



The Employee Ownership Foundation 2012 Annual Report





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May 10, 2013

Dear Employee Ownership Advocate:

2012 was a year of The Employee Ownership Foundation succeeding in providing evidence that ESOPs are good public policy. The Foundation's funding of research and education of employee ownership in our nation's leading universities and colleges by Kelso Fellows all contributed evidence that ESOP companies are more productive, more profitable, and more sustainable providing locally controlled jobs. We supported academic symposiums and a special website with the Aspen Institute in partnership with the Foundation for Enterprise Development. Go to www.employeeownershipfoundation.org for a full report on all our Foundation does to promote employee ownership and ESOPs.

I also thank all of our volunteers and donors for their efforts and dedication in support of our Foundation becoming a major force in making our nation a nation of owners, particularly The ESOP Association chapters and our Foundation trustees, who lead our fund raising drives.

I am proud of our results for 2012, but, we are committed to doing much more in the future. This commitment to do more requires more resources. Now, I am asking you to join me, your fellow employee owners and colleagues providing services to ESOP companies in making a contribution to a most cost effective effort in promoting the power of employee ownership in America today: The Employee Ownership Foundation.

Thank you for all of your support.

Sincerely,

Frieda S. Takaki, Chair

FST:ger

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THE YEAR IN REVIEW

In 2012, the fifth year that The Employee Ownership Foundation (“EOF”) had a \$1 million plus endowment, the list of important projects funded by the Foundation reached an all time high. Below is a synopsis of the projects funded in 2012 or carried over from 2011 to 2012 by the trustees.

- 1. Kelso Fellows, and Supporting Activities:** The Foundation funded five new Kelso Fellows in 2012, at \$67.5 K, provided \$10 K supplemental funding to Kelso Fellows named before 2012, paid \$5 K for the “Ads” running in academic journals soliciting applicants, \$1.5 K for a share of a dinner of Kelso Fellows, alumni Kelso Fellows, where other “Rutgers” Fellows attended, \$25 K as a passthrough from Menke & Associates to underwrite the “Kelso Symposium” in July, 2012, but in adding a “contingency” amount to budget for 2012 in anticipation of needs for the program not otherwise anticipated, such as the summer 2012 Kelso Symposium, the overall budget was not devastated by the \$37.5 K spending above budget.

The Kelso Fellows program is part of an overall academic fellows program, nationwide, but with some international scholars managed through the Rutgers University School of Management and Labor Relations. On an annual basis, it is the “largest” project supported by the Foundation.

The program is the primary tactic to implement a long-standing goal of the Employee Ownership Foundation/ESOP community to have more, and a younger generation, of academics providing academic research data that justifies the “policy” for a national policy encouraging the creation and operation of employee owned/ESOP companies.

- 2. Aspen Center for Business Education (CBE):** This section of the famed Aspen Institute hosts a website, caseplace.org. Established four years ago, funded primarily by the Foundation for Enterprise Development (FED) it has the largest, most complete set of academic papers in the world on “shared capitalism” which includes the ESOP model. Most funding took place at start-up in 2009, until revamping in 2010/2011. Foundation funding is passed through the FED to Aspen. Funding was \$2.5 K.
- 3. Edmunson Scholarships:** Ten scholarships were awarded by year-end 2012 of twelve awards. Scholarships are used by average pay employees to cover cost of attending the Employee Ownership Retreat, and occasionally the Annual Conference, or large, multi-day chapter regional conferences. \$12.5 K was funded in 2012.
- 4. On-line accredited college curriculum program:** At the September 2011 BOT meeting, discussion was conducted on a project proposal for an on-line course on employee ownership. Consensus was gained from the BOT to grant \$7.5 K for this program. On January 26, 2012 the project was completed, and will be available on the Aspen website. The University of California, San Diego, Rady School of Business developed the final curriculum.

- 5. Funded Out of Contingency Line:** Already mentioned were funds for the Rutgers Kelso Fellows.

Also the contingency fund was the source of funds for the brochures for the University of Pennsylvania CEO Certificate Program (\$2.5 K) and a special research project by NCEO using results of the GSS 2010 Survey as its source of estimating how many “dollars” ESOP companies saved the Federal government during the Great Recession.



6. **ESOP Economic Performance Survey:** This annual survey, first conducted 21 years ago by The ESOP Association, but now a Foundation survey, released in September 2012, once again confirmed overwhelmingly that 93% of the ESOP company members of The ESOP Association viewed establishing an ESOP as a “good” business decision. This survey consistently generates more positive media mentions than other Foundation press releases.
7. **UPENN/CEO Project:** The UPenn/CEO project was offered again in 2012. Session 1 commenced June 24th through June 29, 2012. Session 2 commenced September 30th through October 3rd. There were 17 attendees registered for the UPenn Project.
8. **Employee Owner Retreat (“EOR”):** The EOR conducted one Retreat in 2012. The EOR teaches capitalism to average pay employees who are owners through an ESOP.

Fund Raising:

The Foundation raised \$350,000 in 2012.

Decision-making and Goal Setting:

The primary decisions of the Foundation are made by the Executive Committee (“EC”) of the Foundation’s Board of Trustees. At year end 2012 members of the Executive Committee were Chair Frieda Takaki, Mark Lomele, Lonnie Peppler-Moyer, Cindy Turcot, Joseph Cabral, Dan Mareue, Kathryn A. Daly, Carey Chen and Robert W. Edwards.

The Foundation also has a Board of Trustees which develops the Foundation’s annual goals, develops and recommends projects, and takes a lead in fund raising activities.





ACCOMPLISHMENTS FOR EMPLOYEE OWNERSHIP SINCE 2006

Fund Raising

Since its public “kick-off” in 1998 the Employee Ownership Foundation, the tax-exempt 501(c)(3) affiliate of The ESOP Association, has collected nearly \$3,168,012 in contributions from ESOP and employee ownership advocates.

Investments

The Foundation has investments of \$1,241,726 as of December 31, 2012 of the \$3,168,012 received in long-term investments of stocks and bonds.

Foundation Operating Expenses

The direct operating expenses of the past 14 years took \$669,978 of the nearly \$3,168,012 in contributions, or approximately \$50,000 a year on average. Operating expenses include governance, management and general costs.

Foundation Grants

Approximately \$774,252 of the nearly \$3,168,012 was used to fund all or part of the following programs.

1. *The Foundation has pledged to be the lead underwriter for the fourth four year cycle in a row of the General Social Survey (“GSS”), conducted by the Center for Opinion Research at the University of Chicago, questions on employee ownership in America. The development of data on who are employee owners in the U.S., how they work, and in what form they own stock in the companies where they work, is crucial for the development of public policy related to employee stock ownership, as the data demonstrates how important employee ownership is to nearly 38 million Americans.*

Outcome: The most persuasive data for a national policy for employee stock ownership was evidenced by results of the 2010 GSS. The 2010 GSS Survey revealed that during the Great Recession employee stock owned companies laid off employees at a rate less than 3% while conventionally owned companies laid off employees at a rate greater than 12%.

2. *The Aspen Institute’s Center for Business Education projects: Starting in 2008 and continuing in 2012 there are two aspects to this program, which are funded jointly by The Employee Ownership Foundation (“EOF”) and the Foundation for Enterprise Development (“FED”). One is the establishment of now over 400 sources on employee ownership, or shared capitalism as it is called by some, on caseplace.org, a web site that is a repertory of sources for business schools and business professors to gather materials for their courses. This part of the work with Aspen’s CBE is in its fourth year.*
3. *On-line accredited college curriculum program: At the September 2011 BOT meeting, discussion was conducted on a project proposal for an on-line course on employee ownership. Consensus was gained from the BOT to grant \$7.5 K for this program. On January 26, 2012 the project was completed, and will be available on the Aspen website. The University of California, San Diego, Rady School of Business developed the final curriculum.*
4. *FED Essay Contest: During the 2010-2011 academic year, the FED launched an Employee Ownership Essay Contest at universities nationwide. The contest was very successful with about 430 essays submitted. Immediate Past Chair Joe Cabral participated as a judge for the 27 essay finalists. The four winning essays were awarded up to \$1500 by the FED.*



Outcome: Three essays (one finalist and two honorable mentions) came to the EOF Chair's attention as particularly focused on ESOPs. The FED extended an invitation to the EOF to designate an ESOP essay award winner. Chair Cabral designated an essay award winner and approved a cash prize of \$500 for the winner, Juan Meir.

5. *For clarity sake, in year 2009 recipients of money granted from the EOF to Rutgers University for fellowships was labeled as Rutgers University Fellowships (a/k/a Kelso Fellowships). In 2012 the approved budgeted amount of \$67,500 was granted for five (5) Kelso Fellowships at \$12,500 each.*

Outcome: Kelso Fellows, and Supporting Activities: The success of this program, including case studies, employee ownership research and dissertations, etc, is due to the fact that this Rutgers University program penetrates academic institutions throughout the nation. Case studies, bios, and interviews with Kelso Fellows are available through links on the Foundation's website to the FED, Rutgers University and the Aspen Institute Center for Business Education's ("Aspen") CasePlace.org.

The Foundation funded five new Kelso Fellows in 2012, at \$67.5 K, provided \$10 K supplemental funding to Kelso Fellows named before 2012, paid \$5 K for "Ads" running in academic journal soliciting applicants, \$1.5 K for a share of a dinner of Kelso Fellows, alumni Kelso Fellows, where other "Rutgers" Fellows attended. \$25 K as a passthrough from Menke & Associates to underwrite the "Kelso Symposium" in July, 2012.

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The program is the primary tactic to implement a long-standing goal of Employee Ownership Foundation/ESOP community to have more, and a younger generation, of academics providing academic research data that justifies the "policy" for a national policy encouraging the creation and operation of employee owned/ESOP companies.

6. *The Foundation continued granting Edmunson Scholarships – 10 in 2012 – to average pay employees for their attendance at the Foundation's Employee Ownership Retreats, held one to two times a year with a faculty from the Ohio Employee Ownership Center of Kent State University. The Foundation has awarded 116 (\$1000 and \$1250) Charles Edmunson Scholarships to ESOP companies to send average pay employee-owners to employee owner educational programs, such as the Employee Owner Retreat, or The ESOP Association's Annual Conference. (The Scholarships honor the late Charles R. Edmunson, an Association leader and stalwart voice for ownership education for all employees, not just top executives.)*

Outcome: The Foundation's files are full of testimonials of how the Edmunson Scholarship winners have had their employees become more committed, more knowledgeable, and more "thinking of ownership after their experience at programs dedicated to making ownership real for average pay employees."

7. **Beyster Symposium:** *The Beyster Symposium brings together academic leaders and new scholars involved with evaluating broad-based employee ownership and entrepreneurship. Sponsored by the FED, the third Beyster Symposium took place during June 2011. Scholars who have received Fellowships (e.g. Beyster, Kelso, Rutgers, Robert W. Smiley, Jr. and Ray Carey) were invited to attend.*

Outcome: The BOT approved paying the overhead of \$16.2K for the five new Kelso Fellows travel and lodging as well as a portion of the FED costs. Budgeted amount: \$11.5K, and paid \$15.6K. The BOT also approved reimbursing past Kelso Fellows, the Chair and Immediate Past Chair of EOF (approximately ten individuals) for travel and lodging to attend the Symposium. Budgeted amount: \$7K, and paid \$2K.

8. *The Foundation conducts an annual survey of the sponsors of ESOPs to determine how the value of the ESOP shares performed in comparison to the public stock markets, to determine the ESOP's impact on*



the company, and to determine the company leadership's view of the ESOP as a good thing, or a bad thing for the company.

Outcome: This annual survey demonstrates that the majority of ESOP Association members outperform the stock market indexes (41% in 2006, 50% in 2007, and 88.5% in 2009, to cite the recent surveys), and garners more positive media mentions about ESOPs than any other activity under taken in the ESOP world each year.

9. *In 2008 a proposal by the NCEO was granted for a research project to calculate the average ESOP contribution in ESOP companies and the average of the 401(k) defined contribution. Then the ESOP and 401(k) contribution would be added together to compare to non-ESOP companies. An assumption for return on investments would also be done. This research after some modeling could develop adequate income guidelines as to what is reasonable expectation for retirement security provided by ESOP companies versus non-ESOP companies.*

Outcome: In 2010 Loren Rodgers from NCEO finished the research findings regarding the amount of retirement savings available to ESOP participants to EOF. The research was reviewed by the task force headed by Trustee Hugh Reynolds who helped scope the research. An additional \$2,500 was sent to further the work needed on the research for a total funding of \$13,800 for this project. The research conclusions have been cited frequently before federal decision makers as proof ESOPs on the whole provide greater retirement security than non-ESOP companies.

10. *In 2009 the UPenn Symposium was held and was underwritten by EOF. Then Chair Cabral attended, as did about 25 others. EOF underwrote the attendance of several academics, including two from Kent State University's Employee Ownership Center, a Rutgers EOF fellow, and the professor from University of Massachusetts at Amherst, who developed an employee ownership curriculum for CasePlace.org, which is funded jointly by FED and EOF. The UPenn symposium was hosted by the Center for Organizational Dynamics, UPenn on the UPenn campus.*

Outcome: Awareness of employee ownership in the academic community to such a degree that the symposium will be repeated in future years.

11. *In 2008 the Foundation underwrote a dissertation presented by Brent Kramer to the City University of New York that updated the groundbreaking work in the late '90s by Rutgers University professors Blasi and Kruse that privately held ESOP companies are more productive than their non-ESOP counterparts.*

Outcome: Confirmation that employee-owned companies are more productive than their non-ESOP competitors.

12. *In 2007 the Foundation made its final payment of its granted \$20,000 to the National Center for Employee Ownership (NCEO) to study in depth with extensive interviews why companies terminate their ESOP.*

Outcome: The NCEO research was finished and published in December 14, 2007, and prominently reported on in The ESOP Association's newsletter and on the Web pages of both the Association and the Foundation.



13. *The lead monetary grant to Rutgers University for research by leading employee ownership researchers Dr. Joseph Blasi and Dr. Douglas Kruse that collected data from 1100 ESOP companies compared to 1100 similar non-ESOP companies over an eleven-year period.*

Outcome: The conclusions of the research vividly demonstrate that ESOP companies did better than the non-ESOP companies over the eleven-year period by several measures such as sales, benefits, and survivability. This data provided ESOP advocates the tools they needed to successfully counter proposals to restrict ESOPs in private companies during the sometimes volatile public and Congressional debate on how to prevent employee losses from company stock declines, as was the situation for Enron and United Airlines employees.





FUND RAISING: THE KEY TO SUCCESS

The Employee Ownership Foundation is a public, tax qualified 501(c)(3) entity, affiliated with The ESOP Association. While an individual and corporation should always consult with competent advisors when taking tax positions, the Foundation's tax status means contributions to the Employee Ownership Foundation are tax deductible for federal income tax purposes.

Unlike many foundations, the Employee Ownership Foundation does not have five to ten different fund raising campaigns and a myriad of sub-funds within the foundation.

The primary fund raising campaign in 2012 is the "Annual Campaign" which epitomizes a philosophy of ESOPs and employee ownership that every employee owner is linked with fellow employee owners. The campaign seeks to have each employee owner give \$1 to the Foundation annually or have the ESOP company at a minimum contribute \$1 on behalf of each employee each year.

Members of the Board of Trustees who provide professional services to ESOP companies have joined the push for the "Annual Campaign" campaign by soliciting service providers expert in ESOP matters to make annual contributions in the name of the campaign.

The Trustees also approved staggered fund raising goals of \$60,000, \$80,000 and \$100,000 for the Las Vegas Two Day Conference and Trade Show targeted at gaining contributions primarily from service providers to ESOP companies. The fund raising effort in 2012 achieved raising approximately \$115,000.

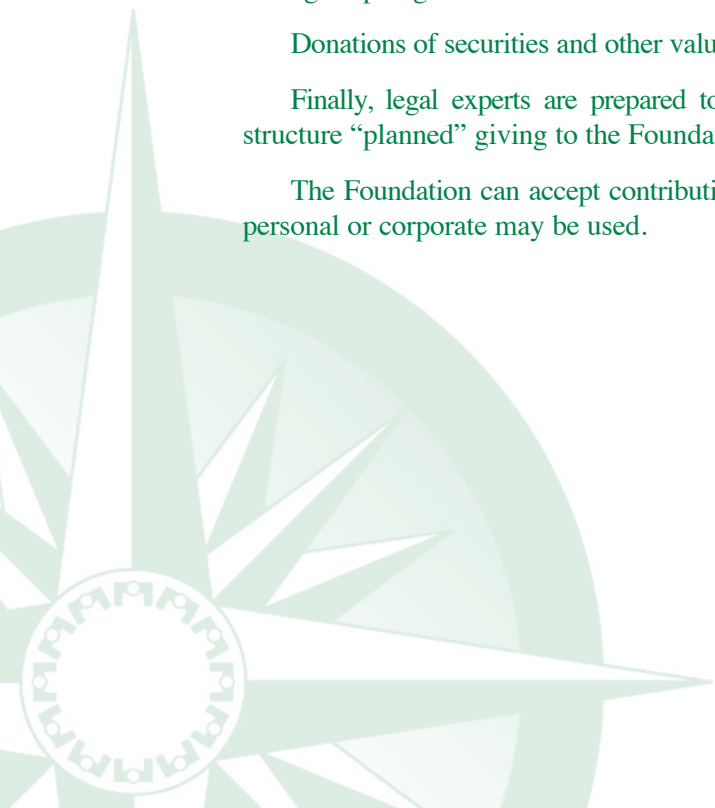
Also, this year, all 18 ESOP Association chapters promoted the Foundation via raffles, silent auctions and golf tournaments. Through this grass-roots fund raising effort the chapters provided \$88,000 in contributions to The Employee Ownership Foundation.

While primarily focused on the grass-roots small donations from employee owners, the Foundation, particularly its Board of Trustees, continue to solicit large donations in the \$10,000 to \$100,000 range. These donations often are paid over five years as the original commitment is through a pledge.

Donations of securities and other valuable properties may be accepted by the Foundation.

Finally, legal experts are prepared to help the Foundation and employee ownership advocates structure "planned" giving to the Foundation through trusts or estates.

The Foundation can accept contributions from any other legal entity, and any major credit card, personal or corporate may be used.





FINANCIAL HIGHLIGHTS

At year end 2012, assets were \$1.8M, liabilities were \$6,386, and unrestricted net assets were \$1.5M compared to just under \$1.3M at year end 2011.

Total revenue in 2012 was \$349,015 compared to \$329,099 in 2011.

Net income after investments activity was \$263,298 in 2012 compared to \$157,216 in 2011.

In 2012, operating expenses were \$41,189 compared to \$47,841 in 2011.

Cash on hand at year end 2012 was \$542,843 compared to \$416,623 at year end 2011.





THOSE WHO MADE IT POSSIBLE

Contributions of over \$10,000

Joseph Cabral Hawaii State Chapter	Recology Southwest Chapter
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