

The ESOP Association's
Advocacy Kit
2007



**REALLY WANT TO HELP?
INVITE YOUR MEMBER OF CONGRESS
TO VISIT YOUR ESOP COMPANY!!**

Spring 2007

Table of Contents

Document 1:	Your Government Relations Opportunities: Spring 2007
Document 2:	Summary of S.1322
Document 3:	Sample Letter: Opening an ESOP Dialogue with Your Member of Congress
Document 4:	ESOP Supporters
Document 5:	How to Learn Who is My Member of Congress
Document 6:	Follow Up: Letters, Visits, and Using www.esopassociation.org
Document 7:	Write, Email, Fax, or telephone: Which One?
Document 8:	Tips on Visiting Members of Congress and Staff in Washington, DC

DOCUMENT 1

Your Government Relations Opportunities

Spring 2007

The ESOP Association has over 17 years implemented a strategy that the best way to protect ESOPs is to push “pro-active” government relations agenda that should be communicated vigorously to our national decision makers. This Advocacy Kit for Spring 2007 will spell out reasons for the communications and give example communications for the current pro-ESOP campaign.

Here is the Association’s agenda right now:

- Gathering Congressional supporters for employee ownership through ESOPs by ESOP companies telling their Representatives and Senators, and their staff focused on tax and labor issues, the importance of each company’s ESOP.
- **Why:** To build a foundation of support for ESOPs particularly since many new Members of Congress will serve in 2007-2008 who have never considered ESOP issues, some of who will serve on the important tax committees. With the foundation of support, not only will anti-ESOP proposals be more likely to be defeated, but also when proposals promoting and improving ESOP are introduced, many Members of Congress will be likely to support positive, not negative, changes in ESOP law.
 - **NOTE: Consistent with The ESOP Association’s government relations position that a strong offense for ESOP laws is the best defense in stopping anti-ESOP proposals, Senator Blanche Lincoln (D-AR) has introduced the ESOP Promotion and Improvement Act of 2007, S. 1322. Following is a one page summary of S. 1322. We urge you to ask your Senators to co-sponsor Senator Lincoln’s bill. The more U.S. senators who publicly declare that they support the promotion of employee ownership through ESOPs, the more likely current pro-ESOP law will be maintained and better ESOP laws enacted. At this time, there is not a similar bill to S. 1322 pending in the House of Representatives. We urge you to ask your Representative to consider co-sponsoring S. 1322 when it is introduced in the House. The ESOP Association believes such an introduction of pro-ESOP legislation will occur in the next few months.**
- See attached summary of S.1322. By asking for a positive pro-ESOP position you are automatically asking the member of Congress to oppose any and all anti-ESOP proposals.

[Note, this entire advocacy kit is reproduced on the Association’s web site www.esopassociation.org, just point to “Government Affairs” box, and click Advocacy Kit on pull down menu].

DOCUMENT 2
ESOP Promotion and Improvement Act of 2007
S. 1322

**Explanation of “Employee Stock Ownership Plan
Promotion and Improvement Act of 2007”**

(Note: These provisions are included in the 2007 pro-ESOP legislation S.1322 in 2007. When new pro-ESOP legislation is introduced in the House of Representatives, it is anticipated that the House legislation will include provisions such as those in S.1322, as set forth below.)

- Repeal the punitive 10% penalty tax on S corporations’ distributions from current earnings, also referred to as dividends, paid on ESOP stock that are passed through to ESOP participants in cash.
- Clarify that dividends paid by C corporations on ESOP Stock are not a preference item in calculating the corporate alternative minimum tax.
- Permit sellers of stock to the ESOP on an S corporation to utilize the ESOP tax benefit referred to as the tax deferred rollover, or the 1042 treatment. (b) Permit proceeds received from a 1042 transaction to be invested in mutual funds consisting of operating US corporation securities. (c) Redefine what is a 25% or more owner for purposes of IRC 1042 to be 25% or more ownership of voting stock, or 25% or more ownership of all stock of the corporation, not 25% of any class of stock.
- Increases the de minimus amount eligible for diversification from ESOP stock balances over \$500 to balances over ESOP stock \$2,500.

DOCUMENT 3
Sample Letter to Members of Congress

The Honorable xxx
U.S. House of Representatives / U.S. Senate
Washington, DC 20515 / 20510

Dear Representative / Senator xxx:

(Name of your company) is an ESOP company, which means that a broad base of employees at *(name of company)* are owners of the company's stock through an employee stock ownership plan, or ESOP.

As an ESOP company, we have followed with great interest the growing national discussion about making our nation of owners, and proposals to address the widening income gap between the rich and average wage earners.

As an ESOP company, we believe employee ownership through ESOPs is a proven, 30-year plus, policy that can move more Americans into ownership positions, thus truly making our society one of ownership. And since it is obvious that in a capitalistic, free enterprise society owners are as a rule wealthier than those living on wages only, ESOP policy can thus be one solution to addressing the growing wealth gap in America.

To prove our point, we would welcome your learning more about *(name of company)* and our experience with ESOPs. To show that our experience is not unique, we enclose a brief summary of the body of data showing the positive impact ESOP have on the vast majority of companies and their employees.

Also, [if writing to Senate member] please consider co-sponsoring S.1322 by Senator Blanche Lincoln; [Or if writing to House member] Please consider co-sponsoring legislation similar to S.1322 when introduced in the House. Enclosed is a summary of S.1322.

Your consideration of our request for your support of a program that is designed to make our nation a nation of owners is appreciated.

Sincerely,

(Name of Company Person(s))

**ENCLOSURES TO INCLUDE WITH LETTERS
TO MEMBERS OF CONGRESS –**

**Data and Research on Employee Ownership
Through ESOPs**

ESOP Promotion and Improvement Act of 2007
S.1322

**Explanation of “Employee Stock Ownership Plan
Promotion and Improvement Act of 2007”**

(Note: These provisions are included in the 2007 pro-ESOP legislation S.1322 in 2007. When new pro-ESOP legislation is introduced in the House of Representatives, it is anticipated that the House legislation will include provisions such as those in S.1322, as set forth below.)

- Repeal the punitive 10% penalty tax on S corporations’ distributions from current earnings, also referred to as dividends, paid on ESOP stock that are passed through to ESOP participants in cash.
- Clarify that dividends paid by C corporations on ESOP Stock are not a preference item in calculating the corporate alternative minimum tax.
- Permit sellers of stock to the ESOP on an S corporation to utilize the ESOP tax benefit referred to as the tax deferred rollover, or the 1042 treatment. (b) Permit proceeds received from a 1042 transaction to be invested in mutual funds consisting of operating US corporation securities. (c) Redefine what is a 25% or more owner for purposes of IRC 1042 to be 25% or more ownership of voting stock, or 25% or more ownership of all stock of the corporation, not 25% of any class of stock.
- Increases the de minimus amount eligible for diversification from ESOP stock balances over \$500 to balances over ESOP stock \$2,500.



Employee Ownership and Corporate Performance

1. In January 2007, the co-operative relationship between The ESOP Association and the University of Pennsylvania's Center for Organizational Dynamics led to an important new and "fresh" study of the effectiveness of ESOPs and employee ownership as uncovered in 30 years of scholarly research on the issue. The study, "Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience," authored by Dr. Stephen F. Freeman, Affiliated Faculty and Visiting Scholar in the Center for Organizational Dynamics, Graduate Division, School of Arts and Sciences at the University of Pennsylvania, confirms what the Association has been saying for years, that employee-owned companies experience increased productivity, profitability, and longevity. To download the study, "Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience," please visit the University of Pennsylvania's Library Digital Archive - http://repository.upenn.edu/od_working_papers/2/. The research was possible thanks to a generous, unrestricted donation to the University by ESOP Association member company, Alliance Holdings Inc. of Willow Grove, PA. Alliance is also a significant donor to the Employee Ownership Foundation, which gives significant donations to the University of Pennsylvania's Center for Organizational Dynamics Program.
2. In 2006, the Employee Ownership Foundation, conducting its 15th Annual Economic Performance Survey, found that a very high percentage of companies, 91%, declared that creating employee ownership through an ESOP (employee stockownership plan) was "a good decision that has helped the company." In addition, the EPS asked companies to indicate their performance in 2005, relative to 2004. Approximately 78% of respondents indicated a better performance in 2005 than 2004, 9% indicated a nearly identical performance, and 13% indicated a worse performance. Around 85% indicated that revenue increased while 15% indicated revenue did not increase. In terms of profitability, 77% indicated that profitability did increase and 23% indicated that profitability did not increase in 2005. This survey was conducted in the summer of 2006 among corporate members of The ESOP Association.
3. 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.

4. Research done by the Washington State Department of Community, Trade and Economic Development of over 100 Washington not publicly-traded ESOP companies compared to 500 not publicly-traded non-ESOP companies showed that the ESOP companies paid better benefits, had twice the retirement income for employees, and paid higher wages than their non-ESOP counterparts. *Wealth and Income Consequences of Employee Ownership: A Comparative Study from Washington State*, Kardas, Peter A., Scharf, Adria L., Keogh, Jim, November, 1998.
5. Research conducted by Professor Hamid Mehran, while he served on the faculty of the J.L. Kellogg Graduate School of Management, Northwestern University, of nearly 400 publicly traded companies with significant ESOPs both before and after the adoption of the ESOP, compared to non-ESOP companies in similar lines of businesses, showed that the rate of return for the ESOP companies was 2.7% higher, 60% of the ESOP companies experienced share price increases upon announcement of the ESOP program, and 82% indicated that the ESOP had a positive impact on business results.
6. In 1995, Douglas Kruse of Rutgers University examined several different studies between ESOPs and productivity growth. Kruse found through an analysis of all studies that "positive and significant coefficients [are found] much more often than would be expected if there were no true relation between ESOPs and productivity." Kruse concludes that "the average estimated productivity difference between ESOP and non-ESOP firms is 5.3%, while the average estimated pre/post-adoption difference is 4.4% and the post-adoption growth rate is 0.6% higher in ESOP firms. Kruse cites two studies as part of his research: Kumbhakar and Dunbar's 1993 study of 123 public firms and Mitchell's 1990 study of 495 U.S. 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.
7. In 1995, the U.S. Department of Labor released a study entitled "The Financial and Non-Financial Returns to Innovative Workplace Practices: A Critical Review." This study found that companies that seek employee participation, give employees company stock, and train employees, can positively affect American corporations' bottom lines. In addition, the report cited three studies that analyzed "the market reaction to announcements of ESOPs which found significant positive returns to firms which implemented ESOPs as part of a broader employee benefit or wage concession plan." The three studies are: Chang's 1990 "Employee Stock Ownership Plans and Shareholder Wealth: An Empirical Investigation"; Dhillon and Ramirez' 1994 "Employee Stock Ownership and Corporate Control"; and Gordon and Pound's 1990 "ESOPs and Corporate Control." citation at (202) 293-2971 or E-mail: esop@esopassociation.org.

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.



Fact Sheet: The ESOP Association

Founded in 1978, The ESOP Association is the national association of companies with employee stock ownership plans (ESOPs) and service providers with a professional commitment to employee ownership through ESOPs.

The Association is the leading voice in America for employee ownership through ESOPs, and devotes considerable time to creating and maintaining favorable ESOP legislation. In addition, The ESOP Association is a prime source for educational materials necessary for successful implementation and administration of an ESOP.

- The ESOP Association represents over 1,400 ESOP companies. Total membership is over 2,500.
- Approximately 99% of ESOP Association members are private, closely-held companies.
- ESOPs exist in large and small companies – 71% of Association members have less than 250 employees.
- While ESOPs are prevalent in a broad range of industries, approximately 28% of Association members are in manufacturing, followed closely by construction and distributing at 13%.
- Average annual sales revenue for ESOP Association members range is approximately \$20 - \$50 million.
- Approximately 60% of ESOP Association members report that their ESOPs have been in place for 10 years or more.
- 65% of Association members have companies that are more than 50% owned by the ESOP.
- 56% of Association members report that their ESOP is currently or was previously leveraged.
- 87% of Association members offer a supplemental benefit plan in addition to the ESOP including, 401(k) plans, pension plans, and profit sharing plans.
- Research indicates that ESOP implementation results in more information sharing, increased communications, and involvement in decision making for employee owners.
- 75% of Association members advertise the fact they are employee owned.
- 82% of ESOP Association members report that motivation and productivity increased as a result of the ESOP.
- ESOP Association members report the average contribution the company makes to the ESOP each year, as a percentage of covered compensation, is 13%.
- The average account balance among ESOP Association members is \$64,652.06.

Information on this sheet was obtained from the “2005 Company Survey,” conducted among ESOP Association members in 2005.

DOCUMENT 4

ESOP Supporters

These members of Congress were ESOP champions in the recent Congresses as sponsors and co-sponsors of pro-employee ownership legislation, and who will serve in the 110th Congress. If your Representative or Senator is on the list, thank her or him for his or her support for ESOPs and your company's ESOP program.

House of Representatives

Congressman Rodney Alexander (R-LA)
Congressman Robert E. Andrews (D-NJ)
Congressman Richard Baker (R-LA)
Congresswoman Tammy Baldwin (D-WI)
Congressman Bob Beauprez (R-CO)
Congresswoman Judy Biggert (R-IL)
Congressman Earl Blumenauer (D-OR)
Congressman Roy Blunt (D-MO)
Congresswoman Mary Bono (R-CA)
Congresswoman Madeleine Z. Bordallo (D-GU)
Congressman Rick Boucher (R-VA)
Congressman Henry Brown (R-SC)
Congressman Ken Calvert (R-CA)
Congressman Eric I. Cantor (R-VA)
Congresswoman Julia M. Carson (D-IN)
Congresswoman Donna M. Christensen (D-VI)
Congressman Howard Coble (R-NC)
Congresswoman Jo Ann S. Davis (R-VA)
Congressman John Doolittle (R-CA)
Congressman David Dreier (R-CA)
Congressman John Duncan, Jr. (R-TN)
Congressman Vernon Ehlers (R-MI)
Congresswoman Jo Ann Emerson (R-MO)
Congressman Phil English (R-PA)
Congressman Elton Gallegly (R-CA)
Congressman Wayne Gilchrest (R-MD)
Congressman Virgil H. Goode, Jr. (R-VA)
Congressman Bob Goodlatte (R-VA)
Congressman Raul Grijalva (D-AZ)
Congressman Wally Herger (R-CA)
Congressman David Hobson (R-OH)
Congressman Peter Hoekstra (R-MI)
Congressman Kenny Hulshof (R-MO)
Congressman William Jefferson (D-LA)
Congressman Sam Johnson (R-TX)
Congressman Walter Jones, Jr. (R-NC)
Congresswoman Marcy Kaptur (D-OH)
Congresswoman Carolyn C. Kilpatrick (D-MI)
Congressman Dennis Kucinich (D-OH)

Congresswoman Barbara Lee (D-CA)
Congressman Ron Lewis (R-KY)
Congressman Frank D. Lucas (R-OK)
Congresswoman Carolyn Maloney (D-NY)
Congressman Donald A. Manzullo (R-IL)
Congressman Jim McCrery (R-LA)
Congressman Charlie Melancon (D-LA)
Congressman Michael H. Michaud (D-ME)
Congressman Tim Murphy (R-PA)
Congresswoman Marilyn Musgrave (R-CO)
Congressman Richard Neal (D-MA)
Congressman Ed Pastor (D-AZ)
Congressman Ron Paul (R-TX)
Congressman Collin Peterson (D-MN)
Congressman Todd R. Platts (R-PA)
Congressman Richard Pombo (R-CA)
Congressman Jim Ramstad (R-MN)
Congresswoman Dana Rohrabacher (R-CA)
Congressman Edward Royce (R-CA)
Congressman Paul Ryan (R-WI)
Congressman Jose E. Serrano (D-NY)
Congressman John Shadegg (R-AZ)
Congressman Christopher Shays (R-CT)
Congressman Ike Skelton (D-MO)
Congressman Bart Stupak (D-MI)
Congressman Thomas Tancredo (R-CO)
Congressman John Tanner (D-TN)
Congressman James Walsh (R-NY)
Congressman Dave Weldon (R-FL)
Congressman Jerry Weller (R-IL)
Congressman Roger Wicker (R-MS)

Senate

Senator Ben Cardin (D-MD)
Senator Michael Crapo (R-ID)
Senator Lindsey O. Graham (R-SC)
Senator Charles Grassley (R-IA)
Senator Orrin Hatch (R-UT)
Senator James Jeffords (R-VT)
Senator Patrick Leahy (D-VT)
Senator Mary Landrieu (D-LA)
Senator Blanche L. Lincoln (D-AR)
Senator John D. Rockefeller (D-WV)
Senator Bernard Sanders (I-VT)
Senator Ron Wyden (D-OR)
Senator Max Baucus (D-MT)
Senator Christopher Dodd (D-CT)
Senator Richard Shelby (R-AL)

Please remember, just because your Congressperson and Senators may not be on this list is no indication that he or she is opposed to ESOPs. It is possible that your member of Congress was first elected to the 110th Congress, and has not had an opportunity to stand up for ESOPs; it is possible that in prior years the ESOP community did not make a persuasive case for his or her supporting ESOPs; it is possible that no one has ever talked to the Congressperson or Senator about ESOPs; and it just may be that an ESOP issue was put on the back burner as more “crisis” oriented matters needed the member’s and his/her staff attention.

If your Congressperson or Senator is not on the list, anytime is the best time to start the process of introducing him or her to the importance and success of employee ownership through ESOPs.

Really Want to Help ESOPs? Invite Your Member of Congress

To Visit Your ESOP Company

DOCUMENT 5

How to Learn Who Is “My” Member of Congress

If you don't know who your Member of Congress is, there is a very easy way to find out.

To locate your Representative in the United States House of Representatives, visit the House of Representatives website at <http://www.house.gov/> and near the top of the page, you'll see a box that says “Find Your Representative”. In the box provided, enter your zip code and hit go. It will bring up a new page that lists your Representative. To visit your Representative's website, click on the name.

To locate your Senator, visit the United States Senate website at <http://www.senate.gov/> and at the top right of the page, choose your state's name from the drop down box that says “Find Your Senators” and hit go. It will bring up a new page that lists your Senators. To visit your Senators' websites, click on the name.

To find your Members of Congress through The ESOP Association's website, visit <http://www.esopassociation.org/>, and click on the Government Affairs link located at the top of the page. In the Government Affairs section, click on the Capitol Links button on the left hand side of the page. On the Capitol Links page, you will find links to the U.S. House of Representatives and the U.S. Senate.

DOCUMENT 6

Follow-Up: Letters, Visits, and Using www.esopassociation.org*

If you do get to visit with a member of Congress and/or their staff, while visiting Washington, DC do this when you get home: Write a thank you letter, or if the office welcomes emails, an email thanking those who visited with you for their time, or send a fax. In the thank you letter/fax/email, repeat the issues that the ESOP community is interested in, and again ask for the appropriate support, such as, “Again we respectfully ask that [**Your Representative’s or Senator’s name, if writing to staff members**] work to ensure that as Congress considers and enacts legislation to make our nation a nation of owners, [**Representative/Senator Name**] support proposals to ensure, and enhance, the expansion of employee ownership of the companies where they work through Employee Stock Ownership Plans, or ESOPs. As legislative developments unfold, we respectfully ask that we be able to present our views as to those which further employee ownership through ESOPs.”

NOTE: It is very effective to have more than one person sign for the company. It is even more effective to have a diverse group of employee owners sign a communication to a Congressperson, such as CEO, ESOP committee members, or active supporters of the company’s ESOP efforts, etc.

Since 9/11 and the Anthrax attacks on Congress, regular mail to Congress moves slowly, but it is delivered to Congressional offices after a good screening. Many offices are welcoming constituent email, but it is recommended that you telephone the office to get the name of the specific person to send the email to. With regard to ESOPs, that person would be the Legislative Assistant who handles tax issues, or occasionally labor issues, for the Member of Congress. In addition to email, faxing a communication is effective, if, again, the fax is to a specific person.

If you do not know the name of your Member of Congress, visit the U.S. House of Representatives website at www.house.gov and on the top of the page, type in your zip code and the name of your Representative will appear. For the U.S. Senate, visit the website at www.senate.gov and choose your state at the top of the page and the names of your Senators will appear.

The most effective communication tactic is to send a letter, fax, or email, and then two weeks or so later, telephone the recipient of your communication to ask if the Member of Congress has decided on his/her response.

Please note that on the Association’s website, www.esopassociation.org, the hot legislative issues are posted as Hot Topics. There are links to legislative background and information on Members of Congress in the Government Affairs section. Just click on the Government Affairs link at the top of the page, and go the Capitol Links button on the left side of the page. If you need information on your Senator or Representative, you can visit www.senate.gov or www.house.gov or call the Association for more information.

Finally, legislative developments are not static; what was predicted last week might not happen this week. To keep up on developments do not hesitate to call or email the Association’s government relations department, govrel@esopassociation.org.

Of course, extremely important information and developments are sent by email to all members of The ESOP Association, but only if time sensitive, as we know you get too much email as it is.

Thanks for your help and consideration in moving America towards more employee ownership.

DOCUMENT 7

Write, E-Mail, Fax, or Telephone: Which One?

Since the advent of email, and since the Anthrax attack on Congress, when a “call to action” goes out to ESOP advocates, the question is always asked by the ESOP advocate of the national office— “Should I send a letter, an email, a fax, or should I telephone?”

There is no “best” answer, and which will be the most effective in terms of timelines, and getting through to the decision maker depends on circumstances.

But what is wrong is to assume that an email is the best way to communicate to a member of Congress and his or her staff, as data indicates that the over hundreds of millions of emails received each year by the Congress is overwhelming, and have an impact only if, repeat, only if, the sender of the email has received (1) a specific request to send to a specific person in the Congressional office the email; or (2) a prior line of communications using emails was established prior to taking action on the matter that is the subject of the “call to action”.

If the matter is not time sensitive, in other words, the Congress and the members of Congress will not be asked to take action soon, a letter is suitable if the sender has no prior relationship with the member of Congress and the staff member. It is taking letters about two to three weeks to be tested for anthrax, and then delivered to a Congressional office.

If the matter is time sensitive, in other words, the member of Congress will actually vote on the matter of importance to an ESOP advocate, and the ESOP advocate has no prior connection with the member and/or her/his staff, a telephone call is the best way to go. But if the ESOP advocate has a prior relation with someone in the office of the member of Congress, and has established that sending an email will be opened and read, then an email is effective, and/or a fax, particularly if follow-up to email or telephone call with a little more detail about the issue of concern.

Whether email, or fax, or letter, is always effective to follow up with a telephone call to the staff person who is responsible for briefing the member of Congress on tax, and ERISA laws.

Please note, the sample letters can become a script for a telephone presentation, and are obviously suitable for use as an email, or a faxed letter or memo.

Any questions never hesitate to call, or email, an ESOP Association staff member who works on Government Relations matters, toll free 866.366.3832.

DOCUMENT 8

Tips on Visiting Members of Congress and Staff In Washington, DC

Following are tips on dropping by a Congressional office.

First, here are two observations nearly all first-time visitors to a Congressional office make:

1. Congressional offices are tiny!
2. Generally, Congressional staffers are young.

But, most important follow the attached presentation suggestions, as a guideline for a Congressional visit.

IF YOU HAVE A SCHEDULED MEETING WITH A CONGRESSPERSON/SENATOR

Second only to a visit your company, meeting with Congress/staff allows them to see YOU, a constituent and voter.

If you are meeting with your Congressperson, Senator, or a staff member, it will help to keep three goals and three warnings in mind. First, the goals:

- 1) Tell **your own** story. How did your company become an ESOP company? Might it have closed or been sold? What is it like? What does it mean?
- 2) Keep it **human**. They get facts and figures, sliced, diced and delivered by people who are generally working for other people, in other words, a paid lobbyist. Imagine talking to someone who isn't being paid to tell them something? (For facts and figures, leave The ESOP Association Lobby Kit fact sheet behind with staff.)
- 3) **Relax, have fun**. Strangely enough, people in Congress and their staffs are people too. If you have fun talking to them, they'll enjoy talking with you.

Now the three warnings simply put as: Flexibility, flexibility, flexibility.

- 1) **Location**. Think real estate. If you meet with staff, you could have a meeting almost anywhere. You could end up in the hallway, or a conference room the size of a phone booth – the new ones with no doors.
- 2) **Timing**. If you meet with a member of Congress, s/he could be coming and going between hearings. If it's afternoon, bells and buzzers may call him/her to a vote. Roll with the buzzers – it's not personal, and staff often feel obligated to hang with you 'til the Member returns!
- 3) **Patience**. No matter what your age, Congressional staff will make you feel old, and you may have a tendency to rush your conversation. Don't. Be patient and listen carefully

Now that you've visited a member of Congress, it's the Congressperson's turn. If you're feeling that the meeting went well – or heck, even if it didn't – invite the Congressman/Senator to visit you.

[Don't forget the reception – Tuesday, 6:00-7:30, Rayburn House Cafeteria.]



What to Say to a Member of Congress or Staff

I work at an ESOP company. ESOPs (Employee Stock Ownership Plans) mean that my fellow employees and I are owners of our company. For a few ESOP companies, ESOPs actually saved our companies from closing or being sold outside the district or state. For most of us, it's just a great opportunity for a retirement and ownership plan. But for all being part of our free enterprise economy, and being an owner.

When our companies do well, we benefit. If they have problems, we do our best to pitch in and help. And that's what ownership means.

Please consider the well-known facts that ESOP companies are in the vast majority of instances more successful than their non-ESOP competition, and provide, across-the-board, better compensation, current and deferral than non-ESOP companies. [I][We] leave citations of research that prove our points.

[If visiting a Senator's office], Also, we leave a summary of S.1322 by Senator Lincoln.] We respectfully ask that Senator [Name] consider co-sponsoring S.1322. [If visiting a Member of House of Representative's office], Also, we leave a summary of S.1322. We respectfully ask that when this legislation is introduced in the House, Representative [Name] consider co-sponsoring it.

Want to learn more about my company and its ESOP? Come visit us. Call me at _____ or email me at _____ to come visit with [Name of Company] and its employee owners.

THANKS!

[Your Name]

PS And feel free to come by our Reception at the Rayburn House Cafeteria, Tuesday, May 15th, 6:00 P.M. to 7:30 P.M. The host is Rep. Paul Ryan (WI).

ESOP Promotion and Improvement Act of 2007 S.1322

Explanation of “Employee Stock Ownership Plan Promotion and Improvement Act of 2007”

(Note: These provisions are included in the 2007 pro-ESOP legislation S.1322 in 2007. When new pro-ESOP legislation is introduced in the House of Representatives, it is anticipated that the House legislation will include provisions such as those in S. 1322, as set forth below.)

- Repeal the punitive 10% penalty tax on S corporations’ distributions from current earnings, also referred to as dividends, paid on ESOP stock that are passed through to ESOP participants in cash.
- Clarify that dividends paid by C corporations on ESOP Stock are not a preference item in calculating the corporate alternative minimum tax.
- Permit sellers of stock to the ESOP on an S corporation to utilize the ESOP tax benefit referred to as the tax deferred rollover, or the 1042 treatment. (b) Permit proceeds received from a 1042 transaction to be invested in mutual funds consisting of operating US corporation securities. (c) Redefine what is a 25% or more owner for purposes of IRC 1042 to be 25% or more ownership of voting stock, or 25% or more ownership of all stock of the corporation, not 25% of any class of stock.
- Increases the de minimus amount eligible for diversification from ESOP stock balances over \$500 to balances over ESOP stock \$2,500.



Employee Ownership and Corporate Performance

1. In January 2007, the co-operative relationship between The ESOP Association and the University of Pennsylvania's Center for Organizational Dynamics led to an important new and "fresh" study of the effectiveness of ESOPs and employee ownership as uncovered in 30 years of scholarly research on the issue. The study, "Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience," authored by Dr. Stephen F. Freeman, Affiliated Faculty and Visiting Scholar in the Center for Organizational Dynamics, Graduate Division, School of Arts and Sciences at the University of Pennsylvania, confirms what the Association has been saying for years, that employee-owned companies experience increased productivity, profitability, and longevity. To download the study, "Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience," please visit the University of Pennsylvania's Library Digital Archive - http://repository.upenn.edu/od_working_papers/2/. The research was possible thanks to a generous, unrestricted donation to the University by ESOP Association member company, Alliance Holdings Inc. of Willow Grove, PA. Alliance is also a significant donor to the Employee Ownership Foundation, which gives significant donations to the University of Pennsylvania's Center for Organizational Dynamics Program.
2. In 2006, the Employee Ownership Foundation, conducting its 15th Annual Economic Performance Survey, found that a very high percentage of companies, 91%, declared that creating employee ownership through an ESOP (employee stockownership plan) was "a good decision that has helped the company." In addition, the EPS asked companies to indicate their performance in 2005, relative to 2004. Approximately 78% of respondents indicated a better performance in 2005 than 2004, 9% indicated a nearly identical performance, and 13% indicated a worse performance. Around 85% indicated that revenue increased while 15% indicated revenue did not increase. In terms of profitability, 77% indicated that profitability did increase and 23% indicated that profitability did not increase in 2005. This survey was conducted in the summer of 2006 among corporate members of The ESOP Association.
3. 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.

4. Research done by the Washington State Department of Community, Trade and Economic Development of over 100 Washington not publicly-traded ESOP companies compared to 500 not publicly-traded non-ESOP companies showed that the ESOP companies paid better benefits, had twice the retirement income for employees, and paid higher wages than their non-ESOP counterparts. *Wealth and Income Consequences of Employee Ownership: A Comparative Study from Washington State*, Kardas, Peter A., Scharf, Adria L., Keogh, Jim, November, 1998.
5. Research conducted by Professor Hamid Mehran, while he served on the faculty of the J.L. Kellogg Graduate School of Management, Northwestern University, of nearly 400 publicly traded companies with significant ESOPs both before and after the adoption of the ESOP, compared to non-ESOP companies in similar lines of businesses, showed that the rate of return for the ESOP companies was 2.7% higher, 60% of the ESOP companies experienced share price increases upon announcement of the ESOP program, and 82% indicated that the ESOP had a positive impact on business results.
6. In 1995, Douglas Kruse of Rutgers University examined several different studies between ESOPs and productivity growth. Kruse found through an analysis of all studies that "positive and significant coefficients [are found] much more often than would be expected if there were no true relation between ESOPs and productivity." Kruse concludes that "the average estimated productivity difference between ESOP and non-ESOP firms is 5.3%, while the average estimated pre/post-adoption difference is 4.4% and the post-adoption growth rate is 0.6% higher in ESOP firms. Kruse cites two studies as part of his research: Kumbhakar and Dunbar's 1993 study of 123 public firms and Mitchell's 1990 study of 495 U.S. 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.
7. In 1995, the U.S. Department of Labor released a study entitled "The Financial and Non-Financial Returns to Innovative Workplace Practices: A Critical Review." This study found that companies that seek employee participation, give employees company stock, and train employees, can positively affect American corporations' bottom lines. In addition, the report cited three studies that analyzed "the market reaction to announcements of ESOPs which found significant positive returns to firms which implemented ESOPs as part of a broader employee benefit or wage concession plan." The three studies are: Chang's 1990 "Employee Stock Ownership Plans and Shareholder Wealth: An Empirical Investigation"; Dhillon and Ramirez' 1994 "Employee Stock Ownership and Corporate Control"; and Gordon and Pound's 1990 "ESOPs and Corporate Control." citation at (202) 293-2971 or E-mail: esop@esopassociation.org.

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.