2nd Annual Interview Issue

Featuring conversations with prominent leaders in the Employee Ownership world

Also in this issue:

Highlights from 29th Annual Ohio Employee Ownership Conference
The Ruhlin Company Celebrates 100 Years
In Memoriam: J. Robert Beyster
Oswald Companies Create Culture of Accountability and Passion for Service
ESOPs Crush the Stock Market
Here in NE Ohio we have come out from under a long, cold winter into what we hope is a mild and warm summer. As we break out of our hibernation, we are reminded of all the great things that are happening around the country in the world of employee ownership. We are also aware of some of the many challenges that still confront us as well.

Some of those challenges are talked about in this, our second annual interview issue. The issue generating the most interest in the employee ownership community is the ongoing scrutiny of ESOP plans from the Department of Labor and the IRS, focusing (for the most part) on the sale prices of company stock to an ESOP. A number of the interviewees sound off on this development.

Illustrating many of the great things happening in our world, we are also proud to highlight in this issue a number of anniversaries and highlights from our Network of employee-owned companies. Foremost among these is the 100th Anniversary of The Ruhlin Company, a construction contracting company in Akron Ohio. I can look outside my office window at the new Kent Courthouse and see their fine work in action. We also highlight the Oswald Companies efforts to build their employee culture and spread that out into the wider world.

At our 29th Annual Ohio Employee Ownership Conference on April 29th, we honored a number of ESOP companies that are celebrating significant milestones in their history of employee ownership. We highlight them here too.

We are also happy to feature a guest columnist this month, Mary Josephs of Verit Advisors, who provides a nice overview of all the ways in which ESOP companies outperform their conventionally owned counterparts, and yes even the stock market.

Finally, we commemorate and celebrate the life and efforts of J. Robert Beyster, founder of SAIC, who passed away earlier this year. We asked his daughter, Mary Ann Beyster, to share with us some of her thoughts, as well as those from some of the employee owners at SAIC, on the impact he had on their lives, and employee ownership.

We here at the OEOC hope you and yours have a wonderful spring and summer, and that you are able to spend it with your friends, family, and fellow employee owners!

- Chris Cooper
Ohio Employee Ownership News

OEOC Completing Employee Ownership Impact on Rural Communities Report

As part of the OEOC’s USDA Grant activity, we have visited several rural businesses in the Northeast, Midwest and Southwest United States. These businesses consisted of manufactures, retailers, professional services providers, financial institutions, recyclers, personal service providers, and wholesale distributors. The number of people employed at these companies ranged from less than a dozen to several hundred. They had only one thing in common, they were all employee-owned. These companies used a variety of employee ownership methods including Employee Stock Ownership Plans (ESOP), employee-owned cooperatives, and shares owned directly by the employees.

The purpose of this study is to build awareness of the various employee ownership options in the rural community. With the “Baby-Boomer Generation” quickly approaching retirement, many businesses will have a change in ownership. When small business owners decide it’s time to retire and exit from their business, often times the traditional option of transferring the business to their children is not available. Consequently, the small business owner may look to sell to an outside party. In a large percentage of these types of transfers, the company is consolidated into an existing (or separate) enterprise, resulting in the local business being shuttered. With the closure of these “pillar of the community” businesses, the effect on smaller rural communities can be profound. Jobs are lost, economic activity decreases, and the tax base for important public services shrinks.

As noted earlier, the goal of this study is to build awareness of the option for employee ownership as a succession plan for the rural business owner. The study will tell the story of several businesses learning of this option and choosing to sell the operation to the employees and retain the business in the local community. It will also highlight several companies that were launched under an employee ownership model. Given the variety of employee-owned businesses in various industries and geographic sectors covered under the study, more business owners have the opportunity to see that a company “like mine” has successfully transitioned or operated under employee ownership increasing the likelihood that business owners will give this exit strategy consideration.

We intend to have this study distributed to the centers of influence (“COIs”) for rural business owners (accountants, attorneys, bankers, etc.) to inform them of the option to transfer the businesses to the employees. Properly informed COIs can provide critical guidance to business owners in the process of transitioning ownership to the employees. The study will be completed and published later this year.

S-Corp ESOP Accounts Significantly Outperform the Stock Market

A new study from Ernst & Young has found that S-Corp ESOPs continue to be one of the best options for all types of workers in saving for retirement and generating broad-based wealth. This research comes at an interesting time, as new ESOP legislation encouraging the creation of more ESOPs is expected to be introduced in both houses of congress this year. In addition, it acts as a data-driven repost to media driven opinions that ESOP participants would be better off investing their retirement savings in the stock market.

The study found that retirement plans consisting of private shares in S Corporations outperformed an S&P Index Fund invested in the stock market by 62 percent. Average annual returns (measured from 2002 – 2012) were 11.5 percent for ESOPs versus 7.1 percent for the S&P 500 Total Returns Index; the ESOP annual return rate is also higher than historical rates of return in the stock market in general. Over the measured period, net assets in S-Corp ESOPs increased by more than 300 percent, and plans distributed $30 billion in assets to participants. The number of participants in these types of plans grew by more than 162%, from 240,000 in 2002 to 650,000 in 2012.

The results of the data, compiled by Ernst & Young’s Quantitative Economics and Statistics Practice, were published at the end of March 2015. The study’s results join the long list of research that has shown how well ESOPs actually work for the majority of their participants, even during the recent Great Recession and succeeding years. This is especially so when compared to the returns found in your average 401k, and general investing in the stock market.

For a more personal view of this research, check out Mary Joseph’s piece on page 15 in this issue.

Editor’s Note: Owners At Work Changes its Ongoing Publication Schedule

The OEOC has changed the publication schedule for Owners At Work to Spring/Summer and Fall/Winter. This issue is the first to reflect that change of schedule.
Editors Note: In 2015, The Ruhlin Company (based in Sharon Center OH), celebrates 100 years of providing construction and related services to the communities of NE Ohio and beyond. Owners At Work is pleased to be able to present this look back in this issue. (All photos courtesy of The Ruhlin Company)

1915 - Ruhlin wins first project
Founded by John G. Ruhlin, a bricklayer, with brothers Charles and Edward, Ruhlin Brothers Construction Company wins bid to build Creston School (value $29,000).

1965
Ruhlin completes Shenango Dam

1977
Ruhlin becomes an ESOP company; They are 82% owned by employees today (seen here in a recent photo).
“The Ruhlin Company has joined an elite group of companies that have withstood the test of time to celebrate 100 years of business, but we’re only here because of our hardworking employees who do what’s right, not just what’s expedient.

- Jim Ruhlin, Sr. President and CEO
Thanks To Our Sponsors!
Highlights from the 29th Annual Ohio Employee Ownership Conference

Morning Keynote Speaker Steve Baker from The Great Game of Business

Log on to www.oeeckent.org for additional conference photos, keynote speaker videos, presentations from panels, and more!

Mark your calendars for April 29th 2016 for the 30th Annual Ohio Employee Ownership Conference
Highlights from the 29th Annual Ohio Employee Ownership Conference

2015 Ohio Employee Ownership Award Recipients

Getting Your ESOP Off to a Good Start – Henny Penny Corporation

On January 8, more than 600 employees of Henny Penny boarded chartered buses and were transported to the Eaton High School auditorium. The purpose? A meeting called by company leadership. None of the employees outside of senior leadership had been told the purpose of the meeting, so some folks started wondering what it was all about.

Various rumors began circulating regarding the purpose of this meeting. As the collected employees found their seats in the auditorium, expectations were running high. Company CEO and President Rob Connelly started the meeting off with humor including joking that the company was moving to Florida, which had certain appeal while in the middle of an especially brutal winter in Ohio.

It remained for Steve Cobb, Company Chairman, to finally let everyone know why they had been assembled on that day:

“The Story Behind the Story has a conclusion, and it's a good conclusion. We have officially made a transaction for the company. We have sold the company and the Cobb family no longer owns Henny Penny. So that's right, the Cobb Family no longer owns Henny Penny at the end of the year. But listen to me when I say that I believe with the utmost confidence that the option that we have selected is the best option possible. It is the best option for my family; it is the best option for our customers; it is the best option for the community. It is the best option to be that 100-year company; it is the best option to remain privately held. And most importantly, I sincerely believe that it is the best option for all of you individually and as employees of this great company that we have all built together. As of January 1st 2015 Henny Penny is an ESOP company.”

Henny Penny designs and manufactures foodservice cooking, holding and display equipment for thousands of restaurants, supermarkets and institutions in the US and around the world. The company was founded in 1957 by restaurateur Chester Wagner who was looking for a more efficient way to meet the demand for his fried chicken. The company grew steadily under the leadership of the Cobb family.

When the ESOP strategy was selected, the leadership looked at different ways in which to present the news to it's soon to be employee owners. In addition, they thought that the unveiling of the ownership plan would provide an opportunity to begin building the employee ownership culture so important to the success of an ESOP. The result? The event described at the start of this article. After the announcement was made, leaders of the business proceeded to educate the assembled employee owners of what it means to be an ESOP and how it will affect the company going forward, and also what it means for each employee owner.

At the close of the meeting the company distributed to each employee owner a deluxe tin. Enclosed was a velvet pouch containing a large pewter key inscribed with the phrase “The Key to Our Success” symbolizing the role that each employee owner will have on the company’s future success. Since that cold January day, Henny Penny has continued building both their company and employee-owned culture that augers well for continued business success.

John Hebeler, President of The Elus Company, Receives the award for Getting your ESOP Off to a Good Start from the OEOC’s Chris Cooper.

Getting Your ESOP Off to a Good Start – Elus Company

The ELUS Company is a manufacturer’s representative organization dedicated to the electrical utility market. For 58 years ELUS has offered professional sales representation for the select principals that have gone to market using outsourced sales in Ohio, Indiana, Kentucky, Michigan, West Virginia, and W. Pennsylvania. In 1957, Kuhlman Electric supported Jay G. Gates as he established the Jay G. Gates Company, a representative firm to serve the electric utility market. John Commons joined the firm in 1972 and worked under Jay for 11 years before purchasing the company in 1983.

In May, 1989, the Jay G. Gates Company changed its name to ELUS Company. In July
of 2013 ELUS Company became an employee-owned company. It is the belief that over the last 30 years, not only has ELUS grown in sales, territory, and premier principal partners, they have also grown a very strong sales organization. The team assembled is the single strongest asset and that is why the move to an ESOP was the best for the future of ELUS Company and their business partners. The company is located in Cincinnati, OH, is 100% employee-owned, and employs 21 people.

Getting Your Worker Cooperative Off to a Good Start - Our Harvest/Sustainergy/ Cincinnati Union Cooperative Initiative (CUCI)

CUCI grew out of a coalition of labor unions in Cincinnati that were interested in answering a single question: can worker ownership help to revive the economies of urban areas? The interest from the group in the worker ownership model began in earnest after the agreement signed by Mondragon Cooperative Corporation (a large multi-national corporation and the largest worker owned cooperative in the world) and the United Steelworkers that provided a framework for a partnership in the creation of worker owned cooperatives in the US. Out of the ensuing conversations and meetings the coalition held with local community leaders, cooperative development specialists and others, many potential business ideas were considered. Feasibility studies and business plans were created. Some ideas never made it past preliminary stages; however, some did.

Today, we are celebrating two of the ideas that did, Sustainergy Customized Energy Solutions, and Our Harvest urban farm. Sustainergy specializes in leveraging PACE (Property Assessed Clean Energy) financing to dramatically improve the energy efficiency of commercial, industrial, and institutional buildings in the City of Cincinnati. They assess potential efficiency gains on a building-by-building basis and tailor upgrades to each customer’s needs. Our Harvest is an incubator urban farm which has been operating since April 2012, an additional 100 acre farm is being leased and cultivated, employing 20 people, 400 families participate in Weekly Harvest box programs, OHC aggregates produce, and supplies various retail and wholesale outlets. OHC is partnering with Cincinnati State’s newly launched Sustainable Agriculture Management Program; students come to the urban farm weekly for their practicum.

These two operating businesses are still in their start-up phases to a degree, and have been subject to the ups and downs faced by any new business. However, through the dedication and hard work of these community and business leaders, and the worker owners, the future looks bright. And the future will include additional businesses! In addition to Our Harvest and Sustainergy, there are a number of other business concepts in the works, including Apple Street Market, which will bring a mid-sized, full service worker and community-owned grocery store in an underserved urban neighborhood of Cincinnati.

The OEOC has worked with a number of startup business projects over the years; some have succeeded, many have failed. The statistics on startup businesses are real: about 80% of startups will fail within the first 10 years of operations. Employee-owned startups are no different. However, we have never worked with a group of people as dedicated to making sure these businesses not only survive, but thrive as they head into the future. It is for this that we are proud to give the 2015 Getting Your Worker Cooperative Off to Good Start award to Our Harvest/Sustainergy/Cincinnati Union Cooperative Initiative (CUCI).

2015 John Logue Employee Ownership Excellence Award - Mary Ann Beyster, Foundation for Enterprise Development

Mary Ann Beyster comes from an impressive lineage when it comes to employee ownership; her father, Dr. J. Robert Beyster founded one of the great employee ownership success stories, Science Applications International Corporation (SAIC). During his time as Chairman and President, he turned it into a model employee-owned company, in addition to one of the largest.

After working in private business for 12 years, Mary Ann joined SAIC as a Vice-President in 1999, and focused on the life sciences, environmental, health and safety, and infrastructure markets components of SAICs business areas. In 2005, she became the President of the Foundation for Enterprise Development (FED), a private, non-profit foundation established in 1986 by Dr. Beyster, dedicated to advancing entrepreneurship and science and technology innovation through broad-based ownership. Since taking over the direction of the Foundation, Mary Ann has engaged in exciting and state of the art strategies to fulfill its mission.

During his lifetime, John Logue was many things, but perhaps his greatest source of personal pride was being known as an educator. He performed this role admirably: for university students (including your author), business owners, employee owners, economic development professionals and politicians; as an author of both general interest and scholarly works; and lastly to his many co-workers and friends. He inherently understood the need to get employee ownership on the agenda of business and management programs, serious research on the impact of employee ownership in the real world, and onto the radar of the broader business community. Over the last 10 years, Mary Ann Beyster has understood this need as well, and has been very successful in doing something about it. These success stories include:

- Inter-disciplinary research fellowships, awards and symposiums to advance the study, documentation and presentation of broad-based employee shared-ownership models and practices;
- Curricula development and collaboration with leading universities to build and sustain the largest global Curriculum Library on Employee Ownership.
- Development and distribution of curricula, books, films (including the award winning We The Owners), and multimedia programs through FED Productions to inform, educate and expand the understanding and adoption of broad-based employee ownership, participation and governance.
She has been successful in taking the “family business” of support for employee ownership and proceeded to innovate new strategies for creating knowledge and awareness, in the process creating her own legacy for others to follow. It is for these reasons that we at the OEOC are pleased to award Mary Ann Beyster with the 2015 John Logue Employee Excellence Award.

Since the OEOC made the decision to present this award, Dr. J. Robert Beyster passed away after a short illness. We asked Mary Ann to provide us with a remembrance and memorial to the work and life of her father; it can be found in this newsletter.

**EMPLOYEE OWNERSHIP MILESTONE AWARDS**

**5 Years of Employee Ownership**

**Evergreen Cooperative Laundry**, founded in 2009, is part of Evergreen Cooperatives, a group of worker-owned businesses launched by Cleveland’s largest foundations and anchor institutions. The company is an industrial “green” laundry specializing in the healthcare and hotel industry. The cooperative was formed in 2010, is currently 80% employee-owned and has 40 employees.

**Evergreen Energy Solutions (E2S)** is an Evergreen portfolio company that designs, installs, and develops PV solar panel arrays for institutional, governmental, and commercial markets. Incorporated in 2008, E2S also provides energy efficiency and home performance services to make residential and commercial buildings more energy efficient. The cooperative was formed in 2010, is currently 80% employee-owned and has 17 employees.

**Martindale Electric Company** was founded in 1913 as a tool manufacturer for the electric motor maintenance and repair industry. Today, Martindale has become a prominent leader as a manufacturer of circular saw blades (high speed steel and carbide), commutator grinders, undercutters, and other tools used by machine shops, motor repair shops and others. The company is located in Lakewood, OH, has 38 employees, and is 100% employee-owned.

**10 Years of Employee Ownership**

**Columbia Chemical Corporation**, founded in 1975, specializes in developing high quality zinc plating processes and additives. Today, as the pacesetter in the zinc and zinc-alloy plating industry, Columbia Chemical offers a complete line of proprietary products from pre-plate to post-plate… from cleaners & acid inhibitors to brighteners to chromates, topcoats and finishing aids. The company is located in Brunswick, OH, has 40 employees and is 100% employee-owned.

**Select Machine, Inc.**, is a 100% employee-owned cooperative located in Brimfield, Ohio. The company manufactures, sells, and distributes machined products and equipment for installation on construction and demolition equipment. In 2005, Select Machine was the first private business conversion to an employee-owned cooperative that allowed the selling owners to qualify for the 1042 tax rollover. The Select Machine case has been featured in many newspaper articles and magazines and has become a leading example for private businesses to convert to a co-op as an exit strategy.

**15 Years of Employee Ownership**

**CareStar, Inc.** provides care management services for chronically disabled people. CareStar’s service enables its clients to live in their own homes as opposed to a nursing home. Its sister company, CareStar Information Systems, provides IT services for state governments and managed care organizations serving these same chronically disabled populations. Located in Cincinnati, OH, the company is 89% employee-owned and employs 344 people.

**Equipment Merchants International, Inc. (EMI)** was incorporated in January 1982 and became a 73% employee owned ESOP in 2000. In 2014 EMI became 100% employee owned. Today, EMI designs and manufactures equipment for the foundry industry and also provides technical assistance (for installation and start-up), equipment inspections and reviews, equipment remanufacturing programs and spare parts. EMI is located in Cleveland, OH and has 25 employees.

**Falcon Industries, Inc.**, founded in 1982, is a premier manufacturer of custom augers and auger flighting. They form flight out of a wide variety of materials for industries all over the world, making conveyor and mixing screws, ribbon flighting and various other helicoid and sectional flighting. Their products are manufactured to ‘their customers’ individual specifications and designs, ensuring that their customers receive the precise product required for their needs and equipment. Headquartered in Medina, OH, with an additional plant in Cosmos, MN, the company has 64 employees and is 40% employee-owned.

**Janotta & Herner** is a Design/Build contractor that was founded in 1982 by Bob Janotta and Jim Herner. Their company motto is “Our Reputation is Building” and they are known for top quality affordable contracting services. JHI is extremely proud to have been in business for over fifty years and an ESOP for fifteen, all while maintaining their reputation as one of Ohio’s top design/build contractors. Located in Monroeville, OH, the company employs 165 people and is 100% employee-owned.

**Stow-Glen Retirement Village** was founded in 1984, at that time, Summit County’s only Continuum of Care Retirement Community, all of which are located on one campus. Today, Stow-Glen is home to over 300 residents who reside in the Independent Living, Assisted Living, Long Term Care Nursing Home or come for a short rehabilitation stay and return home with our Home Health agency.

In January of 2000, Select Machine was the first private business conversion to an employee-owned cooperative that allowed the selling owners to qualify for the 1042 tax rollover. The Select Machine case has been featured in many newspaper articles and magazines and has become a leading example for private businesses to convert to a co-op as an exit strategy.

**20 Years of Employee Ownership**

**EBO Group, Inc.** consists of the parent company and its subsidiaries, PT Tech, Inc. (clutches and brakes for extreme machines), AeroTorque Corp. (offers several valuable options for wind farm owners and wind turbine OEM’s), and TransMotion Medical, Inc. (mobile, motorized medical stretcher-chairs). EBO stands for “Excellence By Owners” and is a 100% employee owned company. The company culture stimulates a vibrant work environment that empowers its employee-owners...
to identify new opportunities to fuel innovative growth and embrace positive change. The company is located in Sharon Center, OH and employs 105 people.

**MBC Ventures, Inc.** based in Baltimore Maryland operates two distinct divisions: Maryland Brush Company is a 164 year old manufacturer and distributor of engineered and standard brush products for many industries. For a significant part of its history, the company made high end paint brushes for PPG Industries and overtime evolved into a manufacturer of specialty industrial grade brushes for the steel mill, rubber tread processing and pipeline fabrication industries. With the diversification effort in 2009 the solar energy endeavor was started with Skylouver Systems. As an alternative energy product it is a patented integrated solution harvesting daylight for thermal energy. The Company has been 100% employee-owned since 1990 and has 30 plus employees and growing.

**Messer Construction Co.,** founded in 1932, is a full-service complex commercial construction company specializing in building for health care, higher education, industrial, and life sciences. They employ nearly 750 builders who plan and perform more than $1 billion of diverse complex, commercial construction in Indiana, Kentucky, North Carolina, Ohio, and Tennessee. The combination of employee ownership, long-term planning, investment in process improvement and their people has resulted in consistent, metered and sustainable growth. The company is 100% employee-owned.

**Rable Machine, Inc.** has been a well-established and growing business for over 60 years; a world class precision machining company with capabilities that include CNC Turning, Milling, Swiss Turn, Screw Machining and Assembly Operations. Rable’s products are used in fluid management systems, flow control, industrial automation, network power systems, climate control systems, oil and gas transmission, petrochemical and petroleum refining, medical devices, and other industrial high tech products. Other industries served include aviation, aerospace, telecommunications, banking, printing, defense, and pump and valve applications. Rable prides themselves on being customer focused and service oriented, stocking parts for customers enabling them to turn their inventory frequently freeing up space and reducing costs. Located in Mansfield, OH, the company has 95 employees and is 100% employee-owned.

**Parksite, Inc.**, located in Louisville, Ohio, is a sales, marketing, and distribution company serving many segments of the building industry, with a focus on both interior and exterior products and a resource for the trades with a Specialist Network that provides consultative services and support for Builders, Architects, Designers, Remodelers, General Contractors, and Deck Builders. Parksite commits to educate and provide the building industry with quality and innovative products while increasing shareholder value for its associates. Nationally, Parksite has 8 locations and over 320 employee owners and is 100% employee-owned.

**Ohio Valley Supply Company, Inc.** is a wholesale distributor of nationally-recognized brands of building materials specializing in premium solid surfacing, quartz surfacing and accessories. It also serves as manufacturers’ reps for GlasPro, a producer of high quality structural, architectural and design glass. The company has been in business since 1949, is 100% employee-owned and is headquartered in Cincinnati, OH.

**Oswald Companies,** Cleveland-based and employee-owned, Oswald is one of the nation’s largest independent insurance brokerage and risk management firms. As a proud member of Assurex Global, the world’s largest association of privately held insurance brokers, our risk management professionals service and support the needs of our clients throughout the U.S. and worldwide. Oswald helps individuals and businesses identify, reduce and manage their risks through our cross-functional business units: property and casualty, employee benefits and health management services, personal client management, retirement plan services and life insurance.

**PERRY proTECH,** established by Rex Perry in 1965, headquartered in Lima, Ohio. PERRY proTECH is recognized as a leading provider of business technology solutions and products throughout northern and western Ohio, northeastern Indiana, and southern Michigan. PERRY proTECH serves thousands of clients in a variety of industries including financial services, health care, manufacturing, education, telecommunications and utilities. The company offers a wide-range of office products and services including printers, multifunctional printers, document storage and retrieval, networked systems and managed print services. Located in Lima, OH, the company employs 197 people and is 100% employee-owned.

**The Will-Burt Company,** located in Orrville, Ohio, is the worldwide premier manufacturer of telescoping mast and tower elevation solutions – the world’s one stop shop offering virtually every payload elevation solution from one source – for military, fire, cellular, broadcast, entertainment and other applications. Will-Burt also designs and manufactures military and other shelters made of all-composite materials that deliver higher performance at lower cost than metal or partial composite shelters. Will-Burt’s LINX security solutions provide integrated access control and intrusion detection certified to protect critical assets. Will-Burt also offers a variety of manufacturing services backed by an ISO 9001:2008 certified quality system. Incorporated in 1918, Will-Burt is 100% employee-owned and has 350+ employees in locations across the globe, and with sales offices throughout the world.

**35 Years of Employee Ownership**

Established in 1855, **The Bostwick-Braun Company** is one of the oldest and largest independent wholesale Hardware / MRO distributors in the Midwest, supplying both retail and commercial/industrial customers throughout a 22-state region. Headquartered in Toledo, OH; the company is 100% employee-owned and employs 340 people throughout its family of operating companies in Columbus, OH; Indianapolis, IN; McKeesport, PA; Providence, RI; and West Helena, AR.
Fastener Industries is headquartered in Berea, with subsidiaries in the Cleveland area, Streetsboro, Girard, and Valley City. They sell weld fasteners (Buckeye Fastener Inc.), produce rivets and clevis pins (The Brainard Rivet Co.), sell lift truck and construction equipment parts (Joseph Industries) and sell planetary nail thread rolling dies and cylindrical thread rolling dies (PLAN-E-TECH Industries, Inc.). The firm was founded in 1905. It became 100% employee-owned in 1980 and has about 200 employees.

100 Years in Business
The Ruhlin Company was founded one hundred years ago in Akron OH and today resides down the road in Sharon Center. Today Ruhlin enjoys a national reputation as a construction services leader. From bridges to buildings, Ruhlin offers an array of comprehensive services from General Contracting and Construction Management to Design-Build. Their diverse team of talented project managers and construction experts offers decades of experience providing successful projects that meet or exceed clients’ expectations. Ruhlin is 81% employee owned and employs 221.
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As an ESOP, your needs are specific. Our experienced team works to build a relationship with you and help you determine your goals to create ESOP solutions customized for your business.

Contact us to evaluate your ESOP and ensure you are receiving all the available benefits from your plan.

ESOPs - WE LIVE IN THIS WORLD - LET US PUT ALL WE HAVE LEARNED TO WORK FOR YOU

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The retirement savings crisis is one of the greatest problems the U.S. economy faces. And there has been little done to fix the problem in recent years. Employee Stock Ownership Plans are an unusual bright spot in this picture.

Regular readers of this newsletter are accustomed to stories of great successes at individual ESOP companies that we hear about.

A fair question I often get goes like this: yeah, Mary, that’s nice but aren’t you cherry-picking the best case studies? Are ESOPs in general really a good deal?

For the more than 25 years I have advised entrepreneur/founder/owners in ESOP transactions and on exit strategies generally, I have confidently answered, yes, ESOPs are a good deal, pointing to wide surveys or academic research and to my own experience.

And now, there is another compelling piece of analysis by the smart people at EY’s Quantitative Economics and Statistics Practice (QUEST) showing that S-Corporation ESOPs vastly outperform the S&P 500. QUEST, in analyzing S ESOP filings covering the years 2002 to 2012, found the employee owned companies delivered their worker-owners an 11.5% compound annual growth rate vs. 7.1% for the S&P 500 on a total return basis.

That’s a 62% advantage to the S ESOPs. The S ESOP return is based on combined distributions and growth in asset values, just as the S&P 500 total return includes stock price appreciation and dividend payments. Or put in the link

S ESOPs, by the way, are simply S-Corporations (pass through entities for tax purposes and a widely used form of corporate ownership) that are owned by employees. As we know, the arrangement allows S ESOPs to operate without paying federal income taxes out of current operations, so they’re able to invest more in expansion, hiring, acquisitions and other productive activities. It’s a huge plus for the company and our economy. Its no wonder that many C-Corporation ESOPs have converted to S ESOP status in recent years.

To ESOP watchers, the out-performance is no surprise. Prior studies have shown that ESOPs are less likely to go bankrupt than similar companies with different ownership structures. And ESOPs have been shown to expand employment more effectively.

Crushing the broader stock market isn’t a surprise to us, either. ESOP employees are owners and they tend to work harder, more collaboratively, and to share productive ideas more freely.

The EY analysis, if anything, understates the advantages of an S ESOP. Why? Except in rare instances, employees don’t pay for their ESOP stock; it’s awarded as an employee benefit, no differently than a 401(k) match. Therefore the cost for participants is zero, as opposed to buying into an S&P 500 fund.

Another skeptical question I often get goes like this: yeah, those are great returns for the ESOP workers, Mary, but isn’t concentrating one’s retirement savings in an employer’s stock a dangerous concentration of assets?

I answer that yes, it’s a concentration, but not a dangerous one when we compare S ESOP companies to companies in the broader economy. As I mentioned, ESOP companies fail less often. But they also provide secondary retirement plans – 401(k)s and pensions – in greater numbers than companies overall provide in a primary plan. That’s right, the QUEST analysis shows that 65% of S ESOPs offer some type of secondary retirement plan (on top of the ESOP), while only 45% of all U.S. companies offer any plan at all.

Which brings me to a third question I frequently field: that’s all great for the employees, but doesn’t that hurt the founder who sells to his workers? Quite the opposite, I believe. The superior operating performance and tax treatment of employee-owned companies means that ESOPs can bid competitively alongside private equity funds, with founders realizing a fair price.

And on an after-tax basis, founders can often do better selling to an ESOP; that’s because a C-Corporation owner selling to an ESOP can defer, potentially forever, capital gains taxes, which can eat up as much as 23.5% of proceeds. This deferral is accomplished by reinvesting the proceeds into qualifying securities like stocks (and some bonds).

S ESOPs: good for founder/entrepreneurs looking for an exit strategy, good for the economic health of the U.S., and great for employee-owners as a retirement savings vehicle.

Mary Josephs is Founder and CEO of Verit Advisors, LLC, an independent investment advisory firm that provides expert advice to middle market businesses based in Chicago. The views of the author do not necessarily reflect the views of the Ohio Employee Ownership Center or Kent State University.
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Q: Thanks Dave for talking to us today.
A: Always happy to talk ESOPs.

Q: Tell us about Apple Growth Partners and how you first got started working with ESOPs.
A: Several of the Apple partners had worked with a few ESOPs and liked how they worked. So almost 10 years ago, they reached out to me to help them build an ESOP practice with exceptional ESOP expertise. Since then, we have grown the ESOP practice to working with between 60 and 70 companies.

Our ESOP practice is primarily valuation related, but we also work on ESOP formations and help with planning and technical ESOP issues for our accounting and tax ESOP clients. On a personal level, my work with ESOPs happened by accident. I had always done business valuations, and more and more ESOPs were thrown on my plate. I found that I liked employee ownership. Then the more I did, the better I became and the better I became, the more I could help.

Q: What’s new in the world of ESOP Valuations?
A: The biggest thing that is relatively new is the U.S. Department of Labor’s audit activity in general and the GreatBanc Settlement Agreement with the Department of Labor. We can talk about that more in a minute.

Another trend we are seeing is more ESOP companies working to get their valuation done sooner after the end of the calendar/fiscal year. We have always stressed to our clients that it is a better practice to get the valuation done as close to the end of the previous year as possible, and we have had many clients that have been doing so for years.

However, in the past two years, we have experienced a number of clients that we worked on in May, June or July getting data to us and ready to start their valuation earlier. This is good for both the ESOP and the company in the areas of participant diversification as well as a number of compliance issues. However, I think it is equally important for employee education and understanding. The sooner the valuation is completed and communicated, the more likely the employees are to remember the facts driving the valuation, and therefore to understand why the stock value did what it did.

Q: One of our recent conversations was a discussion as to whether a selling business owner should also act as a trustee for an ESOP transaction. What would you say to that?
A: The one word answer is “NO”. I am not sure you want to quote my two word answer!

The Department of Labor is looking for a Trustee that is not conflicted and can exclusively look after the ESOP. Clearly a seller can’t fit that definition. Realistically, we have seen situations where a company has a couple of strong managers that are very capable and successfully serve as Trustee for the transaction. Then the seller rejoins the Trustee committee sometime after the Transaction. But that requires unique individuals and, even then, they may be subject to 20/20 hindsight if things don’t go as planned.

Q: I am asking this of just about all ESOP service providers, so I’ll ask you too! What’s your view of the latest rulings and activities coming from the Department of Labor?
A: My view is that the DOL will be active and folks in the ESOP world need to be ready. We are commonly seeing audits within 24 months of a new ESOP transaction and everyone would be wise to plan accordingly. We have, and expect all good ESOP professionals, to read the GreatBanc Settlement Agreement and adapt to what the Department of Labor is looking for. I have heard a number of professionals say that their work already complies with the agreement. While we think we do very good work, we will continue to study and evolve.

While the GreatBanc Settlement Agreement does not apply to valuation updates, we will look to see what we can learn from it and apply in the context of a valuation update.
Q. Contrary to what some folks may think, I find that most ESOP service providers do not want to find ways to skirt either the law or the intention of the law. In fact, most respond well to clarification in the regulations, as uncertainty is resolved. What’s your view of this?

A: Most of the professionals are trying to do a good job; and as much as I hate to admit it, this also includes most of my competitors! Most ESOP advisors will live with the deal they helped facilitate for a number of years after the transaction, and as such don’t want to do a bad deal at the outset. We certainly want and need to engage the DoL to get clarification on the rules. We as advisors also need to do a better job of educating the DoL on the value that most ESOP plans offer their participants. The challenge for them is, of course, to make the regulations workable, and understandable, while trying to cover the many potential facts that may arise. Clearly, our experience with ESOPs is overwhelmingly positive and that they generate well above normal benefits and results for participants.

Q: Finally, there was some talk in the last few years about defining valuators as ESOP fiduciaries when advising for transactions. What is your sense of whether that will happen as well as your feelings about the concept in general?

A: The last we heard is that it won’t happen. We are certainly happy with that, as it potentially put appraisers in the contradictory position of performing objective valuation work under valuation standards, while also asking us to be an advocate under fiduciary rules.

Q: Thanks again for your time!

A: Glad to help the OEOC with its good work.

OaW Interview: Mary Giganti

Mary Giganti is an attorney with Waldheger Coyne in NE Ohio.

Q: Thank you for joining us today, Mary.

A: Thank you.

Q: Tell us a little bit about your firm, and how you first got started with ESOPs.

A: Waldheger Coyne is a boutique law firm on the west side of Cleveland. We represent closely-held businesses and have an emphasis on retirement plans, including ESOPs. I have been working with ESOP companies for over 20 years.

Q: Now that the economy is in what appears to be a steady turnaround, are you seeing an increase in business conversions to ESOPs in the market?

A: We are seeing an increased interest in ESOPs. I attribute this increase to two factors, the first is the aging of business owners, with the owners wanting their businesses and their business culture to continue, as well as to reward loyal employees. ESOPs are a viable alternative to selling to a third party. The second reason is the economy stabilizing, and the business owners’ feeling that they are selling to their employees a viable business that will be able to continue to grow and service the payment for the purchase of the business.

Q: As an attorney, how would you describe the legal environment out there for both creating new ESOPs and sustaining existing ones?

A: There has been more scrutiny of ESOPs by the federal government. With this additional scrutiny, we are beginning to have a clearer understanding of how the regulators interpret the regulations. They are also discovering that many of their regulations are out-of-date and have begun projects to update these regulations. Most recently, through a settlement with the Department of Labor, the Department of Labor expressed their expectations for a trustee entering into an ESOP transaction. This guidance is helpful when advising clients about new ESOPs. I think every ESOP should assume they will be reviewed by the Department of Labor, the IRS, or both.

Q: Though it is always dangerous to predict the future, I am still going to ask you to do some prognostication! What do you see as the biggest threat, legal or otherwise, to ESOPs?
A: Although I don’t have a crystal ball, the threat to ESOPs includes changes to the tax law and publicity of ESOPs that have not worked, and probably should have never been established, or publicity of bad things happening to good ESOPs. To counter this, we need to make sure that the ESOPs that are working and making a difference in employees’ lives and the communities where they do business are told and heard by our elected leaders as well as the public.

Q: On the other side, where are you seeing opportunity, again for both potential and existing ESOPs?
A: Companies which are looking for options to reward employees and provide benefits are interested to learn more about ESOPs. ESOPs are a great way to provide employee benefits and transfer a business to employees. ESOPs are one way to allow employees to share in the company’s success. The ESOP allows the company culture to continue and may even help improve or grow the company culture. These are some of the reasons ESOPs are used. There are studies that suggest ESOP companies perform better than non-ESOP companies and that ESOP companies weathered the economic downturn better than non-ESOP companies. Existing ESOP companies look for ways to improve their ESOP, through better employee communications and education about the ESOP, the company, the economy, and retirement planning.

Q: Do you have an opinion on the latest rulings and activities from the DoL and the effect they will have on ESOPs heading into the future?
A: The latest rulings and activities from the Department of Labor give us clues as to what issues they have with ESOPs. While we prefer that these discussions occur as guidance or regulations, we understand that the process within the government is very cumbersome and time consuming. Thus, the Department of Labor has tried to “regulate” through litigation and settlements. As the recent litigation and settlements show, the Department of Labor is most concerned with fiduciary process and the preparation of the valuation and analysis thereof. For example, some of the key issues surround who (and how, what process) hires the trustee, who (and how, what process) hires the valuation company and who provides the valuation company with financial data (what type of financial data) and projections.

Careful documentation and analysis is critical in these areas. ESOP companies should be aware of this and ensure that they have appropriate and complete documentation. ESOP companies should assume they will be second-guessed on the selection and hiring of trustees and ESOP trustees should assume they will be second-guessed on the selection and hiring of the valuation firm, and their review, analysis and acceptance of the valuation.

Q: If you could give a new ESOP company only one piece of advice, what would that be?
A: There is a lot to learn. Attend ESOP seminars, talk with other ESOP companies. There is no one way to run an ESOP company. As you talk with other ESOP companies, you will find varying degrees of employee involvement. You will need to find what works best for your company. Make sure you surround yourself with good advisors and document, document, document.

Q: Thanks again, Mary, for talking to us today!
A: Thank you.
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Owners At Work Spring/Summer 2015
Q: Martin, thanks for talking with us. Tell us a little about the Beyster Institute.
A: A pleasure to talk with you, Chris. The Beyster Institute is an organization dedicated to the advancement of employee ownership as an effective business strategy that raises business performance and gives a larger number of people the opportunity to participate successfully in our free market capitalist system. The Institute was established in 1986 by J. Robert Beyster, who had founded a company called Science Applications International Corporation (SAIC) in 1969. SAIC was employee-owned from the beginning, and grew to become a Fortune 500 sized company.

In 2004, the Institute became part of the business school at the University of California, San Diego. Here at UCSD, we continue to pursue our mission of advancing employee ownership primarily through two approaches: 1) providing consulting services to business leaders to help them create an employee ownership program such as an ESOP – and also to help them operate their employee ownership program successfully; and 2) maintaining educational programs that are offered through the university here, so that people who manage ESOP companies can get the training that will help them take their company to high levels of success.

Q: How did you personally get involved with employee ownership and ESOPs?
A: My own story goes back to my college days in the San Francisco area. Louis Kelso, the creator of the ESOP concept, was based in San Francisco, and the local press covered some of his first efforts to establish ESOPs in the early 1970s. I read about this, and thought it was a great idea. I later went on to law school, where I pursued specialized study in labor relations and employment law, and from there, going on to work as an attorney for a California state agency that regulated labor-management relations.

After being part of the labor relations field for a few years, I found myself wishing that there were a better way to get employees a fair shake in the workplace – one that didn’t put employees in an adversarial position to the company, but instead enabled employer and employees to prosper together. I thought back to the employee ownership programs that Louis Kelso had set up years before, and concluded that he was really on to something that could provide the answer. I decided at that point to take my career in the direction of employee ownership. And the rest, as they say, …

Q: One of the issues that has been on the minds of many in the ESOP world is the Department of Labor’s increased focus on transactions, and specifically on business valuations. Where do you see this heading?
A: To answer that, I can pick up on my answer to your last question. One of the first things I did to pursue my new interest in employee ownership – based on some good advice I received – was to go to work for the DOL for a few years, in the agency that enforces ERISA (and as part of that, regulates ESOPs). So I know a good deal about how DOL operates. Each year, the ERISA enforcement agency (now known as EBSA) identifies a short list of issues that they want to pay particular attention to that year.

For the past year, ESOPs have been on that list. Let me make clear that the people at the EBSA are honorable people who are sincerely motivated and trying to do their job effectively (which is to see that American employees actually receive the benefits that they have been promised by their employers, and especially that they will have adequate savings to live off of when they retire). Having said that, I think there are some in the leadership of EBSA who have some longstanding negative perceptions about ESOPs. One of these is that they believe that ESOPs make inherently poor retirement savings vehicles (and that is their primary mission: encouraging and protecting employer-sponsored retirement savings programs) because they are undiversified, and diversification is a bedrock principal of long-term saving.

The truth, of course, is that ESOP’s are almost never formed to take the place of a different retirement program. Rather, they are added to a company’s existing offerings (which usually consist simply of a 401k plan). So eliminating the ESOP would do nothing at all to increase the employees’ retirement savings. Certainly
there are many in DOL who are coming to recognize this, but a bit of habitual negativity lingers. The second bias they have is that they perceive the process by which ESOPs are created as being controlled by private company business owners and the professional advisors who they hire to serve them, with the perceived result that many owners will manipulate the process to take unfair advantage of the ESOP and get a more lucrative payoff from the ESOP than they should according to law. The critical issue then, as DOL sees it, is the valuation process. They suspect that the appraisals that are performed to establish the fair market value of stock that is purchased by an ESOP are not always properly performed, resulting in ESOPs paying an excessive price for the stock they buy.

One tactic that DOL attempted in an effort to address this concern was to propose a regulation that would have made ESOP appraisers fiduciaries under the provisions of ERISA, meaning that they would be personally liable if they did not do their best to make sure that the ESOP was getting a good deal in any stock purchase transaction. That rule-making effort doesn’t seem to be going anywhere, however. This leaves the DOL in a position of using their investigative powers to scrutinize as many ESOP transactions as possible with an eye toward reviewing the valuation work being done to support those transactions.

Now, the DOL does not have unlimited resources, so it can’t actually review the details of every ESOP transaction that takes place. So their strategy is to try to establish clear procedural standards that they want people to follow in connection with ESOP transactions. To that end, they touted a settlement agreement that concluded some recent litigation concerning an ESOP transaction. The settlement agreement was between the DOL and GreatBanc Trust Company, which had served as the Trustee for the ESOP transaction that was at issue. The settlement agreement spelled out a very detailed, very thorough, and very expensive process that GreatBanc agreed to follow in all future ESOP work. The settlement was not binding on anyone else, but DOL has tried to suggest that the very detailed process set out in the agreement with GreatBanc should be followed by everyone and anyone involved in implementing an ESOP transaction.

Q: At a recent Beyster Institute event, you had a representative from the DoL talk about what they are looking to see in the “ideal” ESOP transactions. How would you characterize their comments?
A: The Beyster Institute offers a training program for “internal ESOP fiduciaries” – that is, anyone who works for an ESOP company who is also tasked to serve as a trustee or a member of the ESOP administrative committee of the company’s ESOP. Anyone who serves in that capacity is considered to be a “fiduciary” of the ESOP under the laws of ERISA, and has personal liability in the event that they violate ERISA’s requirements. So you need to know what you’re doing when you serve in such a role. Our 3-day training program, through which you can earn a certificate from the University of California, provides the necessary training.

As part of that training, we have an official from DOL/EBSA come to school to speak. When we offered the course last month, the DOL speaker described a process for conducting an ESOP transaction that he felt would be reasonable and consistent with the requirements of ERISA. The process is as follows: a business owner becomes interested in the idea of selling stock to an ESOP. The owner then approaches a member of his management team who has solid business knowledge and experience, such as the company’s CFO, and asks if that individual would be willing to serve as trustee of the ESOP that the owner is proposing to establish. If the individual agrees to serve as trustee of the planned ESOP, then the company authorizes him to interview and hire a valuation firm to serve as an advisor to that individual in his capacity as trustee of the planned ESOP.

The valuation firm can then undertake a preliminary valuation of the company. The valuation firm will then communicate the results of the preliminary valuation to the trustee. And in turn, the trustee can then communicate the range of value (as determined by the valuation firm) to the company owner, so that the owner can make a decision, in light of the pricing information, whether we wants to move forward with the ESOP. If the price range is too low to satisfy the owner, the company can thank the parties for their service and conclude the project. If the price range is acceptable, the company can move forward, retaining an attorney to draft an ESOP, etc. The individual serving as Trustee can remain in that role, or the company may want to retain a professional to assume that role, either for the limited purposes of the transaction, or permanently.

Q: There is a perception out there from some critics of ESOPs that professionals who put together ESOP transactions are always looking to find ways to get around the rules. On the other hand, I generally find that the broad range of service providers in the ESOP world generally like to know what is on the “right side of the line”, and really do not want to cross it. What’s your view?
A: My experience has been that the great majority of professionals who advise on ESOP transactions are ethical and interested in fully complying with the legal rules that govern ESOP transactions. Responsible advisors – and most business owners as well – feel that it is not worth the risk, the anxiety, the paranoia, that is...
likely to result from skirting the rules, even if some extra money might be made. For professionals especially, it would be very short-sighted to play those kinds of games. Being associated with an ESOP transaction that ends up being the target of investigation, litigation and legal action that reveals malfeasance is likely to ruin a career. It is also striking to those of us who have been in this field for a long time how much practitioners are motivated to practice in the ESOP field because they believe they are contributing to something genuinely positive and important, rather than simply making a living. These are exceptionally honorable people.

Q: Finally, you mentioned Robert Beyster above. With his recent passing, how would you describe his legacy in the world of employee ownership, and what was your impression of him as a person?

A: Thanks for asking, Chris. Bob Beyster was manifestly a remarkable man. Certainly he was highly intelligent – he was a PhD nuclear physicist, after all. When he decided to start his own company, he gave it a lot of thought, and concluded that the most sensible arrangement was that the people who did the actual work that accounted for the company’s value should participate in the ownership of that value. Any other approach, he thought, would not align the various interests and motivations.

The great thing about it was that he proved the validity of that idea. In just 30 years, he took his little one-man start-up through a growth experience that turned the company into a Fortune 500 business, with more than 40,000 employee-owners operating worldwide. And they never had a year that they didn’t grow in value. It represents a remarkable track record. It also turned hundreds – more likely, thousands – of employees into millionaires. After all, during the dot.com boom, the people at SAIC were (justifiably, as it turned out) skeptical of the get-rich-quick mentality that was circulating in Silicon Valley. The motto at SAIC was “get rich slow.”

If you’ve read the book “Good to Great,” you’ll be familiar with author Jim Collins’ ideas on sorting leadership effectiveness into various levels. The highest, Level 5 Leadership – the kind of leadership that Collins found to be behind the great business success stories that he studied– was characterized by the individuals striking “split personality.” These leaders had no particular ambition for their personal success. They didn’t care much about how much they were paid, and didn’t aspire to acquire big mansions or gold waste baskets. They were humble about their own importance. But on the other hand, they worked tirelessly and fought like the fiercest tigers when it came to advancing the fortunes of their company. It was the company that was important to these leaders, not their personal gain. And that was Bob Beyster. So characteristically, he did not name our group “Beyster Institute.” In fact, he opposed that idea, feeling that people would think he was too full of himself. Others in the organization campaigned to use that name, and it took about 6 months to wear him down and relent. His contribution to the concept and the practice of employee ownership is huge.

Q: Thanks for your time today Martin.
A: My pleasure, Chris. Any time.

OaW Interview: Patrick O’Brien

Patrick O’Brien is a Vice President & Senior Relationships Manager at PNC Bank in Cleveland

Q: Thanks for taking the time to talk with us today about business owners and ownership succession.
A: My pleasure Chris. The Baby Boom Generation privately owns a significant number of businesses in the United States, and is faced with maximizing the conversion of this illiquid asset into a liquid asset over the next decade, so this topic is timely as business owners need to start this dialogue with their advisors (note I used the plural) sooner than later.

Q: Tell us a little bit about you and the work you do at PNC Bank
A: Let me start by saying that I am a bit different than my peer group in the wealth management industry, having been on the private equity and the venture capital side and having had responsibility for running businesses prior to my career in wealth management. In my current...
role at PNC Wealth Management, I work closely with my banking partners and wealth teammates to ensure that we provide our HNW & UHNW business owners with holistic financial advice, support and services, at both the business and personal level. Due to my background, our clients rely on me for my insights on the preparation of their personal balance sheet, business balance sheet, and the succession options available to them. I specialize in preparing business owners for the 3rd Act of their life, and their legacies.

Q: We first got to know one another through the NE Ohio Chapter of the Exit Planning Institute (EPI), and currently you are serving as Chapter President and sit on the EPI National Advisory Board. Tell us a little about the purpose of EPI, and specifically what new and exciting things the NE Ohio Chapter is up to?

A: The purpose of EPI is to provide a forum where the local community of professional advisors can collaborate to address the unique needs of the local business community; develop educational programs for business owners and professional advisors to build awareness, and better prepare an owner for the successful transition of their business. The reason for EPI is to ensure that the baby boom generation receives maximum value for the asset that they have spent a lifetime building and nurturing.

In line with our goal to update and educate business owners, the NEO Chapter is planning a private invite Owners Forum in October 2015. We are very excited to be bringing this event to the NEO market as we have a ton of privately held small to mid-size businesses that we believe can benefit from the dialogue with national experts and advice from their peer group, those who have experienced a third-party exit or internal succession.

Q: As your expertise is in financial investments and management, what is your view on current market conditions and investment options?

A: Business Owners need to understand that Correlations among S&P 500 stocks increased and crossed over their 10-year average in fourth-quarter 2014. The dispersion of stock returns spent most of 2014 below its average level, and ended the year below that level. When correlations among stocks are lower or dispersion of stock returns is higher, it tends to be easier for active managers to outperform because there is more room for managers to differentiate their views using security selection. Bottom line is that your investment advisor should be able to provide you with a portfolio of individual equities, individual bonds, best in class active managers, and passive investment options in the most cost effective manner.

The strategic rationale for including global bonds in an investment portfolio rests on expanding the opportunity set within the investible bond universe. We believe investors who decline to look outside the United States may be missing opportunities for diversification and perhaps enhanced returns. A primary motivation for allocating to global bonds is to introduce currency exposure to a portfolio. Although currency adds another level of volatility to a portfolio’s fixed-income allocation, it provides for investors a natural hedge against devaluation of the dollar, which traditional domestic fixed-income asset classes cannot offer. The prospect of higher global economic growth outside the United States is another motive for allocating fixed income globally.

As world economies grow more quickly, international bond investors may have the opportunity to reap the benefits of tightening global credit spreads relative to the United States. More importantly, investors can take advantage of higher interest rates abroad to gain higher yields. The addition of the currency exposure that comes with an unhedged global bond can act to lower the correlation with U.S. bond returns. In general, we suggest that active management makes the most sense in this allocation. Global bond index construction usually focuses on allocating more assets to countries with more outstanding debt. This may or may not be a good thing. Larger and more stable economies are likely to be able to support higher debt levels, but some fundamental analysis is likely helpful. We also believe that the current state of the global economy, with the large dichotomy between most developed and emerging economies, provides a possible opportunity for active managers in exposure to credit and foreign exchange.

We believe that investors, when measuring performance toward an investment goal, should consider the total portfolio perspective. We have built a process that we believe combines PNC’s best thinking regarding asset allocation with a quantitative and qualitative process for equity/bond selection and manager selection (both passive and active). We expect 2015 to be a year of continued economic expansion for the United States. PNC expects economic growth of 3.5% year over year in 2015. Geopolitical concerns remain on the radar and are among the biggest perceived risks to markets; also prominent is the fragility of the Eurozone and Japanese economies. Markets are closely watching the Federal Reserve (Fed) for the timing of future interest-rate increases. Finally, ongoing uncertainty about oil prices is something to watch.

Q: What, in your view, is the single biggest issue facing the average business owner (assuming there is such a thing) in terms of retirement planning and financial security during that retirement?
A: Taking the time to prepare for the 3rd Act of their life, making sure they understand what they need and the ability to understand how they will get paid on an after-tax basis for the new level of risk that they take by being in the market versus in their company. Asset location is as important as asset allocation. Most business owners select an average of 60% fixed income (bonds) within their investment portfolio so they are dramatically impacted by a current double-whammy in the fixed income market of low bond yields combined with the prospect of interest rates rising in the near future. With over 50,000 Bond Issuers in the United States and no-centralized exchange, Business Owners need to evaluate their portfolio’s fixed income risk, taxable versus non-taxable construct and net return, manager’s internal research capabilities, and fee structure. You wouldn’t pay your dentist per tooth he/she pulls, and there are no free-lunches, so understanding the true net return of the portfolio is key.

Q: What one piece of advice would you give the average business owner on proper financial planning for retirement?
A: Make sure you understand what you NEED versus what you WANT, and how the structure of a transaction will support what you need to attain your goals in the 3rd Act of your life. Proper planning is not just about investments, it is about understanding tax affected cash flows, both incoming and outgoing, and it is holistic by nature. There are only four places your money can go: personal spending (core), legacy spending, philanthropic/discretionary, and the government. You must understand your core needs before you start thinking about the other three areas…and it should be noted that improper planning usually leads to more of your cash flows going to the government in the form of taxes.

Q: I would imagine a big piece of your practice is working with a business owner as they figure out what to do with the proceeds of a sale or transfer of their business. What trends are you seeing in both that reinvestment process and generally in the exit planning arena?
A: Every situation is different based on the age, desire for continued involvement, and core needs of the client. Dialogue with those who have discretionary capital and desire continued involvement usually encompasses direct private equity type investments where the business owner can provide a value-add from their experience and rolodex of contacts. Real estate investments are usually a consideration but the current questions around the potential revisions or dis-continuation to the 1031 exchange have slowed discussion in that area.

Q: I know that you are not a part of the lending side of PNCs business services, but I was hoping to ask a question of you in that area. We read a lot during the Great Recession and the lending crises about tightness in the lending markets for small businesses. Now that the economy seems to be turning around, do you sense that changing?
A: I’ll answer that question by giving you some information about what is happening at PNC. PNC Financial Services Group, Inc. (NYSE: PNC) announced recently that the Board of Governors of the Federal Reserve System accepted its capital plan and did not object to its proposed capital actions. The capital plan included a recommendation to increase the quarterly cash dividend on common stock by 3 cents per share, or 6 percent, to 51 cents per share, in the second quarter of 2015. PNC’s board of directors is expected to consider this recommendation at its next scheduled meeting on April 2, 2015.

The capital plan also included share repurchase programs of up to $2.875 billion for the five quarter period beginning in the second quarter of 2015. These programs include repurchases of up to $375 million related to employee benefit plans.

PNC submitted its capital plan, approved by its board of directors, to the Federal Reserve and its primary bank regulator in January 2015 as part of the Federal Reserve’s Comprehensive Capital Analysis and Review of 31 bank holding companies. I’ll let you interpret what this means for lending in general, but I would urge business owners to have direct dialogue with their bankers and frame their long-term plan.

Q: Thanks again for joining us today.
A: Chris, it has certainly been my pleasure. I would offer to any business owners that desire to attend a NEO EPI Chapter meeting the opportunity to do so, free of charge. oaw

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- Gerry and Bette Meyer
- Mark C. Miller
- National Center for Employee Ownership
- Reuther Mold & Manufacturing Co.
- Elizabeth Sholes
- South Mountain Company Foundation
- Sphere 1, Inc.
- Martin Staubus
- Karen Youngstrom

Other Contributors
- Mr. and Mrs. Brian Cooney
- Chris Cooper, In Memory of William Cooper
- Kate Cullum
- Tina DiCroce
- Brian Dunfee
- David Ellerman (In memory of Dr. John Logue)
- Don Jamison, Vermont Center for Employee Ownership
- Kent Natural Foods Cooperative
- Estate of Dr. John Logue
- Margaret Lund
- Dick Peterson
- Alex Rush
- Ralph Stawicki, Sr.
- Jaroslav and Wilda Vanek

Thank you for your support!
Q: Christina, thank you for joining us today.
A: Thanks Chris!

Q: Tell us a little bit about The Oswald Companies, and about your role there.
A: Oswald was founded in 1893 in downtown Cleveland, Ohio. Since then, we’ve had the same core mission of helping individuals and businesses identify, reduce, and manage their risks. We are employee-owned and one of the country’s largest independent insurance brokerage and risk management firms. In addition to our downtown Cleveland headquarters, we have branch locations in Akron, Columbus and Detroit, and satellite offices in Cincinnati and Toledo. We have cross-functional business units in the areas of property and casualty, employee benefits and health management services, personal client management, retirement plan services and life insurance. I serve as the director of marketing and communications for Oswald Companies and joined the organization in early 2013.

Q: How long has Oswald had an ESOP?
A: It’s a milestone year for Oswald and its ESOP status, having reached the 30-year mark in 2015. James Pender, former CEO and grandson of founder James B. Oswald, created the ESOP for Oswald in 1985. Pender retired in 2008 and remains active in civic activities; including DVIC (Disabled Veterans Insurance Careers), a non-profit that offers career building opportunities for veterans.

Q: What do you think these two initiatives say about the culture at Oswald?
A: As a whole, our professionals embrace a collaborative, inclusive, and team-based culture, which encourages innovation, and reinforces what we call the “find a better way” attitude. These initiatives serve as visible extensions of our culture, which we can take outside of our walls and make an impact on clients in the business community. We also find great success in partnering with clients that share these values, and supporting them in all aspects of their businesses. In addition, we have a dedicated Non-Profit practice that serves more than 300 organizations in a wide variety of service areas.

Q: When we were talking about doing this story, you mentioned how your two initiatives, Oswald Women’s Leadership Council and Taylor Oswald, were important in your overall sense of ownership culture, accountability and passion for the work that you and your employee owners do every day. Can you explain a bit about those initiatives?
A: Oswald is built on a foundation of core values we call PIRC: Passion For Excellence, Integrity, Resourcefulness and Commitment to Community. Philanthropy, in all its forms, is a pillar of our organization and is something we carry into all of the communities we serve.

In recent years, our organization has taken the next step in our commitment to community and responsibilities as owners of the company. Specifically, these initiatives forward.

Q: What else exciting is happening at Oswald?
A: Our mantra at Oswald is “Focus Forward,” and that is exactly what we do when it comes to advancing our abilities to serve the needs of our clients and our employee-owners. We invest heavily in technology and applications that can improve the efficiencies, analytics and quality outcomes for our work, along with the best in tools and training for our team members at all corners of the organization. Additionally, as we’ve more than doubled our workforce in the past ten years, and experienced significant organic growth through our headquarters and branch locations, we continue to review opportunities to expand our footprint, discover new and innovative service solutions, and invest in the industry’s top talent.

You can learn more about Oswald in our Focus Forward video here: http://www.oswaldcompanies.com/media-room/focusforward/.
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Q: Tell us how you first started working with cooperatives.
A: My grandparents created an agriculture supply & rural electric cooperative, and my parents served for many years on the board of directors for co-ops. I was probably at my first co-op meeting when I was in diapers. I began working with cooperatives in earnest in 1988 when I began as a member analyst for Indiana Farm Bureau Co-op, and have been instructing, analyzing, advising, and consulting with cooperatives ever sense.

Q: Tell us a little about the beginnings of the Mid America Cooperative Council, and the work that the organization does.
A: MACC began in 1951 as the Ohio Council of Ag Cooperatives. In the 1970’s they began to include all cooperatives in Ohio and, until 2003, was a co-op council operating only in Ohio through OSU’s extension services. In 2003, MACC was formed and the trade area increased to Illinois, Indiana, Kentucky, and Michigan and a full-time executive director was hired to manage the council. We have focused on cooperative education, director training, and all parts of staff development that pertains with cooperative education. We also conduct planning meetings for cooperative members, and support the cooperative development community. Additionally, I serve on the board of directors for the Association of Cooperative Educators which covers all of North & Central America.

Q: One of the reasons I wanted to talk to you for this issue of OAW is your work in trying to connect the worker cooperative experience with the broader cooperative movement in the US. How did you first become interested in this concept?
A: As cooperatives are formed from a shared need among members, all co-ops have similar challenges. It is important to share those challenges and the ways certain co-op sectors are overcoming the challenges. Democratically managed organizations have many fundamental characteristics in common.

Q: Why do you think this disconnect, if it can be termed that, exists?
A: I think this begins with how the group elects its leadership and directors; establishes their mission & vision; and how it controls itself. It is not uncommon for a small group of advocates to think they are acting for the whole body, but they never really ask the entire group’s opinion. It is important to stay connected with everyone and have that discussion. Before we can work together collectively, we must first bring patience and a willingness to see all the needs are met.

Q: In your view what are some of the biggest issues facing cooperatives today, whether agricultural, finance/credit union, services/utilities, or worker?
A: Each cooperative sector has their list of critical issues. Credit Unions are hampered by business lending limits of 12% or so, which limits their support of growing community businesses, and regulatory reporting and compliance issues that have arose from Sarbanes Oxley and Dodd Frank legislation. Rural Electric Cooperatives are constantly challenged with economically meeting the members growing demand while their coal powered generation plants are under constant regulatory scrutiny. Renewable energy alternatives are very expensive and will only be able to meet a small fraction of the total demand. Ag Co-ops are continuing to get larger to meet their growing member/owner demands and they will be challenged with being economically efficient while meeting the growing technical demands and regulatory oversight.

However, the common challenge facing every cooperative is demonstrating their business relevance and social responsibility to a growing membership that is unfamiliar with why their cooperative was formed. Every cooperative was formed because of a common need from a group of people. Something was broken, unfair, or not efficient in the marketplace. The story of how the original founders of their cooperative came together in the face of unforeseen challenges and formed their own cooperative business to collectively serve their community needs to be told. The uniqueness of democratically controlling their business in a strong capitalist culture must not be understated. Self-control and self-governance
creates many opportunities for every member of the cooperative as well as competitive transparency against larger investor owned businesses which seek only higher returns for their shareholders.

The American people have been through some very difficult times and cooperatives, owned and controlled by their members, were able to create more collective market power to effectively serve their member/owner’s needs. This story gets lost from one generation to the next, leaving a future generation to ‘rediscover the cooperative model.’ By continuing to discuss our cooperative values and principles we can cooperatively address each of the challenges we face.

Q: What do you think are the lessons that the cooperative sector has to offer the US economy at large?
A: That we are not alone in our struggle to grow and prosper. We can lean on the support of those around us to collectively serve our community, whatever its size. That business done with and through our cooperatives will keep earnings and jobs in our community. And that, each generation must define the community in which they live and how their cooperative can benefit that community.

Having an economic investment in your cooperative gives you ownership power and governance rights that are not available with investor owned businesses. As member/owners we can discuss our challenges and self-determine approaches to address our cooperative’s business strategy. This ownership power allows for each of us to self-govern our cooperative business and choose how we serve the needs of our customers. This is very different from how decisions are made with investor owned businesses.

The US economy needs businesses to adapt and grow. The cooperative business model is very flexible and keeps the owners engaged in the operations and profits of the business. We must market the benefits.

Q: In addition to MACC, you are also heavily involved with the Association of Cooperative Educators (ACE). Can you tell us a little about ACE, and what you see as the biggest gaps, both nationally and internationally, in cooperative education?
A: There are 30-50 university professors that focus on cooperative education and research. In the US, we have nearly 30,000 cooperatives with over 2 million employees. The gap is how to get the educational research from our universities out to the 30,000 cooperatives, their 2 million employees, and 300 million members. ACE is focused on helping all cooperative educators do this in three languages for all of North America. Our focus has been on an excellent four-day Institute which offers a variety of presentations from cooperative educators. We are working to identify ways to expand the educational opportunities beyond the institute to all cooperative educators and to translate it into Spanish and French.

Our next institute is at the University of Massachusetts Amherst, July 12-15, 2015. Register at: www.ace.coop

Q: Thank you again for joining us today.
A: My pleasure Chris, thank you!

Join Ohio’s Employee-Owned Network!

Ohio’s Employee-Owned Network’s mission is to provide a forum for employee-owned businesses and others to learn from each other how to make employee ownership work more effectively at your companies; and to address the unique challenges and potential of employee ownership.

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

Other benefits of Network membership include: consultation with OEOC staffers, at no additional fee, on ESOP-related issues and challenges; and discounts on in-company education and training programs.

Interested? contact Chris Cooper at ccooper1@kent.edu or 330-672-0338 or log on to http://www.oockent.org/resources-events/network-overview/
Let us put our expertise to work for you.

As ESOP experts, we serve as the trustee for more than 200 plans in 40 states, manage assets for more than 75,000 ESOP participants and distribute more than $100 million in retirement benefits annually.

Chicago • Philadelphia • Phoenix • Atlanta • Quincy
J. Robert (Bob) Beyster, my father, passed away on December 22, 2014. He was 90 years old, and had a good life. In the business community, he was many things to many people – gifted scientist, successful entrepreneur, and business leader. For many, he will be best known as a tireless advocate for the virtues of employee ownership.

In 1969, with a scientist’s attention to detail, my father founded SAI. He was 45 years of age. The company—later renamed Science Applications International Corporation (SAIC)—was an unbridled success, eventually becoming the nation’s largest employee-owned research and engineering company. It was Dad’s deeply held belief that those who contributed to the company should own it and that sparked SAIC’s entrepreneurial culture. The experience transformed him from a physicist who once thought starting a company was, in his own words, “somewhat distasteful” to a leading proponent of employee ownership and entrepreneurship.

Since his passing, our family has received thousands of condolences many of which reference the impacts of employee ownership. I hope by sharing some of the words from various tributes and condolences, those of you who have committed to adopting and advancing employee ownership find additional inspiration. For those who are uncertain (or even skeptical) about employee ownership, may these words help illuminate how the benefits of employee ownership at one company lives far beyond that company.

“His philosophy of raising company revenue tide raised all employees net worth. [The] employees, all received rewards commensurate with their contributions to the Company. [The] technicians, secretaries, engineers, scientists, to executives all gained.”

“Under his leadership, we really did feel like employee-owners. And even though Bob interacted regularly with some of the most successful and influential leaders of our country, he never lost the ability to make his employees seems like special friends.”

“The amazing story of SAIC’s successful employee ownership system, which was critical to SAIC’s start-up success, developed and revised over decades of experimentation, became the model for many other companies.”

Scenes from the memorial service for Dr. Beyster.
“Thank you for building a company where employees matter. Thank you for instilling an ethic to deliver the best for our customers. Thank you for providing an atmosphere where I always felt the services we provided to our customers made a difference. Thank you for giving me an opportunity to pursue a great career with an outstanding company. Thank you for helping me buy my first home with proceeds from SAIC stock that I was awarded over time. Thank you for allowing me to provide for my family. Thank you, Dr. Beyster.”

“I cashed in some of my SAIC stock to help buy the house of my dreams. Then, several more years later, drew on SAIC stock proceeds again to purchase and grow [our] winery – which my wife and I happily run today and fondly refer to as the “the winery that SAIC built.”

“It was an honor to know and work with Bob. He taught me what have become my core values about business, and about life. He taught me the importance of making a difference, and to have the passion and tenacity to take on the hardest problems.”

“I remember one of, if not the first, FED meetings in DC hosted by your Dad. We all sat at a big round table, reminiscent of the Knights of the Round Table. Dr. Beyster was our King Arthur.”

“It was an honor to know and work with Bob. He taught me what have become my core values about business, and about life. He taught me the importance of making a difference, and to have the passion and tenacity to take on the hardest problems.”

“Dr. B changed my life and made possible things I had never even dreamed about. His vision for employee ownership lives on in all he touched.”

“Bob built a great company by hiring great people (not just “filling positions”) and not many would have the courage and conviction to do what he did today. When a CEO, who also started his company in 1969, asked Dr. B why SAIC was so much bigger than his company. Bob asked the CEO “how much of the company do you own”. The CEO said, “All of it.” Bob replied, “Well that’s your problem.”

“His personal example of implementing employee ownership and studying the phenomenon his entire adult life has not only made the serious practice and objective study of this idea richer, but led to huge strides in the presence of the idea in American business and, importantly, the much larger role of the study of these issues in higher education. [This] is a lasting legacy that will continue year after year to profoundly affect higher education.”
“The single one person he credited with inspiring
him about this idea day to day, especially regarding
how he built the company and stayed with the idea
decade after decade, was his wife Betty. He told
me that he always had her total ideological support
to make employee ownership as an expression of
fairness, the central tenet of his business approach.
He told me she always had his back on the idea. He
was very clear about this. “

After growing SAIC into a $6.7 billion business
success—with more than 43,000 employees—he retired
as Chairman in 2004. But his legacy did not end there.
In fact, in many ways, he was just getting started.

Not one to stay still for very long, my father wrote
two books (The SAIC Solution, 2007, 2014 and Names,
Numbers, and Network Solutions, 2013) after he
“retired.” In addition, he continued to reach out to the
broader world about employee ownership by starting
the Foundation for Enterprise Development (FED, 1986)
and the Beyster Institute at the University of California
San Diego (2004), and funding the J.R. Professorship in
Employee Ownership at Rutgers University (2009). For
the past nine years, I have joined him in his mission in
my current role as the President of the FED.

We have focused on the key building block for
individual and institutional change, and that is
education. As a result, there are now tens of thousands
more people aware of employee ownership; hundreds of academic fellows now engaged in the
study of employee ownership; and several thousand
students every year who participate in at least one
university course on employee ownership. It’s only
the beginning - our hope is that more people will
continue to help us to support and scale up forums
for scholars to shape research, develop curriculum,
and teach the effectiveness of alternative and broad-
based equity compensation programs.

While my father garnered many awards and
accolades during the course of his life, he was
proudest when the Horatio Alger Association for
Distinguished Americans selected him to be a 2008
Horatio Alger Award recipient (see portrait from
event on previous page). He had truly traveled full
circle from his humble beginnings in Detroit to that
of an industry and community leader. He never
forgot how every individual can make a difference
no matter their background or training. He “bought
American” and bought into the American dream.

Visit his blog at beyster.com to read more
condolences or add your own, and fed.org for overview
of employee ownership educational programs. OAW
Upcoming Ohio’s Employee Owned Network Events

UPCOMING WEBINARS

The Role of an ESOP Administration Committee
Michelle Buckley, Meaden & Moore, LTD
Wed, Aug 19, 2015, 10:00 AM Eastern Daylight Time

ESOP Administration Q & A
Pete Shuler, Crowe Horwath LLP
Wed, Sep 9, 2015, 10:00 AM Eastern Daylight Time

Questions Internal Trustees Should Ask Valuation Advisors about Their ESOP Stock Valuation
Brian Bornino, GBQ Consulting LLC
Wed, Oct 21, 2015, 10:00 AM Eastern Daylight Time

Should We Sell Our ESOP Company?
Alberto del Pilar, ButcherJoseph & Co.
Wed, Oct 28, 2015, 10:00 AM Eastern Daylight Time

The ABCs of ESOPs for New Employee Owners - and those “old timers” needing a refresher
Phil DeDominicis, The Menke Group
Thu, Nov 19, 2015, 10:00 AM Eastern Daylight Time

Marketing Your Employee Ownership to Customers, Clients and the Public
Martin Staubus, The Beyster Institute
Wed, Dec 9, 2015, 10:00 AM Eastern Daylight Time

Cost: Free for participants from member companies of Ohio’s Employee Owned Network, OEOC Professional Members; $50 for participants from non-member companies.

CEO CFO ESOP LEADER ROUNDTABLE

SW Ohio
September 16th, 2015, 5-8pm
Location: Ohio Valley Supply Co. in Cincinnati Ohio has graciously agreed to host this event!
Cost: $35 for participants from member companies of Ohio’s Employee Owned Network; $70 for participants from non-member companies.

ONE DAY EMPLOYEE OWNER WORKSHOPS

These full-day workshops are designed for non-managerial employees (with a beginner and intermediate level of ESOP education) looking to learn more about what makes an ESOP company different from other companies. The program includes:

The ABCs of ESOPs — a basic overview of ESOP mechanics
Basics of Understanding Business — an overview of business and financial terminology and concepts
The OEOC’s ESOP Game — the most popular OEOC training module, this high energy, interactive game provides participants with 3 years in the lifecycle of a fictional ESOP company. Building on the first modules, the ESOP Game also expands on them to provide an understanding of the decisions that ESOP leaders need to make to keep the business running.

October 7th, 2015  8:30 am – 4:30 pm
Cincinnati area (location to be announced)

Cost: Members of Ohio’s Employee Owned Network – $75 per participant; Non-Members – $150 per participant

Log on to http://www.oeockent.org/ohios-employee-owned-network-events/ for details