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Employee owners' jobs more stable in a nervous economy.

Adapted from The ESOP Report.

The ESOP Association (TEA) recently announced results from the most prestigious social survey in the U.S., the General Social Survey (GSS), which showed that employees in the U.S who had employee stock ownership were *four times less likely to be laid off during the Great Recession than employees without employee stock ownership.*

Specifically, the 2010 GSS, funded primarily by the National Science Foundation and conducted by the National Opinion Research Center at the University of Chicago, found that 3% of employees with employee stock ownership, which include the ESOP model and other forms of employee ownership, were laid off in 2009-2010 compared to a 12% rate for employees without employee stock ownership.

In addition, the 2010 GSS data indicated that 13% of the employees with employee stock ownership intended to leave their companies in the coming months whereas the rate was 24% for employees without employee stock ownership. This indicates significantly lower expected turnover for workers with employee stock ownership.

"These numbers confirm what observers of employee stock ownership have been saying for years," said J. Michael Keeling, president of the Employee Ownership Foundation. "Employees with employee stock ownership, including those with ESOPs, in general, have more sustainable employment. Too bad we had to suffer a Great Recession to have the objective data to shed more light on these claims," he added.

Additionally, the survey found that employee ownership rates remained stable since 2006 with 17.4% of individuals reporting they owned company stock. About 19 million U.S. citizens own stock in the companies in which they work. ■

"The only limit to your impact is your imagination and commitment."

Tony Robbins

Re-leveraging your ESOP.

Adapted from ESOP Edge.

Even before a company approaches the final payment on its ESOP loan, long-term plans for employee ownership using the ESOP should be considered. If employee ownership through the ESOP is the long-term ownership strategy, there are ways to make shares available for allocation after the ESOP loan is paid off. If the ESOP owns less than 100% of the company, and a goal is to increase ownership over time, a sale of shares to the ESOP from a shareholder, or even a sale by the company of shares that are not currently outstanding, are options to create available shares for allocation to participants. Another method to handle continued increasing ownership, even for a 100% ESOP, is through re-leveraging.

Re-leveraging is an option has been used more often in recent years and can work if a company has been purchasing shares from terminated participants and retiring them, or holding them in treasury. These shares can then be sold to the ESOP in exchange for a new note with the company. This could be done on a one-time basis or on a repeated basis. In fact, some companies re-leverage their ESOP each year by selling the shares that the company has repurchased from terminated participants that year back to the Trust for another note. Doing this keeps the number of outstanding shares constant while allowing the shares purchased to be allocated to participants over a number of years. This helps control the benefit level participants receive.

It is important to work with your valuation professionals at ESI to determine how your share repurchase and reallocation strategy will affect both the short-term and long-term stock price and how that will fit in with your long-term plans. ■

ESOP committees.

Is your company interested in developing an effective ESOP committee? Below are some guidelines that can be followed as you work toward that goal.

(a) Have management be involved in the design. It's very important that management agree on the reasons for having an ESOP Committee and ask the following questions – What is the committee's function? How will it accomplish the function? What would we like it to accomplish in 3-5 years?

(b) Leaders should identify the committee's vision and mission. There's no surer way to have an irrelevant ESOP committee than for management to be uninvolved in its direction or to have disagreement about its role.

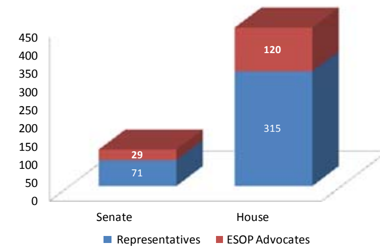
(c) Maintain integrity in the selection process. Assemble a committee of 5-9 members that broadly represents your firm in terms of ethnicity, gender, race and seniority, as well as selecting members from various functional areas of the company.

(d) Balance independence & interdependence. Too much management involvement, or too little, will hamper the committee's effectiveness. Managers need to be ready to provide guidance and support to the team and can start by helping educate members. E.g. the CFO may explain the company's business, HR may review the ESOP summary plan, or outside professionals may be brought in to assist.

(e) Committees should take the initiative by doing practical activities for employee-owners that reach specific goals. When planning, it is important for members to remember that their mission must support the company's strategic goals.

(f) For a team to be effective, they should carefully evaluate their activities. Do this by asking simple questions such as: Did this activity help us meet our goals? Are we on track in regards with our plan for the year? What went well with our activity? What could be improved? A successful team recognizes what worked and will then integrate those factors into the next activity/event! ■

ESOP advocates.



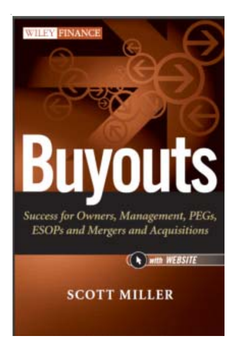
As of January 2012, 149 members of Congress (120 members of the House of Representatives and 29 members of the Senate) have shown public support for ESOP's during their service in Congress. Is your representative among them? Visit www.esopassociation.org for the complete listing of ESOP friends. ■

Fiduciary Rule.

Adapted from Employee Ownership Update.

At a recent hearing of the House Committee on Education and the Workforce, Secretary of Labor Hilda Solis responded to questions from many members of Congress about the agency's proposal to change the definition of a plan fiduciary. One impact of the originally proposed regulations would have been to deem appraisers of ESOP shares to be plan fiduciaries, but the DOL withdrew that proposal in September 2011, promising to modify and re-propose the rules later. Rep. Rush Holt (D-NJ) inquired whether the Employee Benefits Security Administration is "asking the right questions" about the fiduciary rule, and whether the agency has finished collecting data. Solis responded that the agency is still willing to collect information relevant to the rule and described DOL as "not in a hurry" to re-propose the rule. The secretary did not provide a direct answer when asked if the re-proposal would still be issued in May. ■

Inside Buyouts book.



ESI's President, Scott Miller, a nationally recognized expert on ESOPs, has just finished writing a book which is tentatively scheduled for release in July of this year. This publication focuses on the different options for inside buyouts within middle-market, privately-held companies and has a chapter devoted specifically on the use of ESOPs in the inside buyouts process. We will let you know when it is available, should you be interested in purchasing a copy. ■