employee ownership management program sessions along with additional courses. Participants can also take single classes without completing the certificate program.

Courses are led by the UW-Madison Executive Education faculty and an outside group of instructors with many years of combined experience with employee-owned companies, including John Hoffmire, Program Director at UW-Madison and former senior investment officer with American Capital; Anthony Mathews, senior consultant with Principal Financial Group; Sid Scott, V.P. of Human Resources for majority employee-owned Woodward Communications, and Corey Rosen, Director of the National Center for Employee Ownership.

As Hoffmire explained, "The Employee Ownership Management Program grew out of conversations between Sid, Tony and myself about the need for managers of employee-owned firms to gather together and learn basic business skills in an environment where employee ownership is understood, emphasized, and appreciated. We heard consistently from participants that they gained very practical and valuable skills that they will go back and apply immediately."

"We designed the curriculum to cover several key areas that

any executive, manager, or supervisor in an employee-owned firm needs to understand in order to be effective: basic financial issues, communication skills, strategic thinking, and marketing. With marketing, one of the unique challenges for an employee-owned company is learning how to market and sell the products and services of your business from a perspective where your employee owners would go out and find customers as well as from the perspective of customers and clients visiting your employee-owned firm and being impressed by attributes of employee ownership that will make a positive difference for them."

One participant, Ryan Gruhn, president of The Plastics Professionals, an employee-owned firm, felt that the Employee Ownership Management Program was an outstanding mix of educational presentations, in-depth group discussions and networking opportunities with leaders from other ESOP companies. "The four-hour time blocks for each topic gave presenters plenty of time to present their material and participants to discuss the topics and ask questions."

For Tom Yunt, president and CEO of employee-owned Woodward Communications, the biggest advantage in attending was developing a network of others from employee-owned organizations and benchmarking his company against others.

"It's really a nuts and bolts program with very specific take-back-to-work approaches," explained Corey Rosen in describing the program. "It's less about philosophy and style and more about practical things that you can implement—90% of the learning comes from talking to each other."

The next session will be run in San Francisco on April 17-19. Additional program information is available at http://uwexeced.com/advancedmanagement or by contacting John Hoffmire at hoffmire@wisc.edu or 781-862-4247.

Leading in an Ownership Setting: U Penn Program for CEOs

The Leadership Program for Chief Executive Officers and CEO designees of ESOP companies was created through an educational partnership between The ESOP Association and the Center for Organizational Dynamics at the University of Pennsylvania in Philadelphia. The certificate program offers two on-site sessions held five months apart with individual and small group work assignments during the interim.

As Michael Keeling, president of The ESOP Association, explained, "This program grew from the consensus among leaders at employee owned firms that a CEO's commitment of heart, soul, and brain is vital in building an ownership culture." The course is guided by an advisory group of 15 CEOs from high-profile participatory ESOP companies. The faculty members at Penn who lead the program also have an employee ownership background.

"Participants explore the art and science of leadership", explained Ginny Vanderslice of Praxis Consulting Group and the program's Academic Director. "The program helps CEOs understand who they are, what they want, and how their own approach and style of leadership fits in an ESOP context. They look at their own leadership history and values – alongside the philosophy and nature of ownership. Participants gain a greater understanding of how to leverage the power of an ESOP: how to share power, promote participation, and build an employee ownership culture."

Course content includes theory, discussion, and application on topics that CEOs could not get at an ESOP conference. For example, participants learn how to use narratives and stories as a leadership tool. Interim assignments include a 360-degree assessment of their leadership style. Within ten days of the program, a group of participants organized a visit to another participant's company to continue the exchange process.

Said Bill Carris of Carris Reels, "The best thing for me was getting a group of CEOs together whose philosophy is in the same place, unlike other CEO courses. This created a positive dynamic for communicating and learning. At Carris Reels we are trying to be employee owned and governed, so we want to structure our board in a different way. Our peers at Penn didn't look at us as if we're from Mars; they understood. I attended with my CEO successor which got both of us thinking and talking about lots of issues on the checklist, even though we didn't deal with each other directly during the course."

Participant and advisory group member Steve Sheppard, CEO of Foldcraft Company, was surprised at how much he learned, despite having been involved in the course design. "In doing our homework assignment to visit at least one other ESOP of 15 in the class, I saw the tactical things they do to leverage their ESOP. I talked to the CEO about what I saw and learned about their company. I am keeping a journal of the tactics and ideas I am working on, and trying to conceptualize the whole process. We have 20 years of experience with employee ownership and the program took me another rung up the ladder."

Soon-to-be-CEO Paul O'Reilly of Newport Harbor Corporation found that "as an emerging CEO, it's great to be surrounded by leaders of ESOPs who have intimate knowledge of the complexity of ESOPs."

"The extended period of time for this program is the ultimate benefit," added O'Reilly, "especially to explore the cultural issues that get overlooked in the fast-paced business environment. Over the week some deeper thinking went on about why the ESOP culture is different. The fundamental power of an ESOP is that owners and employees are the same. ESOPs have a competitive advantage. I am taking away a deeper sense of what employee ownership is.

"For my homework I've initiated projects in a number of areas using problem-solving tools taught during the program. The two weeks of the program with time in-between is a huge advantage."

Leadership Lessons from Gettysburg, a special optional educational event offered at the end of the first session, is led by Keeling. As he explained, "Participants analyze the Battle of Gettysburg in terms of leaders' communication and decision-making strategies that can be applied in the employee ownership context."

Information is available at www.esopassociation.org, by email to Lisa Rackstraw at lisa@esopassociation.org or call 1-866-366-3832. OAW

Don't Forget to Mark Your Calendar for the
19th Annual Ohio Employee Ownership Conference
Friday, April 15th, 2005 Akron, Ohio

Sailors' Efforts Still Afloat

In last summer's issue of ***Owners At Work***, we reported on the efforts of Great Lakes sailors to buy the Marine Services Division of Oglebay Norton Company, efforts that were complicated somewhat by the fact that the company had filed for bankruptcy reorganization last February. Those buyout efforts are still ongoing, but one obstacle has been removed.

On November 16, 2004, Oglebay Norton won court approval of a reorganization plan that, it is hoped, will allow the company to emerge from bankruptcy protection in late December of 2004 or early January of 2005. As a result, the employees of Oglebay Norton Marine Services, through their buyout committee, the Oglebay Norton Employee Economic Empowerment Association (ONEEEA), are optimistic that they will be resuming negotiations to purchase the company's marine division via a 100% leveraged employee buyout. As reported in the Cleveland *Plain Dealer* on November 17, 2004, "The decision by a Delaware judge means Oglebay can push forward with selling assets - including, possibly, its 12 Great Lakes freighters - to reduce the debt that tipped it into Chapter 11 bankruptcy protection."

"This is really great news for the company and for its marine employees," said Robert P. Woodman, President of the ONEEEA. "We believe, as do many others, that a friendly transfer of ownership of the marine division to its employees offers many attractive benefits to all concerned."

In the early 1990s, Oglebay began moving away from industries linked to coal and iron ore such as their marine division. Today, the company's core business is in the mining and processing of lime and limestone for the construction, environmental, and metallurgical industries, in addition to sands and specialty minerals used in everything from paint to oil-drilling operations. A group of officers and crew members who were concerned about the company's change of focus and its impact on their jobs, formed ONEEEA in November of 2003 under the guidance of Norman Kurland, Managing Director of Equity Expansion and a long-time proponent of employee ownership.

The employees raised the necessary funds to retain CBIZ, Inc. of Akron, Ohio, an ESOP business valuation firm, to conduct a financial prefeasibility assessment of Oglebay Norton Marine. The study, completed in June 2004, found that employee ownership of the ships was feasible. It was partially funded by the Ohio Department of Job & Family Services Prefeasibility Study Grant program.

"We believe, as do many others, that a friendly transfer of ownership of the marine division to its employees offers many attractive benefits to all concerned."

"We are very excited at the prospect of resuming negotiations with the company," Woodman said. "This is a tremendous opportunity to make ESOP history by creating a new model of true worker ownership." OAW

Unique ESOP Provision at RJ Martin Promotes Ownership

Normally, if an ESOP company of 100 participants is recycling shares when paying out a benefit distribution from the ESOP to one participant who is receiving his/her distribution, the ESOP uses cash ("other investments") from the other 99 participants to repurchase shares from the one participant. This is normally NOT an optional process for the 99 participants. At RJ Martin Electrical Contracting, Inc., of Bedford Heights, Ohio, it IS an optional process.

Paul Cunningham, CFO of RJ Martin, described at a recent OEOC ESOP Administration Forum an "exchange" provision in their ESOP Plan that allows ESOP participants to elect whether or not they would like to use the cash ("other investments") portion of their ESOP account to repurchase shares from those ESOP participants who are receiving an ESOP benefit distribution. Thus, participants have the option of choosing to increase their investment in RJ Martin's stock or to build up the other investment portion of their ESOP account.

The plan provision describes procedures that kick in if the share repurchase is over-subscribed (prorata allocation) or under-subscribed (normal, mandatory repurchase of the under-subscribed shares by all participants based on cash balance), so there is no risk of a participant receiving an ESOP benefit distribution not being able to receive cash for shares.

By giving ESOP participants a choice, RJ Martin is giving them more control of their ESOP accounts. OAW

VEOC Gets $97,000 Grant

Vermont Congressman Bernie Sanders (I) announced on December 13, 2004 that his office had secured a $97,000 grant for the Vermont Employee Ownership Center in the Fiscal Year 2005 Consolidated Appropriations Act. The money will help the Center assist more worker-owned business in Vermont through the creation of a revolving loan fund.

"At a time when the middle class is shrinking, when corporate America is sending millions of good paying jobs to China and other low wage countries, when workers are experiencing increased anxiety about whether their jobs and benefits are going to be there tomorrow, it is important that we continue moving forward to expand the concept of worker-owned businesses." said Sanders. "My hope is that this grant will enable the Vermont Employee Ownership Center to increase its efforts in educating Vermont business people and workers about the benefits of employee ownership, and that, in the years to come, we can see more and more Vermont businesses move in that direction."

Don Jamison, Executive Director of the Center, believes "the establishment of a revolving loan fund for Vermont's employee-owned companies will be a key ingredient in growing the employee-owned sector in the state." The funding is part of the Economic Development Initiative administered by the U.S. Department of Housing and Urban Development.

Congressman Sanders also announced his intention to reintroduce into the new session of Congress legislation to establish a United States Employee Ownership Bank. Said Sanders, "At a time when Congress provides tens of billions in corporate welfare, we should be providing financial help for those companies and workers that want to move in the direction of employee-ownership." OAW

Producers Service Marks a Decade of Successful Employee Ownership

John Logue

What happens after employees pull off heroic buyout efforts and save companies which otherwise would have shut their doors? Buyouts to avert shutdown are never done without employee financial sacrifice, and generally the new employee-owned company has a tough row to hoe with too much debt, too little working capital, and a lot of trouble rebuilding the business. From time to time, Owners at Work looks at where they are now.

Tuesday, October 26, is one of those days of Indian summer that bless the Ohio fall. When I leave home at 7:15 for the Producers Service Corp (PSC) worksite, it is still dark, but not nearly as dark as when the PSC crew of ten left Zanesville that same morning at 3 a.m. The job: to fracture a gas and oil well in the Clinton sandstone some 3800 feet beneath the surface behind the Woodland United Methodist Church in Northwest Akron.

When I get there at 8 a.m., three pump trucks, two sand trucks, two "iron trucks" that carry all the connecting pipe, and a "blender" truck which mixes the water, sand and chemicals are already set up. It's time to test the pressure against the valve at the top of the well.

Employee-owners from Producers Service take a time out on the job to pose for a picture. (L to r) Mike Hartshorn, Dave Grear, Todd Lawyer, Jim Gallis, Keith Flexter, Ryan Morgan, Tom White, Rick Liddle (owner of Ohio Valley Energy System, the client), Tye Jones, Kelly Hartman, and Dale Swingle

Saving the company

Employee ownership was not at the top of Producers Service workers' list of things to do in 1994 until the CEO and controlling owner, Larry Perkins, announced that he had sold all the company's equipment to a Canadian broker who had a client for it in China. The company lived from fracturing pay zones in newly drilled oil and gas wells, and the drilling rig count was down in the Ohio oil patch. Drilling for oil and gas peaked in Ohio in 1981 when 6000 wells were drilled. That number dropped to 1160 in 1991, 850 in 1992, and 700 in 1993.The Chinese would pay more than the equipment was worth in the US. It was the right time to get out. Why not sell it?

The three guys controlling the pump trucks are sitting with their monitors and controls seventy-five feet back from the pump trucks in case something blows. Once the pumps start, they can't hear much through their ear protection except frac operator Dale Swingle's radio calls coordinating the pump pressure. Dale is getting the pressure readings on the valve, and monitors the fracturing process from a van where he is sitting with Rick Liddle, a petroleum engineer with Ohio Valley Energy, which drilled the well and will operate it.

Inside the van, the noise level is low enough that we can talk as the pressure builds toward 3500 psi on the valve.

"Look, when we bought Producers Service," says Dale, "there wasn't any doubt we could run the company. We knew we could. We'd been doing the job for years."

Meanwhile Rick is sketching the well for me, showing me where the two pay zones are. In the thick layer they have drilled 63 holes through the casing and cement into the Clinton layer; in the thinner zone, there are eight holes. These holes are where the pump truck water pressure meets the rock.

At home in the field

In April 1994, the PSC board approved the Chinese deal. The employees, with their jobs at stake, begged to differ. They trooped off to the May 23, 1994, shareholder meeting of the locally owned company to protest and to request time to match the Canadian/Chinese offer. After some discussion, the shareholders gave them 60 days to raise $2.1 million. "Ever done a buyout in 60 days?" was the first question Dan Pottmeyer, company VP and buyout leader, asked when he called the OEOC.

Producers Service has an office and maintenance facility in Zanesville, but the employee owners hope you don't see much of them there. Where they work and where they make money is out in the field. The money's underground in those very solid, tight hydrocarbon-bearing rock layers that underlie much of

Ohio. Without fracturing the oil and gas bearing rock, Ohio wells yield little. Fracturing adds roughly 10% to the cost of a well, and dramatically increases oil and gas recovery as much as tenfold.

The concept of how to fracture a rock layer 3800 feet under you is easy in theory. Just crack the rock layer so that gas and oil flow through the cracks to the well. Years ago, we simply set off nitroglycerin in the pay layer .

Today, fracturing is more complex and far more efficient. Once the well has been drilled and concrete poured around the steel well casing up to some hundreds of feet above the pay layer or layers, the casing and concrete is pierced with holes into the petroleum-bearing layers. Water and chemicals to reduce friction are forced down the well at up to 3500 pounds per square inch to fracture the rock out 400-800 feet from the well. Then fine sand is forced into the fractures to keep them open. Gas and oil flow through the sand in the fractures to the well. Avoid fracturing the layers above and below the Clinton pay zone, which would let the gas and oil move away from the well, so keep the pressure moving horizontally through the sandstone rather than up or down.

And you've got to do it all working three-quarters of a mile below the surface.

Your competitors are Halliburton and some other very large oil field service companies.

(Above) Keith Flexter (left) and Mike Hartshorn loosening the cap to get at the pump.

(Right) Mike Hartshorn (left) and Tom White Right removing the cap from the pump.

With hard work, good advice, a local bank loan, and community and state support, the PSC employees put together a $2 million package to buy the company with all the equipment in 100 days – the fastest buyout to avert a shutdown ever seen in Ohio. They put their profit-sharing retirement money into the deal as equity, and friendly outside shareholders kept in an additional 15% of the shares to help secure the loan.

"Sure, we bought the company to save our jobs," says Kelly Hartman, on a half-hour break while balls that had insured the success of the second part of the fracture job settled to the bottom of the well. "I think that most of us could have gotten other jobs, but we liked what we did. We just wanted to keep doing what we liked to do.

"Why let 'em ship our equipment to China? Why not have a go at buying our company?"

However, without the "advantage" of PhDs in economics to tell them it was more efficient to let the Chinese have their equipment while other companies took over their market, Hartman and his buddies bought PSC in September 1994 and went back to work. In 1999, the company paid off its initial ESOP debt. In September 1999, employees bought out the remaining shareholders to make PSC 100% employee owned, and they repaid this additional debt in two years.

Changing how the company does business

The company's first year of employee ownership was a financial disaster. "We lost money almost every month," remembers Pottmeyer, who became CEO of the new employee-owned company in 1994. But the company hunkered down, cut employment though attrition, held the line on wages, slashed overhead, increased efficiency, rebuilt equipment and stayed the course. It turned the corner to profitability in 1996.

Employee ownership brought changes in the way PSC did business.

The first obvious change was rebuilding and then building their own equipment from scratch during the down periods every year. "See that pump truck down there?" Hartman asked rhetorically. "It would have cost us $1 million to buy. We built it for $400,000."

Moreover, rather than buying equipment on the market that was designed for the dry conditions of Texas, Oklahoma, and Colorado, PSC builds to Ohio specs. This means heavier frames and other adaptations to pull or push trucks out of the Ohio clay. "You never have a spring on the other side of the well -- they are always between us and the road. It's a law of nature, I guess," commented one PSC employee owner while a bulldozer pushed a pump truck out of the wet clay to firmer ground.

A second was leadership. "He's just a laid-back farm boy," was Kelly Hartman's description of CEO Dan Pottmeyer's leadership style. "He's a quiet leader, mellow, and very smart."

He's also a hard CEO to catch in the office. Pottmeyer is

(Continued on page 14)

Producer's Services *(Continued from page 13)*

generally out in the field on a job himself. By its nature, oil field service work is decentralized, and Pottmeyer has structured the company to run that way. The guys like it: Of the 14 men and women who bought the company 10 years ago, 13 still work for PSC.

"We have no employee turnover," says Pottmeyer. "We're a small company compared to our competitors. But because of the low turnover, our guys have more experience than our competitors, and we can do the job faster and better."

Changing to a Subchapter S ESOP helped too. "We've used the extra cash to buy equipment," continues Pottmeyer. "That's given us a competitive advantage in having equipment that doesn't break down."

Hiring is a third area of change. Since the buyout, the company has increased employment by another ten. "Dan and I don't decide whether they make it when the probation period is up," says Hartman. "The men decide. After all, they're the guys who have to work with them every day."

A fourth change was in financial remuneration.

Dave Grier, Ryan Morgan (in background) Keith Flexter, Tom White (on trucks), Mike Hartshorn (on ground) checking out the pump.

Financial rewards

"Employee ownership really works," Pottmeyer said. "Just ask any of the guys who work here or any of our customers."

In addition to keeping their jobs rather than see them shipped to China, Producers Service employee owners make market wages and better than market benefits, including a company-paid health plan that covers 90% of medical costs. "It's our company," commented Hartman, "and that's the way we prefer to take it out."

"We pay monthly bonuses when we can, and when we make money we always pay a year-end bonus. A number of years we've been able to do 20% of wages," says Pottmeyer. "In a good year, we've done as much as 25% on year-end bonus."

In addition, the employee owners have built their equity. Ten years after the buyout, the company holds the Ohio record for wealth creation per year per employee—the average employee account for the folks who bought the company is over $250,000. "Realistically, if we hadn't bought the company, most of us would have worked to retirement and ended up with nothing," says Pottmeyer. "Now we all have something to look forward to." PSC ranks 10th among Ohio ESOPs in ESOP value per participant.

"These guys know their jobs," says Don Nething, Ohio Valley Energy Systems, who had been involved in drilling the well. "In the oil business, you can't afford to go with the cheapest contractor. You have to get the job done right.

"The fact they own the company makes a difference. These guys are more involved, more concerned. That makes me more confident on the job," was Rick Liddle's take.

By 10:30 a.m., the frac job was done. One hundred twelve thousand gallons of water and then 80,000 pounds of sand had been pumped into the pay zone in the Clinton sandstone to fracture it and keep the cracks in the rock open. Now there was nothing left to do but to take the sledge hammers to the pipe connections, reload the "iron trucks" with the pipe, get the pump trucks and blender out of the wet clay and head on down the road to Canfield for the next job. OAW

In Memoriam

Vladimir G. Tarasov

Vladimir Georgievich Tarasov, long one of the leading proponents of employee ownership in Russia, died December 6, 2004, in an automobile accident. At the time of his death, Mr. Tarasov was Vice-President and Executive Director of the Russian Union of People's Enterprises (RUPE), Russia's primary organization of employee-owned companies, which he founded with the famous ophthalmologist Svyatoslav Fedorov in May 1999.

Vladimir Tarasov was an originator of the concept of the Russian Federal Law "About a special situation of the people's joint stock companies" (1998) that led to the creation of the most successful of the current forms of employee ownership in Russia.

Born on May 9, 1942, he graduated from Omsk Politechnical University in 1964, and received a candidate of science degree in economics from Moscow State University in 1984. In the Soviet period, he worked his way up in the auto industry from blue collar ranks. In 1999 he was a candidate for the State Duma of the Russian Federation.

His deep commitment to employee ownership and his excellent organizing skills will be greatly missed. OAW

Antioch's ESOP Pays Benefits of $94 Million

Not all ESOPs are successful. Some fail. Some do OK. Some are successful. Some are really successful. The Antioch Company's ESOP has been more than that!

For the years 1990-2001 (the most recent data available), all ESOP companies in Ohio paid benefit distributions to their ESOP participants of about $20-25 million per year. This year, The Antioch Company of Yellow Springs, Ohio, distributed nearly $94 million to its participants.

At December 31, 2003, 48 of its 1,097 ESOP participants had ESOP account balances of over $1 million, an additional 33 participants had balances of over $500,000, and the average participant balance was $219,000. Over the past 10 years, Antioch's sales have increased from $40 million to $372 million, and its ESOP stock price has increased from $12.92 to $894.00 per share.

How did Antioch accomplish this?

The company's statement of highest purpose is: To serve human needs by making a difference in the way people remember, celebrate and connect, and to maintain a community of work that offers opportunities to prosper and inspires hope for the future.

Its corporate values stress integrity, enriching lives, valuing people, and providing opportunities. Its products are bookplates and the highly successful "Creative Memories" scrapbooking materials.

In 2003, the ESOP purchased the 57% of the shares not owned by the ESOP from the outside shareholders in a transaction totaling $244 million. With this transaction, Antioch became 100% ESOP-owned. One of the provisions included in the purchase agreement was a guarantee from the company for ESOP participants who will retire within the next three years that their ESOP distribution would be valued at the higher of the transaction price or current appraised ESOP stock value. Retirement at Antioch can occur at age 50.

Barry Hoskins, CFO of Antioch, predicted the repurchase obligation for 2004 to be $11.2 million, based on actual distributions of $9.2 million in 2003. Hoskins' record high projections for 2004 were, in fact, very low. He jokes, "don't ask me for help in estimating your repurchase obligation." Antioch employees of retirement age seized the opportunity and retired. ESOP benefit distributions totaled almost $94 million, almost one-half of the value of the ESOP.

With $60 million in cash in the ESOP and borrowing capacity to handle the remaining repurchase obligation, Hoskins had planned for this contingency, and Antioch successfully weathered the "run on the bank."

The employee-owners of Antioch can be justifiably proud of their company's success and in their ESOP's providing opportunities for people to prosper. OAW

Antioch Wins *Business Ethics* Award

The Antioch Company received the 2003 Social Legacy Award from *Business Ethics* magazine for sustaining a commitment to profit-sharing and the social mission of its founders through successive generations of management over the past 75 years. Antioch was started by Ernest Morgan, the grandfather of current CEO Lee Morgan, and fellow Antioch College students in 1926 as a means to recycle scrap from the college print shop. Its first profit sharing plan started in 1929. The award recognizes the innovative approach Antioch has adopted to broaden employee ownership among newer employees. "This process, called "reshuffling", reshuffles the stock-to-cash ratio in each participant's account each year to mirror the stock-to-cash ratio within the ESOP as a whole, providing "fair treatment" to all plan participants," explained Karen Thomas of the OEOC in nominating the firm. The company's mission of employee ownership continues the legacy of its founder, who saw the workplace as a community of equals sharing the rewards of meaningful work. For the past 16 years, the *Business Ethics* Awards have recognized firms for social responsibility. To nominate your firm or learn more about the *Business Ethics* Awards, see www.business-ethics.com. OAW

Ohio Chapter of The ESOP Association Celebrates 15 Years of Success

Representatives of Allied Mineral Products, an 88% employee-owned firm headquartered in Columbus, are pictured in the photo helping the Ohio Chapter of The ESOP Association celebrate 15 Years of Success at their Fall Conference in Columbus last October. Allied was one of five founding member ESOP firms recognized at the celebration, along with Fastener Industries, YSI Incorporated, The Chilcote Company, and Employee Benefits Management. Founding members Davin Gustafson, Perry Fisher, Tim Jochim and Cathy Ivancic were also recognized for their 15 years of continued involvement in the Chapter. OAW

Ohio's Employee-Owned Network
2005 Upcoming Events

The ABCs of ESOPs with The ESOP Game
A basic orientation to employee ownership
and the role of employee owners.
February 23, Columbus **February 24, Cincinnati**

CEO and CFO Networking Dinner
March 8, The Athletic Club of Columbus, Columbus
Hosted by ComDoc, Inc.

"Are We There Yet?"
ESOP Communication Committee Workshop
April 14, Akron

The "Basics of Business" Game
Introductory round of the OEOC's newest education game
Version for company teams to play!
April 14, Akron

CEO and CFO Roundtable
April 14, Akron

ESOP Director and Fiduciary Workshop:
Reviewing and Sharing Your ESOP Stock Valuation
May 25 SW Ohio

ESOP Administration Forum: Managing Age 55 Diversification and other ESOP Repurchase Obligations
May 26 SW Ohio

CEO and CFO Networking Dinner
September 13, Firestone CC, Akron

The ABCs of ESOPs with The ESOP Game
A basic orientation to employee ownership
and the role of employee owners.
September 15, Toledo

The ABCs of ESOPs with The ESOP Game
A basic orientation to employee ownership
and the role of employee owners.
September 22, Akron

The "Basics of Business" Game
October 20 - 21, NE Ohio
Educational game explores the financial side of business. Learn ways to increase production, improve productivity, manage sales, impact the bottom line and grow share value.

Get Started (or Jump-Started) & Ready for Action!
ESOP Communication Committee Workshop
November 3 SW Ohio

ESOP Fiduciary Workshop
December 7, Kent

ESOP Administration Forum
December 8, Kent

19th Annual
Ohio Employee Ownership Conference
"The *Employee* Ownership Society"

Pre-Conference Events
Thursday, April 14, Akron/Fairlawn
"Are We There Yet?" ESOP Communication Workshop
The "Basics of Business" Game: introducing the in-company version
CEO and CFO Roundtable
Company Showcase Reception

Ohio Employee Ownership Conference
Friday, April 15, Akron/Fairlawn
The best one-day training for employee owners!
Bring group for sessions on ABCs of ESOPs, communication and employee involvement, board and governance, fiduciary update, S-Corp, and open book management

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

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

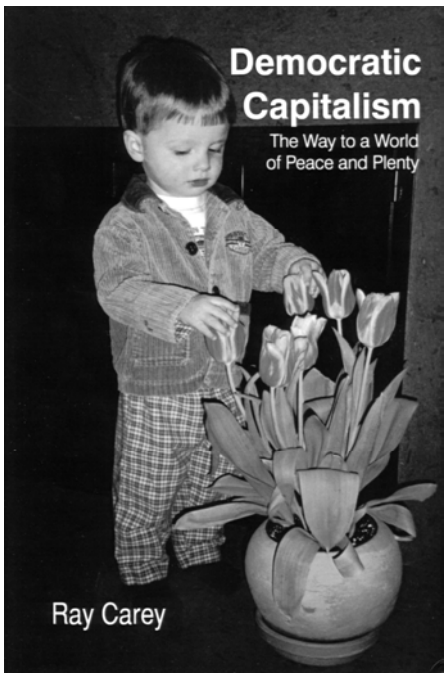
Book Review

A CEO on the Theory and Practice of Employee Ownership

David Binns, The Beyster Institute

Ray Carey, *Democratic Capitalism: The Way to a World of Peace and Plenty.* 2004. AuthorHouse Press, 543 pp, $33.50

Over a 33-year career in corporate management, including 18 years as CEO of ADT, the largest home and business security systems company in the country, Ray Carey became a "self-taught democratic capitalist." In order to change the work culture and to create a more cooperative environment between managers and wage earners at ADT, he implemented a profit-sharing and stock purchase plan for all company associates. That successful experience convinced him of the merits of broad-based participation in ownership and led to his search for a means of promoting a more democratic version of free enterprise through the theory and practice of democratic capitalism.



Starting with a review of economic theories from Adam Smith to Karl Marx, Carey notes that the antecedents of democratic capitalism and worker participation have been around practically from the advent of the development of capitalist thought. John Stuart Mill's effort to promote employee ownership at the turn of the 20th century was the first attempt to incorporate democratic capitalism as a systemic reform, although other prominent business leaders advocated similar ideas. A select few companies, such as Proctor & Gamble, have provided their employees with profit sharing and company stock incentives for well over half a century, and the first half of the 20th century included several efforts to promote broad-based stock ownership.

Despite the evidence of the practical effectiveness of democratic capitalism, companies implementing such a strategy have proved the exception to the rule. The dominant business culture has instead trended towards what Carey calls "ultra-capitalism," the modern system of finance-driven capitalism that Carey believes places too great an emphasis on speculation, individual greed and excess. This has led to a disconnect between ownership and control, a widening gap between the super-rich and the common working person, a shifting of the tax burden from capital to labor, and a deterioration of regulatory safeguards to protect workers and their companies.

In Carey's view, the lack of a strategic focus on integrating workers into the capital structure of the company makes it increasingly difficult to provide them with access to the wealth-creating power of private enterprise. Ultra-capitalism, with its inexorable logic of squeezing wage and labor costs, runs the risk of further accelerating economic dislocation and damaging efforts to provide stable jobs and productive workplace environments unless means are found to provide workers with compensatory access to capital income. Carey believes that a "synergistic coupling of democracy and capitalism" offers a superior vision of global commerce that will more effectively spread the economic benefits of the free enterprise system by ensuring more workers have direct access, through ownership, to the wealth-creating capacity of the corporation. His vision of democratic capitalism advocates a systemic application of ideas involving broad-based ownership, profit sharing, and employee involvement. He sees democratic capitalism as combining the free-market energies of competition and private property with the enormous productivity and innovation released in an environment of trust and cooperation.

Widespread worker ownership of capital could facilitate the use of a "second income" through dividends as advocated by Louis Kelso, and provide companies and workers greater flexibility in modulating profit-related pay over the course of the business cycle as suggested by economist Martin Weitzman. Given that employee pensions and mutual funds own a majority of the shares of companies on the public stock exchanges, Carey suggests that institutional investors could be the vanguard of efforts to advocate for a transition from ultra-capitalism to democratic capitalism. Pension fund investors can help promote greater economic stability and ultimately better investment returns by investing in companies that adopt the practices of democratic capitalism to support a rising standard of living and a sense of economic common purpose that will fuel greater long-term corporate productivity.

Carey points to positive evidence of a trend towards greater worker participation in ownership and profit-related pay, as well as greater involvement in the day-to-day decisions affecting their work life and ultimately their ability to improve company operations. Yet the "ultra-capitalism" model most often associated with the free-wheeling version of U.S.-style capitalism is still very much dominant in global commerce. Whether democratic capitalism can address the excesses of modern capital markets remains to be seen. But *Democratic Capitalism* offers a vision for practical benefits at the level of the enterprise as well as a means of reshaping economic policies to ensure that capitalism directly benefits as many people as possible.

Democratic Capitalism: The Way to a World of Peace and Plenty can be ordered from the Carey Center for Democratic Capitalism at http://www.democratic-capitalism.com, amazon.com, Author House and many book stores.

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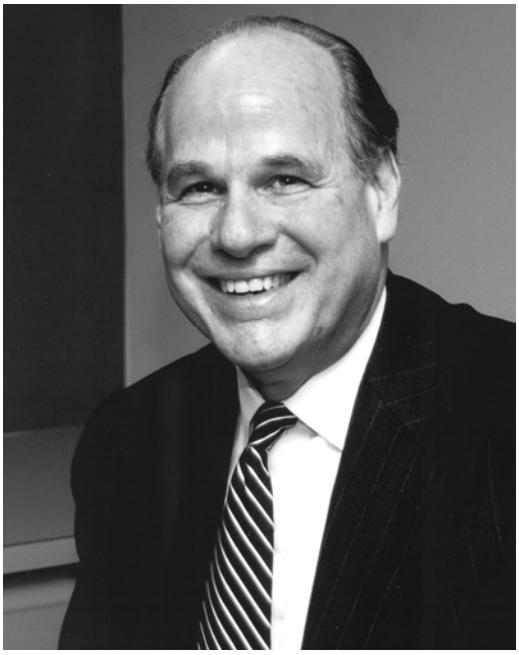
Onward and Upward for ESOPs After the 2004 Elections

J. Michael Keeling

The ESOP Association's President J. Michael Keeling gave his view of the impact of the 2004 Elections on ESOPs at the Association's 14th Annual Two Day Conference in Las Vegas on November 5th, 2004. Here are excerpts from his edited address.

In the spring of 1988, Dan Bannister, former Vice Chair of The ESOP Association, former Chair of the Employee Ownership Foundation, and former CEO of DynCorp, had lunch with one of the top domestic policy advisors to then Vice President George H.W. Bush.The purpose of the lunch was to persuade the advisor that the Vice President should make employee ownership and ESOPs a top focus of the upcoming Presidential campaign. The advisor responded, "Dan, Vice President Bush, just like President Reagan, will be for the ESOPs on the Hill, but do not expect him to discuss employee ownership in his speech accepting the nomination for President, or in speeches during the campaign, or in position papers issued during the campaign. You know why Dan? Because you, the ESOP people, cannot demonstrate that there are any ESOP voters in America."



Remember this line—there are no ESOP voters.

Now you may snicker and blame former President Bush for only caring about winning votes; but folks, we live in a democracy, and in a democracy those with voice will be heard.

One impact of the 2004 elections is that we lost some good friends.

For example, our number one go-to Senator for the past decade, senator John Breaux (D-LA), will retire, As will our number one go-to Congressman for the past nearly 20 years, Congressman Cass Ballenger (R-NC). And election results eliminated two stalwart ESOP champions in Congress:Senator Tom Daschle (D-SD), and Congressman Phil Crane (R-IL).

Our well respected former Association Chair, ESOP PAC Vice Chair, and strong voice on Capitol Hill, Dee Thomas, lost her race for the Florida legislature.

Dee had pledged to have Florida state government promote employee ownership as one of her five priorities. But she reports that when she talked of employee ownership to campaign audiences, they had a glazed look on their faces—not negative, mind you, but not positive either.

There was no ESOP voter in Dee's unsuccessful race.

Let's us think on this observation.

Is there any evidence that there is any potential for an ESOP voter in America?

I say yes, even though the media pundits, academics, and in particular Democrats, do not realize it. I suspect that Karl Rove and President George W. Bush suspect it, and I believe that the suspicion is a factor in the President's rhetoric about an "ownership society."

My views may rub Democrats the wrong way, but I think that the Democrats have an image, or brand problem.

The Democrats have a 20th Century brand, not a 21st Century brand. They use 20th Century rhetoric, not 21st Century rhetoric.

It is as if the Democrats have slept through what has happened over the past 40 years, as union membership has declined to less than 10% of the private sector workforce, and women have entered the workforce in numbers not imagined in the 1960's.

But more important than the decline of union membership and the arrival of female workers, is what American business leaders have done in the last 30 or so years. They have mostly come to realize that the most important asset of a business is its people.

And this realization has led business leaders to be responsive to the messages of management gurus such as Peter Drucker, Tom Peters, Francis Hesselbein, and others, that new ways of management, such as TQM, Work Teams, Sigma 6, participation, open book management, ownership attitudes, etc., maximize profits.

I have no problem with the cynical view that business leaders have implemented management styles that ensure workers do not hang up their brains when they come to work in order to fatten executives' pay checks. Whatever the motivation, more and more average pay employees come to work to be part of the corporate team, and to enhance their employer's stock value. Please note that 40% of America's average pay employees of corporations have ownership in their companies. Is it any wonder they care about increasing the share value of their employer?

I think many Democrats do not understand what a 21st Century worker is.

On the floor of LeFiell Manufacturing, where our Association chair George Ray is CEO, you see machinists operating machine tools that were made fifty to one hundred years ago. But hooked up to each one of those old machines is a monitor for the software the machinist is using to operate it. The men and women of LeFiell Manufacturing, maker of tubing prod-

ucts, do not hang their brains at the door when they come to work. They combine their knowledge with technology.

And let me emphasize that there is ample literature, backed up with solid research, that women do not go to work hating their bosses. Women come to work with the same style as they have at home—a style that emphasizes listening, dialogue, caring, and a preference that decisions be consensus.

So, when Democrats say to working Americans, "Got your back," "Fight," "There are two Americas," they are using words that convey conflict, us-versus-them, and don't trust the CEO. This conflict-laden imagery does not resonate with the middle class average pay worker, especially women, who may have provided President Bush his additional votes in 2004.

But, all of you Republicans, do not take joy or comfort in the Democrats' failure to understand the 21st Century nature of work.

Sure, you can sit up tall when reading that President Bush said, and I quote the words precisely, "It is an opportunity to help millions of our fellow citizens find security and independence that comes from owning something—from ownership."

Man, this is just great rhetoric for ownership advocates.

But, where is the word "employee" in this mix?

For example, President Bush mentions home ownership, privatized Social Security, and health accounts in his ownership society rhetoric. When he spoke to a conference of home builders in Cincinnati during the campaign, he made these men all puff up their chests in pride as he talked about the wonderful feeling a family felt when they walked into their home that the builders had built.

Well, the most successful tool America has in transferring more ownership to more people over a short period of time than any other domestic policy is the ESOP.

The Republicans had more than ample opportunity during the election to put employees into the ownership mix, and they did not do so.

To you Democrats, explain to your party leaders that future success is not about being more "liberal" or more "conservative." The future lies in connecting with what most people face in blue and red states each day—a workplace where CEOs respect average pay employees, and average pay employees respect CEOs.

Please note: I do not say that the Democrats' specific policies aimed at average pay persons are in need of change. The Democrats need to change their rhetoric about an us-versus-them world that is disappearing, if not already disappeared, for most working Americans.

To you Republicans in the audience, exploit the opportunity to turn the rhetoric about an "ownership" society to the employees' advantage. Explain to your party leaders that an opportunity society that does not improve and promote employee ownership rings hollow.

Hold your Republican leaders accountable for substance when the talk turns to an ownership society.

Let me share a true story. In the mid-80's, our Association chair was Warren Braun, CEO of ComSonics in Harrisonburg, Virginia. At that time I was working for the Association as a lawyer-lobbyist, billing by the hour.

Warren was slated to defend ESOPs before the House Ways and Means Committee. I was assigned the task of writing his testimony. Well, I wrote many pages. I took my time—I was charging by the hour. I prepared a briefing book, laying out suggested answers to potential hostile questions about ESOPs wasting taxpayer money, being bad retirement plans, not being real ownership. It was a big book.

Well, it came the time for Warren to testify. He had the book, with the prepared testimony in front of him. To my shock, his testimony was something like this: My company has an ESOP, and it is a good thing. It has helped my company. There is evidence that well managed employee owned companies outperform non-employee owned companies.

He never wavered from that basic message. He did not use the big briefing book with all the details about ESOPs.

His message is your message today as well; in fact the positive research on ESOPs is even greater than in the late 80's.

The most successful tool America has in transferring more ownership to more people over a short period of time ... is the ESOP.

Some say to me, "Oh, if I approach my Congressperson, or my Senator, or their staffs, what do I say when they say "Enron, United, WorldCom, and others?" Well folks, don't obsess over the ESOP "boo" words Enron and United.

Your message is not to explain Enron and United, or any weakness of employee ownership through ESOPs, but to proclaim its success for you, your company, your co-owners, and for the vast majority of ESOP companies in America since 1974.

Last year to this group, I urged us all to seize the day—for ESOPs during the upcoming election.

But we did not.

I do not wish to dwell on what we did not do, for I am convinced that we are in the game.

Now, let us resolve to be "onward and upward," be we Democrat or Republican.

The elections of 2004 did not hurt ESOPs or help them either.

Democrats, move your party to the 21st Century in understanding the world of work. Republicans, push your people to understand employee ownership is the best, the proven way to have an ownership society.

I know that many of you feel that having the ESOP community have voice with both parties is more or less pie in the sky, or having employee ownership be significant in the national discourse over an ownership society is wishful thinking.

I do not believe so.

Employee ownership can unite our nation more than any policy I can identify.

What do the people in Omaha, Des Moines, Salt Lake City, do most days of most weeks, most hours of the day that is the same as the people in New York City, Boston, Philadelphia? They go to work. If this nation makes work more fair, more equitable, and more directed towards workplace respect, as laid out in this Association's vision, we will be not a divided nation, but one united.

We all, and America, need to be onward and upward. OAW

Professional Membership in the OEOC – A Good Thing!

We invite ESOP service providers to become professional members of the OEOC. For a low basic annual rate of $150, OEOC professional member companies receive a FREE listing on our website (www.kent.edu/oeoc) by company name, area of expertise, and individual member's name including a direct link to their website. Professional members receive an opportunity to be referred to potential clients (nationwide) and priority for speaking engagements at our programs and conferences. Also, they are eligible for discounts on conference registration fees, newsletter and conference program sponsorship ads, and OEOC publications.

If you are an ESOP professional, join your fellow service providers in becoming a professional member of the OEOC. For information, contact Bill McIntyre at 330-672-3028 or bmcinty2@kent.edu.

JOB ANNOUNCEMENT: Communications and Administration Associate

WAGES (Women's Action to Gain Economic Security) seeks an energetic and committed individual to take responsibility for administration, communications, and development functions in our small office, including grant writing, materials development, and bookkeeping. WAGES is a non-profit organization in Oakland, California that promotes the economic and social empowerment of low-income women through cooperative business ownership. See our website (www.wagescooperatives.org) for a full job announcement. To apply, send cover letter, resume and writing sample by February 1st to wages@wagescooperatives.org.

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Upcoming Network Events – 2005

The ABCs of ESOPs with The ESOP Game
February 23, Columbus **February 24, Cincinnati**

CEO and CFO Networking Dinner
March 8, The Athletic Club of Columbus, Columbus
Hosted by ComDoc, Inc.

19th Annual
Ohio Employee Ownership Conference
"The *Employee* Ownership Society"

Pre-Conference Events
Thursday, April 14, Akron/Fairlawn
"Are We There Yet?" ESOP Communication Workshop
The "Basics of Business" Game: introducing the in-company version
CEO and CFO Roundtable
Company Showcase Reception

Ohio Employee Ownership Conference
Friday, April 15, Akron/Fairlawn

ESOP Director and Fiduciary Workshop:
Reviewing and Sharing Your ESOP Stock Valuation
May 25 SW Ohio

ESOP Administration Forum: Managing Age 55 Diversification and other ESOP Repurchase Obligations
May 26 SW Ohio

See page 16 for details on these programs

Don't Forget to Mark Your Calendar for the 19th Annual Ohio Employee Ownership Conference Friday, April 15th, 2005, Akron, Ohio

Other Events of Interest

ESOP Association OH/KY Chapter
Annual Spring ESOP Conference
Reynoldsburg OH, March 22nd, Grand Host East
Call 440-989-1552 for details

Univ. of Wisconsin-Madison, Executive Education, School of Business
Employee Ownership Management: Managing a Company of Employee Owners
San Francisco, CA, April 17-19, Grand Hyatt Hotel
uwexeced.com/advancedmanagement/esop.htm

National Cooperative Business Association
2005 Cooperative Conference
Washington, D.C., April 20 - 21, 2005
www.ncba.coop

National Center for Employee Ownership/Beyster Institute
Joint Annual Conference
April 20-22, 2005, San Francisco, CA, Grand Hyatt Hotel
www.nceo.org or *www.beysterinstitute.org*

ESOP Association
28th Annual Conference
Washington, DC, May 11-13, 2005, Grand Hyatt Washington
www.esopassociation.org

Preliminary Feasibility Grants

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

Visit our website: www.kent.edu/oeoc