ESI Enterprise Services, Inc.

Beyond the Numbers

www.esi-enterprise.com

2010, Issue 2

ESOP advocacy in action.

ESI's Scott Miller (far left) and Sandy Paavola (5th from left), along with employee owners and industry professionals, visit Senator Herb Kohl (D-WI).

As an organization, ESI regularly urges ESOP advocacy, believing that recognition and support for ESOPs is best accomplished by ESOP owners or those that work with ESOPs.

To lend support for this cause, during the national TEA Annual Conference in Washington, DC this year, ESI principals Sandy Paavola and Scott Miller visited Capitol Hill, where they, along with other industry professionals and employee owners, met with members of congress and their staff. An Officer of the local TEA chaper, Sandy was instrumental in organizing these congressional visits to promote ESOPs.

During a total of four visits - two senators and two house members - Sandy and Scott, along with those in attendance worked to:

educate about ESOPs and the benefits of employee ownership;
discuss the current pro-ESOP legislation that encourages the creation of ESOPs;
strengthen the relationship and rapport with congressional leaders, so that they know us and our cause,
reinforce a position with congressional members and their key advisors to make members of the ESOP community heard (particularly in the case where tax law is drafted that negatively impacts ESOPs). ■

Due diligence visits.

At ESI, we're always looking for ways to benefit our customers. Thus, with increasing scrutiny of ESOP plans and valuation reports, our team has stepped up its due diligence visits to clients. Meeting face-to-face and seeing a company's facilities allows us to obtain a better feel for the business - which is always beneficial when preparing an annual valuation.

ESI tries to conduct a site visit every few years, but occasionally more frequent trips are necessary - e.g. trustee request or if there is a significant change in operations. The team makes an effort to schedule calls in conjunction with other clients in the same geographic area in order to minimize expenses for everyone.

These due diligence visits benefit all involved so don't be surprised if an ESI team member contacts you to arrange a company visit. We look forward to seeing you soon! ■

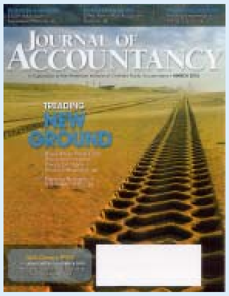
Upcoming transactions.

Given the uncertain tax rates in the year ahead, as we near the fourth quarter of 2010, ESI clients have begun planning for their end-of-the-year transactions.

With the anticipation of increased taxes many shareholders are preparing to sell another block of stock to their ESOP, assuring themselves of being taxed at the current capital gains rate of 15%.

While we have seen a rise in seller financing, if you are considering outside financing please don't wait until the last minute. Financing is the key bottleneck in most transactions, especially now with credit markets still tight, and in particular for what banks consider "non-productive" loans.

If you anticipate a transaction by year end, please contact an ESI team member now, as we expect significant activity during that time period. We're always interested in hearing from you! ■



ESOP article in Journal of Accountancy.

ESI's President, Scott Miller, along with valuable assistance from Vice President/Principal, Sandy Paavola, wrote and published an article on ESOPs in the March, 2010 issue of the Journal of Accountancy. The article, titled *The ESOP Exit Strategy*, details the advantages of utilizing an ESOP as a tool for succession planning.

Excerpt: *The scenario is all too common. A majority partner wants to retire, but the remaining partners can't afford to buy him or her out, or they want out themselves. Key employees eye the door as rumors swirl that the company may be sold to a larger competitor that is sure to clean out any "redundancies." And other interested parties - key customers, suppliers and lenders - begin to ask about the owners' succession plan . . . This article examines why ESOPs are more appealing to both selling shareholders and ESOP participants now than in years past, defines issues that must be fully considered before installing an ESOP, and highlights common attributes of successful installations.*

If you are interested in reading the article in its entirety, please visit ESI's website at www.esi-enterprise.com. Article reprints are also available by contacting any ESI team member at 262.646.6490. ■

Q&A

This question and answer section is intended to provide answers to some of your most frequently asked questions.

Q: We had a partial termination last year but now are hiring some of these people back. They all became fully vested when we left and we paid them out. How do they fit back into the ESOP?

A: This will vary by plan rules, so check your documents. In this simplest case, if the employee returns to work, participation would resume under the rules of the plan; previous years of service would count towards vesting if the employee was gone for fewer than five years. The employee could opt to have the shares restored to his or her account by buying them back, albeit this would be a rare event.

This is just one of the many alternatives. You should discuss it with your plan administrator should reemployment occur. ■

ESOP legislative update.

Adapted from The ESOP Association.

Senators Bernard Sanders (I-VT), Patrick Leahy (D-VT), and Sherrod Brown (D-OH) have filed pro-employee amendments to H.R. 5297, the Small Business Lending Act.

Amendment S.AMDT 4439, the Worker Ownership, Readiness and Knowledge (WORK) Act, would create an Employee Ownership and Participation Initiative within the Department of Labor. This initiative would promote employee ownership and employee participation in company decision making by providing education and outreach, training, grants, and technical support for local programs dedicated to the promotion of employee ownership and participation.

Amendment S.AMDT 4440 would create the U.S. Employee Ownership Bank to provide loans and loan guarantees to employees to purchase a business through an ESOP or a worker owned cooperative. The federal government currently provides a wide variety of federal loans, loan guarantees and other technical assistance to American companies as a way to increase U.S. jobs through exports. Providing federal loans and loan guarantees for the expansion of employee ownership would increase and retain jobs in the U.S. and strengthen the U.S. economy.

Since December 2007, employment has fallen by over 7 million, and the unemployment rate has nearly doubled to 9.7%. Although many jobs have been lost to deteriorating domestic economic conditions, many others have been shipped offshore. One way to reverse these economic trends is to provide employees with the tools they need to own their own businesses through employee stock ownership plans (ESOPs) or eligible worker owned cooperatives. Employee ownership is often the necessary component that will keep a hard-pressed business from either shutting down, or shipping its jobs overseas.

Who benefits from these amendments?
The **Economy** -- in which many businesses which otherwise would close down or ship jobs overseas stay open and keep their American employees; **Retiring Small Business Owners** -- who find buyers for their business and compensation for their years of hard work; **Employees** -- who retain their jobs, share in future profits, and have greater control over their own vocation; **Company Performance** -- which often is improved through increases in productivity due to employee ownership and participation; and the **Community** -- in which the company is now more deeply rooted.

By expanding employee ownership and participation, these amendments would create stronger American companies, prevent job loss, and improve working conditions for struggling employees. ■

Given various scheduling and policy disputes, the U.S. Senate did not consider the pro-ESOP amendments before its August recess. It is anticipated that they will be considered in the near future.