

OWNERS @ WORK

the ONLINE magazine of the
Ohio Employee Ownership Center

Volume XXV No. 1 Spring 2013

WE THE OWNERS

EMPLOYEES EXPANDING THE AMERICAN DREAM



Broadening Awareness of Employee Ownership

Mary Ann Beyster Discusses Her New Film

Also in this Issue: The Myth of the ESOP As A Gift
George Cheney Returns to Mondragon

OWNERS AT WORK

Editor

Felicia Wetzig • fwetzig@kent.edu
Chris Cooper • ccooper1@kent.edu

Staff Writers

Jim Anderson • jander77@kent.edu
Steve Clem • cclem@kent.edu
Bill McIntyre • bmcinty2@kent.edu
Roy Messing • rmessin2@kent.edu
Jay Simecek • jsimecek@kent.edu
Jacquelyn Yates • jyates330@gmail.com

Layout & Design

Felicia Wetzig & Chris Cooper

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

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

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

Front cover design by Chris Cooper

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

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

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



Ohio Employee Ownership News	3
We the Owners: Telling the Employee Ownership Story With Images An Interview with Mary Ann Beyster	5
The Mondragon Cooperatives Face the Economic Crisis, Help to Shape Future Global Economy	8
The Myth of the ESOP as a Gift	10
OEOC Answers Questions About Crowdfunding	13
The Cooperative Development Center at Kent State University Celebrating the "International Year of the Cooperative"	15
Ohio ESOP Update: Ohio's ESOP Companies Regain Ground Lost to the Great Recession, While Paying Almost \$16 billion to Retirees and Beneficiaries	16
Network News	18

Editor's Note

This is the third issue of Owners @ Work in our all-electronic format, and the second since we went to a Spring/Fall release schedule. So even though it does not feel quite like spring yet here in Kent welcome to the Spring 2013 issue of Owners @ Work!

In this issue we highlight the release of We The Owners, the new film on employee ownership from the Foundation for Enterprise Development. We interview Executive Producer Mary Ann Beyster, via email while she is on a whirlwind promotional tour for the film; in the interview she outlines the challenges and charms of creating a feature-length film from scratch, as well as important lessons learned when you let employee owners describe for themselves what being an owner means to them.

Kent State Professor, and associate investigator of the OEOC, George Cheney returns to the Mondragon Cooperatives, where in 1992 he first began researching employee ownership and the Mondragon model.

Former Director of the OEOC, Bill McIntyre, returns to the pages of O@W with a debunking of a common myth – that setting up an ESOP in a company constitutes a gift to the employees.

Our cooperative development specialist Robert Cohen explores the possibilities, and limitations, of crowdfunding, especially as it relates to funding the creation of new employee-owned businesses.

OEOC resident research expert Jackie Yates provides us with a new look at the economic state of Ohio employee-owned companies.

We also thank both the sponsors of this issue of O@W (you'll see their info sprinkled around the issue) and the generous folks who have contributed to the ongoing work of the Center through our Friends of the Center donation program (see page 7 for a full list.) We thank each of you for your support.

And finally we want to encourage each and every one of you to mark your calendars, free up your schedule, and make your travel plans in preparation of attending our 27th Annual Ohio Employee Ownership Conference; this year it occurs on April 19th, 2013 in Akron Ohio.

Enjoy your spring!

Ohio Employee Ownership News

Ohio Senators Brown & Portman Both on the Senate Finance Committee

The 113th Congress will have both of Ohio's U.S. Senators on the Senate Finance Committee, generally considered one of the most powerful committees in the Senate. Believe it or not, it has been 60 years since any Ohio Senator has sat on the Finance Committee; now it has two.

The Senate Finance Committee has jurisdiction over all Federal tax laws, which include laws pertaining to ESOPs.

Senator Sherrod Brown, formerly a member of the House of Representatives, has shown a pro-ESOP position by co-sponsoring S. 3419, the United States Employee Ownership Bank Act and S. 3421, the Worker Readiness & Knowledge Act (the WORK Act), both promoting employee ownership.

Senator Rob Portman, also a former member of the House as well as a trade ambassador and budget director in the administration of President George W. Bush, has consistently supported ESOPs in his career. He is considered an expert on ERISA issues.

- Steve Clem

New Proposed ESOP Legislation Introduced

Back in October 2010, the US Department of Labor proposed a new regulation requiring valuation advisors who recommend stock prices to ESOP trustees to be considered as ESOP fiduciaries. Currently, the valuation advisor is not a fiduciary, but simply makes a recommendation to the Trustee who sets the stock prices and is the fiduciary.

In the Winter 2011 issue of Owners at Work, an article by then-OEOC Director Bill McIntyre outlined a number of reasons why the USDOL proposal was a bad idea.

The negative reaction from the ESOP community caused the Department of Labor to withdraw its proposal, although it indicated it would re-propose the regulation, possibly with some limitations.

The DOL proposal also prompted an effort in June 2011 by a bipartisan group of Senators to short-circuit the DOL's action by proposing bill S. 1232 to exclude valuers and appraisers of employee stock ownership plans from the definition of fiduciary. This bill did not get through the 112th Congress; however, in view of the Labor Department's latest intentions

to now propose a new regulation in July 2013, New Hampshire Senator Kelly Ayotte has introduced a new bill, S. 273, which will attempt again to redefine fiduciary and protect the ESOP community. The bill is cosponsored by Missouri Senator Roy Blunt; Louisiana Senator Mary Landrieu; and Kentucky Senator Mitch McConnell.

The only way to get this bill out of committee and moving toward passage is to let your Congressional representatives know of your interest and concern. Give them a call. Ask them to co-sponsor the bill.

- Steve Clem

ESOPs Promote Job Retention, Save Federal Government Billions

A joint project of the Employee Ownership Foundation and the National Center for Employee Ownership (NCEO) found that employee ownership saved the federal government over \$23 billion in 2010 by averting a substantial amount of unemployment. Data from the General Social Survey (GSS) showed that in 2010, in the midst of the Great Recession, employees of ESOP companies were laid off at rate of more than 4 times less than employees of conventionally-owned companies. For example, in 2010, 12.1% of all working adults in the private sector reported being laid off during the prior 12 months compared to just 2.6% of those respondents who said they owned stock in their company through some kind of company-sponsored employee ownership plan.

Unemployment causes the federal government to pay unemployment benefits and forgo payroll tax revenue. The GSS data indicate that if employee ownership did not exist, almost 1,800,000 more workers could have lost their jobs in 2010. This would have increased the number of layoffs economy-wide by 15% and cost the federal government over \$23 billion in unemployment insurance and in forgone taxes.

"When a person has a job, she or he pays federal income taxes, Social Security taxes, Medicare taxes, and does not collect unemployment compensation," said Employee Ownership Foundation President, J. Michael Keeling. "So, the fact that employee owners were more than likely to pay taxes, and not collect unemployment compensation, means Uncle Sam's fiscal house would be so much better off if there was more employee ownership."

The NCEO analysis calculates that 18 million Americans worked for employee stock owned companies in 2010, with 11 million working in companies with employee stock ownership plans, or ESOPs. Savings from the low layoff rate of ESOP participants was \$13.7 billion in 2010, or almost seven times more than the estimated \$2 billion a year tax expenditure attributed to the special laws promoting ESOP creation and operation.

The analysis was authored by former NCEO Executive Director Corey Rosen and reviewed by Dr. Douglas Kruse, a Rutgers University tenured professor at the School of Management and Labor Relations.

- Steve Clem

ESOP Bill Introduced in New Jersey

The New Jersey State Legislature is considering a bill introduced by Assemblyman and Deputy Speaker of the New Jersey State Legislature, Upendra J. Chivukula (D) in January 2013. The bill is designed to encourage small businesses to establish ESOPs in New Jersey.

The bill would provide for a gross income tax exclusion for certain capital gains from the sale of employer securities of a non-publically traded business with fewer than 500 employees to an employee stock ownership plan, a New Jersey S corporation owned by an employee stock ownership plan, or an eligible worker-owned cooperative. The bill thereby encourages small business owners to sell their businesses to the employees that contributed to their success and thus will help to ensure that local businesses are not sold to out-of-state buyers, which is often detrimental to the local communities.

The intent is to keep jobs and careers in New Jersey and give communities an additional tool to promote local economic development. The bill is very similar to Iowa Governor Terry Brandstad's ESOP initiative program which passed the Iowa State Legislature in 2012.

- Steve Clem

States Continue to Adopt B Corp Legislation

When we first mentioned Benefit Corporations in our Summer 2011 issue, only two states, Virginia and Maryland, had passed legislation authorizing companies to legally adopt this status. Since then, ten more states

Employee Ownership News

have joined in passing similar legislation, the most recent being Pennsylvania, Massachusetts and Illinois. Fourteen other states are working on legislation.

Rather than providing a direct tax or financial incentive to the company, B Corp status allows the company to expand their responsibility beyond maximizing profit for shareholders to work for the benefit of the public. This structure provides a vehicle for the current sustainable business movement and addresses the needs of entrepreneurs, investors, and the general public. Because of its wide base of appeal, legislation has experienced bi-partisan support.

Massachusetts Governor Deval Patrick (D) signed the benefit corporation law for his state in August, 2012. After the law went into effect on December 1, seven corporations immediately registered and more announced their intention to register.

Illinois also authorized B Corps in August of last year with a bill sponsored by State Representative Sara Feigenholtz (D) and State Senator Michael Frerichs (D) and signed by Governor Pat Quinn (D).

When the law went into effect on January 2nd, fourteen corporations registered – the largest number of companies to register on the first day.

In October of 2012, Pennsylvania Governor Tom Corbett (R) signed Representative Gordon Denlinger's (R) bill after it passed unanimously through the General Assembly. Representative Denlinger hopes Pennsylvania businesses will take advantage of the B-Corp option to add the benefit of society and environment to their purpose.

In all states, the core of benefit corporation structure retains a focus on purpose, accountability, and transparency, but there may be differences in the specifics of each code from state to state. The B Lab offers a State by State analysis of these differences.

- Felicia Wetzig

CFED Update-State Support for Employee Ownership

State-provided incentives for employee ownership is one of the aspects CFED examines in their businesses and jobs Scorecard. The data for this scorecard,

originally compiled by the OEOC examines where states have at some point promoted employee ownership through the use of funds created through the Federal Workforce Investment Act (WIA) or by providing direct assistance including providing information or financing for technical assistance and feasibility studies where possible. The availability of these programs varies state to state and may change with the current budget and political climate within the state.

In 1998, the Wagner-Peyser Act was amended by the Workforce Investment Act (WIA), making Employment Service part of a One-Stop Career Center system. Part of the services provided through this legislation includes the

development and oversight of strategies for layoff aversion including funding for feasibility studies to determine whether or not employee ownership is an option for companies facing shutdown or layoffs.

States may also choose to support employee ownership directly. For example, Indiana established an ESOP initiative in 1997 which invested \$50 million into banks specifically to help them finance ESOPs. The Indiana Treasury also provides a directory of resources for companies interested in employee ownership.

The information provided to CFED by the OEOC initially included information compiled by contractor David Craig who researched the legal provisions helpful to employee ownership in the states. Data was also compiled from IRS Form 5500 listing the number of plans, and some financial information for each plan. Since the last update was made, Virginia was the only state to begin offering incentives through WIA funds.

- Felicia Wetzig

Green City Growers Celebrates Official Opening

On February 25, 2013, the 3.25 acre hydroponic greenhouse operated by Green City Growers Cooperative celebrated its official opening. The cooperative is the third business within Cleveland's Evergreen Cooperatives Network which also includes Evergreen Laundry and Evergreen Energy Solutions. The Evergreen Cooperatives Network began as an attempt to better the inner-city neighborhood of Cleveland. Not only will the greenhouse provide fresh food for the surrounding community, it will employ locals to work in the greenhouse and share in its ownership through a worker-owned cooperative.

The cooperative planted their first crop earlier this year and is already producing 60,000 heads of lettuce per week. The facility will continue to operate year-round, producing more than 3 million heads of lettuce and 300,000 pounds of herbs annually, and supplying vendors within a 50 mile radius. For now, distribution is focused on Heinen's grocery stores which supplies restaurant and food service operations, and area restaurants.

- Felicia Wetzig



ESOP Solutions – Fast and Accurate

As one of the largest public accounting and consulting firms in the United States, Crowe Horwath LLP has been providing ESOP services for more than 20 years.

- ESOP administration and compliance
- ESOP consulting services from feasibility to repurchase
- Audit and tax services for ESOP companies

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

Audit | Tax | Advisory | Risk | Performance

Crowe Horwath LLP is an independent member of Crowe Horwath International, a Swiss Verein. Each member firm of Crowe Horwath International is a separate and independent legal entity. Crowe Horwath LLP and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath International or any other Crowe Horwath International member. Accountancy services in Kansas and North Carolina are rendered by Crowe Chizek LLP, which is not a member of Crowe Horwath International. © 2013 Crowe Horwath LLP BPS13510

We the Owners

Telling the Employee Ownership Story With Images

An Interview with Mary Ann Beyster

What would employee owners themselves say about what it means to own their company? The Foundation for Enterprise Development (FED) decided to find out; partnering with Passage Productions, FED recently released We the Owners, a feature length documentary movie that focuses on 3 employee owned companies and their stories. O@W interviewed Executive Producer Mary Ann Beyster to find out more. The interview was conducted via a series of emails during a transcontinental promotional tour for the film.

Q: I'd like to start with what might be an impossible question...describe We the Owners to us in two paragraphs or less!

A: *We the Owners* is a documentary film produced by the Foundation for Enterprise Development and directed by Passage Productions. The film features the founders and employee owners from three innovative employee-owned businesses: New Belgium Brewing, Namasté Solar, and DPR Construction. Each has chosen different employee ownership models yet are driven by common principles such as a belief in sharing responsibility, risks, and rewards of running a business.

We the Owners provides a face and voice to entrepreneurial people who are part of building successful companies through this model while overcoming challenges of founding companies, expansion, recruitment, and succession.

Q: What inspired you to take the plunge and make a movie, and specifically this movie?

A: Employee ownership, as a business model, is not the dominant form of corporate ownership, nor is it integrated into mainstream education. I wanted to make a film to help bridge this gap by bringing digital storytelling to more classrooms, training rooms, boardrooms, and entrepreneurial centers.

Successfully thriving in the global economy of the 21st century and beyond will require new business models and strategies to enable the American Dream of opportunity and economic prosperity. One model is employee ownership. This film is part of a larger research and education movement about employee ownership and workers cooperatives occurring across the U.S. and worldwide.

Q: Which companies did you highlight in the movie?

A: *We The Owners* includes interviews with founders, managers and other employee-owners of three privately-held companies across different industries and ranging in size with meaningful employee ownership, DPR Construction (2,729 employees), New Belgium Brewery (435 employees), and Namasté Solar (100 employees). DPR's employee ownership is structured using stock and phantom stock, New Belgium Brewery is structured as an Employee Stock Ownership Plan (ESOP), and Namasté Solar requires stock purchases and governance as a worker cooperative (one share, one vote).

Each has received third-party recognition for their

innovative and best practices in their specific industry; each has focused on the culture of ownership. Through these companies, we wanted to show how employee ownership works in different models at privately-held companies of different sizes, in different industries, and including with different labor relations (including union employees). Their stories are not only relevant to other employee-owned companies, but also to companies that desire to have high-levels of employee engagement and empowerment.

Q: How did you go about identifying the companies you wanted to have participate in the movie?

A: It took several months to identify and confirm participation of the companies to be included in the film. We started the process by reviewing lists of top employee-owned companies available from NCEO, The ESOP Association, and "Best Places to Work". In parallel, I contacted the Beyster Institute, trade and non-profit organizations and consultants who work directly with companies and received many suggestions. Many people supported us in reaching out directly to each company to test the waters about their participation. From there, we requested open access and received it. Within one month of that initial contact, we were planning the visit for the shoot.

Q: Was there any hesitancy on the part of the companies and employee owners to talk about themselves on camera?

A: The companies were all extremely helpful in identifying employees with the range of experience and perspectives that we were seeking and making them available. I had budget for sending the director and one cameraman to each company for one visit of two days. They conducted telephone interviews to help narrow down whom to speak with onsite. On location, they interviewed more than five people at each company and came back with more than 25 hours of footage. That doesn't even include the 14 interviews (another 15 hours of footage) filmed at the 2011 NCEO/Beyster Institute annual conference in Denver, Colorado, where we began filming.

Although some people are naturally more comfortable in front of a camera, everyone was passionate and genuine about their responses. Many factors come into play when dealing with what gets selected to be in a film. It comes down to selecting which prominent cast must be in the film

next page ►

to tell the story while making sure the viewer can decipher who is who.

Q: Did you personally travel to all the locations that were filmed?

A: I worked with the director to develop the interview guide. We tested it out at the NCEO/Beyster Institute conference and the interview process went very well. It wasn't necessary for me to be at the interviews. In fact, it was better to not have an employee-ownership expert be part of the interviews since this kept the interview unscripted and devoid of leading questions.

Q: Though you have a lifetime of experience in the world of employee ownership, were there surprises in any of the stories you heard that either taught you something new about employee ownership or made you think about it in a different way?

A: During the pre-screenings, we visited several business school classes. I was surprised by how little students knew of the range of employee-ownership choices. I was encouraged by the depth of questions, and also hopeful that the film would serve a valuable role in educating and creating dialog.

Q: I hear that you are in the middle of a whirlwind international promotional tour for the movie. Where have you been/will you be?

A: I am currently on a European screening tour in nine cities and eleven screenings. The first screening was at University of Stirling in Scotland. I am continuing to Aberdeen and Inverness in the Highlands, then south to St. Andrews, Edinburgh, and Glasgow. We have screenings at York and London, England, and wrapping up at INSEEC in Paris, France. The majority of screenings are at universities.

Q: What has that experience been like?

A: My hosts in Scotland—Hugh Donnelly of Co-operative Education Trust Scotland (CETS), Sarah Deas of Co-operative Development Scotland (CDS), their team, Carole Leslie, David Erdal, and professors— have been incredibly

welcoming. We share a common goal of introducing a range of employee ownership and cooperative models to more people, and have more successful adoption via research, education, and awareness building. The UK tour continues in a few days with Andrew Pendleton at York and comes to a finale with Baxi Partnership and Cass Business School.

Although aspects of our legal framework and history in employee ownership and cooperatives are different, it all really comes down to how to run an organization where employees are and act like owners. I am finding we have much in common between the U.K. and the U.S. business and academics, and that making this discussion and adoption mainstream is a common desire and challenge. We have much to learn from each other, and collaborations seem a natural course for growth.

Q: How has the reception to the movie been?

A: Very positive. There is plenty of discussion after each screening, which is exactly what I had hoped for. Typically, the discussion quickly moves past the American aspects of the film such as the title, and the use of the certain U.S. terms (e.g., turnover, groovy). Questions and dialog have covered a range from topics including the founder's incentive to use one of these models, growth and recruitment, financing, maintaining employee engagement, and community wealth and stability. Like in any company, industry or any region of the U.S., there will be different ways employee ownership fits into an industry or regional/global economy. What occurs in Aberdeen will look different from what occurs in Inverness, for example, however we all have common goals with employee ownership and the overall reception to the movie has been very encouraging.

Q: What is your long-term plan for the movie; is it a part of a longer term initiative of the Beyster Institute?

A: FED has DVDs available for purchase now, and by May, the film is available on all platforms (e.g., DVD, streaming) through Films for the Humanities and Science, the leading educational film distributor. We are working on a few ideas for multimedia, digital storytelling. I would like the FED to

next page ►



New Belgium Brewing Co-Owners 2010



DPR Construction co-owners.

make more films, and so am thinking through ideas now. All these products are for broadening awareness and expanding the education tool kit about employee ownership and its broader context for business, communities, and academia. The Beyster Institute is leading the way in education by teaching at the Rady School of Management at University of California, San Diego, including students in consulting assignments, and training the next generation of leaders of the employee-ownership movement.

Q: One final question: what did you learn about making a documentary film?

A: In documentary film, you are telling stories with a beginning, middle, and end. But when you begin the filming, you don't actually know what the story is. I had an idea of messages to be captured. You don't know which people will be best in front of the camera, what people will say, what the challenges are or where the tensions will be found, or how all these minutes of footage will connect. I actually thought the story would be about the next generation expressing the values to lead a new model of profit-seeking

companies with broader aspirations for shared ownership, collaboration, and innovation. With more than 15 hours of footage, we realized that a story wasn't materializing. So we changed to a case study approach. It took many months

of rough draft reviews (after the release of the trailer) and editing to determine the final story arc.

This is not for the faint of heart. I recall a few tense moments, some initiating cross-corrections to get the results that we wanted. This has been a three-year journey, from concept to final product, which is longer than I had anticipated. But every moment has been worth it. The core team and many collaborators brought their talents in filmmaking, editing, sound, research and statistics, education, and social media together and worked hard to get it right.

Now in distribution and outreach phase, we will continue to build collaborations and be ready to make adjustments as the interest arises.

Log on to <http://www.wetheowners.com> to view the trailer and order the film. OAW



Fall 2005: Namaste Solar Co-Founders (from left: Blake Jones, Ray Tuomey, Wes Kennedy)

2012-2013 Friends of the Center Honor Roll

Platinum

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

Gold

Ted Becker
 Mary Giganti
 Grand River Rubber & Plastics
 Dave Heidenreich

Silver

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

Bronze

Per Ahlstrom
 Anonymous
 Karen & Tom Ard
 Joyce Baugh
 Eric Britton
 Richard Davis & Karen Rylander-Davis
 Eric Geyer
 Kelso Institute
 Larry Mack
 Gerry & Bette Meyer
 Van Olson
 Richard Schlueter
 Stephen Smela
 Floyd Trouten
 Karen Youngstrom

Other Contributors

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

Thank You for Your Support!

The Mondragon Cooperatives Face the Economic Crisis, Help to Shape Future Global Economy

by George Cheney

Editor's Note: not for posting further distribution without the author's permission

As many readers of OAW know, the Mondragon cooperatives in the Basque Country, Spain, represent one of the most important examples of employee ownership in the world. They have long been visited and studied for lessons about practically every aspect of employee ownership, including business incubation and organizational conversion, financial and business structure, leadership and participatory culture, and community economic development and investment.

As professor of Communication Studies at Kent State and an associate investigator with the OEOC, I returned to the Mondragon cooperatives in the Basque Country, Spain, for a brief visit from October 27-November 5, 2012. I first began following this system of worker-owned businesses in 1992, when then 15-member European Union lowered trade barriers and the cooperatives then faced market globalization in major ways. It was also at that time that I first came in contact with OEOC's founder John Logue, who himself visited Mondragon several times. In 1994, I spent six months there, conducting hundreds of interviews, observing work practices, and attending many meetings at all organizational levels. I returned in 1997, 2008, and 2009. I published the award-winning book on the cooperatives, *Values at Work*, in 1999 and 2002. In 2008, I was invited to give an address to the corporation and the larger community about the importance of maintaining strong organizational cultures in a time of economic crisis. I am now embarking on new collaborative studies at Mondragon, both with their university, which is itself a cooperative, and with parts of the corporation.

The Mondragon Cooperative Group (MCG) represents the world's largest single system of worker-owned businesses. The MCG is the seventh largest private firm in Spain. Begun in 1956 with the manufacture of small appliances, the cooperatives now number more than 150 and include large industrial, financial, service, consumer, and knowledge-based businesses. There are nearly 100,000 employee owners in the system, although that number has diminished somewhat with the global recession that began in 2007. The Mondragon cooperatives are the featured case in the new documentary *Shift Change*, for which I served as a principal consultant.

The Mondragon system is marked by full equity ownership by employees, a strong set of social and ethical principles, and a dual model of governance-management that includes both elected and appointed leaders. The cooperatives have been an inspiration and a source of concrete examples for worker ownership and employee participation all over the world, including the Evergreen Cooperatives of Cleveland and many others in the U.S.

and Canada. The Mondragon system also includes plants or corporate offices in more than 20 other countries; some of these international projects involve the creation of other worker-owned enterprises or conversion to employee ownership in existing firms.

My studies in the early 1990s focused on the systems of worker participation, decision making, and communication within the Mondragon cooperatives, especially in response to genuine market pressures but also in terms of creative possibilities for bringing participative systems into a new era. For example, case studies of three cooperatives revealed how systems of employee participation need to be adapted to the stages of a firm's development, whether that business is employee owned from its start up or it is a conversion from a more traditionally hierarchical business.

In any large organization over time, including businesses, governmental agencies, and non-profits, there is the tendency to drift away from founding principles. But, for a value-driven form that espouses and practices principles such as equality, solidarity, and participation, the question of how to balance those social values with the pressing needs for efficiency and productivity is a constant juggling act—even in the best of times. The widespread awareness of this tension within the Mondragon cooperatives shows itself in healthy debates at general assembly meetings—based on one-person, one vote—and down to the level of work teams and committees (or councils) that make for a system of checks and balances between the needs of the company and those of employees.

The emphasis on solidarity, which is relevant at multiple levels from workplace camaraderie to commitment to the community and to those less fortunate in the larger world, has helped the Mondragon cooperatives weather the current global recession with greater resilience and sense of purpose than many other businesses or communities. For example, decisions to freeze or reduce salaries and benefits, as well as rotations in taking reduced work hours, in any cooperative are made collectively; thus, there is a sense of ownership in those as well as many other major policy decisions. Although the unemployment rate in Spain as a whole has recently surpassed 25%, in the Basque Country (one of the 19 "autonomous communities" of the Spanish confederation, and the most autonomous in terms of control over governance, taxation, and security), the rate has hovered between 9 and 13% since 2008. Even in the face of serious economic downturns, the cooperatives have entertained layoffs as means of last resort, preferring instead to transfer employees from one sector to another.

Despite the long-standing democratic traditions in

next page ►

Basque society and in the cooperatives themselves, the massive organizational structures of the MCG can become overbearing and inflexible. For this reason, as is often said there, systems of participation, decision making, and communication need to be “renovated,” especially for new generations of employees who feel distant from the founders and to ensure long-term profitability and vitality. For example, in the FAGOR industrial group of the Mondragon cooperatives, a plan for enhancing participation is being tested in 2013, and that involves employee-owners (or “socios”) in the very process of organizational redesign. Another feature of the process is linking participation at work to civic participation. The principal partner in this research is the Cooperative Research Institute of Mondragon University, LANKI, which also is a principal provider of employee-owner education and training for the entire corporation.

Experiments in improved participation is one of the main subjects of my new research at Mondragon, and it dovetails with a wider study of best practices in ownership

and participatory cultures that I am conducting in the U.S. That research is being pursued with other members of OEOC and especially with Ashley Hernandez, a former OEOC employee now living in Houston. The study of best practices is funded in part by a Louis Kelso Fellowship from Rutgers University and the Foundation for Enterprise Development; results of that larger project will be reported in the summer of 2013. Some research is also part of a much larger research and training project supported by a Rural Cooperative Development Grant from USDA, and involving the entire OEOC.

I plan to return to Mondragon in early June to conduct interviews focused on the new efforts in employee participation and related education and training.

George Cheney (PhD, Purdue, 1985) is Professor of Communication Studies, Coordinator of Doctoral Education and Interdisciplinary Research for the College of Communication and Information, and an Associate Investigator with OEOC, all at Kent State University. oaw



The 27th Annual Ohio Employee Ownership Conference

Employee Ownership: Building Jobs, Wealth, & Communities

April 19th, 2013
Akron Fairlawn Hilton

Featured Speakers



Corey Rosen
Co-Founder and Senior Staff Member of
The National Center for Employee Ownership



J. Michael Keeling, CAE
President of
The ESOP Association

**For more information including registration information and an agenda, visit
our Facebook Event page.**

First, let's answer a multiple choice question: Which of the following situations constitutes a sale of a business?

A - Retiring owner of Company A sells to competitor Company B, which pays 10% in cash, borrows 90% and funds the debt repayment through future cash flows of Company A.

B - Retiring owner of Company A sells to Private Equity Firm C, which pays 10% in cash, borrows 90% and funds the debt repayment through future cash flows of Company A.

C - Retiring owner of Company A sells to its key managers via a management buyout (MBO) in which 10% is paid in cash, 90% is borrowed, and the debt repayment funded through future cash flows of Company A.

D - Retiring owner of Company A sells 30% now, 30% three years from now, and 40% six years from now, to its employees via an Employee Stock Ownership Plan (ESOP), which borrows 100% of the money needed for the 30%-30%-40% purchases and funds the debt repayments through future cash flows of Company A.

E - All except D.

F - All of the above.

Hopefully, all readers would select F- "All of the above" -because that is the correct answer. Each situation constitutes a sale of a business.

Why is it, then, that sales of a company to its employees via an ESOP are often described as "gifts" and are not considered as sales by either selling owners or media?

Here are some recent headlines, all of which showed up on page 1 of a google search for "owner gives company to employees":

-Supermarket Owner Gives Away Stores to his 400 Employees - Yahoo News, 11/26/2012

-Joe Lueken, Minnesota Grocer, Gives Company To Employees - Huffington Post, 11/26/2012

-Supermarket Owner Gives Company to His 400 Employees Rather Than Sell It - JD Journal, 11/27/2012

-American Heart: Owner of Multi-Million Dollar Company Hands Over Business to Employees - ABC News, 2/18/2010

-On 81st birthday, Oregon man gives company to employees - Seattle Times, 2/17/2010

-The real-life 'Wonderful Life': Retiring grocery store owner, 70, GIVES AWAY his supermarket chain to his 400 employees so he can travel with his wife - London Daily Mail (U.K.), 11/28/2010

A similar google search for "owner sells company to employees" yielded page after page of "how to" articles but it wasn't until page 6 that there was mention of an actual company being sold to its employees.

Years ago, I used to work for ComSonics Inc., a 100% ESOP-owned company. Warren Braun, the selling owner and a delightful man, never used the phrase "sold the company" to describe the ESOP transaction. He'd say he "turned the company over to the employees," "gave the company to the employees," "transferred it to them," and "made it possible for them to own the company," but he never said he sold

it to them, and he certainly never admitted that he took advantage of every available tax incentive for selling to an ESOP.

Frankly, that always bothered me.

Warren often gave speeches telling his ESOP story. I attended only one of those speeches, but I was struck by his wording of the transaction in such a way that members of the audience would get the impression that he gave the

The Myth of the ESOP as a Gift

Bill McIntyre



company to the employees. Indeed, an attendee told me that he was very impressed with what Warren did, but that he was not that generous—he could not simply give his company to his employees. I explained that it was a sale and a purchase, not a gift. He listened politely but reiterated that Warren had definitely described it as a gift.

I knew that the ESOP purchased the company. I was the CFO. I experienced the payments. If it was a gift, then why didn't the ESOP get to keep the profits? Why did the profits have to be used to repay the loan to buy the company? The answer, of course, is that it was not a gift. The ESOP purchased the company, and the retiring owner sold it.

You might be thinking that while the headlines cited above referred to ESOPs as "gifts," that the full articles would have clarified the true nature of the transaction. Unfortunately, that didn't happen. The "gift" myth was perpetuated in the articles:

-"'Tis the season of giving, and a grocery-store owner is doing just that. ... Instead of selling his stores to the highest bidder, though, he will transfer ownership to the stores' 400

next page ►

or so employees. ... and at no cost to them.” – Yahoo News
 “Employees in a small Minnesota town are getting quite a holiday bonus this year. Joe Lueken of Bemidji, Minn, a successful local grocer who is planning his retirement, has decided to give his company to his employees rather than sell the small business to bigger buyers. Through an Employee Stock Ownership Program (ESOP), the 400 employees of Lueken’s Village Foods will become the new owners at the start of 2013, despite offers from large independent chains.” – Huffington Post

–“His employees are becoming the owners of two successful and running supermarkets that are employing 400 persons, without needing to spend anything upfront, not even a penny. It’s reward for their work from Joe. ... The program would pay back Joe and his family within two to three years while the employees, who would themselves be the owners, would have something to look forward to in their lives for retirement, more than salaries.” – JD Journal [at least this article mentioned that the owner would be paid]

–“Moore’s work is a way of life and his employees are a second family, which is why he announced this week that he’s handing over the keys to his 209 employees.” – ABC News

–“Bob Moore ... had his 81st birthday this week and celebrated by transferring his business to his workers. ... Employees are just now grasping the meaning of Moore’s birthday gift.” – Seattle Times

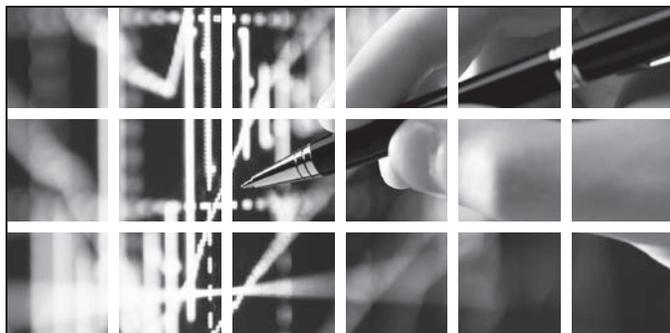
–“Retiring owner Joe Lueken, 70, who owns three separate Lueken’s Village Foods, is transferring ownership of his stores to his 400-some employees, at no cost to his workers. Citing his employees for any success he’s had in

his business, the much-loved business owner has brought holiday cheer to his staff. Mr Lueken, who has run the two Village Foods for more than 45 years, is a beacon in the community of Bemidji, Minnesota, offering aid to anyone he can, and is famous for his generosity.” – London Daily Mail

One of the great consequences of ESOP transactions is that retiring/selling owners tend to be revered in their communities. The company stays in the community. The jobs stay in the community. The employees become employee owners and share in the success of the company through the ESOP and increase their personal wealth. More of the wealth created stays in the community. And the retiring owners who sold to their employees via an ESOP are held in high esteem for making all that possible.

Those facts are sufficient justification for retiring owners to sell to ESOPs. The incentives are appropriately aligned to provide motivation for all people to “do the right thing.” Creating the wrong impression that retiring owners must be sufficiently generous and philanthropic that they must “give” their companies to their employees in an ESOP transaction does not help facilitate the creation of additional ESOPs. I believe that many more retiring owners will sell to an ESOP if they are correctly educated regarding all the tax incentives and benefits of selling to an ESOP than will consider an ESOP if they think they have to give the company to the ESOP.

Media articles describing ESOP transactions as a gift do not help the growth of ESOPs. If you are in a position to provide a correct description of the ESOP transaction, I would encourage you to do so. It will benefit all of us in the ESOP world. oaw



ESOP & ERISA Advisory Services

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



Mark R. Fournier, CFA

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

The ESOP Challenge

We have the team for that.



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

McDonald Hopkins

A business advisory and advocacy law firm®

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

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

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

mcdonaldhopkins.com



Your Partner In the ESOP Life Cycle



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

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

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

Visit us online or call:

Jim Steiker
215.508.1600

Tabitha Croscut
802.860.4077

Terry Jones
617.310.6565

Doug Cannon
219.548.3696

TRUSTED Experts > Tailored SOLUTIONS > Sustainable RESULTS

www.sesadvisors.com

OEOC Answers Questions About Crowdfunding

Robert Cohen

If you have heard about “crowdfunding” but don’t know the specifics, you are not alone. There has been much “buzz” about crowdfunding but it is not even close to reaching its potential. Recently, OEOC staff members have been active learning more about crowdfunding, researching numerous on-line crowdfunding platforms, and exploring the applicability to cooperatives. Crowdfunding is actually just one type of crowdsourcing, usually defined as any effort that uses the internet to enlist assistance from large numbers of people. According to Soha El Borno, there are several types of crowdsourcing activities. All of these are applicable to projects that might be undertaken by an established firm, a start-up, and in some cases a cooperative or employee-owned business.

Overview of Crowdsourcing

- Pooling collective knowledge involves using the internet to solicit information from knowledgeable experts who are willing to weigh in on an issue. In this way, a project coordinator can benefit from the expertise of a number of people. This type of internet-based outreach is common within groups of practitioners in an industry or sector. Perhaps the most well-known example of this is Wikipedia, whose 100,000 active contributors have created 25 million articles.

- Microvolunteering is a way of recruiting volunteers using internet-based list serves and platforms. This could be a way for cooperatives to enlist volunteer labor for a weekend project that has community benefit beyond just the cooperative’s membership base.

- Crowd creation is a process beyond pooling collective knowledge that actually enrolls people to complete a portion of the work of a major project. This could be used by a start-up cooperative to have a number of people help put together bylaws, pricing systems, and promotional materials. This is particularly useful in situations where the contributors are not located in the immediate area of the cooperative.

- Crowdvoting is an on-line polling system. It allows an organization or a project to garner the reaction of large numbers of people by simply asking them to weigh in on an issue. Their level of effort could be as minimal as clicking yes or no. This could be used by a community-based group to launch a campaign to come up with a name for the cooperative or even determine the most popular location. The opportunity for large-scale participation is likely to generate interest and enthusiasm, and possibly result in increased membership.

- Crowdfunding is a way of using internet resources to attract monetary contributions. There are several distinct types of crowdfunding, usually characterized by the needs of the project coordinator and the motives of the contributors. Marty Zwilling, in his essay, “Will the Real Crowdfunding Model Please Stand Up,” has identified five types of crowdfunding: good cause crowdfunding, rewards-based crowdfunding, pre-order crowdfunding, debt-based crowdfunding, and equity-based crowdfunding.

Types of Crowdfunding

- Good cause crowdfunding attracts contributions for a charitable or community-benefit project that may or may not directly benefit the cooperative. Short-term campaigns for a specific improvement to a cooperative, like signage or landscaping that will benefit an entire neighborhood, may have the potential to attract community contributions. Some cooperatives have worked on community or charitable projects unrelated to cooperative operations. For example, Organic Valley Cooperative has raised funds from the general public and then accepted requests for funding from a number of charitable organizations. Those making contributions would be expecting nothing in return other than a thank-you note or token gift.

- Rewards based crowdfunding can raise funds for general operations or a specific project. Those who

next page ►



contribute are given a reward of some type. This reward usually has a monetary value, but is worth less than the contributed amount. For example, a cooperative might solicit \$25 contributions in exchange for an environmentally friendly cloth grocery bag.

- Pre-order crowdfunding solicits contributions in return for products. This is often used to overcome the cash flow difficulty of spending the money to develop a new product and overcoming the revenue lag before it is marketed and sold. Typically the contributors receive a product whose value is equal to or greater than the contribution amount. The benefit to the recipient is to have the money up-front in order to meet expenses. CSA's (Community Supported Agriculture) operate in this manner; cooperatives or individual farmers collect money from participants at the beginning of the growing season, and then participants receive produce or other farm products during the season.

- Debt-based crowdfunding, as its name clearly implies, provides money to a project in the form of a loan. This means that the recipient organization is not obligated to give anything back to the contributor in the form of merchandise or ownership, just the loan amount plus interest. This type of crowdfunding would be appropriate for cooperatives that have difficulty obtaining conventional financing. Debt-based crowdfunding would allow people ineligible for or unlikely interested in membership due to geography or sector to still contribute capital for starting a cooperative or helping an existing cooperative expand. Right now, this type of crowdfunding is still in its infancy, and because of the lien that lenders would have, may be subject to some of the same SEC modifications necessary for equity-based crowdfunding to become a reality.

- Equity-based crowdfunding technically did not exist until very recently. This type of crowdfunding was authorized by the passage in April of 2010 of the JOBS Act (Jump-Start Our Business Startups). It was intended to remove regulatory hurdles for small businesses and allow fast growing start-up companies to raise capital from private investors and in public markets. This would require modification of existing securities regulations. The details of changing the securities regulations were entrusted to the Securities Exchange Commission (SEC), but the commission has been slow to act. Once fully approved, equity-based crowdfunding would encourage small investors to contribute to start-up companies in exchange for an equity position. Until then, limited crowdfunding is being done using registered broker dealers and is limited to accredited investors. Despite the fact that equity-based crowdfunding has the most potential to affect the viability of start-up entrepreneurs, it would appear to have less applicability to cooperatives than other types of crowdfunding due to the impracticality from an ownership standpoint of contributing more to a cooperative than what is required for voting membership. Plus there is typically no provision for people to invest in a cooperative without taking advantage of membership benefits.

Specialization of Crowdfunding Platforms

It is estimated that by the end of 2013 there could be more than 500 crowdfunding platforms available. Some will serve a wide range of projects while others will be more

specialized. Some of the broad-based platforms include such well-known sites such as Kickstarter, Indiegogo, and Rock The Post. Examples of specialized platforms include MedStartr, which is a platform for medical technologies; Re-Nuble which funds community-based recycling programs; and CircleUp which finances consumer products. Green Unite focuses on "green" products designed to create a more sustainable environment. It is one of the few platforms to specifically mention cooperatives as a potential project creator. Canadian-based Picatic funds concerts and special events, and Kiva creates loans for microenterprises in developing countries.

Technical Assistance from the Ohio Employee Ownership Center

The OEOC, and particularly its Cooperative Development Center, are capable of advising business entities exploring their crowdfunding options. The Center has met with dozens of stakeholders who have looked to crowdfunding as a potential capital access strategy. Crowdfunding is just one of several topics that will be presented at the Cooperative Development Summit taking place April 18, 2013, the day before OEOC's Annual Conference in Fairlawn, Ohio. Details about the Summit and the Conference are available on our Facebook page.

Robert Cohen is an OEOC program coordinator assigned to the USDA-funded Cooperative Development Center. He has conducted nearly a dozen seminars and webinars explaining the basics of crowdfunding. He is a member of the National Crowdfunding Association and is a founding board member of the Crowdfunding Professionals Association. OAW

ESOP ADVISORS AND INVESTMENT BANKERS

MENKE & ASSOCIATES,

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

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

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

The Nation's Largest ESOP Advisor
Contact us at: (800) 347-8357
www.menke.com



The Cooperative Development Center at Kent State University

Celebrating the “International Year of the Cooperative”

Roy Messing

The Cooperative Development Center at Kent State University (“CDC@KSU”) is a center within the OEOC devoted to Cooperative Development. One of the main missions of CDC@KSU, within the Rural Cooperative Grant from USDA, is the promotion of Employee/Worker-owned Cooperatives. During the International Year of the Cooperative (November 2011 through October 2012) CDC@KSU traveled far and wide to promote the benefits of employee/worker-owned cooperatives. Starting its efforts early (October 2011) and ending its mission a little late (January 2013), the CDC@KSU attended three international, one national, five statewide, and multiple localized events across the country, to present the merits of employee ownership under the cooperative model to nearly 2000 attendees. The topics presented by CDC@KSU included the opportunity to and examples of private business conversion to employee-owned cooperatives, worker cooperatives as a community development model (Evergreen Cooperatives), and the myriad of issues these cooperatives face.

International presentations for the year began with “The Business Succession and Employee Ownership Conference,” held in Quebec City in October of 2011. Attendees came from Europe, South America, United States, and Canada. The CDC@KSU displayed its work in transitioning private businesses to employee ownership. Roy Messing of OEOC was featured as the United States representative to the event, focusing on transitioning private businesses to employee ownership in the upcoming wave of the retiring “baby boomer” business owners.

The Exit Planning Institute’s Annual International Conference was held in Ft. Lauderdale, FL in December 2011. Attendees came from the United States, Canada, and Australia. CDC@KSU presented the opportunity of transitioning private businesses to employee-owned cooperatives as an exit strategy for retiring business owners to business advisors who assist business owners dealing with retirement issues.

The Association for Cooperative Educators Institute was held in Montreal in June 2012. Attendees were mainly cooperative educators from across North America. CDC@KSU presented on employee ownership (ESOPs and Cooperatives) options, trends, and opportunities.

At the national level, CDC@KSU presented at the US

Federation of Worker Cooperatives conference in Boston in June 2012. The Center participated in panels that outlined successful conversion of private businesses to worker cooperatives and dealing with the difficult issues (“the tough stuff”) within worker cooperatives.

In 2012, CDC@KSU participated in several events within the state of Ohio outlining the benefits and challenges of employee-owned cooperatives, including the Annual Ohio Employee Ownership Conference at Fairlawn in April. OEOC staff members also took part in events in university and local sessions across the Midwest.

In March, presentations on employee ownership (conversions and community development activities) were made at a food cooperative, the city of Urbana, Illinois, and a group of faculty and students at the University of Illinois.

In June, OEOC staff member Roy Messing provided a day long workshop on converting a private business to employee ownership (focus on cooperatives) at the University of Wisconsin, and was the Keynote Speaker at the City of Madison’s Cooperative Business Conference.

In November, the CDC@KSU participated in events at the University of Michigan (Ann Arbor and Detroit) sponsored by the U of M Law School’s Community and Economic Development Clinic that focused on worker cooperatives, both as start-up entities and conversions from private businesses, as viable options for businesses to generate or retain jobs and wealth in local communities.

Finally in January of 2013, staff member Chris Cooper attended the California Center for Cooperative Development’s Cooperative Summit where he participated in three presentations on worker cooperative as a community development tool, a new unionized worker cooperative model, and training programs for workers within cooperatives.

All in all, it was a very busy year (and a few months) for CDC@KSU in building awareness of the benefits, opportunities, and challenges in expanding employee ownership via the cooperative model across North America. The Center has worked hard to develop its capability and reputation as a leader in the development of employee ownership in the United States and beyond, and is committed to continue spreading the word of the benefits of employee ownership and the number of businesses that adopt this way of doing business. oaw

Ohio Cooperative Forum: Cooperative Businesses in the 21st Century

Thursday, April 18th, 2013

Akron/Fairlawn Hilton

Basic & Advanced Topics

Cooperative Film Festival

Cooperative “Shark Tank”

For more information and registration instructions, visit our Facebook Page!

Ohio ESOP Update:

Ohio's ESOP Companies Regain Ground Lost to the Great Recession, While Paying Almost \$16 billion to Retirees and Beneficiaries

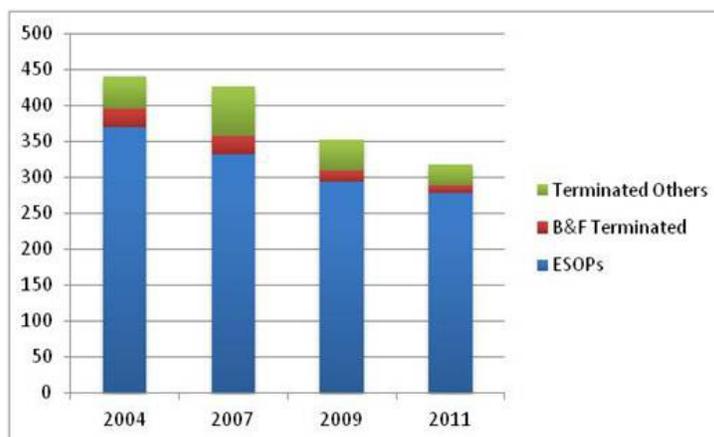
Jackie Yates

Research shows that the number of ESOPs in Ohio has been on the decline since 2004, for a number of reasons, but the ESOPs that have remained were able to recover remarkably well from the Great Recession by 2011.

Recently released data from the IRS shows a 25% decrease in the number of Ohio ESOPs between 2004 and 2011, an interval that encompasses the Great Recession. The decrease was most notable in two sectors: manufacturing and banking and finance.

More than 99% of the latest releases of Form 5500 reports were submitted on or before December 31, 2011. They identify 318 distinct ESOP plans. Of those, 39 reported that they either intended to terminate the ESOP or that the current filing was the final plan document, leaving 279 active ESOPs, compared to 370 active plans at the end of 2004, a 25% decrease over the seven-year period. Although they were less than 10% of all ESOPs, the banking and finance sector reported 25% of all terminated plans in 2004, and 22% in 2007.

The Great Recession did not spare Ohio's manufacturing ESOP companies. There were fewer manufacturing companies with ESOPs—down almost a quarter from 99 to 75, and the number of participants had declined by a third, but in 2011



those firms reported net assets in the ESOP totaling \$10 billion, the same they had reported in 2004, and between 2004 and 2011, they had paid out almost \$3 billion to participants and their beneficiaries.

The overall decline in the number of Ohio ESOPs can be traced to 2006, before the big bank collapses in 2008 precipitated economic contraction comparable to the Great Depression. The percentage of ESOPs terminated increased from

less than 10% in 1993 to 16% in 2004, surged to 22% in 2007, and began to subside in 2009 (16%) and 2011 (12%).

For a decade prior to 2004, the Ohio ESOP population had remained surprisingly stable, hovering just above 400, with terminations balanced by the establishment of new ESOPs.

Under the stability of overall numbers, however, there was always a surprising amount of churning in the establishment and termination of ESOPs, rarely arising from business failure, but rather from management decisions to terminate the ESOP. The likely causes for this include mergers with non-ESOP companies (especially common among financial institutions in the bank feeding frenzy that preceded the bank collapses), concern that the firm might not be able to repurchase the stock of future retiring employees (repurchase

next page ►

Are you getting every advantage for your ESOP?

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

We look closer.



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

liability), disappointed expectations about the impact of the ESOP on operational performance, or dissatisfaction with financial performance.

While many plans were terminated during the Great Recession, many of the companies that sponsored them remained in business, and their former ESOPs continued to exist in order to pay participants value in their accounts or roll funds into other retirement accounts. Most of the companies that terminated their ESOPs did not close down or go into bankruptcy. Their ESOPs still own assets in the form of company stock and other investments. That is why the terminated ESOPs' participants and payouts are counted in this report. Even where the value of the company stock may have declined considerably, employee-owners who diversified their accounts as the law permits could possess other stock or mutual funds through the ESOP.

Here at the OEOC, we are always a little sad to see ESOPs terminated and the numbers of ESOPs declining, because our experience shows that successful employee-owned companies anchor capital locally, strengthen local communities, outsource less, build wealth for employees with better pay, benefits and retirements, help owners of smaller firms with no interested heirs to find a willing buyer (their employees), foster small businesses that are the great innovators and job creators of the economy, and provide a lifelong path for personal growth for their interested employee-owners, who are not expected to check their brains at the door.

When the ESOP is terminated, the trustee oversees the distribution of those assets to their owners, according to the

provisions of the ESOP plan. That amounted to \$4 billion on the Form 5500s released in 2007, 2009 and 2011. Unfortunately, not every company fills out its Form 5500 completely, so it isn't clear how many people received the funds, but it is money that came from an ESOP they might not have otherwise had.

What is more, the ESOPs that remained in 2011 showed considerable strength and future promise. Numbers of plan participants fell to 693,000, but the overall value of the ESOPs had recovered to \$48.4 billion, almost reaching the 2004 value of \$50.3 billion.

Between 2004 and 2011, the number of ESOP plan participants were down just 3.5%, and the total value of net assets held by ESOPs was down just 3.2%.

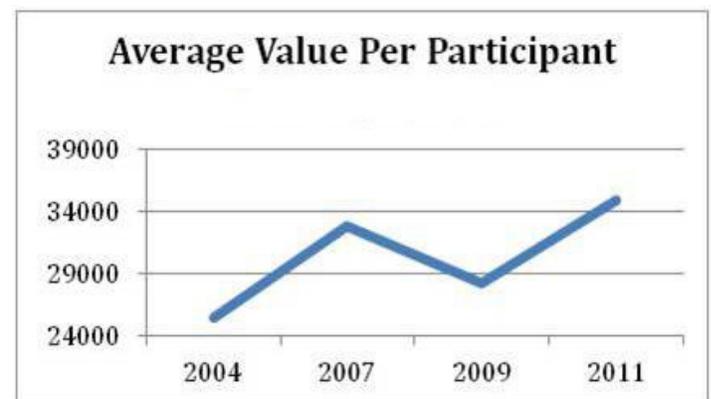
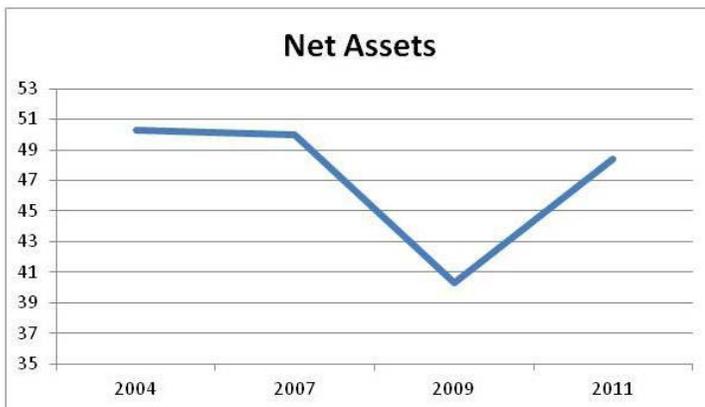
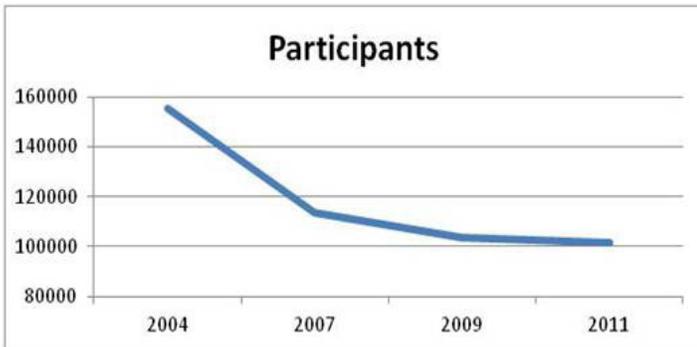
Among the remaining plans, average value per participant stood at nearly \$35,000.

Favorable tax law already in existence and the demographics of the baby boom make it likely that ESOPs and other forms of employee ownership will see a growth spurt in the decade ahead. There is a bulge in the population of business owners that mirrors the Baby Boomer bulge. Those owners will be retiring over the next decade, and they will find no more enthusiastic buyers for their firms than their own employees.

Governments at all levels have an interest in helping employee buyouts, since it is much less costly and painful (for government as well as employees) to keep an existing business going than to start a new one from scratch. With a little succession planning, selling owners can receive a greater return and see their businesses remain viable into the next generation, even if no one among their family or heirs is interested.

Interested selling owners and buying employees who want employee ownership to succeed should plan and prepare for an ownership transition with management-led communication, training, and participation to educate all the company's employees about the business and the details of how the ESOP works. These timely and sincere efforts can lead to formal and informal adjustments in behavior and work roles throughout the company that fuel economies, efficiencies, innovation, and growth.

Jackie Yates is the Research Director for the OEOC. OAW



Follow us through Social Media!

Twitter: @oeockent

Facebook: **Ohio Employee Ownership Center**

Network News

Robin Industries ESOP acquires 49% Stake

A significant step toward fulfilling the long-standing desires of the family that founded Robin Industries in 1947 was achieved in August 2012, when the Company established an ESOP. This event represents the culmination of a process that began in 2007 with the assistance of the Ohio Employee Ownership Center. In the initial stage purchase, the ESOP has acquired a 49% ownership stake in the Company. A second stage transaction is anticipated that will enable the ESOP to own 100% of the Company.

One of the early challenges faced by Robin, as its board and ESOP Subcommittee evaluated the potential benefits of an ESOP, was its diverse shareholder base, which consisted of ten second- and third-generation descendants of the founder and 32 Employee-Shareholders. Educating this group of

shareholders about how an ESOP works and the benefits that could be realized by transitioning ownership through this type of retirement plan was a daunting, yet rewarding process. Working with a number of talented, shareholder-focused professionals from leading ESOP advisory firms was instrumental in forming the transition plan.

Through a series of meetings with an advisor, the family shareholders were able to see how the S-Corp distributions and tax savings that the ESOP model permits would allow the share transfer to occur, and still provide the working capital and investment capital that a growing business requires. The next critical issue that had to be overcome centered on the role of the Independent Trustee and the desire to include pass-through voting for ESOP participants. The Subcommittee used an extensive "Request for Proposal" to obtain background information from a number of Trustee

candidates. Then, separate on-site interviews with the family shareholders as well as representatives of the employee-shareholder group led to the selection of a Trustee. Pass-through voting was included in the Plan Agreement to permit the ESOP participants a greater voice in key decisions affecting their Company.

Robin Industries is a manufacturer and designer of high quality elastomeric and thermoplastic components for a variety of markets including, but not limited to, the automotive, medical, military, and transportation markets. Robin distinguishes itself as a technical leader known for its innovative custom designs and state of the art manufacturing processes. Headquartered in Independence, Robin operates three manufacturing facilities and a research and development facility in the Holmes County area of Ohio. In addition, the Company has manufacturing facilities in

next page ►

2013 Network Schedule Preview

March - April 2013: A 3-part Webinar Series - A convenient and economical way to learn at your computer. Important ESOP topics will be presented by some of the most respected professionals in the country. Viewed archived webinars here.

April 18, 2013: Pre-Annual Conference activities: 3:00 P.M. - 6:00 P.M. (includes dinner) - What are the key issues in an ESOP company that demand time and attention of leadership? Join us as we bring together your peers to discuss in an open forum timely topics, challenges, and solutions.

April 19, 2013: 27th Annual Ohio Employee Ownership Conference - Fairlawn Hilton - A variety of breakout sessions with technical and culture related content designed for all your employee owners including management.

May 21, 2013: CEO/CFO Networking Dinner and Tour Hosted by Star Leasing, Columbus

June-July 2013: Webinars - During the summer we will offer more webinars dealing with a variety

of issues related to governance, the board of directors, trustees, and fiduciary responsibilities.

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

September, 2013: Southwest Forum/Conference - Cincinnati ... employee ownership and general business with breakout sessions covering a variety of topics.

October, 2013: CEO/CFO Networking Dinner and Tour Hosted by EBO Group, Sharon Center
Fall/winter, 2013: Webinars - planned topics include repurchase obligations, building an ownership culture, sharing financials, and ESOP finance.

November 2013: A Workshop for new employee owners and a Refresher for veterans - "Employee Owner Basics."

Network News

Queretaro, Mexico and Xiamen, China. Robin has approximately 700 employees, including 400 U.S. employees who will participate in the ESOP.

- Greg Malafarina,
CFO, Robin Industries

Equity Engineering Engineers an ESOP

The Equity Engineering Group, Inc. (E²G) is a leader in developing engineering standards and advanced technologies that help keep oil refining and petrochemical plants safe and operating at top capacity. The company's focus is on new and aging infrastructure service and support to help clients improve plant profitability through proactive technologies that manage risk, maximize equipment availability and

control inspection costs through a plant's equipment life-cycle.

Equity Engineering was established in 2002 and is headquartered in Cleveland, Ohio. E²G has enjoyed significant growth and success from the beginning. From the original 13 shareholders, the Company has grown to over 100 employees located in the United States, Canada, and the United Arab Emirates. Most of our engineers have hands-on refinery or chemical plant experience, all extensive experience in their areas of expertise, and many are recognized as international experts in their field.

In the past few years, four of the original shareholders left the company, and E²G CEO David Osage researched options for succession planning and eventual ownership transfer for the

company. ESOP became the clearly preferred choice for numerous reasons including; the tax benefits to the company, ownership that could transfer while the nine former shareholders remained employees, and most importantly, the ESOP option allowed all employees to share in the company's growth and success. In September 2012, the nine shareholders voted unanimously to finalize the 100% E²G ESOP, which became effective October 1, 2012. E²G is currently working through the cultural adjustments and employee education to ensure ESOP success, and has benefited from the services of Corsaro and Associates, Co. LPA, and the Ohio Employee Ownership center. The future looks bright for E²G as an ESOP company. **oaw**

Unlock the Power of Employee Ownership

The **Ohio Employee Ownership Center @ Kent State University** can design and deliver the cutting edge employee ownership training your business needs to grow. Whether its your in-company ESOP orientation programs and owner education on the basics of ESOPs, or more advanced topics like understanding the financial side of business, leadership development and teamwork skills, the OEOC training **delivers results**.

**Contact Jay Simecek (jsimecek@kent.edu)
or Chris Cooper (ccooper1@kent.edu) to
learn more about what the OEOC can do for you**



Ohio Employee Ownership Center @ Kent State University

113 McGilvrey Hall

Kent OH 44242

330-672-3028

oeoc@kent.edu

www.oockent.org