The Congressional Company Visit Kit:

Practical Steps For Unparalleled Results

Spring 2012

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FOREWORD

Please note, if and your co-owners follow the enclosed steps to obtain a visit of a member of Congress, or his or her top staff person, to your company, and you let The ESOP Association know, we will supplement the following document with a short report on the member of Congress who will visit your company.

The report we will supply will tell you what prior record, if any, the member of Congress has on ESOP issues. The report will tell you what committees in Congress the member serves on, and what relevancy, if any, those committees have to ESOP laws. The report will tell you what the public record says is that member's prime interests as a legislator, and the major, if any, legislative initiatives the member of Congress is involved with. Finally this report will share any interesting data about the member who will visit your company that is relevant to her or his service in Congress, and/or issues.

For example, the report might contain information that the member of Congress was a small business person before going to Congress. This fact would be interesting in that most ESOP companies, and probably yours, are small, privately held businesses. The report might have information that the member recently served in the military. The report might have information that his or her predecessor was a strong supporter of ESOPs. The report might have information that she or he was a lawyer in a law firm that does ESOP legal work.

In other words, The ESOP Association stands ready to give you the most up to date information and ideas for a successful visit by a member of Congress to your company, which is our most important, and most powerful lobbying tool.

[Note: The reference to member of Congress includes a member of the U.S. Senate, or U.S. House of Representatives.]

Remember, the 2010 General Social Survey (GSS), the most prestigious survey of America next to the Census, provides overwhelming evidence that during the Great Recession of 2009, employees of employee-owned companies were four times less likely to be laid off than employees of conventionally- owned companies.

Your company's unique story is the **number one** advocacy tool you have; but the 2010 GSS provides macro evidence that encourages ESOP companies is good for America!

THE CONGRESSIONAL-COMPANY VISIT KIT: PRACTICAL STEPS FOR UNPARELLED RESULTS

Introduction: This document establishes why having a member of Congress visit an ESOP company, your ESOP company, is the most important government relations activity you can undertake, and sets forth steps for arranging a visit, what might be done during the visit, and what is the follow-up to the visit.

Fact: The ESOP Association's members have advocated for ESOPs with members of Congress since 1980. There is one fact that has been consistent the entire time: This fact is that the most effective activity in obtaining the support for ESOPs from a member of Congress is having that member of Congress visit an ESOP company. The company visit is more effective than a visit in the member of Congress's home office and certainly more effective than visiting with a member of Congress in Washington DC. (Note, when using the term "member of Congress," included is a Senator.)

To make the factual case—since 1982, no member who has visited an ESOP company in his or her Congressional District or State has failed to take the pro-ESOP position. At worse, one member, who visited an ESOP company in 1985, took a neutral ESOP position after having taken a position not in favor of ESOPs in 1984. In fact, most members of Congress who have visited ESOP companies have become ESOP Champions, or even ESOP Super Champions.

The ESOP position of members of Congress who were exposed to ESOP advocates during DC visits by those advocates does not match the track record of those who have visited with an ESOP company in his or her home district or state.

In sum, if you want to have your member of Congress support pro-ESOP positions, the most effective step you could take would be to arrange a visit by that member of Congress to your company.

First Steps

The ESOP advocate will first want to contact the person who is the so-called District Administrator if the Congressperson's main district office in your area, or the Office Director if the Congressional office near you is a satellite office of his or her primary district office. Given that Congressional personnel frequently change, it is not fatal to not know name of the person. The name is usually on a member of Congress's web site, or call The ESOP Association. Congressional staff change rather often, thus it is not unusual for a website to be out of date. If you know the staff person's name, use it. A Senator has one main state office, and several regional offices as a rule. If her or his main state office is near you, you will ask to speak to the state Administrator, and if a satellite office, the Office Director.

In seeking an appointment through the District or State office, the best tactic is to call first to nail down who in that office might handle the member's schedule when s/he is home. Set forth below is a suggested telephone script.

"Congressional Office Phone Answering: Hello, [Congress][woman][man][Senator] [name] office. May I help you?"

ESOP Advocate: Yes, I am [name] and I work for [name of company]. We are an employee-owned, or ESOP company. We are located over on [street address, community, etc]. (***Tip***: Make it vivid where you are located in order to create a visual image. Remember, the person you are talking to probably has driven by, or has heard of your company – you are speaking to a fellow local citizen.) As an employee-owned company, we are required to comply with several federal laws and thus we are subject to being judged by Congress as to whether we are complying with the intent of those laws. I would like to speak to someone about having [Congress][woman][man]/[Senator] [name] visit our company in the near future and meet our people.

Congressional Aide: [Name] handles the [Congress][woman][man]/[Senator's] schedule whiles/he is in the [district] [state]. I will see if s/he is available.

Person Handling Schedule: Yes, this is [name]. May I help you?

ESOP Advocate: Yes, I am [name] and I work for [name of company]. We are employee-owned, our [number] employee owners are more than aware that our employee ownership, through an ESOP, is subject to federal law, particularly Federal tax and retirement laws. We are located over on [address].

We would like to invite [Congress][woman][man]/Senator [name] to our company to see what we are doing and how the employee ownership program, through our employee stock ownership plan, or ESOP is benefiting our people and company. We would be honored for such a visit, and of course, we would at that time take a brief moment to highlight some of the key issues pending before Congress that might affect our employee owners negatively.

Congressional Aide: Well, I do not have the schedule for the [Congress][woman][man]/ Senator's next visit to our area, and I would have to review you invitation with him. It would be helpful if you would make your invitation in writing.

ESOP Advocates Response to This Response: Yes we intend to formalize our invitation in writing, and were seeking input on where the letter should go and to whose attention.

Congressional Aide's Response to This Response: Okay, please send the letter to [name of Congressperson/Senator, at this office, marked to [my][name of someone else's] attention, setting forth the information you just gave on the phone here. **Or, if the schedule is handled out of DC,** Well the schedule is handled out of DC, and write the [name of Congressperson/Senator at his/her DC office, and make it to the attention of his/her scheduler [name].

ESOP Advocate: I appreciate that information, and we will get out that letter today. Your time and attention to this matter is very much appreciated."

Note: Since the anthrax attack on Congress in 2001, letters are tested before being delivered to a Congressional office. This process can delay letter delivery. But emails and faxes are frequently ignored <u>if arrangements are not made ahead of time to email or fax a staff person directly</u>. So when discussing the formal written invitation, ask if you can email it directly to the person handling the member of Congress schedule. If you are not given a specific person's email address, rely on a letter. If faxing, only fax to the person who has told you, "I will expect your fax."

Suggested Letter of Invitation for a Company Visit

Name of Member of Congress/Senator
Local Address/or DC is so instructed
City, State, Zip

Dear Representative/Senator [name]:

On behalf of the [number] employee owners of [name of company], located in [name of city] I spoke with [name of person you spoke to] about your visiting our company when you are home.

We are proud of our employee ownership through an employee stock ownership plan, or ESOP and we also know that Federal laws govern the program. We are also aware that pending before the Congress are positive ESOP proposals but we still read of certain groups questioning the values of ESOPs, including some in Federal agencies.

We believe that the best way to judge the value of employee ownership is to see and meet those who are working with the ESOP in a company, and who are participating in the ESOP at a company.

We would be honored to host you at our office as your schedule permits and hope you can make time to meet with us in the near future.

As we know demands on your time are high, and you receive many requests for visits and appointments, we hope that you and your staff would not mind our checking on the status of this invitation in the weeks ahead. All of us would be honored to have you come.

Your consideration of our request is greatly appreciated.

Sincerely,

Name: ***Tip: having several signatures on this letter is helpful.***

cc: [Name of Person Who You Talked To On Telephone]

Note: If you have made arrangements to email, the message is the same as the above letter.

How to Find Congressional Contacts

1. You can call The ESOP Association, and the information will be provided; or

2. Go on The ESOP Association's website, www.esopassociation.org and click on "Government Affairs." Once on Government Affairs, click on "Capitol Links." Once there, you can click onto the website of the U.S. Senate and U.S. House of Representatives. You can get the list of members, once you have yours, click to her or his website for addresses, telephone numbers, or often staff names. (Note, these Congressional member sites will have software for direct contact, or letter writing to these offices.)

Best Time for Visit

While it might be a truism to say, "anytime," or "better late than never," the fact is that having a member of Congress visit your company is best when there is **NO** ESOP government relations crisis. Waiting to interact with a member of Congress when there is a crisis means that the ESOP issue will be one of many issues that might be before the member for decision. And of these non-ESOP issues she or he may be more familiar with and has probably already taken a position on these issues. Such a situation means the ESOP issue might go way down the list of importance to that member of Congress.

So the best time to arrange a visit with a member of Congress is when there are no crisis ESOP issues to be decided by Congress, or in other words, **NOW**.

Specific Time: The best time for a Congressional visit would be during Employee Ownership Month at one of the company's EOM events, during October.

In odd numbered years, October, during the week, is not compatible for most Congressional company visits since Congress tends to be meeting the entire working week that month, except for the long weekend of Columbus Day, or, sometimes during a Jewish Holiday, which of course varies year to year.

In even numbered years, which are election years, October is a good month to try to get a Congressional visit, since Congress more often than not, recesses for the entire month of October before the early November general elections.

But the fact is that many companies do not have special events during EOM, and often, if the events are scheduled, they would not match the member of Congress's schedule.

Here are some general rules about when most Congresspeople are home and thus available for company visits.

- January is a month when the Congress often meets very little.

- February, the week of the President's Day Holiday.

- The week around Easter, which can range from late March to late April.

- The week before and/or after Memorial Day.

- The week around July 4^{th}.

- Nearly all of August, as Congress is usually in recess most of August until after Labor Day in September.

- Mid-November and all of December, keeping in mind that in election years, October is usually open for district visits by members of Congress.

Special Events: Many companies have employee owner events that are not EOM related. For example, many companies have an all employee meeting when the new valuation is available, when statements are passed out, or an anniversary of the founding of the company, and similar events.

- Be flexible in suggesting a day and time for the visit. For example, "We would be able to welcome [Member of Congress] on either [day] at [time] or [time and date – mention two options]; or we can host [Congress {man} {woman} on [give some other dates.]

- Be prepared for changes. Schedules of elected officials can be notoriously unpredictable due to changes in the congressional schedule.

The Member of Congress Is Here—Now What?

The member of Congress more often than not arrives late, in a car driven by one of his or her district office aides. Please remember to take note of the aide and have some one in the company engage that person in conversation during the member of Congress's visit. District staff often feel like the odd person out, but in many ways a District staff person is more influential with a member of Congress than anyone on the member of Congress's Washington staff.

Make sure that people in your reception area know the member of Congress is coming. Have the welcoming delegation ready to come out quickly once notified by front desk personnel.

It is always positive to have on the bulletin board, or stand, a message of welcome for the member of Congress.

Now we come to the meat of the visit.

On the one hand it is dumb to just let the member wander around, or to sit in the conference room and have a disjointed conversation. On the other hand, it is dumb to act like you are afraid of the member of Congress engaging in conversations with employees. And it is a waste of time to permit the member Congress to give a speech, as that speech is more than likely going to take up the entire visit time. (Politicians like to give speeches, as one, they are usually good at it, and two, they do not have to make commitments if there is not time for the constituent to ask a question, or to make a request.)

A good way to think about your time with the member of Congress is that you have a plan of "organized spontaneity," or "spontaneous organization."

There is no question that each company should tailor the visit that best suits its culture and style.

Following is a typical approach:

- A delegation of four or five persons greet the member of Congress in the reception area. The group might include the employee owner chair of the ESOP/employee communications group—goes by various names in different companies as well as the CEO and two or three other senior executives.

- After the greeting, the delegation might escort the member into a conference room for a brief power point, or video about the company, and perhaps some information on its ESOP. The conference room group should include more than the three or four greeters, perhaps 10 or more persons, including, if there is one, the entire ESOP/employee committee group.

- After that presentation of the company and ESOP history, a walk around to see the company, stopping by different stations on the floor, or in the offices if not a manufacturing business, for an exchange of greetings is positive. Having one to three employee owners primed to comment on the ESOP at the company is powerful.

- After the walk around, the core delegation, the first four or five for example, or the CEO, and/or chair of the ESOP/employee committee, should take time, perhaps back in the conference room to make the "sale," or in other words, to ask for the member of Congress to do "something" for ESOPs.

Now, this outline of a visit is an example, and again each company needs to implement the visit in accord with its own style and culture.

For example, many ESOP companies over the years have had positive results with all the corporate headquarters employees in a room and having just a power point, or video presentation about the company. Others just turn the member of the Congress loose on the company floor, and have him or her meet up with executives later. Others have the member join the early morning "team" session, where the day's work load and assignments are discussed and divvied out. Others have the member join the annual meeting where the financials are discussed and statements of ESOP accounts handed out. Others have the member join the annual picnic, and its games. Other have the member come to the special event, such as an anniversary celebration and so on.

So flexibility is possible depending on the company, but again, do not leave the encounter to chance.

Helpful Tips for a Company Visit

- The visit is about the people and culture of your company. What makes your company unique? What does your company do/make?
    - Prepare a one page handout on company and ESOP for Member of Congress and staff.

- Get employee owners involved and most importantly, make sure they know when and why the member of Congress is visiting.
    - Provide some background on the member of Congress to the employee owners. You can find this information on his/her website.
    - Announce the visit by email, information in community rooms and on bulletin boards.

- Have a few employee owners ready to share their story about why the ESOP is important. Have a few employee owners ready to ask questions as well.
    - Prepare questions in advance to keep conversation flowing, such as:
      [If Congressperson is a member of the House Committee on Ways and Means or Senate Committee on Finance:
        - Do you think that your committee will take up a big tax bill this year?
        - Do you think your committee will make any changes in ESOP tax law this year?
        - Or, a question about a "hot" topic local issue that has relevance to Congress such as: Do you think that there will be money soon to widen interstate X?]

      [If Congressperson is NOT a member of either Congressional tax committee:
        - Will Congress take up a big tax bill this year?
        - Do you ever hear any talk about employee stock ownership?
        - The local "hot" issue.]

- Take pictures!

- Send out a press release announcing the visit.

- Most important – Remember to **close the sale**!

What Are You Selling, and How Do You Make the Sell?

It does not serve the ESOP cause well if the goal is to convert a member of Congress to the ESOP advocate status to let him or her come to your company, and do no more than pat employee owners on their backs.

It is true that it is sometimes unrealistic to expect a member of Congress to "buy" into the ESOP agenda based on his or her first experience. (If your member of Congress is already on the list of ESOP advocates, meaning he or she have publicly done something that is evidence of a pro-ESOP position that is part of the public record, then having the visit is super important to reinforce that member's view that being for ESOPs is a good political posture to have.)

No matter whether one supports the Obama Administration, all agree that the current Administration's actions have resulted in trillions of dollars of new, or proposed spending, which President Obama says will balloon the Federal deficit, which he promises to address. His commitment to lower the Federal deficit is backed by all leaders of the Republican Party, as evidenced by the House, Republican-backed, budget plans.

In the 1980s, Congress faced a similar deficit problem. The response was to enact new taxes nearly every year, under the rhetoric of closing tax loopholes for corporations and individuals.

The same approach will be expected in the years 2012 through 2015, at least.

Also, the best defense the ESOP community has against Congress eliminating, or reducing, benefits for companies sponsoring ESOPs, and ESOP participants, is to have a good offense now!

So, also request or "sell" your Congressional visitor on co-sponsoring H.R. 1244 if a House member, or S. 1512 if a Senator.

For background, and a hand-out to Congressional visitor see the following documents:

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Enlist House Members to Support H.R. 1244

Another, important part of the 2011/2012 Association agenda is to persuade as many members of the House as possible, to co-sponsor H.R. 1244, the “Promotion and Expansion of Private Employee Ownership Act of 2011”

For background, see

- Bullet points explaining H.R. 1244 provision; and
- Memo to members of Congress, or staff, visiting your company, asking the members of Congress to co-sponsor H.R. 1244.
- List of current co-sponsors. (If you member of Congress is already a co-sponsor, a big thank you is in order.)

Summary of H.R. 1244
"Promotion and Expansion of Private
Employee Ownership Act of 2011"
(Introduced March 29, 2011)

H.R. 1244 will:

1. Permit owners of S stock to sell the stock to an ESOP and defer the capital gains tax on his/her gain if the proceeds are reinvested in the equities of U.S. operating corporations as owners of C corporations stock have done under IRC 1042 since 1984;

2. Permit lenders to S corporations with 50% or more ownership through an ESOP to exclude 50% of the interest from the loan, if used to acquire stock for the ESOP;

3. Establish an office in the Department of Treasury to provide technical assistance to S corporations with ESOPs;

4. Provide that a small business, S or C, eligible for one of the many programs provided by the Small Business Administration to remain eligible for SBA programs if the company becomes owned 50% or more by and ESOP, and the workforce remains the same or nearly the same as before the establishment of the 50% ownership by employees through the ESOP.

General Explanation

1. As evidenced in [name of your company] employee stock ownership plans are benefiting [name of company], our employees, and [name of your city or town.]

2. There is ample macro-data evidencing that the benefits our ESOP provides to [name of company] is also the case in the vast majority of privately-held ESOP companies in America.

3. H.R. 1244 is a modest proposal that will not cost any significant tax revenues, and will build even larger account balances for retired employee owners, who will pay more taxes on their ESOP distributions than the targeted tax expenditure for ESOPs in H.R. 1244. For example, more ESOPs will be created, certain existing ESOP small businesses will qualify for SBA loans, and all S ESOP private companies can access Treasury experts on the complex rules governing S ESOPs.

4. In short H.R. 1244 will address the growing concerns of individual access to ownership, equitable distribution of our nation's capitalism, in companies that are more productive, more profitable, and more sustainable providing locally controlled jobs.

(This is the "one-pager" you can hand to the visiting member of Congress, or her/his aide.)

(Following are summaries of overwhelming evidence that the vast majority of private ESOP companies are more productive, more profitable, and more sustainable, providing locally controlled jobs.)

Suggested Sample Letter to House Members to Co-Sponsor H.R. 1244

Dear Representative [___________________________________]:

On March 29, 2011, a bi-partisan group of Ways and Means members introduced H.R. 1244, the Promotion and Expansion of Private Employee Ownership Act of 2011. This modest legislation would continue Congressional policies to encourage employee ownership through an employee stock ownership plan or ESOP, model, especially by S corporations.

The original sponsors are Representatives Reichert, Kind, Boustany, Blumenauer, Paulsen and Pascrell. Since introduction 69 members of the House have joined efforts to promote private company employee ownership.

Enclosed is a brief summary of the legislation.

We would respectfully ask that you review the provision of H.R. 1244 and consider co-sponsoring H.R. 1244.

ESOPs sponsor privately-owned corporations have a very positive 35 year track record of providing locally controlled jobs that provide significant benefits in a high performing company. For example, during the Great Recession of 2009, employees of employee-owned companies were four times less likely to be laid off than employees of conventionally-owned companies! (General Social Survey, February, 2010) See enclosed summary of new evidence supporting value of ESOPs to America, America's economy, and America's Jobs.

Please contact [Name] [anyone at Name of Company] for any questions. Or, if you wish, you or your staff, may ask the representative of The ESOP Association to visit your office for a full dialogue of questions you may have.

Sincerely yours,

Name

Enclosures: Summary of H.R. 1244
Background Documents on ESOPs

Summary of Substantive Provisions of H.R. 1244

1. The bill would extend the gain deferral provisions of Internal Revenue Code Section 1042 to sales of employer stock to S corporation ESOPs. Section 3 of the bill would apply to sales of stock after the date of enactment of the bill.

2. The bill would add a new section 200 to the Internal Revenue Code, which would allow banks to deduct 50% of the interest income received on loans made to an ESOP or an S corporation sponsoring an ESOP to purchase S corporation stock for the ESOP. Section 200 would apply only if the ESOP owns more than 50% of the stock of the S corporation after such purchase. Section 4 of the bill would apply to interest accrued on loans made after the date of enactment of the bill.

3. The bill would mandate the establishment of an "S Corporation Employee Ownership Assistance Office" by the Department of Treasury to foster increased employee ownership of S corporations. The S Corporation Employee Ownership Assistance Office would be required to provided education and outreach to inform people about the possibilities and benefits of employer ownership of S corporations and would provide technical assistance for companies that may be interested in forming an S corporation ESOP. The Department of Treasury would be required to establish the S Corporation Employee Ownership Assistance Office within 90 days after the date of enact of the bill.

4. The bill would permit an SBA certified small business, C or S, to be eligible for SBA programs to maintain its eligibility after becoming majority-owned by an ESOP, if employee demographics remain the same. Since the passage of ERISA in 1974, SBA has taken the unfair position that when a small business is eligible for SBA programs becomes majority owned by an ESOP, it is no longer eligible for SBA programs, even though the workforce remains the same or nearly the same. Such a position has had unfair results such as a minority-owned, SBA eligible company with a 100% minority workforce is no longer deemed to be so after ESOP majority ownership.

Employee Ownership & Corporate Performance

1. The Employee Ownership Foundation released convincing evidence in February 2012 from the most prestigious social survey in the U.S., the General Social Survey (GSS), that showed 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.

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 Employee Ownership Foundation provided significant funding for the supplemental series of questions on shared capitalism in the survey. Shared capitalism is defined as broad-based employee, current or deferred, stock compensation programs, such as ESOPs (employee stock ownership plans), stock purchases, stock options, gain sharing, profit sharing, and bonus programs. The shared capitalism series of questions were developed and analyzed by well-known employee ownership researchers, Professor Joseph Blasi and Professor Douglas Kruse (School of Management and Labor Relations at Rutgers University) who submitted an application for their inclusion in the GSS. The researchers are continuing to analyze these and other related data from the Survey to shed light on the role of employee stock ownership in the U.S. economy.

2. In the new book, *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, the editors list some take away findings on shared capitalism. The book identifies employee stock ownership plans (ESOPs) as a primary model of shared capitalism in the U.S. Below are the summarized findings.

- Shared capitalism is a significant part of the U.S. economic model. Shared capitalism can increase wealth for workers at lower and middle income levels.
- Shared capitalism improves the performance of firms. It is associated with greater attachment, loyalty, and willingness to work hard; lower chance of turnover; worker reports that co-workers work hard and are involved in company issues; and worker suggestions for innovations. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor policies.
- Shared capitalism improves the performance of worker well-being. It is associated with greater participation in decision-making; higher pay, benefits, and wealth; greater job security, satisfaction with influence at the workplace, trust in the firm, and assessment of management; and better labor management relations practices. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor practices.
- Shared capitalism complements other labor policies and practices. Forms with shared capitalism compensation are more likely to have other worker-friendly labor policies and

practices. Combinations of shared capitalist pay and other policies, such as devolving decision-making to employees, wage at or above the market rate, and lower supervisory monitoring, produce the largest benefits for workers and firms.

- The risk of shared capitalism investments in one's employer is manageable. Portfolio theory suggests employee ownership can be part of an efficient portfolio as long as the overall portfolio is properly diversified. Most workers have modest amounts of employee ownership within the ranges suggested by portfolio theory. Less risky forms of shared capitalism such as cash profit sharing and stock options where workers are paid market wages, or company stock is not financed by worker savings, can be prudently combined with riskier forms where workers purchase stock.

Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, The University of Chicago Press, National Bureau of Economic Research, 2010. Above information can be found on page 12.

3. In August 2010, The ESOP Association and the Employee Ownership Foundation released the results of a survey conducted among the Association's 1,400 corporate members which confirmed positive benchmarks for ESOPs. The eye-opening statistics of the 2010 survey are the increase in age of the ESOP and account balances. In 2010, the average age of the ESOP was reported to be 15 years, demonstrating ESOP companies are sustainable. In addition, the average account balance has risen dramatically to $195,222.65; a high figure compared to most data tracking defined contribution plans which correlates with the age of ESOPs participating in this year's survey. And approximately 90% of members reported having retirement savings plans in addition to the ESOP including the use of 401(k) plans, pension plans, stock purchase plans, and stock options. In terms of motivation and productivity, 84% of respondents agree that the ESOP improved motivation and productivity. The Company Survey is conducted every five years and was last completed in 2005. Prior to 2005, the survey was completed in 2000.

Also in September 2010, the Employee Ownership Foundation released the results of an extensive study it funded that evidenced that ESOPs provide more employee benefits than non-ESOP companies. The study, which reviewed data from the Department of Labor Form 5500 on defined contribution retirement plans, found:

- ESOP companies have at least one plan, the ESOP, but more than half (56%) have a second retirement savings/defined contribution plan, likely a 401(k) plan. In comparison, the Bureau of Labor statistics reports that 47% of companies have some sort of defined contribution plan which shows that an ESOP company is more than likely to have two defined contribution plans than the average company is to have one plan.
- The average ESOP company contributed $4,443 per active participant; in comparison to a non-ESOP company with a defined contribution plan which contributed on average $2,533 per active participant. This study found that on average ESOP companies contributed over 75% more to their ESOPs than other companies contributed to their primary plan.

The project was done by the National Center for Employee Ownership (NCEO).

Finally, in the summer of 2011, the Employee Ownership Foundation released its 20th Annual Economic Performance Survey (EPS), that evidenced a very high percentage of companies, 92.21%, declared that creating employee ownership through an ESOP (employee stockownership plan) was "a good decision that has helped the company."

4. In June 2008, Brent Kramer, a doctoral candidate at the City University of New York, now Ph.D., submitted a study, *Employee Ownership and Participation Effects on Firm Outcomes*, that "provides strong evidence that majority employee-owned businesses have a significant advantage over comparable traditionally-owned businesses in sales per employee." The average advantage, $44,500, means that a typical 200 person ESOP firm could be expected to have an almost $9 million annual sales advantage over its non-ESOP counterpart. Sales per employee is the total of a company's sales divided by the

number of employees, and is a commonly used measure of a company's productivity. Highlights of the study include: 1.) Using standard statistical methods, it was found that the average sales advantage for the ESOP firms in the study was $44,500, or an average of an 8.8% sales per employee advantage over their non-ESOP counterparts in the same industry and of the same size; 2.) It was found that firms that ask for non-management employee input into innovation in work processes have a greater employee-owned advantage in sales per employee; 3.) Kramer's research indicates the sales per employee advantage for the 50% plus ESOP companies compared to non-ESOP companies is less for larger employers. The Employee Ownership Foundation providing funding for the research and The ESOP Association contributed membership information to the study. A total of 328 ESOP firms and over 2,000 matching non-ESOP firms were included in the study.

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6. The most comprehensive and significant study to date of ESOP performance in closely held companies was conducted by Dr. Joseph R. Blasi and Dr. Douglas L. Kruse, professors at the School of Management and Labor Relations at Rutgers University, and funded in part by the Employee Ownership Foundation. The study, which paired *1,100 ESOP companies* with *1,100 comparable non-ESOP companies* and followed the businesses for *over a decade*, reported overwhelmingly positive and remarkable results indicating that ESOPs appear to increase sales, employment, and sales/employee by about 2.3% to 2.4% over what would have been anticipated, absent an ESOP. In addition, Drs. Blasi and Kruse examined whether ESOP companies stayed in business longer than non-ESOP companies and found that 77.9% of the ESOP companies followed as part of the survey survived as compared to 62.3% of the comparable non-ESOP companies. According to Drs. Blasi and Kruse, ESOP companies are also more likely to continue operating as independent companies over the course of several years. Also, it is substantially more probable that ESOP companies have other retirement-oriented benefit plans than comparable non-ESOP companies, such as defined benefit plans, 401(k) plans, and profit sharing plans.

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business units in public firms. Both reports found significant positive effects of greater productivity and profitability in the first few years after a company adopted an ESOP.

For additional information about ESOP or The ESOP Association, visit the website at www.esopassociation.org, call 1-866-366-3832, or email esop@esopassociation.org.

Current List of Sponsors H.R. 1244
The Promotion and Expansion of Private Employee Ownership Act of 2011

Original Group:

Rep. David G. Reichert (R-8th-WA)
Rep. Earl Blumenauer (D-3rd-OR)
Rep. Charles W. Boustany, Jr. (R-7th-LA)
Rep. Ron Kind (D-3rd-WI)
Rep. Bill Pascrell, Jr. (D-8th-NJ)
Rep. Erik P. Paulsen (R-3rd-MN)

Joined as Sponsors Since March 29, 2011:

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Rep. Kevin Yoder (R-3-KS)

As of April 24, 2012

Enlist Senate Members to Support S. 1512

Another, important part of the 2011/2012 Association agenda is to persuade as many members of the Senate as possible, to co-sponsor S. 1512, the “Promotion and Expansion of Private Employee Ownership Act of 2011”

For background, see

- Bullet points explaining S. 1512 provision; and

- Memo to Senators, or staff, visiting your company, asking the Senator to co-sponsor S. 1512

- List of current co-sponsors. (If your Senator is already a co-sponsor, a big thank you is in order.)

Summary of S. 1512
"Promotion and Expansion of Private
Employee Ownership Act of 2011"
(Introduced September 6, 2011):

S. 1512 will:

1. Permit owners of S stock to sell the stock to an ESOP and defer the capital gains tax on his/her gain if the proceeds are reinvested in the equities of U.S. operating corporations as owners of C corporations stock have done under IRC 1042 since 1984;

2. Establish an office in the Department of Treasury to provide technical assistance to S corporations with ESOPs;

3. Provide that a small business, S or C, eligible for one of the many programs provided by the Small Business Administration to remain eligible for SBA programs if the company becomes owned 50% or more by and ESOP, and the workforce remains the same or nearly the same as before the establishment of the 50% ownership by employees through the ESOP.

General Explanation

1. As evidenced in [name of your company} employee stock ownership plans are benefiting [name of company], our employees, and [name of your city or town.]

2. There is ample macro-data evidencing that the benefits our ESOP provides to [name of company] is also the case in the vast majority of privately-held ESOP companies in America.

3. S. 1512 is a modest proposal that will not cost any significant tax revenues, and will build even larger account balances for retired employee owners, who will pay more taxes on their ESOP distributions than the targeted tax expenditure. For example, more ESOPs will be created, certain existing ESOP small businesses will qualify for SBA loans, and all S ESOP private companies can access Treasury experts on the complex rules governing S ESOPs.

4. In short S. 1512 will address the growing concerns of individual access to ownership, equitable distribution of our nation's capitalism, in companies that are more productive, more profitable, and more sustainable providing locally controlled jobs.

(This is the "one-pager" to hand to the Senator or her/his staff.)

(Also you can pass along the summaries of the overwhelming evidence that private ESOP companies are more productive, more profitable, and more sustainable, providing locally controlled jobs, and demographic data on the ESOP community.)

Suggested Sample Letter to U.S. Senators to Co-Sponsor S. 1512

Dear Senator [__________________________________]:

On September 6th, a bi-partisan group of Senators introduced S. 1512, the Promotion and Expansion of Private Employee Ownership Act of 2011. This modest legislation would continue Congressional policies to encourage employee ownership through an employee stock ownership plan or ESOP, model, especially by S corporations.

The original sponsors are Senators Cardin, Roberts, and Snowe. Since introduction Senators Landrieu, Moran, Sanders, Blunt, Leahy, Klobachur, Thune, and Whitehouse have joined them in co-sponsoring S. 1512.

Enclosed is a brief summary of the legislation.

We would respectfully ask that you review the provision of S. 1512 and consider co-sponsoring S. 1512.

ESOPs sponsor privately-owned corporations have a very positive 35 year track record of providing locally controlled jobs that provide significant benefits in a high performing company. See enclosed summary of new evidence supporting value of ESOPs to America, America's economy, and America's jobs.

Please contact [Name] [anyone at Name of Company] for any questions. Or, if you wish, you or your staff, may ask the representative of The ESOP Association to visit your office for a full dialogue of questions you may have.

Sincerely yours,

Name

Enclosures: Summary of S. 1512
Background Documents on ESOPs

Summary of Substantive Provisions of S. 1512

1. The bill would extend the gain deferral provisions of Internal Revenue Code Section 1042 to sales of employer stock to S corporation ESOPs. Section 3 of the bill would apply to sales of stock after the date of enactment of the bill.

2. The bill would mandate the establishment of an "S Corporation Employee Ownership Assistance Office" by the Department of Treasury to foster increased employee ownership of S corporations. The S Corporation Employee Ownership Assistance Office would be required to provided education and outreach to inform people about the possibilities and benefits of employer ownership of S corporations and would provide technical assistance for companies that may be interested in forming an S corporation ESOP. The Department of Treasury would be required to establish the S Corporation Employee Ownership Assistance Office within 90 days after the date of enact of the bill.

3. The bill would permit an SBA certified small business, C or S, to be eligible for SBA programs to maintain its eligibility after becoming majority-owned by an ESOP, if employee demographics remain the same. Since the passage of ERISA in 1974, SBA has taken the unfair position that when a small business is eligible for SBA programs becomes majority owned by an ESOP, it is no longer eligible for SBA programs, even though the workforce remains the same or nearly the same. Such a position has had unfair results such as a minority-owned, SBA eligible company with a 100% minority workforce is no longer deemed to be so after ESOP majority ownership.

Employee Ownership & Corporate Performance

1. The Employee Ownership Foundation released convincing evidence in February 2012 from the most prestigious social survey in the U.S., the General Social Survey (GSS), that showed 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.

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 Employee Ownership Foundation provided significant funding for the supplemental series of questions on shared capitalism in the survey. Shared capitalism is defined as broad-based employee, current or deferred, stock compensation programs, such as ESOPs (employee stock ownership plans), stock purchases, stock options, gain sharing, profit sharing, and bonus programs. The shared capitalism series of questions were developed and analyzed by well-known employee ownership researchers, Professor Joseph Blasi and Professor Douglas Kruse (School of Management and Labor Relations at Rutgers University) who submitted an application for their inclusion in the GSS. The researchers are continuing to analyze these and other related data from the Survey to shed light on the role of employee stock ownership in the U.S. economy.

2. In the new book, *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, the editors list some take away findings on shared capitalism. The book identifies employee stock ownership plans (ESOPs) as a primary model of shared capitalism in the U.S. Below are the summarized findings.

- Shared capitalism is a significant part of the U.S. economic model. Shared capitalism can increase wealth for workers at lower and middle income levels.
- Shared capitalism improves the performance of firms. It is associated with greater attachment, loyalty, and willingness to work hard; lower chance of turnover; worker reports that co-workers work hard and are involved in company issues; and worker suggestions for innovations. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor policies.
- Shared capitalism improves the performance of worker well-being. It is associated with greater participation in decision-making; higher pay, benefits, and wealth; greater job security, satisfaction with influence at the workplace, trust in the firm, and assessment of management; and better labor management relations practices. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor practices.
- Shared capitalism complements other labor policies and practices. Forms with shared capitalism compensation are more likely to have other worker-friendly labor policies and practices. Combinations of shared capitalist pay and other policies, such as devolving

decision-making to employees, wage at or above the market rate, and lower supervisory monitoring, produce the largest benefits for workers and firms.
- The risk of shared capitalism investments in one's employer is manageable. Portfolio theory suggests employee ownership can be part of an efficient portfolio as long as the overall portfolio is properly diversified. Most workers have modest amounts of employee ownership within the ranges suggested by portfolio theory. Less risky forms of shared capitalism such as cash profit sharing and stock options where workers are paid market wages, or company stock is not financed by worker savings, can be prudently combined with riskier forms where workers purchase stock.

Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, The University of Chicago Press, National Bureau of Economic Research, 2010. Above information can be found on page 12.

3. In August 2010, The ESOP Association and the Employee Ownership Foundation released the results of a survey conducted among the Association's 1,400 corporate members which confirmed positive benchmarks for ESOPs. The eye-opening statistics of the 2010 survey are the increase in age of the ESOP and account balances. In 2010, the average age of the ESOP was reported to be 15 years, demonstrating ESOP companies are sustainable. In addition, the average account balance has risen dramatically to $195,222.65; a high figure compared to most data tracking defined contribution plans which correlates with the age of ESOPs participating in this year's survey. And approximately 90% of members reported having retirement savings plans in addition to the ESOP including the use of 401(k) plans, pension plans, stock purchase plans, and stock options. In terms of motivation and productivity, 84% of respondents agree that the ESOP improved motivation and productivity. The Company Survey is conducted every five years and was last completed in 2005. Prior to 2005, the survey was completed in 2000.

Also in September 2010, the Employee Ownership Foundation released the results of an extensive study it funded that evidenced that ESOPs provide more employee benefits than non-ESOP companies. The study, which reviewed data from the Department of Labor Form 5500 on defined contribution retirement plans, found:

- ESOP companies have at least one plan, the ESOP, but more than half (56%) have a second retirement savings/defined contribution plan, likely a 401(k) plan. In comparison, the Bureau of Labor statistics reports that 47% of companies have some sort of defined contribution plan which shows that an ESOP company is more than likely to have two defined contribution plans than the average company is to have one plan.
- The average ESOP company contributed $4,443 per active participant; in comparison to a non-ESOP company with a defined contribution plan which contributed on average $2,533 per active participant. This study found that on average ESOP companies contributed over 75% more to their ESOPs than other companies contributed to their primary plan.

The project was done by the National Center for Employee Ownership (NCEO).

Finally, in the summer of 2011, the Employee Ownership Foundation released its 20th Annual Economic Performance Survey (EPS), that evidenced a very high percentage of companies, 92.21%, declared that creating employee ownership through an ESOP (employee stockownership plan) was "a good decision that has helped the company."

4. In June 2008, Brent Kramer, a doctoral candidate at the City University of New York, now Ph.D., submitted a study, *Employee Ownership and Participation Effects on Firm Outcomes*, that "provides strong evidence that majority employee-owned businesses have a significant advantage over comparable traditionally-owned businesses in sales per employee." The average advantage, $44,500, means that a typical 200 person ESOP firm could be expected to have an almost $9 million annual sales advantage over its non-ESOP counterpart. Sales per employee is the total of a company's sales divided by the number of employees, and is a commonly used measure of a company's productivity. Highlights of the

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ESOP Facts & Figures

- There are approximately 10,000 ESOPs in place in the U.S., covering 10.3 million employees (10% of the private sector workforce).

- The size of a company's annual contribution to its ESOP has been found to be a key factor in determining the extent to which ESOPs are believed to have a positive impact on employee owners' attitudes toward their work. In 2010, on average, companies contributed 12.7% annually to the ESOP. The numbers also show that 74.4% of companies are contributing 6% or more annually and 46% contribute over 10% annually to the ESOP. These contribution numbers indicate that a majority of ESOPs are making significant contributions to employee owners' accounts.

- The growth of ESOP formation has been influenced by federal legislation. While the rapid increase in new ESOPs in the late 1980s subsided after Congress removed certain tax incentives in 1989, the overall number has remained steady with new plans replacing terminated ESOPs. Currently, it is estimated that there are approximately 10,000 ESOPs in place in the U.S. However, there is no precise way to measure this figure accurately since the overwhelming majority of ESOP companies are privately held and do not file public reports with the SEC.

- About 330 ESOPs - 3% - are in publicly traded companies.

- An estimated 7,000 of the 10,000 companies have ESOPs that are large enough to be a major factor in the corporation's strategy and culture.

- Approximately 5,000 ESOP companies are majority-owned by the ESOP.

- Approximately 4,000 are 100% owned by the ESOP.

- About 2% of ESOP companies are unionized.

- While ESOPs are found in all industries, 22% of them are in the manufacturing sector.

- At least 70% of ESOP companies are or were leveraged, meaning they used borrowed funds to acquire the employer securities held by the ESOP trustee.

- An overwhelming majority of ESOP companies have other retirement and/or savings plans, such as defined benefit pension plans or 401(k) plans, to supplement their ESOP.

- Of the 10,000 employee-owned companies nationwide, fewer than 2% were financially distressed when they established their ESOP.

- Total assets owned by U.S. ESOPs is estimated to be $869 billion at the end of 2009.

Some information obtained from the "2010 Company Survey," conducted among ESOP Association members in 2010. For additional information about ESOPs or The ESOP Association, please visit the website at www.esopassociation.org, call 1-866-366-3832, or email esop@esopassociation.org

Current List of Sponsors of S. 1512
"The Promotion and Expansion of
Private Employee Ownership Act of 2011"

Original Group

Sen. Ben Cardin (D-MD)
Sen. Pat Roberts (R-KS)
Sen. Olympia Snowe (R-ME)

Joined as Sponsors Since September 6

Sen. Roy Blunt (R-MO)
Sen. Mary Landrieu (D-LA)
Sen. Patrick J. Leahy (D-VT)
Sen. Jerry Moran (R-KS)
Sen. Bernie Sanders (I-VT)
Sen. Amy Klobuchar (D-MN)
Sen. John Thune (R-SD)
Sen. Sheldon Whitehouse (D-RI)

Consider Sending These Senators a "Thank You" Letter

The Follow-Up

As powerful as a Congressional visit is to an ESOP company in winning support for ESOPs in Congress, it is not the end all of the be all. To really nail down the case for ESOPs, follow-up is crucial. Since follow-up is so crucial, this fact makes it even more important that the ESOP advocates that hosted the Congressional visit have a reason to follow-up, such as asking politely if the member has declared for ESOPs.

Number one, it goes without saying that a nice letter of appreciation from the company, and as many of its employees as it desires, to the member of Congress for his or her visit, that **mentions** by name the staff person[s] who facilitated the trip must be written.

Other Follow-Up Steps: Under the theory that one does not grow Congressional support overnight, but cultivates it month after month, and year after year, the host of a Congressional visit should take every opportunity to renew, or exchange greetings with the member and/or her or his staff.

For example, let's assume you are attending the 2012 Annual Conference in DC. Try to drop by the office of the member of Congress that visited your company before the Congressional reception, or at some other time during the Conference, or the day after if you are staying over. If the member of Congress has not signed on to the pro-ESOP legislation, it is a perfect time to make inquiry about the review process again.

For example, let's assume your company is having a grand celebration, or opening a new building, or marking a milestone—invite the member of Congress to the event, thinking ahead of time of those periods of the year that the member of Congress might be in her or his state or Congressional district.

For example, let's assume you read in the newspaper, or received a notice that the member of Congress was going to have a town hall meeting in your community, or near your community, or conduct the new, popular telephone town hall meeting, when thousands can call-in and ask, and listen, to their member of Congress answer. Make a point to attend, or call, and before the formal Q&A period, or after the close, make a point to go up to the member of Congress and shake hands, reminding her or him of his visit. Don't forget, if the member of Congress local staff person is with him, the same person who came to your company, shake that person's hand as well, and exchange pleasantries, expressing appreciation once again for the visit. (Avoid town hall meetings until the health care debate ends.)

(Nothing is more powerful than that staff person to say in the car as they drive away, "You know, those ESOP people sure are nice.")

And don't forget to ask diplomatically if there has been no response to your request that the member of Congress write the Secretary of Labor, if "did the [Congress[man][woman] [Senator] get a chance to review our position against the DOL proposed regulation that would increase our costs of having an ESOP, and expose us to frivolous" costs?

Fall Back

If after several tries, it is not possible to schedule a visit for your member of Congress to visit your company, why not visit the member at his/her District office? While this meeting is not as effective as a company visit in terms of introducing a member of Congress to your company and its culture, it is another way to reach out to your member of Congress.

This meeting is a great opportunity to bring employee owners to the meeting to tell your company's story and ask for his/her support of ESOPs and employee ownership in America.

Super Duper Fall Back

It is not easy to fit into the schedule of a member of Congress, particularly a Senator who might be in your part of the state only occasionally. No matter what you or your colleagues might think of a member of Congress, they have tremendous demands on their time. There is fortunately a very good fall back position that pays dividends for a future visit by the member of Congress.

If a member of Congress cannot schedule a visit to your company in the near term, ask the top staff person in the district or state office to make a visit. Treat the visit similar to one by a member of Congress, ending the visit with the presentation of the "sales" pitch.

Worthless waste of your time to have a young whipper snapper, hot-shot Congressional aide visit your company? Not at all, as that young person will be riding around the Congressional district or state with the member of Congress many, many hours, with not a great deal to talk about. (Unfortunately, cell phones, and Smart phones have cut down car talk time between the member of Congress and his or her staff car driver.)

For example, once a company tried and tried and tried to get a Senator to visit their company. Finally they settled on having the state director come to the company. Then in a few weeks that person was riding down the turnpike with the Senator and mentioned that he had visited with a company just off the exit they were passing, and it was a really special company—an ESOP company. The staff man said that the company leaders had invited the Senator to visit, and that he thought that the Senator should do that. The Senator came. The Senator chaired an important committee of Congress, and upon returning to DC told his committee staff that he wanted an employee owner to testify at the next appropriate committee hearing. The employee owner came. Also testifying that day was the Secretary of Labor. He was impressed. He was tasked by the President to have a "seminar/symposium" in Chicago on the work place of tomorrow. He remembered the employee owner. He invited him to testify before the President of the United States. The President of the United States was impressed. It is all on tape.

Never feel you failed if you have the staff person visit your company first.

Conclusion

HAVING A MEMBER OF CONGRESS BECOME AN ESOP CHAMPION IS NOT A ONE TIME EFFORT. ON THE OTHER HAND, THE FIRST ONE TIME EFFORT SHOULD BE A VISIT TO THE ESOP COMPANY, AS IT IS THE MOST EFFECTIVE LOBBYING TOOL IN THE ESOP ADVOCATES KIT. THE DATA FROM THE PAST 30 YEARS PROVES THIS STATEMENT AS A FACT.