ESOPs & YOU:

THE SACCO GUIDE FOR WOMEN & MEN IN BUSINESSES WITH EMPLOYEE STOCK OWNERSHIP PLANS

BY GARY B. HANSEN & FRANK T. ADAMS

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SOUTHERN APPALACHIAN CENTER for COOPERATIVE OWNERSHIP

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ORDERING INFORMATION

Please send orders to **SACCO**, 12.5 Wall Street, Suite D, Asheville, NC, 28801. You may place orders by telephone 828-232-0632 or by visiting our website, www.workerowned.org. For details see the inside back cover of **THE SACCO GUIDE**.

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ESOPs & YOU:
THE SACCO GUIDE FOR EMPLOYEES IN BUSINESSES WITH EMPLOYEE STOCK OWNERSHIP PLANS

INTRODUCTION

Employee Stock Ownership Plans, or ESOPs, can and should benefit employees. Yet because each ESOP can be quite different as is each corporation, knowing how ESOPs work, in general, will help you to know your rights and responsibilities in your company's particular ESOP.

Employees are learning about ESOPs at businesses across America. Over 10,000 companies, large and small, have ESOPs today. Through ESOPs, some 10 million women and men own stock shares in the companies where they work.

ESOPs are not mysterious. You have a legal right to know about your company's ESOP. You benefit most when you know what the ESOP plan covers. Be aware, however, that employees have been hurt financially through lost pension funds or restrictions on shareholder rights. If your company is creating an ESOP, or has one in place, **THE SACCO GUIDE** tells you how to make your opinion heard.

Just as your company must provide you with copies of policies for wages, hours, working conditions, or other benefit plans, you have a legal right to copies of two important documents: the **ESOP SUMMARY PLAN DESCRIPTION** and the **ESOP PLAN DOCUMENT**. With these two documents, and The SACCO Guide, you can size up your company's ESOP and how it compares with the basic characteristics of ESOPs.

THE SACCO GUIDE is based on the law, of course, but also comes from two decades of experience as consultants to employee-owners. The SACCO GUIDE is not a substitute for professional legal or accounting advice. However, knowing the basics gives you a way to ask technical experts informed questions.

Congress passed the first major ESOP legislation in 1974. Today, complex federal tax and pension laws regulate how ESOPs work and are managed. These laws are affected indirectly by labor law, securities law, the Internal Revenue Service, the U.S. Department of Labor. Obviously, **THE SACCO GUIDE** cannot describe each law, or the administrative rules that go along with them.

ESOPs are often compared with individual retirement accounts [IRAs] or Roth IRAs, complex individual benefit plans. To set up IRAs, most employees get expert advice from certified public accountants, estate planners, bankers, or lawyers. Few employers ever set up an ESOP without the help of these or other experts.

You will benefit most from an ESOP when you know what is covered, and then, with other employees, you make the ESOP work for every single employee. ESOPs can and should benefit employees. But ESOPs have hurt employees financially, too, through lost pension funds and by restricting your rights as shareholders.

Ask your employer for the documents mentioned above, or ask the U.S. Department of Labor to furnish you a copy. When you ask technical questions about your ESOP, get the answers in writing. Keep every written answer handy, too! Here is how to contact the U.S. Department of Labor:

NATIONALLY:
U.S. Department of Labor
Pension and Welfare Benefits Administration
Room 7-B 54
1730 K Street, NW, Suite 556
Washington, DC 20006
Telephone: 202-254-7013*

or

IN THE SOUTH:
Atlanta Federal Center
61 Forsyth Street SW
Room N 5658
Division of Technical Assistance
Atlanta, GA 30303
Telephone: 404-562-2156*

*Room addresses and telephone numbers are subject to frequent changes.

NOTES ON MY CONVERSATIONS:

APPEAL PROCEDURES COMMON IN ESOPs. Use this space to record the appeals process in your ESOP:

1.

2.

3.

1

HOW ESOPs CAME TO BE
OR,
"JUST WHAT ARE ESOPs?"

ESOPs are a legal way for you to share the *future benefits* of ownership in your company as a reward for *work you do now.*

THIS FACT MAKES ESOPs RISKY. "ESOPs MAKE CAPITALISTS OUT OF PEOPLE, BUT THERE'S NO GUARANTEE THEY'LL DO WELL," IS WHAT ONE ESOP EXPERT SAYS.

Louis Kelso, the lawyer and investment banker who first got the idea for ESOPs over thirty years ago, saw employee ownership as a way to create new wealth in America. He argued that ESOPs can provide workers a second income source. Stock ownership gives workers a stake in their companies and commits them to profits and higher productivity, especially if their pay or benefits are not cut, and if they lose no workplace rights.

ESOPs are a type of employee benefit. Employee benefit plans go back to the 1920's when Congress was looking for ways to help industry recruit and keep workers. The Revenue Act of 1921 gave tax-favored status to profit sharing and bonus plans. Five years later, pension plans were given tax-favored status. However, the Depression kept benefit plans from spreading. By 1939, only 659 employee benefit plans were started.

During the Second World War, fringe benefits were used to reward workers without causing inflation. Congress passed the first ESOP law in 1974. Senator Russell Long, a champion of ESOPs, said the legislation was an industrial Homestead Act. He and others believed employee ownership could lead to a society based on justice, democracy, and respect for the person. Labor and management could cooperate if their interests were the same. Since then, Congress has made many changes in tax laws that make ESOPs more attractive to employers.

In 1974, Congress passed the Employee Retirement Income Security Act [ERISA]. ERISA is meant to safeguard workers' pensions. In spite of the law, many employees still complain that their pension plans come up empty, even after years of employment. Layoffs, transfers, plant closings, or irregular contributions are some of the loopholes employers use to gut retirement plans.

NO CORPORATION IS REQUIRED TO SET UP A RETIREMENT PLAN, BUT IF A COMPANY DOES, IT MUST FOLLOW ERISA REGULATIONS.

Through ERISA the U.S. Department of Labor regulates two types of retirement plans: **DEFINED-BENEFIT PENSION PLANS** and **DEFINED-CONTRIBUTION PENSION PLANS.** Both are tax sheltered investment trusts, using either money put in the trust by the company, or money contributed to the trust by employees — you. Money in the trusts grows both through regular contributions and through investments. To encourage employers to contribute, earnings on contributions and investments are deductible from corporate taxes.

- In a **DEFINED-BENEFIT PLAN**, companies must contribute enough money to allow the trust to generate sufficient assets to pay a predetermined benefit to each retired employee. The Pension Benefit Guaranty Corporation insures your benefit. The trust cannot put more than 10 percent of its assets in employer stock. This makes certain that an employee's savings are not all in one investment basket. However, the Pension Benefit Guaranty Corporation can take months, even years, to decide the exact amount of money due an employee.

- In a **DEFINED-CONTRIBUTION PLAN**, the company has to make only certain contributions. ESOPs are defined-contribution plans. Benefits depend entirely on how the trust's investments pay off. Any profit or loss over time in the market value of the investment is credited or debited to each employee's account. **DEFINED-CONTRIBUTION PLANS** are also called **CAPITAL-ACCUMULATION PLANS** because money is supposed to accumulate in your account.

THE FEDERAL PENSION BENEFIT GUARANTY CORPORATION *does not* insure defined-contribution plans. However, defined-contribution plans, like all retirement trusts, are regulated by the Department of Labor and by the Internal Revenue Service. **DEFINED-CONTRIBUTION PLANS ARE POPULAR WITH EMPLOYERS.**

ESOPs are a special kind of defined-contribution plan. By investing primarily in the stock of your employing company, ESOPs make you, as an employee, an owner. The idea is that you earn money from the capital invested for you, or that you invest and not just from your labor. Today, ESOPs are a significant part of the American economic landscape. Between 1985 and 1993, over 750 firms set up ESOPs where employees had at least 25 percent ownership.

You need to know exactly what type of plan your company has in place, or intends to set up. To learn answers to these questions, and others you may have after reading the **ESOP SUMMARY PLAN DOCUMENT**, ask your ESOP Trustee, or a member of the Trust Committee.

Today, **DEFINED-CONTRIBUTION PLANS** include:

- **EMPLOYEE STOCK OWNERSHIP PLANS** - employers or employees finance worker ownership with money the company or ESOP Trust borrows, or the company contributes. An ESOP is the only employee benefit plan that can use corporate credit to purchase company stock for worker ownership.

- **PROFIT-SHARING PLANS** - employers distribute cash to workers, or invest in a deferred trust, based on company profits.

- **STOCK BONUS PLANS** - employers distribute stock to workers but do not base the contribution on profits.

- **THRIFT OR SAVINGS PLANS** - employees contribute a predetermined part of their earnings to an investment account that the employer matches.

- **MONEY-PURCHASE PENSION PLANS** - employers make a fixed contribution that is not based on profits.

- **401(K) AND ROTH PLANS** -employees channel part of their salary before income taxes to an investment trust.

Some companies combine ESOPs with one or more of these various plans, particularly 401[k]s and profit sharing. If you have a voice in setting up a new ESOP, you need to know exactly what sort of plan, or plans, are being considered. Also, make certain you know how the stock will be distributed, as cash or in stock, or cash in place of stock.

ESOPs can be a deciding factor in your choice of an employer and can add to your own financial worth. **BEFORE PUTTING YOUR TIME AND HARD-EARNED MONEY AT RISK, YOU AND OTHER EMPLOYEES NEED TO KNOW ABOUT THESE — AND OTHER — EQUALLY IMPORTANT ESOP DETAILS.**

2

DIFFERENT KINDS OF ESOPs
OR,
"NOT ALL ESOPs ARE CREATED EQUAL!"

Stock is one way individuals share ownership and control of a corporation.

Legally, ESOPs are specialized **STOCK BONUS PLANS**, an employee benefit regulated both by Section 401[a] of the Internal Revenue Code and by the Employee Retirement Income Security Act [ERISA].

The Internal Revenue Service sees the ESOP as a tax-favored tool for financing corporations. The Department of Labor, which administers ERISA, sees ESOPs as an employee benefit plan that must operate for the exclusive benefit of employees. To be legal, or to "qualify," an ESOP must meet the requirements of both the IRS and ERISA. Remember, however:

- **AN ESOP CAN BE QUALIFIED BY BOTH THE IRS AND ERISA, AND BE LIMITED TO NON-UNION EMPLOYEES.**
- **EMPLOYERS ARE NOT REQUIRED TO INCLUDE UNION MEMBERS IN AN ESOP, ALTHOUGH THE OWNER, OR MANAGEMENT, IS REQUIRED TO BARGAIN WITH THE UNION SHOULD THE UNION WANT MEMBERS TO BE INCLUDED.**

Typically, to get an ESOP started and to meet all legal requirements, the company's board of directors adopts a resolution approving the creation of an Employee Stock Ownership Plan - called the ESOP, and an Employee Stock Ownership Trust - called the Trust. Both the ESOP and the Trust are drawn up by lawyers, or benefits consultants, from outside the company. Often employees have little or no input on how the ESOP will distribute stock, or who will be the Trustee, or if they will have a member on the Trust Committee.

As an employee, if your employer does not have an ESOP, you, or some of your work mates, may help draft the ESOP, although this is unusual. However, make sure when you study your ESOP Summary Plan Document that you are clear about these crucial details:

- **WHICH EMPLOYEES ARE COVERED**
- **HOW THE VESTING SCHEDULE OPERATES**
- **THE FORMULA TO BE USED FOR ALLOCATING COMPANY CONTRIBUTIONS TO INDIVIDUALS' ACCOUNTS**
- **WHEN, SPECIFICALLY, IS ESOP STOCK ALLOCATED TO INDIVIDUALS' ACCOUNTS**
- **HOW AND WHEN EMPLOYEES GET THEIR SHARES OR CASH UPON RETIREMENT, DEATH, OR THE END OF EMPLOYMENT**
- **HOW SHARES HELD IN THE TRUST ARE TO BE VOTED**

The Trust is a separate legal organization formed to hold company stock or other assets until they are given to the employees. Your company's board of directors appoints a Trustee, or Trust Committee, to act and make decisions solely in the participants' interests.

The Trustee, or Trust Committee, is legally bound to make sure that the stock is properly allocated to members' accounts according to the formula included in the ESOP. Every participant in the ESOP must have an account. Many employees have found it is wise to insist that the ESOP use a Trust Committee composed of representatives elected by employees.

The Trust can buy as little as one percent of the stock, or as much as 100 percent. When the Trust owns less than 50 percent of the stock, the ESOP is called a **MINORITY ESOP.** When the Trust owns 50 percent or more of the stock, it is called a **MAJORITY ESOP.** The stock obtained through the ESOP may either be "common" stock, or a special class, or "preferred" stock. You need to know what kind of stock is in the ESOP and what "rights" are attached to each kind of stock.

Most ESOPs are tax-qualified. An ESOP is tax-qualified if the Internal Revenue Service determines that both the company *and you* are assured certain tax advantages. For instance, the law prohibits ESOP share distribution formulas from favoring highly paid employees. If the ESOP has not been set up to use tax advantages, it does not have to be submitted to the IRS for approval.

Generally, the ESOP is exempt from any taxes on income generated by assets held in the Trust. Your benefits are not taxed until you get the value of your shares from the ESOP, either as cash or stock certificates, at retirement, termination of employment if you are vested, or upon your death. Company contributions to an ESOP are fully tax deductible within specified limits.

As you can see, a lot of technical terms are used to describe ESOPs. Here are two more: ESOPs can be **LEVERAGED** and **NON-LEVERAGED**.

LEVERAGED ESOPs are the only employee benefit plan that can purchase company stock with corporate credit. When this happens, the ESOP is "leveraged."

In a **LEVERAGED ESOP**, the Trust borrows money to buy shares of stock at fair market value. The Trust uses the loan either to buy new stock from the company, or to buy old stock from shareholders. The stock is pledged as collateral for the loan and held by the Trust in a suspense account.

Ordinarily, the employer guarantees repayment of the loan, then each fiscal year contributes cash to the Trust in the amount needed to repay the principal and interest. As the loan is repaid, the shares of stock in the suspense account are released and allocated to individual employee accounts based on the ESOP participants' wages or salaries.

Charts 1A and 1B illustrate how leveraged ESOPs operate when the loan money is used to buy new stock from the company.

Chart 1A

LEVERAGED ESOP: BEGINNING SET-UP

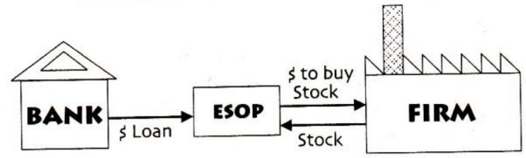
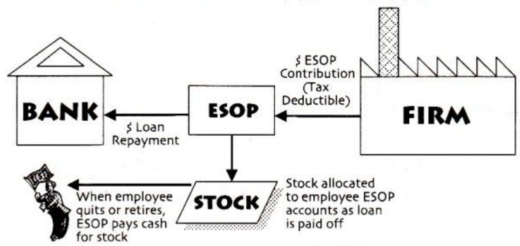


Chart 1B

LEVERAGED ESOP: DOWN THE ROAD



Your employer, through the ESOP, gradually pays off the loan with payments that are tax deductible as deferred labor compensation. The employer can make tax-deductible contributions of up to 25 percent of the payroll for ESOP participants, plus the amount of interest payable on the ESOP loan.

In addition, all company contributions that repay interest on the ESOP loan are tax deductible. Dividends on stock in the Trust that are used to repay an ESOP loan are tax deductible, and are not subject to the 25-percent contribution limit.

CLEARLY, BEING ABLE TO DEDUCT BOTH THE PRINCIPAL AND INTEREST PAYMENTS FROM TAXES GIVES ESOP LOANS A SIGNIFICANT TAX ADVANTAGE. Ordinarily, companies can deduct only the interest on direct loan payments.

Eventually, a company's total payments to a **LEVERAGED ESOP** must equal the amount originally borrowed, plus interest, less any dividends on stock in the Trust that are used to help repay the loan.

Proceeds from ESOP loans must be used to purchase shares of company stock, or to repay a prior ESOP loan. The interest rates must be reasonable. The ESOP loan must be a term loan, not a demand loan. Term loans are repaid over a time specified in writing. Demand loans are repaid when the bank, or lender, wants the money.

ESOPs are **NON-LEVERAGED** when they do not borrow money. In this case, the company makes cash or stock contributions to the ESOP Trust. This money is allocated to individual employees' accounts. If the company makes cash contributions, the Trust uses the money to buy stock from the company or outside shareholders at fair market value.

NON-LEVERAGED ESOPs are a form of stock bonus plans, or a combined stock bonus and money purchase pension plan. The IRS has special regulations for **NON-LEVERAGED ESOPs**.

EITHER LEVERAGED ESOPs OR NON-LEVERAGED ESOPs CAN BE USED TO FINANCE MANAGEMENT-INITIATED OR EMPLOYEE-INITIATED BUYOUTS. BOTH HAVE BEEN USED TO SAVE JOBS, TO BUY OUT A RETIRING OWNER, OR TO GAIN CONTROL OF THE COMPANY.

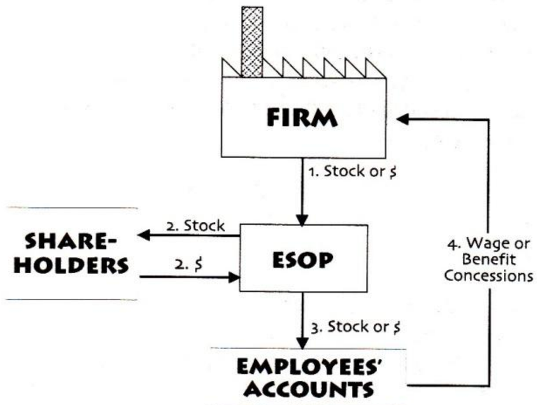
In some buyout situations, employees agree to the creation of an ESOP as part of a wage concession package. Company stock is allocated to individual employees' ESOP accounts over time specified in the loan agreement and as the loan used to buy the firm is repaid. **THE ESOP PLAN DETERMINES HOW MUCH STOCK YOU WILL OWN.**

Chart 2 *(on the following page)* illustrates the basic features of a **NON-LEVERAGED ESOP.**

You should know exactly how the ESOP is "structured." How are shares to be distributed? **IF YOUR EMPLOYER HAS A PENSION FUND, IS THE PENSION FUND BEING USED IN ANY WAY TO FUND THE ESOP?** Can you vote your shares on a one-person, one-vote basis, or on a per-share basis? Can you vote to elect members to the board of directors? To the Trust Committee? Does your company have a profit-sharing plan? If not, will a profit-sharing plan be set up along with the ESOP? This can offset any cuts in pay, benefits, or vacations, etc., if you and other employees have to contribute to the ESOP.

Contributions to the Trust may be based on the company's profits, or on some formula left to the discretion of the employer. However, the amount of money employers can contribute to a money purchase pension plan ESOP does not depend on profits. The company may deduct from taxes annual payroll contributions of up to 15 percent for a stock-bonus ESOP, and up to 25

Chart 2
NON-LEVERAGED ESOP



1. Company makes annual cash or stock contributions to ESOP Trust.
2. If cash is received, ESOP buys stock from existing stockholders.
3. Employees collect stock or cash when they retire or leave the company.
4. In some cases employees make wage concessions to help increase the company's competitiveness.

percent for a combined, stock bonus and money purchase ESOP.

One other point on the topic of how the ESOP is structured: The money or stock in departing employees' accounts that is not vested at the time of departure may be reallocated to other employees or used to defray the ESOP's administrative costs.

ESOPs MAY BE DIFFERENT IN TWO MORE WAYS.

Either **LEVERAGED** or **NON-LEVERAGED ESOPs** may be **PARTICIPATORY ESOPs** or **NON-DEMOCRATIC ESOPs.**

What is a **NON-DEMOCRATIC ESOP**? In the vast majority of existing ESOPs, both leveraged and non-leveraged, you can "own" stock, but you do not have a right to vote that stock during stockholders' meetings. Therefore, these ESOPs are not democratic.

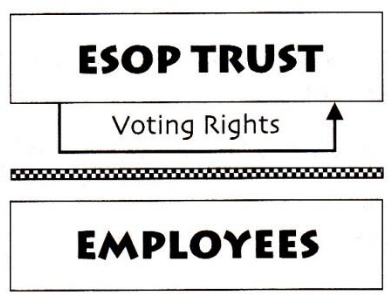
FOR EXAMPLE, IN CLOSELY HELD COMPANIES WITH ESOPs, VOTING RIGHTS CAN BE LIMITED

SEVERELY. IN SUCH SITUATIONS, EMPLOYEES MAY BE DENIED VOTING RIGHTS EVEN AFTER THE TRUSTEE, OR TRUST COMMITTEE, ALLOCATES STOCK TO YOUR INDIVIDUAL ACCOUNTS. YOUR VOTE AS AN EMPLOYEE SHAREHOLDER IS REQUIRED ONLY ON MAJOR CORPORATE ISSUES, SUCH AS MERGERS, GOING OUT OF BUSINESS, OR SALE OF ASSETS.

The law allows an ESOP to prevent employee voting on policies that normally require shareholder voting.

Here, the stock is voted by a Trustee selected by management, or directed by an advisory committee from management. However, even with this provision, most corporate votes are so one-sided, that a Trustee's opinion, feelings, or leanings do not matter when the ballots are counted. The die is cast. This chart illustrates the voting rights for a non-democratic ESOP.

Chart 3
NON-DEMOCRATIC ESOP



In closely held firms, voting rights do not need to be passed through to employees unless the firm is sold.

IN COMPANIES IN WHICH THE STOCK IS PUBLICLY TRADED, VOTING RIGHTS MUST BE "PASSED THROUGH" TO ESOP SHAREHOLDERS. HOWEVER, UNTIL THE TRUST ALLOCATES STOCK TO INDIVIDUAL WORKERS' ACCOUNTS, WHICH OCCURS ANNUALLY (USUALLY FOR FIVE TO SEVEN YEARS - THE CUSTOMARY LENGTH OF A LOAN), THE TRUSTEE, OR TRUST COMMITTEE, HOLDS THE VOTING RIGHTS THAT GO WITH THE STOCK.

Even when voting rights on allocated shares are "passed through" to you as an ESOP participant, employee votes ordinarily represent so small a percentage of the total shareholder pool that they have little influence.

ESOPs CAN BE SET UP SO THAT WORKERS HAVE THE RIGHT TO DIRECT THE TRUSTEE, OR TRUST COMMITTEE, HOW TO VOTE ALL THE UNALLOCATED ESOP STOCK. THESE ARE CALLED "AN INSTRUCTED TRUSTEE MODEL," AND ARE FOUND MOSTLY IN MAJORITY ESOPs.

THE 1986 TAX REFORM ACT AUTHORIZED THIS KIND OF ESOP UNDER SECTION 409[E][5] OF THE INTERNAL REVENUE CODE. MOST "INSTRUCTED TRUSTEE ESOPs" ARE ONE-SHARE, ONE-VOTE ESOPs. HOWEVER, THERE ARE "DEMOCRATIC ESOPs", OR ONE-PERSON, ONE-VOTE ESOPs.

Depending on how the Trust is set up or "structured," the Trustee exercises the voting rights for all shares held in the ESOP rather than passing them through to employees. Employees vote on all shareholder issues. This is the first tier. Then, the Trustee is required to vote all shares in proportion to the results of employee voting. This is the second tier.

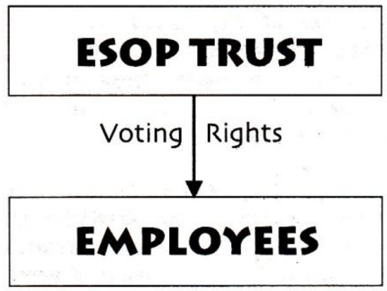
THIS KIND OF ESOP ALLOWS ONE-PERSON, ONE-VOTE ELECTIONS OF A BOARD OF DIRECTORS, AND VOTES ON ALL SHAREHOLDER ISSUES. Democratic ESOPs can also be leveraged or non-leveraged, and they have the same tax advantages as any other ESOP.

The laws permit variations on this basic model, including allowing the Trustee to vote unallocated shares as he or she sees fit. Without specific instructions provided for in the ESOP document, Trustees can vote unallocated shares as they choose.

Chart 4 *(On the following page)* illustrates how democratic ESOPs operate.

Of the hundreds of ESOPs organized since 1974, only a very few are majority-owned with one-person, one-vote rights. Unions have created most democratic ESOPs. Some unions prefer one-share, one-vote ESOPs, or a variation directing the Trustee to vote unallocated shares in the same proportion as the participants' voted allocated shares.

Chart 4
ONE-PERSON, ONE-VOTE DEMOCRATIC ESOP



Voting rights are "passed through" to employees on the basis of one-person, one-vote.

A special legal provision enables the ESOP to restrict ownership of company stock exclusively to employees who work in the company. Retiring workers, or those who leave for other reasons, are given cash instead of stock. This law eliminates stock "seepage." Stock seepage lessens long-term employee ownership and control. Obviously, retired workers or persons who leave the company end up owning an ever-growing percentage of stock.

THUS, UNLESS THE ESOP IS SPECIFICALLY STRUCTURED AS A DEMOCRATIC ESOP, AND INCLUDES A MANDATORY STOCK BUY-BACK PROVISION, THE COMPANY MAY NOT BE EMPLOYEE-CONTROLLED, PRACTICALLY OR THEORETICALLY, EVEN IF IT IS EMPLOYEE-OWNED.

3

ESOPs & YOU
OR,
"WHERE DO EMPLOYEES FIT IN?"

Where do you as a "shareholder" fit into the ESOP?

At present, federal law defines who can be an ESOP participant. The law is supposed to ensure that a significant percentage, or a fair cross-section, of a company's workforce is eligible for benefits.

However, employees have had little influence on how national ESOP laws are written.

Here's where you stand with most ESOPs:

Your **OWNERSHIP INTEREST** in the ESOP is called a **VESTED INTEREST**. The ESOP Plan Document describes your vesting schedule. There are many ways to set up a vesting schedule, but most favor long-time employees. *Pay careful attention to this detail.* The longer you stay with the company, the greater your vested interest. While this is similar to most other employee benefit plans, there is a **CATCH**:

> **IN AMERICA TODAY, THE AVERAGE WORKER STAYS ON A JOB JUST THREE-AND-A-HALF YEARS. IN OTHER WORDS, MANY WORKERS LOSE THEIR EQUITY BECAUSE CURRENT ESOP VESTING FORMULAS REWARD LENGTH OF SERVICE.**

If you have not worked at the company for as long as specified in the ESOP, all stock or cash not "vested" in your name is forfeited if you leave for any reason other than death, disability or retirement. The money you forfeit is divided among all other employees, usually by the same formula as other ESOP allocations.

For example, say the vesting schedule in your ESOP is 20 percent annually for the first five years. If you leave after two years on the job, you will be entitled to 40 percent of the stock, or cash, in your account. The remaining 60 percent will be divided among all the other participants who stay with the company.

A 1986 tax law states that vesting must either be 20 percent a year after three years or 100 percent after five years. Workers get nonforfeitable rights in five to seven years. This law went into effect in 1989. Vesting schedules can be changed. But this might cost the company money. Administrative costs may increase if a new vesting schedule is used. Most ESOP administrators charge by the person. As you read your ESOP Plan Document or ESOP Summary Plan Description, look to see if the ESOP contains a clause allowing the vesting schedule to be modified.

The 1986 changes help some workers, but leave many out in the cold. On the plus side, companies must pay employee-ownership benefits even if a worker leaves for reasons other than death, retirement or disability. And for all stock acquired since 1986, payments cannot be deferred until a person reaches retirement age.

- **ALLOCATION FORMULAS CAN FAVOR SOME WORKERS.**
  Annual ESOP allocations to employee accounts are made by a formula that relates each worker's wage or salary to the wages or salaries of all other participating employees.

  For example, if you earn $10,000 annually, and the wages and salaries of all participating employees totals $500,000, you earn 2 percent. Your account will be credited with 2 percent of the company's contribution to the ESOP that year. If the company contributes $100,000, your share will total $2,000. Someone earning $20,000 is allocated $4,000. The law imposes a $160,000 contribution cap.

  Typically, managers earn several times more than employees. The allocations to their accounts reflect these differences in pay.

  However, some ESOPs give credit for years of service in the allocation formula. Others negotiate a cap for top-salaried employees to limit their ability to take advantage of the allocation process.

If your company, trying to be fair, puts a salary cap on how much more money managers can earn than lower-paid employees, then finding experienced management may prove difficult. Recruiting first-rate managers who want to put their skills to work for employee-owned firms is a challenge, unless, of course, they make an investment and/or are offered bonus packages or stock options tied to the company's financial performance.

At the end of the ESOP accounting year, you must receive a statement showing the amount credited to your ESOP account, and your current account balance.

The Trustees, or the Trust Committee, must give every participant a summary of the ESOP's annual report within nine months of the close of the plan year. This annual summary must include:

- **THE STATEMENT OF ASSETS AND LIABILITIES;**
- **THE STATEMENT OF RECEIPTS AND DISBURSEMENTS;**
- **THE CURRENT VALUE OF ASSETS USED TO FIGURE THE REQUIRED CONTRIBUTIONS;**
- **THE PRESENT VALUE OF ANY NONFORFEITABLE PENSION BENEFITS FOR WHICH ESOP IS LIABLE; AND,**
- **ANY OTHER INFORMATION NEEDED TO SUMMARIZE THE ANNUAL REPORT.**

A more detailed ESOP Annual Report *must* be given to the Department of Labor and the Internal Revenue Service within nine months of the close of the plan year. Extensions of two-and-a-half months are allowed. These reports will not include the company's financial statements. But the detailed annual report is available to you under ERISA regulations.

ESOP law entitles you to information about the ESOP or the Trust.

THE ESOP TELLS HOW MONEY IS ALLOCATED TO MEMBERS' ACCOUNTS, AND WHEN.

On stock allocated to your account before 1986, you may be fully vested and eligible to retire in terms of length of employment. But you may not get your money until you reach the retirement age stated, or until the 10th anniversary of the year you started ESOP participation. On stock allocated since 1986, however, your payment can be deferred for six years, except if you retire, are disabled or die.

Even with the 1986 law in place, however, some ESOP firms may defer paying you what is due by refinancing their ESOP loans. Here is another example of ESOP law that demands your careful attention.

IN MOST ESOPs, YOU DO NOT DIRECTLY OWN THE STOCK IN YOUR ACCOUNT UNTIL YOU RETIRE, BECOME DISABLED, DIE, OR YOUR EMPLOYMENT ENDS. UNTIL THAT TIME, YOU ARE A BENEFICIAL OWNER.

The Trust holds the stock, or cash, in your name. The Trustee or Trust Committee votes your stock. In a typical ESOP, unless the ESOP or company policies say otherwise, ownership does not mean worker control, or that you have a say in running the company the way owners usually do.

In fact, your "ownership" may count for less than some other participants' ownership. When stock is allocated in proportion to wages or salary, higher paid persons end up owning more stock and ownership clout. In many cases, managers or others also own company stock outside the ESOP.

In privately held companies, voting rights on stock allocated to your account can be limited to major issues, such as deciding to sell the company, or to go out of business.

In addition, some unions have negotiated with investors to give the Trust the right of first refusal on allocated stock. This means the Trust can buy back stock from any retiring or departing ESOP participant. Thus, even when a majority equity interest in your company is sold to a leveraged ESOP, the Trustee keeps the voting rights of stock repurchased from former participants.

When leaving the company, an ESOP participant can demand stock unless the company's charter or bylaws state that current employees, or the ESOP, must own 80 percent or more of the stock. In this case, the person is given cash, or a promissory note that is paid out over up to five years. This regulation is to protect companies that want to remain substantially worker owned.

ONLY ABOUT 800 ESOPs ARE OWNED ENTIRELY BY WORKERS. IN MORE THAN HALF OF THE OTHERS, WORKERS OWN LESS THAN 25 PERCENT OF THE STOCK.

For corporations with stock that trades in the public market, the law requires that participants' voting rights be based on stock allocated to individual employee accounts. Since Trusts seldom hold more than a fraction of such a company's stock - typically 10 to 15 percent - workers gain little shareholder influence.

DEMOCRATIC ESOPs ARE RARE.

SECTION 409 [E][5] OF THE INTERNAL REVENUE CODE ALLOWS AN ESOP TO BE ORGANIZED SO THAT EACH PARTICIPANT HAS A VOTE ON ALL SHAREHOLDER ISSUES, INCLUDING THE ELECTION OF MEMBERS TO THE BOARD OF DIRECTORS. THIS SECTION OF THE LAW ALSO ALLOWS ESOP VOTING ON THE BASIS OF ONE-PERSON, ONE-VOTE.

Most of these ESOPs have been organized by employees to buy out retiring owners, to prevent plant closings, to keep outsiders from buying companies, or to allow a good business to get tax-favored financing.

These ESOPs often spell out employee rights and responsibilities, and ways to gradually shift control from a single owner to workers.

AN ESOP THAT BASES VOTING RIGHTS ON THE

ONE-PERSON, ONE-VOTE PRINCIPLE CAN GIVE EMPLOYEES A SIGNIFICANT VOICE, SINCE THEY TYPICALLY DETERMINE HOW THE TRUSTEE VOTES BOTH THE ALLOCATED *and* **UNALLOCATED SHARES.**

HOWEVER, AN ESOP ALLOWING VOTING ON ONE-SHARE, ONE-VOTE *may or may not* **GIVE WORKERS A SIGNIFICANT VOICE IN CORPORATE DECISIONS. CONVENTIONAL "PASS-THROUGH" VOTING MAY LEAVE THE TRUSTEE TO FREELY VOTE ON THE UNALLOCATED STOCK.**

ESOP Trusts can be organized so they are controlled democratically, even before owners give up control and before any stock is allocated to participants' accounts. The company's formal legal structure determines the organizational pattern.

IF EMPLOYEES DECIDE TO PUSH FOR A DEMOCRATIC ESOP STRUCTURE, YOUR EFFORTS STAND A GREATER CHANCE OF SUCCESS IF WORK STARTS AT THE BEGINNING OF PLANS TO CREATE THE ESOP. ONCE MONEY IS INVESTED, CHANGING A COMPANY'S ORGANIZATIONAL POWER STRUCTURE IS DIFFICULT.

Finally, the board of directors can adopt an ESOP that excludes employees who are under age 21 or union members. However, the ESOP cannot disproportionately favor highly paid employees. ESOP vesting schedules cannot disproportionately favor one group of employees over another.

4

EMPLOYEE PARTICIPATION IN THE ESOP

OR, "HOW DO YOU GET A PIECE OF THE ACTION?"

Sometimes, but not often, owners ask employee leaders to help decide if an ESOP makes sense. Sometimes employees, particularly managers, have gotten involved in ESOP feasibility studies when a decision to sell or close a place of business is being considered.

Whenever an ESOP is formed, you want hard answers to a lot of critical questions to make certain your pension is safe. You also want a real say in ownership, along with a fair vesting schedule and a profit-sharing plan. As we've said, but it bears repeating, if an ESOP is in place when you go to work for a company, you will want to know about vesting, profit sharing, and how much of a say employees have in company affairs.

Owners and the experts they hire to organize ESOPs usually take five steps before setting up an ESOP. These are the five customary steps:

1. Feasibility Analysis
2. Preliminary Financial Appraisal
3. ESOP Design Study
4. Stockholders' Equity Analysis
5. Repurchase Liability Study

In each step, there are key questions you want answered. Here are some of these questions. You will think of countless others specific to your situation:

1. **FEASIBILITY ANALYSIS.**
   - **WHY IS THE ESOP BEING SET UP?**
     Is it just for tax advantages? Or to fend off a hostile takeover bid? Most prominent ESOP consultants warn business people not to use the ESOP as a tax gimmick. When owners grant employees the bare, legal minimum rights and benefits, the ESOP might work, but it may not substantially benefit employees.

- **IS BUYING THE BUSINESS A FEASIBLE INVESTMENT?**
  Can this company make a profit? What are its long- and short-term prospects for making a profit? How much debt can the company repay annually and still pay wages at or above the current level?

- **IS THE COMPANY A "C" OR AN "S" CORPORATION?**
  With some exceptions, sole proprietorships, partnerships, and professional corporations cannot organize an ESOP. Federal tax law provides incentives to owners willing to sell stock to an ESOP. Shareholders of closely held "C" corporations who sell stock to an ESOP may defer taxation on capital gains. In this situation, all capital gains taxes are deferred if the money received from the sale of stock to the ESOP is used to buy stock or bonds in publicly traded U.S. corporations within one year of the sale. This is a powerful incentive for a retiring owner to set up an ESOP.

  For this tax deferral to kick in, however, the ESOP must own 30 percent or more of the company's stock. Tax deferrals for retiring owners have helped employees negotiate a lower purchasing price in some buyout situations.

  The more a company's stock appreciates, the greater the owner's tax advantage. [Appreciates is another term for capital gains.]

  "S" corporations are eligible to set up ESOPs, but the IRS rules are too complex to include in this booklet.

- **IS THE ANNUAL PAYROLL MORE THAN $500,000?**
  Companies with payrolls less than $500,000 often find that setting up and operating an ESOP costs more than it is worth in the short run. For most new companies, the costs of setting up an ESOP do not make financial sense. In

this situation, you, as an employee, may encourage the owners or management to consider using a 401[k] plan that includes company stock and an employer match. Also, you might suggest a phantom stock plan — a bonus measured by the increase in the company's equity value.

- **IS A PENSION PLAN INVOLVED?**
  The federal government guarantees your pension plan. But there are no guarantees for your money in an ESOP. However, ESOPs and traditional pension plans are regulated by ERISA. For you, as an employee, the benefit is having a single federal agency to ask for answers to your questions.

  In some situations, workers have been asked to give up pension plans to provide the capital needed to start the ESOP. This puts employees in the position of having their *current* and *future* security depend entirely on the fortunes of a single company.

- **HAS THE COMPANY HAD PROFITS FOR A LONG TIME?**
  Companies need not show a profit every year for an ESOP to work. ESOPs have been successful in firms that have lost money, even for a long time. But you don't want to own shares of a lemon, especially one that has been squeezed dry, meaning the owner has not been investing regularly in needed capital improvements.

- **WILL OPTIONS OTHER THAN AN ESOP CREATE A STRONGER BUSINESS AND BETTER SAFEGUARD YOUR JOB?**
  Owners always get an answer to these questions. Employees do, if they insist. The answers to these and related questions are contained in a **FEASIBILITY ANALYSIS REPORT**. This report is not required if the company is clearly financially healthy. You need to know exactly what your ESOP shares are buying, and exactly what you are buying is worth.

If the proposed ESOP is to be part of an employee buyout, the feasibility study should be extensive and thorough. It should include a careful analysis of the business, the markets for its products, and its financial and managerial strengths and weaknesses. There are several good handbooks outlining the procedures for feasibility studies.

Sometimes, copies of the feasibility analysis are made available to employees. If this is the case at the company where you are employed, ask if you can have independent accountants or ESOP consultants review it. The feasibility analysis contains invaluable information for you.

2. **PRELIMINARY FINANCIAL APPRAISAL.** Hundreds of questions should be answered in this phase. In the end, however, they boil down to these two:
   - **DOES THE COMPANY HAVE A FUTURE, OR IS IT IN A DYING INDUSTRY?**
   - **WHAT IS THE FAIR MARKET VALUE OF THE STOCK?**

3. **ESOP DESIGN STUDY.** If the feasibility analysis and preliminary appraisal both indicate that an ESOP makes financial sense, the next step is to design the ESOP. **TO MAKE FINANCIAL SENSE, TAKING A RISK ON AN ESOP MEANS YOU MUST BE SATISFIED THAT YOU WILL MAKE A LIVABLE WAGE, GET A REASONABLE RETURN ON YOUR INVESTMENT, AND THAT THE ESOP STOCK INVESTMENT WILL ADD TO YOUR RETIREMENT INCOME.** These are some of the critical questions to ask:

   - Will employees have the right to vote their stock on either allocated or unallocated shares? On one-person, one-vote, or one-share, one-vote?
   - Will voting be "passed through" at all? How will the voting rights on unallocated shares of stock in the Trust be handled?
   - Will any other existing benefit plans be changed?
   - Will the ESOP Plan Document be available to you before the ESOP is in place?

- Will all new employees be given a copy of the Summary Plan Description?
- Will employees be represented on the ESOP Trust Committee?
- Will the ESOP have the right of first refusal if other owners decide to sell?
- Will the ESOP provide for regular internal reports and meetings that are based on the democratic principles of freedom of information and of freedom to assemble?
- Will the company pay the costs of having employees select an accountant or lawyer to review all ESOP documents? In other words, will you have an independent analysis of all ESOP documents?
- Will vesting be fair?
- How and when will you get your money out when you end employment?
- Will the ESOP provide for current dividends?
- Will the ESOP require wage concessions, a deferred wage hike, a cut in benefits, or some of each?

4. **STOCKHOLDERS' EQUITY ANALYSIS.** Before owners set up an ESOP, they will know how the ESOP will affect the value of their stock. They will know how the ESOP will affect their company's cash flow and profits. They will know what tax benefits to expect.

   You, as an employee, should know the answers to these questions, too, if the ESOP is established, or if your employer is considering setting up an ESOP. Here are key questions:

   - Will the ESOP affect a profit-sharing plan if the company has one? Will there be any impact on any existing pension plans? The equity analysis is perhaps the most technical part of creating an ESOP.
   - Will you and other employees have all the projection data and formulas used to analyze the ESOP financially?
   - Will you have access to the same information as management regarding any impact the ESOP might have on a profit-sharing plan?
   - Will you have access to the same infor

mation as owners or management regarding how the ESOP might impact your pension plan?

Obviously, this information helps protect your interests. The equity analysis has important information about future earnings. Firms are required to fund many pension plans, but not ESOPs and other defined-contribution plans. The dollar value placed on stock by the equity analysis is the basis for the "buy-back obligation" or "repurchase liability."

5. **REPURCHASE LIABILITY STUDY.**
The liquidity study predicts the "repurchase liability," or what it will cost the company to "pay out" you, or your beneficiaries, upon retirement, termination, death or disability.

Usually, employees want stock to be converted to cash when it's time to leave the company. Failing to set aside money to repurchase that stock is like setting up a pension plan, supposedly guaranteeing the benefit, then failing to put money into the plan. The liquidity study should answer these questions:

- Will you know how much money is needed to repurchase shares?
- Will you know when the stock must be repurchased?

You, as an employee and as a stockholder, should have answers to both questions.

5

KEEPING UP WITH THE ESOP
OR,
"WHAT ARE YOU ENTITLED TO KNOW?"

You have limited rights to information about the ESOP. In small companies, access to this information is through management, or the Trustee who administers the ESOP. In large companies, the ESOP administrator is the person to see.

You have the right to know about assets in the ESOP, their value, how they are allocated to employee accounts, and how they are transferred, plus to see:

- The Trust documents and any amendments
- Eligibility and claim procedures for participants
- Reports on the ESOP's financing and administrative expenses

But, you do not necessarily have any right to information about the company itself. However, your employer may give you, as a shareholder, access to company financial statements, or minutes of the board of directors' meetings, company bylaws, board policies, or U.S. security law disclosure provisions.

By law, the ESOP administrator, Trustee, or Trust Committee, must give you a copy of the **ESOP SUMMARY PLAN DESCRIPTION** within three months after becoming an ESOP participant. Employees must get copies of this crucially important document within four months of the date when the ESOP is started and every five years afterward.

The Department of Labor, upon request, may provide you a copy of the **ESOP PLAN DOCUMENT** and the **ESOP SUMMARY PLAN DESCRIPTION**. Together, these two documents spell out participants' rights and benefits, including:

- Conditions that disqualify a person from receiving benefits
- Eligibility provisions
- Vesting procedures

- Identity of the administrator or agent
- A description of all parts of any collective bargaining agreement that relates to the ESOP
- Year-end date of the ESOP
- Claims procedures and remedies, if a claim is rejected
- Provide copies of any amendments to the original ESOP
- If the ESOP is modified, or amended, written descriptions of changes must be given to each ESOP participant within seven months after the end of the plan year in which the change is made
- Provide Annual ESOP Report Summary

The Trustee, or Trust Committee, must give each participant a copy of the **LATEST ANNUAL ESOP REPORT SUMMARY** within nine months of the close of the ESOP's fiscal year. A copy must be given to the Department of Labor within the same time.

The **ANNUAL ESOP SUMMARY REPORT** must include:

- A statement of assets and liabilities
- A statement of receipts and disbursements
- The current value of any nonforfeitable pension benefits for which the ESOP is liable

Also, the Annual ESOP Summary Report to the Department of Labor must include the summary given to participants, plus:

- An audited financial statement, if there are over 100 participants
- Information on all fiduciaries
- A statement detailing insurance benefits purchased by the ESOP

Employees must be able to see the **ESOP PLAN DOCUMENT**, or any related documents, including the latest full annual report, either in the administrator's office, or some other accessible place. You must be given a copy of these documents, providing you request them in writing and pay the costs of copying. You can also see the documents at the Department of Labor, Frances Perkins Building, 200 Constitution Avenue NW, Washington, DC 20210.

The Trustee, or Trust Committee, when asked in writing, must give you details about your individual accrued benefits, and about the timing of vesting. But the administrator has to honor only one such request per year.

Under some circumstances, you can learn about the company through some state and federal security laws. If this information seems important, ask your attorney for help.

THE ESOP SHOULD SPELL OUT THE RESPONSIBILITIES OF THE TRUSTEE, OR ADMINISTRATOR, WHO, BESIDES BEING REQUIRED TO GIVE YOU THAT DATA, USUALLY:

- Votes stock shares that the Trust holds if voting rights are not "passed through" to employees, or votes shares as instructed by employees if the ESOP is participatory.
- Receives contributions of stocks or cash with which to buy stock from the company in non-leveraged ESOPs.
- Buys company stock or other assets, either from the company shareholders who are "outside" the ESOP, or from employees who relinquish stock upon retirement, death, disability or termination.
- Borrows money as needed to buy ESOP stock.
- Receives payments from the company to pay back loans received from banks or other lenders in leveraged ESOPs.
- Sells ESOP stock.
- Allocates shares or dividends to participants' accounts.
- Secures the annual independent valuation of the assets and a valuation prior to any sale or purchase of Trust assets.
- The Trustee, whether a company manager, a bank, a trust company, or an ESOP administrator, must manage the Trust "for the benefit of participants".

  In part, this means the Trustee must protect the body of the Trust by assuring that its assets keep their value to the fullest extent possible. For example, if the Trust sells company stock, the price must be at least at **FAIR MARKET VALUE**. Other duties of the Trustee are usually spelled out in a Trust agreement between the company and the Trustee.

6

THE ESOP PAYOFF
OR,
"HOW DO YOU GET YOUR MONEY OUT?"

How and what you will be paid by an ESOP when you retire, are disabled, leave the company, or die, is always a major concern. **THE MARKET PLACES THE VALUE ON THE COMPANY'S STOCK. THAT VALUE MAY RISE OR FALL OVER TIME FOR MANY REASONS.**

THIS IS THE RISK ESOP PARTICIPANTS TAKE IN OWNING STOCK.

A privately held company is obligated to cash out employees when they retire, terminate, die or are disabled. In this type of firm, the stock must be redeemed in cash if the employee wants cash rather than stock. This obligation is called the "repurchase liability." In public companies, the stock must be distributed, and you can sell your stock in the open market whenever you choose.

When the first ESOPs were established, some owners did not plan how they would cash out employees. Others inflated the value of stock contributions. This inflated their tax deductions and cheated employees. Those and similar abuses prompted legislation requiring that stock held by the ESOP be "valued" each year by an independent appraisal firm.

- **THE VALUATION, OR GETTING WHAT BELONGS TO YOU**
  How the appraiser is chosen, and how the fair market value of the ESOP's stock is determined, are the first things you need to know in order to determine what money you have coming to you.

- **THE ANNUAL VALUATION REPORT**
  The appraiser, often a certified public accountant with professional credentials in valuation methods, follows the guidelines set out in **INTERNAL REVENUE SERVICE REVENUE RULING 59-60**, originally issued for estate tax valuations.

  Most companies want a signed contract

with the appraiser detailing what the appraiser will do, when, and how much it will cost. The contract should specify a date when a written report will be available.

Appraisers use piles of information to arrive at a fair market value: company, industry, and national economic and financial data, comparisons, and a host of formulas. For companies with publicly traded stock, the stock price at the market's closing on the valuation date is a factor. For others, the price paid to a previous seller is a factor.

Any written report should explain all the steps and formulas used. The report should be acceptable to the IRS and the Department of Labor. It should be readable. Copies should be distributed to you and all other ESOP participants upon request. **HOWEVER, THERE IS NO LEGAL REQUIREMENT THAT THE VALUATION BE DISTRIBUTED.**

- **DISTRIBUTION, OR CASHING OUT**

  On stock acquired since 1986, stock or cash held in the ESOP and vested in your name can be paid fully when you retire at the age set out in the ESOP, or when you end employment, and can be paid out over a five-year period. In either case, you are entitled to 100 percent of the amount vested in your account. Vesting is based on how many years you have worked.

  On stock issued before 1986, ESOPs are allowed to set normal, early, or late retirement ages. Otherwise, unless the ESOP says differently, you can be "cashed out" by the company:
  - When you reach the defined retirement age
  - When you reach the tenth anniversary of the date you entered the ESOP
  - In the year of termination
  - When the debt is paid off

If you die while participating in an ESOP, your named beneficiary has the right to 100 percent of the money vested in your account. If you suffer a physical or mental disability and you are unable to continue working, you are also entitled to 100 percent of the stock vested in your account.

Each ESOP has a different way to "cash out" employees. You can be paid in a lump sum, or installments over five years. Ask a lawyer, or accountant, to review your ESOP, and then to write an interpretation that *can be given to participants.* Of course, you can ask a trusted ESOP expert to help figure payouts.

- **SECTION 409[H][2] OF THE INTERNAL REVENUE CODE** allows ESOPs in companies substantially owned by employees, or worker-owned corporations, to remain employee owned. Here, employees must be paid in cash if the articles of incorporation or corporate bylaws restrict ownership to persons who actually work in the company day to day. This rule prevents "ownership seepage," ensuring that only working employees own stock.

- **OTHER BENEFITS & YOUR TAXES**
  If the company is profitable, the value of your ESOP stock may increase. If it does not make a profit, your stock may lose its value, or even be worthless. That's the risk you take with ESOPs. Workers take a risk with every ESOP.

  If you cash out of a company that has prospered, you get the value of the stock initially allocated to your account, plus any increase in the fair market value, and any dividends the stock paid.

  Employees must pay taxes when they actually receive cash or stock distributions, but not when allocations are made to their ESOP accounts. There are two ways you can defer paying taxes on your distribution. You can reinvest all or part of the money you get in an Individual Retirement Account, or in another qualified employee retirement plan. This is called a "roll-over."

Or, in some circumstances, you can elect to use certain IRS income averaging provisions to defer paying taxes on your "cash out."

The Trustee, the company, or your accountant, should provide a detailed explanation of these options. Tax laws change all the time. So do ESOP laws, and administrative rulings.

7
"IN CLOSING..."

ESOPs can add to your own financial worth if correctly structured and with proper oversight. ESOPs can also be "fool's gold" - lots of glitter with little or no ultimate value.

The legal documents we've described in detail in this GUIDE are the first places to go for more information about the ESOP in the company where you work. However, you can learn important details through these documents which laws require. Also, the following organizations can help to answer your questions.

SACCO is a professional resource for ESOP information in Southern Appalachia — Southwestern Virginia, East Tennessee, Western North Carolina, Upland South Carolina, and North Georgia. We specialize in Workers' Cooperatives or ESOPs. Our address is Suite D, 12.5 Wall Street, Asheville, NC, 28801. We can be reached by telephone at 828-232-0632, by facsimile transmission at 828-232-0638, by e-mail at joehill@mindspring.com, or our website: www.workerowned.org.

THE ICA GROUP, Suite 1127, 20 Park Plaza, Boston, MA 02116. Jim Megson, president, can be reached by telephone at 617-338-0010, or by fax at 617-338-2788. The ICA Group works with women and men throughout the United States in the formation of workers' cooperatives, or ESOPs.

THE NATIONAL CENTER FOR EMPLOYEE OWNERSHIP, is located at 1736 Franklin Street, 8th Floor, Oakland, CA 94612-1217. You can telephone them at 510-208-1300 or by fax at 510-272-9510. Their web site is:

www.nceo.org.

The NCEO offers regular seminars nationwide, and is a clearinghouse for expert advice.

THE OHIO EMPLOYEE OWNERSHIP CENTER, is a university-based state program that provides information and technical assistance to retiring owners, buyout committees, and labor unions exploring employee ownership in Ohio. The Cen ter is located at 309 Franklin Hall, Kent State University, Kent, OH 44242. You can telephone them at 330-672-3028.

MORE RESOURCES

There are many books about ESOPs. Here are a few:

Frank T. Adams and Gary B. Hansen. *Putting Democracy to Work: A Practical Guide for Starting and Managing Worker-Owned Businesses.* Revised Edition 1992.

Ibid. *ESOPs, Unions, & the Rank and File.* 1999.

Daniel Bell. *Bringing Your Employees into the Business. An Employee Ownership Handbook for Small Business.* 1988.

Joseph R. Blasi. *The New Owners.* 1991.

Ibid. *Employee Ownership: Revolution or Ripoff?* 1988.

Bureau of National Affairs. *Employee Ownership Plans: A BNA Special Report.* 1987.

Bureau of National Affairs: Chaplain, Brown, and Ludwig. "Tax Management ESOPs," *Tax Management Portfolio.* 1987.

Ed Cohen-Rosenthal and Cynthia E. Burton. *Mutual Gains: A Guide to Union-Management Cooperation.* 1987.

Employee Ownership Report. Quarterly publication of the National Center for Employee Ownership.

ESOP Association. *How the ESOP Really Works.* 2nd edition. 1999.

Jeff Gates. *The Ownership Solution: Toward a Shared Capitalism for the 21st Century.* 1999.

Gerald Kalish, ed. *ESOPs: The Handbook of Employee Stock Ownership Plans.* 1989.

John L. Logue, et. al. *Participatory Employee Ownership: How it Works.* 1999.

Owners at Work. Periodical published semiannually by the Ohio Employee Ownership Center.

Corey Rosen, ed. *Understanding Employee Own* *ership.* 1991.

Robert Smiley, Jr. and Ronald J. Gilbert. *Employee Stock Ownership Plans: Business Planning, Implementation, Law, and Taxation.* 1989.

Jack Stack. *The Great Game of Business.* 1992.