



Employee Ownership Moves America

Chapter Events

1/21: Chapter Meeting

'Realities of Running an ESOP Company'
Minneapolis, MN

4/16: Chapter Meeting

'Realities of Running an ESOP Company'
Fargo, ND

9/23-24: Midwest Regional ESOP Conference Minneapolis, MN

The TRUTH about ESOP

The Association represents approximately 1400 ESOP companies, 100 of which reside in Minnesota and the Dakotas.

80% of Association members have less than 250 employees. In Minnesota / Dakotas, the average ESOP company has 159 employees.

Information supplied from the 2005 ESOP Survey

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Legislation You Should Know

ESOPs Enjoying Support in 111th U.S. Congress

The 111th U.S. Congress, in its first year, demonstrated bipartisan support for employee ownership by introducing four pro-ESOP bills. The House also entertained a concurrent resolution recognizing the positive contributions of employee-owned companies to the U.S. economy. Highlights in 2009 include:

- **Employee Stock Ownership Plan Promotion and Improvement Act (S. 1612)**
Authored by Sen. Lincoln (D-AR), this bill would allow an S corporation to pass current earnings through to ESOP participants (similar to paying a C corporation dividend) without triggering the 10% penalty tax on early distributions. C corporation dividends paid to ESOP participants would receive more favorable treatment under the alternative minimum tax rules. Restrictions would be loosened on the tax-deferred sale of stock to ESOPs under Section 1042 and this option would be made available to S corporation shareholders. The bill would also amend the Small Business Act to end 35 years of discrimination by the SBA against companies that are owned 50% or more by an ESOP.
- **S Corporation ESOP Promotion and Expansion Act (H.R. 3586)**
Rep. Kind (D-WI) introduced this bill to address disparities in the treatment of S corporation ESOPs versus their C corporation cousins. The bill extends 1042 tax deferral to S corporations, similar to Sen. Lincoln's proposal. It would allow banks to deduct 50% of interest received on loans financing an ESOP's purchase of S corporation stock, provided that the ESOP owns more than 50% of the stock after the acquisition. Estate tax rules would be modified to encourage gifts and sales of S corporation stock to ESOPs. H.R. 3586 has 11 bipartisan co-sponsors, including MN Reps. Paulsen, Walz and Oberstar.
- **House Concurrent Resolution 204**
Seven bipartisan co-sponsors introduced H. Con. Res. 204 to express the opinion of Congress on ESOP policy. It refers to 35 years of objective data indicating that the vast majority of ESOP companies are "high performing companies that, among other indicia of high performing companies, have better sales, are more sustainable, pay better, and provide more retirement savings compared to similar companies that are not employee-owned . . ." The resolution concludes with an expression of continued Congressional support for ESOPs. Three additional co-sponsors have signed on since the resolution was introduced, including Rep. Pomeroy (D-ND).
- **Worker Ownership, Readiness and Knowledge Act (S. 2909)**
Sen. Sanders (I-VT) authored two pro-ESOP bills and the first supports programs to promote employee ownership and participation in business decision-making. Administered through the Department of Labor, the WORK Act would provide training, technical assistance, and grants for existing and new programs. A qualifying employee-ownership program could be run by a nonprofit organization, a state-supported institution of higher education, or a unit of state or local government.
- **United States Employee Ownership Bank Act (S. 2914)**
The second Sanders bill provides for the establishment of a bank to finance ESOPs and eligible worker-owned cooperatives that give employees a controlling interest in their companies. In the case of an imminent plant or facility closing subject to the Worker Adjustment and Retraining Notification Act, the bill would require companies to give employees the chance to purchase the plant or facility through an ESOP or eligible worker-owned cooperative before their jobs are eliminated or shipped overseas.

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Featured Company

Padilla Speer Beardsley ESOP Fosters Employee Engagement

The 100-plus employee owners of Padilla Speer Beardsley public relations are a tight group – simply put, because the company is an ESOP. Here's Padilla's story, and how the ESOP program works to the benefit of all employees:

- **ESOPs can help maintain local, independently owned companies**

Padilla is a long-standing Midwest PR firm, founded in 1961, and is Minnesota's largest independently owned PR firm. The employee owners work in an established, thriving environment. This is easier said than done because remaining independently owned can be an obstacle for many businesses, including PR firms.

The solution: In 1992, Padilla established its ESOP at a time when many other PR firms were selling themselves to out-of-state/international conglomerates, merging or closing. Padilla employees wished to retain the firm's independence and extend ownership opportunities to everyone. An ESOP allowed Padilla to accomplish both goals.

- **ESOPs provide financial gain for all employees**

Padilla contributes to the growth of wealth among its employee owners through:

- Consistent contributions to the Padilla ESOP and pension plan
Padilla guarantees an annual percentage contribution to each employee's pension plan, and may contribute an additional percentage of annual salary to the employees' accounts in the ESOP.
- Year-end bonuses
As a means to encourage and reward individual employee performance, Padilla typically awards employees a year-end bonus (depending on the firm's profitability and the employee's performance for that year).
- Firm growth/ESOP growth
Since beginning its ESOP, Padilla has more than doubled in revenue and employees. Employees work hard because they reap the benefits directly.

- **ESOPs can foster a positive work culture**

Padilla employees actively promote the business and individual employee ownership benefits, educate employee owners about their rights and encourage active involvement in fulfilling ownership responsibilities.

Employee owners practice smart corporate responsibility because an ESOP offers a better quality of life for employees and adds value to the companies they own. Padilla's employee owners are engaged in the company's performance because they're kept "in the know," and in turn, continually work to advance the firm. Padilla's ESOP committee helps promote this, and the company's CEO and CFO discuss financial performance at all monthly staff meetings. The company also has an annual shareholders' meeting where results of employee voting are shared (election of directors, ratification of stock valuation and appointment of auditors). The meeting includes a CEO report on the prior year's financial results and growth goals for the coming year.

To learn more about Padilla Speer Beardsley, visit www.psbpr.com.