

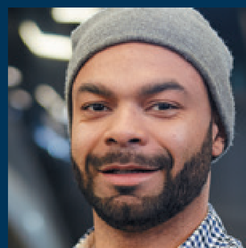

BUILDING A BETTER AMERICAN ECONOMY

Employee Ownership


NCEO NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

www.nceo.org

This guide to employee ownership is published by the National Center for Employee Ownership (NCEO)

1629 Telegraph Ave., Suite 200
Oakland CA 94612
510-208-1300
510-272-9510 (fax)
www.nceo.org

General Editor: John Case

Consulting Editor: Corey Rosen

Art Director: Laura Myers Design

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NCEO

For information about the NCEO and other resources, please see inside back cover.

CONTENTS

2 What Employee Ownership Means
4 A Powerful Everyday Reality
6 PROFILE: How It Works at Polyguard
8 PROFILES: W. L. Gore & Associates | Davey Tree Expert Company
9 PROFILES: Kapco Global | Cooperative Home Care Associates
10 Employee-Owned Companies are Everywhere
11 ...and in Every Industry
11 PROFILE: The ESOPs of Huntsville
12 Where Did They All Come From? Employee Ownership, American Style
14 A National Treasure
15 PROFILE: Publix Super Markets
16 ESOP Nuts and Bolts
18 What It Means to Be an Owner
19 PROFILE: Hypertherm
20 Selling Your Business to an ESOP
21 PROFILE: Butler/Till
22 How to Encourage Employee Ownership
23 PROFILE: Web Industries
24 ESOP FAQs

Welcome

to the community of employee ownership.

It’s companies and their employees working together to build a better American economy.

What Employee Ownership Means...

To EMPLOYEES

Imagine that you and your coworkers own a good chunk—maybe even all—of the company you work for:

- Your company may grow faster and earn more profit than it did in the past—many employee ownership companies do (see page 14).
- You may also receive better wages and benefits. And you will be less likely to be laid off in a downturn (see page 14).
- You may be given opportunities to help your company succeed by actively participating in decisions about your job (see pages 18–19).
- You are likely to build up a better retirement nest egg than if you worked at a conventional company. Some employee-owners have accumulated hundreds of thousands of dollars over the years.

To company OWNERS

Imagine that you decide to sell your company to its employees through an employee stock ownership plan:

- You can finance the sale not with the employees' money but with pretax profits the company earns in the future (see pages 16–17).
- You can preserve the legacy of the business you have worked so hard to build. You will be protecting the jobs of the people who helped you along the way, and you will be leaving them in a situation where they are likely to prosper (see pages 14 and 20–21).
- If you're not ready to retire, you can decide what role you want to play in the company, and for how long.
- You and the other stockholders will receive the full appraised value of your shares, payable in one lump sum or over time—your choice. If you sell at least 30% of the shares, you may be eligible to defer taxes on your capital gains.

To political LEADERS and economic-development OFFICIALS

Imagine that many of the businesses in your state or district are largely owned by their employees:

- Your local economy will be more vibrant and deliver higher productivity (see page 14).
- The wealth created will be shared more widely, leading to more broadly based prosperity.
- The employee-owned companies will be less likely to move away, and their employees will be less likely than others to be laid off during a recession.
- As a leader, you will have the opportunity to champion an economic program that enjoys broad bipartisan support.

NOTE: Most of these statements refer to companies with employee stock ownership plans (ESOPs). For more on the research, see page 14.

A Powerful Everyday Reality

Many companies find ways to provide their employees with stock in the business. Some include shares or options in an employee's compensation. Others let employees buy stock at a discount.

But in the United States, the most common form of employee ownership by far is an employee stock ownership plan, or ESOP. It's a kind of trust that enables workers as a group to own part or all of the business. You'll learn how an ESOP works later in this booklet.

Right now, close to 7,000 U.S. companies have an ESOP. These companies employ about 11 million people—roughly 9% of private-sector workers. Estimates indicate that employees own all the stock in about 2,000 of these companies.

You probably encounter employee ownership companies every day, often without knowing it. Maybe you shop at Publix supermarkets (see page 15) or Wawa convenience stores, or wear outdoor gear waterproofed with Gore-Tex fabric. Perhaps you enjoy a Fat Tire or a Harpoon beer, snack on a Clif Bar, and bake with King Arthur Flour or Bob's Red Mill products.

If you've ever worked in heavy construction or civil engineering, you're probably familiar with big companies like Parsons, Burns & McDonnell, and Black & Veatch. Manufacturers will likely recognize enterprises such as Amsted Industries, SRC Holdings, Hypertherm (page 19), and Web Industries (page 23). Employee ownership companies all.

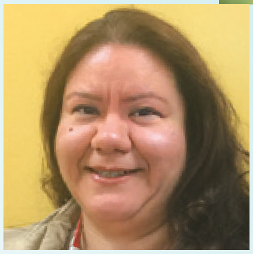
A few of these companies are huge. Publix, for instance, has nearly 200,000 employees. Some are small, with only a couple dozen people on the payroll. Most are in the midsize range, with anywhere from 25 to a few thousand employees.

The U.S. Congress created ESOPs back in the 1970s specifically to encourage employee ownership, and they're pretty amazing.

When a company owner sells to an ESOP, the sellers get full value for their stock, and employees as a group get an ownership stake in the company. Eventually employees may come to own all its stock. Yet it doesn't cost them a nickel. (We'll explain how it works on pages 16–17.)

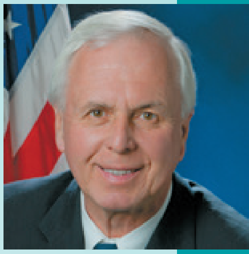
"Employee ownership is a great way to look after my future and to feel the rewards of my hard work. All the hours you put in are returned back, and that's rewarding. You certainly focus your attention on each individual task more. You pour more of yourself into what you are doing."

Mike Perri
Operations Manager
The Davey Tree Expert Co.



"At Web, the most powerful driver of improvement and growth is broad-based, cross-functional involvement in day-to-day decisions. This engagement is not only encouraged, but expected from all employee owners, and helps foster a dedicated, empowered, united team."

Veronica Ortiz
IT Business Analyst &
ERP Project Manager
Web Industries, Inc.



"Employee ownership benefits employees, businesses, and the economy. ESOPs provide retirement savings and stock ownership for employees as well as being a financing method for businesses. They are proven to increase employment, productivity, wages, and sales."

Stewart J. Greenleaf
State Senator, Pennsylvania

"I am a single mother of two beautiful girls, and being an owner at Recology has given me the tools I need to make them successful in life. Being an ESOP company is more like being one family, and that's because everyone cares."

Ayanna Banks
Sorter, Recology
(San Francisco)

"I'd always heard that ESOPs help create employee involvement so I thought this could be a win-win—they help us succeed and we share the company with them. It's a pretty good way for the people who work for you to make some real money."

John Muncaster
CEO and Former Owner
Polyguard

HOW IT WORKS at Polyguard

The question is simple but puzzling. How has a North Texas manufacturer been able to grow for 24 consecutive years (as of the end of 2016), straight through two major recessions, with so much additional growth on the horizon that it recently moved into a new 400,000-square-foot facility, effectively tripling its capacity?

Company president Shawn Eastham pauses before he answers. "I really believe the secret is employee engagement, and the fact we are an ESOP company. There's lower turnover, a better attitude, a better work ethic. It's people making sure the quality is good, going the extra mile for the customer."

Platitudes from the guy in the corner office, you might think. But then you start talking to shop-floor employees.

"People work very hard and very fast," says José Juan Alvarado, 30 years with Polyguard.

"People in one area, if they're caught up, will help in another area without being told to do it," adds Johnny Tobias, another veteran.

The ESOP "kind of ensures that everybody doing their job is doing it at 110 percent," puts in Gary Henley, ten years with the company.

Hard work and a positive attitude aren't the whole answer, of course. Polyguard's astonishing track record can also be traced to its broad and diverse customer base, with three divisions selling into different markets in 31 countries. "When our pipeline division's business is down because the price of oil has plunged, commercial construction is usually up," says Eastham. "The divisions support each other."

The company also capitalizes on innovation after innovation, with employee-owners developing many of the products it sells. A customer needs a butyl-based product to coat LNG pipelines, which operate at very cold temperatures? Polyguard promptly comes up with one—and then proceeds to use the new technology in other divisions to serve different industries.

Polyguard
Innovation based. Employee owned. Expect more.

Products: Membranes and other materials that act as barriers against moisture, corrosion, and other contaminants.
Headquarters: Ennis, Texas | **Employees (2017):** 125 | **Revenues:** Approximately $50 million
Ownership: 100% ESOP | **Stock value increase, 1996–2006:** 5X | **Stock value increase, 2006–2016:** 4X


Company president Shawn Eastham (left) and Polyguard employee José Juan Alvarado

Polyguard's facility in Corsicana, Texas

For the employees, Polyguard's success has meant a steadily rising stock value and an opportunity for a comfortable retirement. Alvarado, for example, already has several hundred thousand dollars' worth of stock in his account. A couple of other employees have more than $1 million.

In the meantime, they have a job that's both rewarding and engaging. Polyguard shares financial data with its workers and continually finds other ways to build the community of employee-owners. That promotes what might be called an ownership mindset. Here's how Nancy Prewitt, a technical support specialist, puts it:

Working for an employee-owned company makes you take more pride in your work. You look out for the overall benefit of the company because you know that if you do your part, it will ultimately help sell that project and bring in the sales dollars that increase the overall worth of the company.

How much is engagement worth? It's tough to put a price on attitudes like that.

Hear from Polyguard employee-owners at **tinyurl.com/iampolyguard**.

Nancy Prewitt shaves CEO John Muncaster's head.

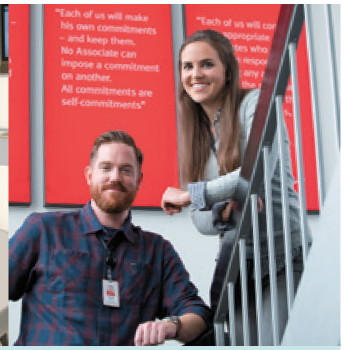
Fun and Family at Polyguard

"I am Polyguard. A Polyguard owner," says Corey Piper on a video the company posts on its website. "We're the Polyguard family."

Family is a word you hear often around the company. That's partly because of the joint ownership, and partly because it's a group of people that likes to have fun together. Like the time they filled CEO John Muncaster's office with hundreds of black gas-filled balloons, videotaped Muncaster as he popped them, and then shared the video via YouTube with the entire company. Polyguard sponsors an annual trip to a Texas Rangers baseball game (employees can bring their immediate families at no charge); shuts down for a team-building event on what's known as Polyguard Day (people go bowling); and on that same day, hands out incentive awards like cash and big-screen smart TVs to hourly employees who meet their annual targets. In one recent month, Polyguard broke its own sales records—so everyone got an extra day of paid time off. It's company policy.

Sometimes the fun has a serious purpose. When tech support specialist Nancy Prewitt was being treated for cancer, she lost her hair. So a group calling itself Team Nancy got together and had their heads shaved. (In the photo, Prewitt herself is shaving CEO John Muncaster's head.) Employees who donated money got the opportunity to smack managers in the face with pies.

...and at Many Other Businesses



The Innovation Engine

More than $3 billion in annual revenue. Some 10,000 associates worldwide. Manufacturing facilities in the United States and four other countries. One of a very few companies that have made *Fortune's* "100 Best Companies to Work For" every year since the list began.

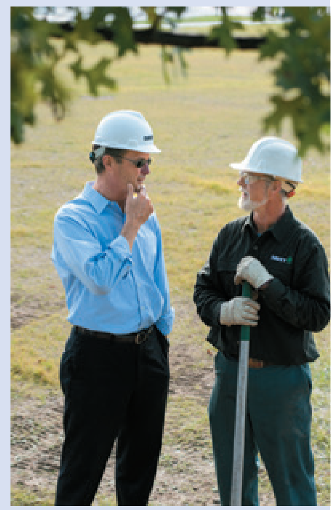
W. L. Gore & Associates, owned by the people who work there, could be a poster child for a lot of things, but innovation is surely among them. Beginning in 1958 with a new product for insulating wire and cable, Gore has steadily expanded its product line to include waterproof, windproof, and breathable GORE-TEX® fabrics and footwear, Elixir guitar strings, and a wide range of high-tech products, from turbine filters to specialized medical devices. Little wonder that *Fast Company* magazine once dubbed Gore "the most innovative company in America."

Is there a connection with employee ownership? Almost certainly. "We want our company to grow and thrive, and we challenge ourselves and others to make choices every day that will contribute toward our long-term success," says Mike Vonesh, enterprise innovation leader at the company.

A Retired CEO Reflects

The Davey Tree Expert Company traces its history back to the 1880s, when founder John Davey became the town "tree man" for Kent, Ohio. By that standard, Karl Warnke is a Johnny-come-lately: he worked at the company since 1980, including the last 18 years as president or CEO.

But Warnke made quite a difference: By the time he retired in 2017, he had led the company's growth from about $300 million in revenue in 1999 to more than $900 million projected for 2017. The company added some 3,200 employees during this period and now has about 9,000 people on the payroll.



Karl Warnke (left), former CEO and current chairman of Davey, talks with an employee-owner.

Davey has offered stock to its employees through an ESOP and other plans since 1979, and is now majority owned by current and former workers. "I think it's a competitive advantage to be employee-owned," says Warnke. "When you actually have someone with physical financial equity in a company, I think they are more conscientious about the decisions they make because what they are doing is affecting their peers—and their peers are shareholders too."

GORE
Creative Technologies Worldwide

DAVEY®
Proven Solutions for a Growing World

Flying High

By the time you read this, Kapco Global will probably be doing business under a different name—Proponent—reflecting a growing worldwide organization and a focus on partnership with customers. No surprise there: the company that began in 1972 as a small aircraft parts distributor has continually expanded its parts portfolio and market coverage through 10 acquisitions. Today its 550 employees supply airlines, maintenance and repair facilities, and resellers with nearly everything they need to help keep aircraft in flight. The company spans most of the globe, with offices in five U.S. states and nine countries. It became 100% employee-owned in 2002 and since that time has grown an average of 14% in revenue and nearly 11% in share price every year.

The financial growth and job stability have been a "rich benefit for all our employee-owners," says spokeswoman Desiree Garcia, "and especially for those who have remained with the company for long periods of time." Excluding people who joined the company in its two most recent acquisitions, average employee tenure is close to 12 years. With growth like that, who wouldn't want to stick around?

Kapco Global

A proponent Company

PHOTO BY STEPHANIE KEITH

Changing the Game

Home health aides are often overworked and underpaid, and they rarely get much opportunity for training or advancement. An employee-owned New York City company known as Cooperative Home Care Associates is trying to change that.

CHCA isn't an ESOP company—instead, it's owned by about 900 of its 2,000-plus employees through a co-op structure. Eligible employees can become co-op members by buying a $1,000 share, usually financed through a payroll deduction. Members elect a majority of the board of directors and receive a share of the company's dividends in profitable years.

Like most home health agencies in New York State, CHCA pays union-scale wages and benefits. But it also provides a 401(k) plan, a free four-week training class for people hoping to become home health aides, mentoring for new employees, and a guaranteed-hours program that assures eligible workers of 30 hours' worth of wages every week.

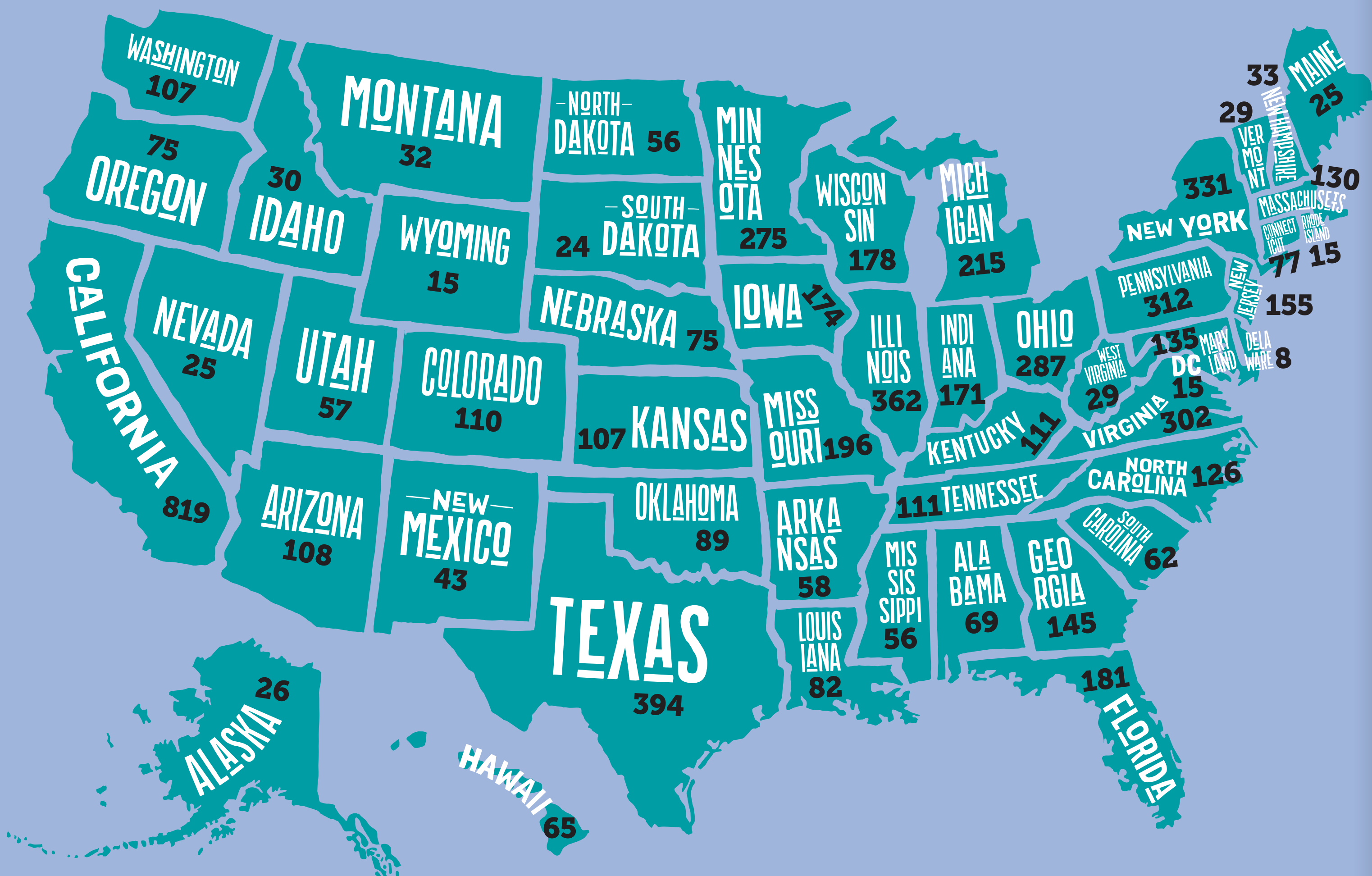
Founded in 1985, CHCA now has revenues in the neighborhood of $65 million. The company's slogan: "Committed to delivering quality care by creating quality jobs."

CHCA

Cooperative Home Care Associates

IN FACT,

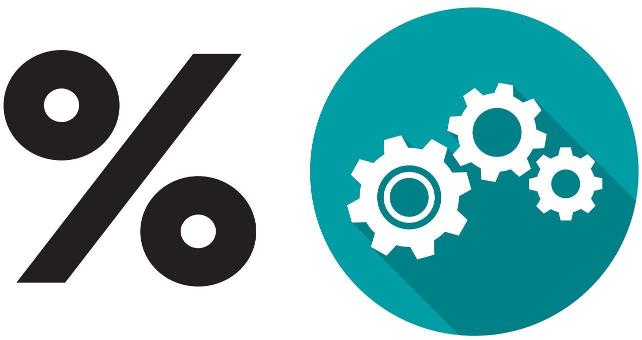
Employee-Owned Companies Are



...EVERYWHERE!

Map shows the number of ESOPs in each state. For more information on each one, see the interactive maps at www.esopinfo.org/maps/.
(Source: US Department of Labor data.)

…AND IN EVERY INDUSTRY, with a concentration in manufacturing, professional and financial services, and construction.



Percentage of all ESOPs by Industry

22.4	Manufacturing
17.6	Professional/Scientific/Technical services
17.2	Finance/Insurance/Real estate
10.7	Construction
9.3	Wholesale trade
5.8	Retail trade
3.1	Agriculture/Mining/Utilities
2.8	Management
2.3	Services
2.2	Health care
2.1	Waste management
2.0	Transportation
1.7	Information/Technology
0.6	Other

The ESOPs of Huntsville

Huntsville, Alabama—home to the US Army's Redstone Arsenal, NASA's Marshall Space Flight Center, and other government facilities—has long been a center of the defense industry. In a smaller way, it's also a center for ESOPs. Several of the area's defense contractors have set up the plans, and many of these are now 100% owned by their employees.

Case in point: Torch Technologies, an aerospace and defense contractor with more than 800 employee-owners and about $300 million in annual revenue. Cofounders Bill Roark and Don Holder had been executives for another defense company, and when that business was acquired they found themselves unable to meet their commitments to employees.

So when they started their own company, they vowed, things would be different. "We would become an employee-owned company, share equity with the employees and eventually buy ourselves out, and prevent a similar situation from happening again," says Roark, Torch's CEO. "Our employees would have better control of their destinies."

Employee ownership created the foundation for a successful company, says Roark. Torch has grown annual revenue approximately 40 percent per year since its founding in 2002 while maintaining its focus on employee-owners and customers. Torch is also a good corporate citizen: Torch Helps is a charity established, managed, and wholly funded by Torch's employee-owners, with the primary purpose of granting funds to other community charities.

Torch Technologies
CEO Bill Roark

Where Did They All Come From?

The Story of Employee Ownership, American-Style

For much of American history, employee-owned companies were rare. Countries such as Italy and Spain had a tradition of worker cooperatives, but co-ops never really caught on here. Nearly all of our businesses were owned by their founders, their founders' families, or other investors.

A lawyer and economist named Louis O. Kelso set out to change that situation.

Kelso grew up in Colorado, during the Great Depression. He was dismayed by the fact that stock ownership—capital—was concentrated among the wealthy, and that most Americans had nothing to sell except their labor. Kelso had a way with words, and he described the situation this way:

> *The Roman arena was technically a level playing field. But on one side were the lions with all the weapons, and on the other the Christians with all the blood. That's not a level playing field. That's a slaughter. And so is putting people into the economy without equipping them with capital, while equipping a tiny handful of people with hundreds and thousands of times more than they can use.*

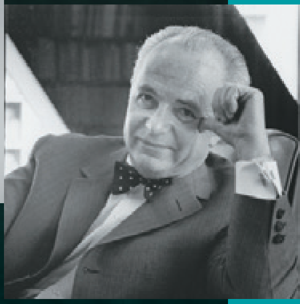
Kelso was no socialist—he was a capitalist through and through. He just saw that free enterprise would work better if more people owned stock. They would then have two sources of income, from working and from ownership. They would have more of a stake in the system.

So he came up with a variety of ideas for encouraging wide distribution of stock. He wrote books. He gave speeches and interviews. He lobbied politicians. But Kelso wasn't just a thinker; he was also a doer. He created a way for employees to buy a company at no cost to themselves—a form of leveraged buyout, much like today's ESOPs—and helped companies implement several such plans.

It was slow going, however. Since there was no law to govern Kelso's plans, company owners, lawyers, and potential lenders were skeptical. Some even thought the plans might be illegal.

One night over dinner, Kelso explained the idea to Russell Long, a powerful senator from Louisiana. Unlike a lot of the politicians Kelso spoke to, Long was interested. Employee ownership of the sort that Kelso was proposing, he believed, could make "the have-nots into haves without taking anything away from the haves." He inserted provisions relating to ESOPs in the Employee Retirement Income Security Act, or ERISA, which was passed by Congress in 1974. Later he helped persuade lawmakers to provide tax incentives for setting up ESOPs.

Russell Long



Louis Kelso

Since that time, Congress has passed (and sometimes removed) other measures supporting ESOPs. Many lawyers, bankers, and business advisors have become familiar with them, and now are able to provide companies considering an ESOP with expert advice. Both of those factors have contributed to the idea's remarkable spread.

Kelso died in 1991, but he would be happy to see how his intellectual offspring have proliferated.

EMPLOYEE OWNERSHIP...

A National Treasure

America's economy depends on prosperous businesses—companies that grow and make money, and that provide good jobs for their employees. Research studies have found clear evidence that when an ESOP or other broad-based employee ownership is accompanied by an active program to engage employees in work-level decisions, the results can be remarkable: stronger companies, more stable enterprises rooted in local communities, and fewer layoffs. All of this puts more money in workers' pockets and in the surrounding community, both immediately and when employees retire. Here's what the research shows:

✓ STRONGER companies

- ESOPs have been found to boost sales and employment by more than 2% a year compared to similar companies without ESOPs.
- At least two studies comparing companies before and after the adoption of an ESOP found faster employment growth afterward—particularly among firms that had more employee participation in decision making.
- Other studies have found productivity increases of up to 4–5%, on average, in the year an ESOP is adopted.

✓ More STABLE jobs

- A study tracking the entire population of ESOP companies over ten years found that privately held ESOP companies were only half as likely as non-ESOP firms to go bankrupt or close, and only three-fifths as likely to disappear for any reason.
- Nationally representative surveys consistently show employee-owners less likely to report being laid off in the previous year. In 2014, the layoff figure was 9.5% for all working adults compared to 1.3% for employee-owners.

Data on this page reflects research by academics, nonprofit organizations, and think tanks. More findings, other topics, and full citations are available at www.nceo.org/r/research. See also "ESOPs by the Numbers" at www.nceo.org/r/esopnumbers

✓ More PROSPEROUS employees

- The benefits of employee ownership largely come in addition to comparable or higher wages. One study found employee-owners earning between 5% and 12% more in median wages compared to employees in matching non-ESOP companies. Employee-owners typically enjoy better benefits, including job training.
- The same study found that ESOP participants have 2.2 times as much in retirement plans and 20% more financial assets overall than employees of the comparison group of non-ESOP companies.

✓ A REVITALIZED middle class

A new survey, which looked at workers' economic circumstances over time, compared people age 28 to 34 with employee ownership to their peers without. The study found that those with employee ownership enjoyed:

- 92% higher median household wealth
- 33% higher income from wages
- 53% longer median job tenure

These findings extend across demographic groups, including non–college educated workers and families. For example, households with young children with employee ownership have nearly twice as much household net worth as those without.

Creating Good Jobs: **The Publix Story**

In 2016, *Fortune* magazine sent a reporter to Florida to work in a Publix Super Market for a week. The magazine wanted to learn the secrets of a company that was one of its "legends"—businesses that showed up on "100 Best Companies to Work For" every year since the list began.

One secret, discovered reporter Christopher Tkaczyk, was happy employees. "Or more accurately: pleased-as-punch, over-the-moon, ridiculously contented" employees. There had never been a layoff. People told the reporter things like, "I love working for Publix!"

And why not? Wages are competitive, benefits great. After a year of employment, every worker who puts in at least 1,000 hours gets a stock allotment, which for the past several years has come to 8.5% of pay. Employees receive regular feedback and are eligible for annual raises. The company has a strong culture of promoting from within—nearly all of its managers started as entry-level associates.

Like a lot of great companies, Publix traces its employee-and-customer-centered culture to the values of its founder, a man named George Jenkins. "Mr. George" knew the importance of ownership: starting his first store during the Great Depression, he made a point of giving each employee a $2 weekly raise so that they could buy shares. That philosophy continued with a profit sharing plan (begun in 1951) and an ESOP (1974). The plans were merged in 1999.

In addition to its regular appearances on "100 Best Companies to Work For," Publix has also made *Fortune's* "Most Admired Companies" list every year since 1994. Mr. George would be proud.

ESOP Nuts and Bolts

An ESOP enables employees to own part or all of the company they work for. Individual employees accumulate shares in their retirement accounts over time, and they cash in those shares when they retire or leave. Yet the stock they own never costs them a nickel. To see how this works, let's imagine that Pat, a company owner, decides to sell shares to an ESOP.

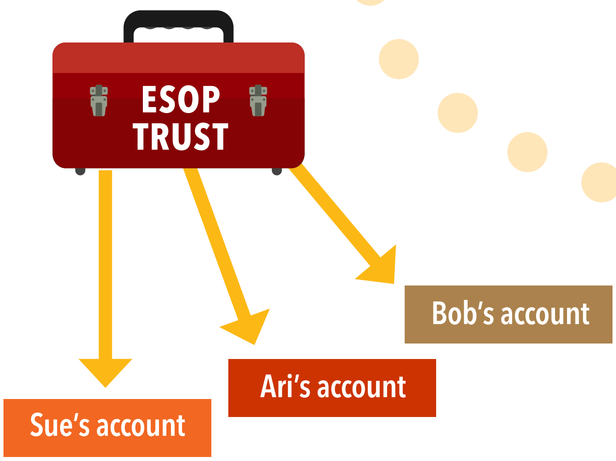
1

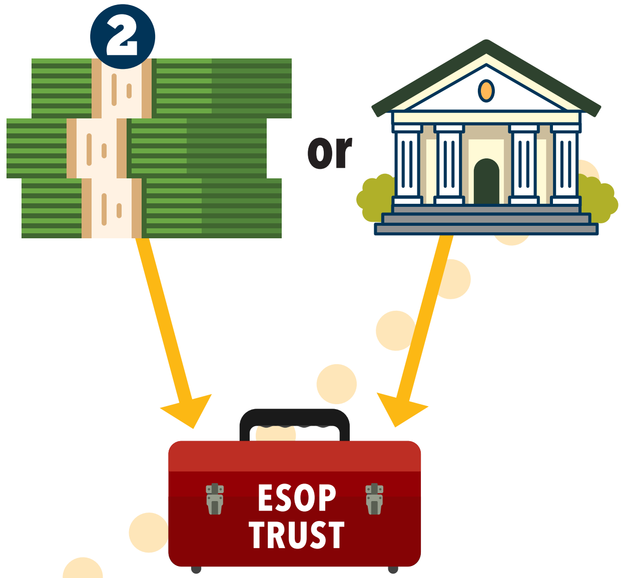
The first step is to set up an ESOP trust. The trust is a legal entity that will hold shares of stock on behalf of the employees. It is governed by many of the same rules as 401(k) plans, but it is funded entirely by the company.

4

Then the trust begins allocating shares to the retirement accounts of employees. In a leveraged ESOP—the kind with borrowed money—it allocates the shares as it pays back the loan. By law, shares must be distributed according to relative pay or by some formula that results in a more equal distribution.

See what happened? The employees' accounts now have stock, and they are the owners—without having made any cash outlay.



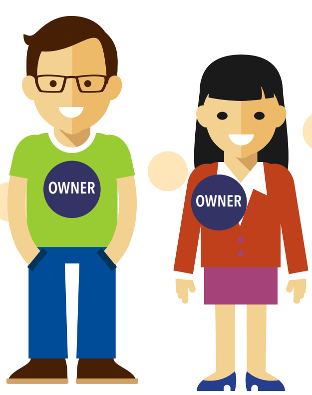


Next, the company contributes money to the trust, or else the trust borrows money from a bank, the seller, or both. If it borrows the money, as is common, the arrangement is called a leveraged ESOP.

Using that money, the trust buys some or all of the company's shares from the owner or owners (Pat in this case). The price of the shares is determined by an independent appraiser.

5

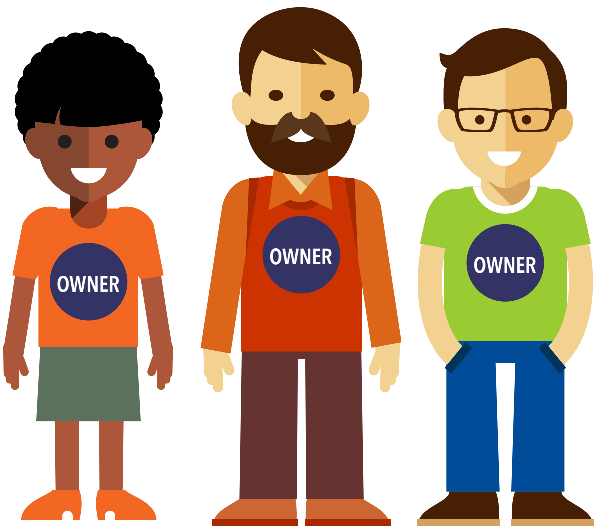
When employees leave the company, they are cashed out. The ESOP provides them with a significant retirement benefit. Beyond individual employees, the ESOP protects jobs by providing ownership continuity and keeping the company as a going concern.



And Pat not only found a buyer for her business while keeping it going, but she can keep working there and ease out in stages if that's the right thing for her and the company.

For **EMPLOYEES**

What It Means to Be an Owner



If you have some stock in Apple or General Electric, you're legally an owner of the company. But you don't have the usual rights associated with business ownership. You can't tell anyone who works there what to do. You can't even walk into one of their facilities without an invitation. All you can do is vote for the board of directors, receive dividends (if there are any), and sell your stock if you choose to do so.

Ownership through an ESOP is a little different. ESOP participants may or may not have a say in electing the company's board of directors. (Usually they do not.) They can receive dividends, but they can't sell their shares until they retire or leave the company—and even then, they have to sell them back to the company. Of course, they still can't tell anybody else what to do just by virtue of being an owner.

But there's one major difference between employee ownership and other kinds of ownership.

If a company is owned in the usual way, by the founding investors or by absentee stockholders, the board and management are accountable to those owners. They have to make big decisions with investors' interests in mind. If laying people off or holding down wages will produce higher profits, they have to give those options serious consideration.

At a company that's substantially or wholly owned by an ESOP, the board and management face different incentives. To be sure, they always have to do whatever they believe will assure a healthy, profitable business. But a layoff, for example, is likely to be the last resort rather than the first. And before they close a branch or move production overseas, they may explore other possibilities, like developing new products. They are also much more likely to create a culture of ownership, enabling employees to learn about the business and make more of the everyday decisions that determine how the work is done.

> *"The business world we live in is not only changing but changing at a rapid pace, and we all need all the resources we can bring to bear to meet this challenge. At Web, we do not have only our corporate or site leadership teams to deal with this challenge—we have all 500 employee-owners to deal with this. 'All of us is greater than one of us.'"*
>
> Bill Holt, Web Industries

Hypertherm's Ownership Culture

What is it like to work at a company like Hypertherm, a New Hampshire–based manufacturer of industrial cutting equipment that is 100% owned by its associates?

"I came originally for the benefits," says Steve Bly, a level-3 machine operator. No surprise there: the benefits include on-site wellness centers, medical/dental/vision insurance (80% paid by the company), and a subsidized cafeteria. Oh, and profit sharing, which in a good year adds maybe 20% to everyone's pay.

Then there's the no-layoff philosophy. "We've weathered 49 years now and we've never had a single layoff due to a slow economy," says Melanie Matulonis, a marketing communications specialist. During the financial crisis, associates mowed lawns, helped to move equipment, or filled in where they were needed—and continued to draw full pay.

And what about the training? "I ended up getting into the machine operator program for HTTI [Hypertherm Technical Training Institute] and I did really well at it. I was really surprised because I had no manufacturing experience," says Courtney Duquette, a level-2 machine operator.

Dan Naranjo, a tax accountant at the company, likes the egalitarian atmosphere—no private offices, even for top executives—and the fact that everybody pitches in. "When things go wrong we try to work together. Nobody says it's not my problem, or it's not my job. I've never heard any of those words here."

Let's not forget the ESOP itself. Associates say it offers the prospect of a more comfortable and secure retirement.

But there's another side to this story. Associates aren't just enjoying somebody else's gravy train. They're owners. And they're expected to think and act like owners.

That might mean learning to understand numbers like EBIT, or earnings before interest and taxes, and then making sure you hit the targets that produce a rising EBIT. "We have a certain number that we strive for every month," explains Matulonis. That information is "all shared with everybody."

Or it might mean watching your hours, so as not to raise costs unnecessarily. Duquette realized she was working a lot of overtime to fulfill her role as a quality champion. "So I actually rearranged my schedule to make it so that I don't have to work OT," she explains. "Yes, putting it in my pocket, that's great, but in the long run that's not helping everybody."

And it certainly means taking part in the companywide program known as CIA, or continuous improvement activity. Everyone who sees a way of lowering costs, improving safety or productivity, or better satisfying a customer fills out an electronic form and takes the idea to a team meeting. The company gets between 100 and 150 such ideas every month, says Matulonis, and tracks every one to ensure that it is appropriately followed up.

Hypertherm doesn't disclose its exact revenue, but executives say that the figure is between $250 million and $500 million. The company has 1,400 associates, three offices in the United States and seven in other countries. Growth has been steady—and will continue to be, if the owners have anything to say about it.

Hypertherm®

For Company **OWNERS**

Selling Your Business to an ESOP

Every business, writes Bo Burlingham in his book *Finish Big,* will eventually be sold. Or else it will close its doors. There's no middle ground.

Granted, maybe it can be passed along from parent to child, even to grandchildren. But it's the rare family business that survives more than a generation or two. Eventually the people in some generation will want to sell it.

So what are your options? You can sell to one or two people who work in the business now, provided they can raise the money. You can sell to a strategic buyer—another company or a private equity firm. The price may be appealing, but there's no telling what those buyers will do with the business once they own it.

Or you can sell to an ESOP. You may receive a little less than you would from a strategic buyer, but you may also be eligible for tax advantages. So the financial side can be a wash.

If you do sell to an ESOP, you can decide to stay on for a while, just to make sure that the company does well through the transition or to keep working at tasks you enjoy. And when you do retire, you will know that you have left your company in the hands of the people who helped it to grow. You will know that it is likely to thrive, and that the people in charge will build on what you created.

To use Burlingham's language, you will have finished big.

An ESOP's Tax Advantages

If your company is a C corporation and you sell at least 30% of your shares to an ESOP, you may be eligible for deferral of capital gains taxes. The tax code requires that you invest the proceeds in the securities of US companies. If you then pass these investments on to your heirs, the tax liability disappears. Tax experts call this a "1042 rollover."

If your company is an S corporation, you aren't eligible for the rollover. However, an S corporation that is partly owned by an ESOP pays no corporate income taxes on the corresponding proportion of its income. If it is wholly owned by an ESOP, it pays no corporate income taxes at all.

Q&A: The Decision to Sell

Sue Butler and Tracy Till started Butler/Till, a media and communications agency in Rochester, N.Y., back in 1998. The company grew steadily, even through the financial crisis. Then one day Butler asked Till what her retirement plans were.

Q. What was your reaction?

Tracy Till: I kind of looked at her. Holy cow, you're really serious! I said, I'm going to retire when you retire. We talked about the options—private sale, strategic partnership with another agency. Then our CFO brought the concept of ESOPs to us. Knowing who we were, what our culture was like, she knew in her heart this would feel best for Sue and me, and she was right. We started to get smart about ESOPs, meeting with professionals, talking to people. We wanted to make a smart decision.

Q. So you decided on the ESOP. How did it play out?

Sue Butler: We went through that due diligence process and sold 51% to the ESOP trust in 2011. We leveraged it with a seven-year loan. We anticipated paying it off in five years, then we would sell the remaining 49% and start our exit. But the company did so well we paid it off in three years.

Q. Who took over management of the company?

Sue Butler: We already knew who our successors would be. We had shared it all with them: this is our plan. We made sure we were all on the same page, had the same vision, and we started to actively groom them to take over the business. From 2011 to 2014 they took the reins of the company and were doing a great job. By 2014 the loan was paid off. We did the second transaction in the spring, and finished our transitioning out at end of the year. Now we serve as chair and vice chair of the board. We also have a consulting agreement; we do special products, coaching and mentoring. It's a wonderful way to remain involved and contribute to the company.

Q. Why was the ESOP the right choice for you?

Tracy Till: The agency is a very service oriented place. We took a great deal of pride in that; we nurtured it day in and out. And we've always been inclusive, asking people in the agency to help us craft the culture. We have a health and wellness group, a charity committee, a fun committee. This is an organization that we want to be the most remarkable agency in the country. We respect the fact that we're all individuals here who have a voice, an interest. If you're happy and fulfilled here at work where you spend the majority of your time, you're going to be a long-term employee who helps us grow this business.

Sue Butler

Tracy Till

butler/till

For public **OFFICIALS**

How to Encourage Employee Ownership

Greater employee ownership makes for a more vibrant, stable, and equitable economy. So it's in the interest of states, cities, and the nation as a whole to promote the idea. Political leaders and economic-development officials can take a number of steps:

Education and communication. Read up on employee ownership (see inside back cover). Locate the prominent employee-owned companies in your area. (For guidance, see the NCEO's interactive map at tinyurl.com/esopmap.) Make a point of visiting them and learning about what they do. Let the local press know of your interest. Most ESOPs come into existence when a company owner decides to sell to his or her employees. Work with local chambers of commerce and other organizations to get the word out.

Sponsor or support a state center for employee ownership. Ohio, Vermont, Pennsylvania, Colorado, and California have organizations that act as research and advocacy centers for the idea, and other state centers are in development. The Ohio Employee Ownership Center, which is part of Kent State University, is the oldest of these. It offers a variety of educational programs, an annual conference, peer networking, a succession planning program, and extensive research and publications.

Support national ESOP-friendly legislation. ESOPs have long enjoyed bipartisan support in Congress, as evidenced by the supportive tax policies. But there is more the federal government could do to further the idea, such as creating an Office of Employee Ownership within the Commerce Department. At any given moment there are usually one or two ESOP-related bills making their way through congressional committees. Find out what they are and get in touch with your representatives or senators.

Did You Know?

68% of Americans support the concept of companies being owned by their employees

58% of Americans would support legislation that makes it easier for employees to own a part of the business where they work

Source: Public Policy Polling June 2016 (853 registered voters)

A Company Reinvents Itself

In the early 2000s, says Web Industries CEO Don Romine, "we were a company struggling to figure out how to grow."

The business Web was in—processing big rolls of flexible material for industrial customers—was a low-margin enterprise. Customers came and went. If Web had been owned by outside investors, Romine might have come under pressure to milk it for short-term profits. Why invest in a dead-end business model?

But Web had long been owned by its employees, which meant that Romine and his team had a different set of goals: build a business that could thrive in the 21st century, providing good jobs and financial rewards for the people on the payroll.

So Web Industries set out on a new journey. It began targeting specific vertical markets: wire and cable, aerospace, healthcare, and consumer health and hygiene. It retrained many of its employees, sending some to programs at local community colleges. It beefed up its technical capabilities, increasing its engineering staff over time from four to 90, and it revamped its sales approach, asking big customers such as Boeing what they needed and tailoring its capabilities accordingly. Through all of this change, Web emphasized employee engagement, from implementing hundreds of small ideas on the factory floor to developing and executing market strategy.

The result: a company that now partners with world-class enterprises, performing complex, high-value work that they can't easily find elsewhere. "Before," says Romine, "we had about 400 people doing $56 million in revenue. Today we have about 530 people and $190 million." Those numbers translate into generous profit sharing and a healthy share price, which has risen at double-digit annual rates in the last decade. It isn't unusual in recent years for employees to discover that their annual capital gains on stock exceed their wage or salary income.

The key issue for Web right now? Company president Mark Pihl chuckles at the question. "We're growing so fast, it's become our biggest challenge. That's why we are investing so much in organizational development and fostering a high performance, high engagement culture." A nice kind of problem to have.

webindustries
a 100% employee owned company

ESOP FAQs

Why would anybody sell to an ESOP?

Some sellers want to retire and have decided that an ESOP is better for the company and its employees than a sale to somebody else. Owners get a fair price, and the company can use pretax profits to buy them out. Other owners set up ESOPs before they retire. One reason may be financial—ESOPs can borrow money at lower rates than a company can. Or management might decide that an ESOP provides a great retirement plan for employees and an incentive for those employees to think and act like owners.

Does an ESOP buyout mean the company is in trouble?

Even though you sometimes hear that a troubled or bankrupt company is trying to get back on its feet using an ESOP, that kind of thing happens very rarely. Roughly 99% of all ESOPs are implemented by healthy companies.

Who runs the ESOP trust?

The company's board of directors appoints the trustee. Trustees can be outside professionals or insiders, but should not be anybody who sold shares to the ESOP. Trustees ensure that the ESOP pays a fair price for its stock, and that the plan is operated for the benefit of employees. They usually vote the shares owned by the ESOP. (Companies may allow employees to direct the trustee, but they do not have to.) There is very rarely a need for trustees to get involved in operational issues.

What if the business goes downhill?

Employee ownership typically helps a company perform better, but it's no guarantee of success. ESOP companies that hit a slump sometimes find that they must close a plant or even lay people off, though that is almost always their last choice rather than their first. Still, all business is risky. Whatever their ownership, some companies will fail. Fortunately, just two ESOPs in 1,000 default on their loans every year. To protect workers, most ESOP companies offer a 401(k) retirement account, which gives people a chance to buy other investments. Also, the law requires companies to let ESOP participants diversify their investments as they approach retirement age.

Does "going ESOP" automatically create the kind of company described in this booklet?

No. An ESOP by itself changes nothing but a company's ownership. The real change comes when and if a company decides to treat its employees like the owners they are. That means helping everyone understand their rights, their responsibilities, and how the business operates. It usually means asking people to take initiative to improve the company's performance (see pages 18–19). Many ESOP companies reward their employee-owners not just with stock, but with higher wages, good benefits, and add-ons such as profit sharing.

How can we encourage more companies to set up ESOPs?

Many business owners and their advisors don't know what ESOPs are, or else what they think they know is wrong. Public officials are often uninformed about ESOPs, too. So spread the word! If you're an employee-owner, talk to your friends and your elected officials about it. If you run an ESOP company, tell your fellow entrepreneurs and executives. ESOPs are often a great solution for people who are looking to retire—and for people who want their employees to think and act like owners.

About the NCEO

The National Center for Employee Ownership (NCEO) is a nonprofit membership organization established in 1981 to provide practical resources and objective, reliable information about employee ownership to businesses, employees, and the public. We have more than 3,000 members, from companies and the professional advisors who assist them to academics, government officials, and others.

The NCEO holds meetings, such as our annual conference (with 1,700-plus attendees); conducts weekly webinars; is the main publisher in the field, with more than 60 publications; conducts employee surveys and compiles and distributes data on ESOP companies; and provides speaking and introductory consulting services. Our work also includes assistance to academics and extensive contacts with the media, both through interviews and through writing articles.

The NCEO also works to study and publicize employee ownership in other ways, from assisting in the creation of state-level employee ownership centers to a project funded by the W.K. Kellogg Foundation researching the impact of employee ownership on workers (see www.ownershipeconomy.org). As part of our commitment to provide objective information, we do not lobby or provide ongoing consulting services. We are qualified as a 501(c)(3) charitable nonprofit.

NCEO members can contact us whenever they have questions. They also receive our detailed bimonthly newsletter, free access to our live webinars, discounts on everything from publications to conference registrations, and access to a members-only website. For both members and nonmembers, our site at www.nceo.org plus our www.esopinfo.org companion site provide a wealth of information.

NCEO

For More Information About Employee Ownership

Discover more employee ownership resources for business, employees, and policymakers at **www.nceo.org** and **www.esopinfo.org**, and see **www.nceo.org/r/resources** for selected resources for readers of this publication.

How to Get This Publication

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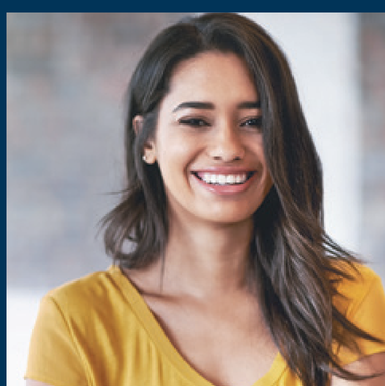
Employee Ownership

BUILDING A BETTER AMERICAN ECONOMY



The hard work and innovation of employees in companies that become employee-owned translate into real-world benefits for owners, employees, companies, and communities.

National Center for Employee Ownership | 1629 Telegraph Ave., Suite 200 | Oakland, CA 94612 | (510) 208-1300 | www.nceo.org