A BRIEF HISTORY OF THE ESOP ASSOCIATION
through
May 14, 1986

Dickson C. Buxton
Robert W. Smiley, Jr.

Original Material researched by
Samuel Wessinger
Washington, D.C.

As the ESOP Association enters its tenth year and prepares to meet new challenges, it's appropriate for us to look back to its founding, to see how the Association has met its early leaders' goals, and to "take stock" of some of our accomplishments over the years. This pause for historical reflection also gives us another chance to honor Louisiana's Senator Russell B. Long on the occasion of his retirement from the U.S. Senate by reviewing his critical contributions to the growth of employee ownership in the United States. Without his tireless and successful efforts and the efforts of Louis O. Kelso, who created the ESOP concept, there would be few ESOPs and no ESOP Association.

Formation of the ESOP Council of America

The ESOP Association grew out of two predecessor organizations which merged in 1979, the ESOP Council of America and the National Association of ESOP Companies. The ESOP Council started as an idea of Robert W. Smiley, Jr., of Los Angeles, now chairman of Benefit Capital, Inc., who was the Council's founder and first president. As reported in his speech to the First Annual Convention of the ESOP Council, in 1978, Mr. Smiley found common complaints from the many companies he had helped form ESOPs as a professional -- complaints about provisions of ERISA, about excessive regulatory paperwork, and about the uncertain legislative future of ESOPs. Legislators and regulatory agencies, on the other hand, complained that they only heard from practitioners on how the law should be changed. When Treasury and the Department of Labor issued particularly harsh and burdensome regulations related to ESOPs and ESOP loans in July 1976, "I knew something had to be done," Mr. Smiley said. ESOPs needed a "voice in Washington".

Bob Smiley was the Council's first director and its first president. Bob Smiley and Richard M. Acheson, Jr., of Los Angeles, personally and through Benefit Systems, Inc., generously provided the substantial startup money necessary, as well as free office space, equipment, and clerical personnel for the Council's first year and one-half. They shared their client and prospect lists with the Council. When the Articles of Incorporation were filed on April 8, 1977, they stated that the Council's "special and primary purposes are to promote employee stock ownership plans and trusts as an important means of strengthening the system of free enterprise...". Article III of the Council's Charter stated that the Council "believes it to be highly important to develop an economy in which there is freedom of opportunity for each individual to acquire capital ownership to secure his economic well-being.” The Council was intended to put government, the professions supporting ESOPs, and industry together, in order to encourage employee ownership by sharing ideas and information and by sponsoring teamwork and cooperation among these diverse groups.

First Meeting of the Membership and the Board: Setting Goals

A full slate of 21 directors was elected by the membership at the First Annual Convention of the ESOP Council, on May 8-9, 1978, in Los Angeles at the Bonaventure Hotel. At this meeting of the already 180+ strong membership, the first regularly elected board laid out the organizational framework and goals of the organization. The first chairman of the Council was David E. Trumbull, of San Diego, founder and chairman of Mission Marine Associates, a yacht builder. Charles E. Fry of Springfield, Ohio, chairman of Fry, Builders, Inc. (and for many years Speaker Pro Tem of the Ohio House of Representatives), and John Benson of Dallas, Texas, secretary-treasurer of UTL Corporation (a government contractor in high-tech weapons systems) were first and second vice-chairmen, respectively. Larry P. Hanson of St. Cloud, Minnesota, chief financial officer of Jack Frost, Inc., was the treasurer of the ESOP Council. Ronald L. Ludwig of San Francisco, Ludwig & Curtis, served as general counsel, and Allene McCrary of Los Angeles, Benefit Systems, Inc., served as secretary. Bob Smiley was formally appointed as president of the Council, after successfully launching the organization to national prominence, spending over a year on the road bringing in members and guiding the fledgling organization to profitability.

The board agreed that the Council should begin its work by pursuing a number of specific projects that had been recommended by the president. These included publishing a newsletter, at least quarterly, to report on Council activity, legislative developments, regulations and rulings, and to explore issues surrounding valuations, repurchase liability, ESOP communications, plan administration, and so on. The board endorsed the Council’s production of a range of employee communications materials, including filmstrips, slide shows, posters, and payroll stuffers. The board laid special emphasis on the need to preserve existing ESOP legislation, to aggressively promote new ESOP legislation, and to prepare comments for agencies charged with regulating ESOPs, with the particular goal of reducing, through paperwork reduction, the costs of operating an ESOP. The board also recommended that the Council continue to form a library of resources on ESOPs, continue to conduct studies on the effects of ESOPs in the companies which installed them, and continue to cosponsor ESOP educational seminars and conferences with UCLA and the University of California at Berkeley.

The first board meeting also formally ratified the first group of advisory committees set up to help the ESOP Council in its work. The first Valuation Advisory Committee, chaired by James H. Zukin of Los Angeles, Houlihan, Lokey, Howard, & Zukin, Inc., provided comments to the IRS and the Labor Department on appropriate regulations for valuing ESOP stock. The first Legal Advisory Committee, led by chairman Ronald L. Ludwig, provided input on legislative and regulatory improvements. The Accounting and Record-Keeping Committee, chaired by Herbert S. Botsford of Los Angeles, Arthur Young & Company, served to keep member companies and practitioners posted on the best plan administration practices. The Employee Communications Advisory Committee, chaired by Jeffrey R. Gates, then of Hewitt Associates in Chicago, now with the U.S. Senate Committee on Finance, helped develop the package of communications materials the Council had begun to prepare. The board also formed a Membership Committee, and began looking for a full-time executive director. Jim Zukin, Ron Ludwig, and Bob Smiley had been working many long hours building the membership, and they saw that this work needed support by a full-time professional and also needed to be shared by all members of the Council. They soon hired John E. Curtis, Sr., from Humphreys College in Stockton, California.

Early Strides toward These Goals

By October 1978 the Council was making strides toward the goals set by the early leaders, the membership, and the board. The first Employee Stock Ownership Quarterly was at the printers. The advisory committees' many hard-working members had provided some good advice. The Valuation Committee was working on its recommendations to the Department of Labor on valuation regulations and appraisal problems with respect to ESOP stock. The Legal Advisory Committee was providing input into the ESOP and TRASOP regulations of the IRS and into the guidelines for reimbursement of ESOP contributions of defense contractors under the Armed Service Procurement Regulations, as well as input to all levels of Congress. The Accounting & Record-Keeping Advisory Committee had a list of practical suggestions for ESOP companies. A new Trustee Advisory Committee was formed. Mr. Curtis had already brought in more than 20 new members. A library was ready for ESOP scholars, and a regularly updated bibliography of resources on employee ownership was available free to members.

Bob Smiley had made arrangements with the UCLA Graduate School of Management to have teams of graduate students do studies on ESOPs with the sponsorship of the Council. The first of these was finished by December 1977. A direct mail survey of ESOP companies, to which 180 companies responded, found that executives in these companies regarded improved employee motivation, tax advantages, cash liquidity, the provision of a market for closely held stock, and estate planning as the characteristics of ESOPs which would most attract new companies to ESOPs. Changing government regulations and the administrative complexity and ongoing costs of ESOPs, on the other hand, were factors which ESOP companies found discouraging. This valuable information gave the Council insight into the direction its legislative efforts should take.

The ESOP Council won its first major regulatory battle in late 1978. The California Department of Corporations had proposed new regulations which would have subjected ESOPs in the state to its blue sky laws. This would have required ESOP companies in California to submit unnecessary and extensive financial data to the Department of Corporations in connection with the issuance of securities to ESOPs and created a host of other expensive administrative headaches. These proposed regulations would have been piled on top of the already extensive and expensive federal regulations governing ESOPs. The Council organized a letter-writing campaign among its members, submitted detailed and extensive written comments to the Department of Corporations challenging the need for the additional regulations for ESOPs, publicized its objections to the Department’s actions in California business publications, and provided information throughout the state to many interested ears. On November 6 the Department reversed itself, a substantial victory for the ESOP Council, since over one-third of ESOPs at the time had been adopted in California. ESOPs would now be much less expensive to maintain.

Not everything went the Council’s way in 1978, however. ESOP Council staff worked long hours, and ESOP Council president Bob Smiley and general counsel Ron Ludwig presented testimony and appeared before the U.S. Senate Committee on Finance, trying to influence the ESOP provisions of the Revenue Act of 1978. While the Council was partially successful in this effort -- the Council succeeded, for example, in getting a cash distribution option for ESOP distributions into the bill, as well as provisions which clarified the put option rules, extended the TRASOP provisions, and formally put the TRASOP provisions into the Internal Revenue Code -- it was not able to prevent inclusion of a provision which required the mandatory pass-through of voting rights to ESOP participants in privately held companies on major corporate issues. Nor was it successful in aborting several other provisions which a majority of Council members thought objectionable and which the ESOP Association would continue to lobby against in the years ahead.

Formation of the National Association of ESOP Companies

Shortly after the Council was formed, in the late fall of 1977, the National Association of ESOP Companies was formed in San Francisco primarily through the efforts of Harry Orchard, Dickson C. Buxton, and representatives of a number of ESOP companies. Three CEOs of ESOP companies met in San Francisco with Dick Buxton, and Harry Orchard, and agreed to provide initial funding to form the NAEC. Joe Dee of Brooks Camera’s, Bob Pittman, of Superior Cable, and Bill Hart, of Pacific Paperboard Products were the early pioneers and first members. The CEOS’s of these three companies were the first board and Executive committee of the NAEC -— Bob Pittman, Chairman; Joe Dee, President; and Bill Hart, Secretary-Treasurer. A long time friend of Dick Buxton’s, Harry Orchard, took early retirement from, IBM where he had a senior regional position, to become the first Executive Director of NAEC.

NAEC shared many of the goals of the ESOP Council, and differed primarily in that only ESOP companies could be members of NAEC. Both organizations recognized the critical nature of assuring continuation, the addition of favorable legislation, and a favorable regulatory climate. Dues for the NAEC members were significantly higher than the ESOP Council’s and operated on a sliding scale so that smaller companies could afford to join. NAEC was intended to be independent of service providers. NAEC had a dedicated staff with a board prepared to fund whatever it took to become viable.

Before the end of the year, Harry Orchard, provided with a list of clients of Private Capital Companies, Kelso & Company, and John Menke, was canvassing all over the nation to recruit new members for the NAEC. The NAEC was provided free rent in the San Francisco headquarters of Brooks Camera’s. Harry had an assistant and a travel allowance, and took a modest salary.

Dick Buxton and Harry Orchard met with ESOP company executives. Jack Grady, President of Juice Bowl Products, and Grason Nickell, CEO of AC Corporation, were recruited and went on the board, along with other representatives of ESOP companies over the next few months.

Successful Merger of the Two Associations

Jack Curtis, who was with the staff of the Senate Committee on Finance at the time, came out to visit with both organizations to deliver the powerful message from Senator Long that one organization would be more effective in dealing with Congress and the regulatory agencies.

Jack Grady, and Bob Strickland, Chairman of Lowe's Companies, Inc. were members of both organizations, and added their weight to the idea of consolidation. Other members of both organizations provided quick support.

Because the goals of the ESOP Council and the National Association of ESOP Companies were so similar, the boards of the two groups began discussing the possibility of a merger. There was concern on the part of ESOP companies and supporters that it was important for the employee ownership community to speak with one voice to Congress and the regulatory agencies. Also, the expense of maintaining two separate ESOP trade associations was unnecessary.

By March 10, 1979, the boards of both the ESOP Council, which then had more than 300 members, and the National Association of ESOP Companies, which had approximately 80 company members, had agreed to merge, resolving conflicts over dues structures and the role of practitioners within the new organization. Dave Trumbull, chairman of the ESOP Council, would be chairman of the ESOP Association. Joseph A. Dee, chairman of the National Association of ESOP Companies, and president of Brooks Cameras, of San Francisco, would be president of the new organization. Bob Smiley became general chairman of the advisory committees, and his lifetime directorship continued. Ron Ludwig was general counsel for the new organization. The Association headquarters were moved to San Francisco, and Eugene V. Gear, the then executive director of NAEC, was appointed executive director of the ESOP Association. Harry Orchard was awarded a lifetime directorship by the new organization and had joined

Kelso & Company. The merger was completely official by June 1979.

No Interruptions

The work of the organization continued unabated during the merger. In March 1979, for example, the repurchase liability study begun by the ESOP Council the preceding June was completed. This study explored a variety of means used by companies and practitioners for meeting an ESOP's repurchase liability. Planning for the Second Annual Meeting also began.

Speakers at the Second Annual Convention -- held at Stouffer's National Hotel Center in Arlington, Virginia, on May 7-8, 1979 -- included many interesting presentations by member companies on how to make an ESOP work better. J. Richard Boulis of South Bend, Indiana, president of South Bend Lathe, Warren L. Braun of Harrisonburg, Virginia, president of ComSonics, and Robert A. Feuchter of Sacramento, California, president of American Recreation Centers, all spoke on employee communications at their companies. Louis Kelso, the father of ESOPs, spoke on economic theory. Senator Russell Long and Senator Mike Gravel were featured speakers. Government officials, including Jack Curtis of the U.S. Senate Committee on Finance staff, and ESOP practitioners spoke on ESOP legislation, an update on ESOP regulations, developments in ESOP valuations, the view of government agencies towards ERISA compliance, plan administration, and many other topics.

Entering a Legislative and Regulatory Wonderland

In May 1979, shortly after the Second Annual Convention, Senator Russell Long introduced the Employee Stock Ownership Improvement Act of 1979, which would have greatly expanded the tax incentives for ESOPs. The bill would have made dividends deductible, given TRASOPs the option of taking a one percent credit of annual capital investment or one percent of payroll (the forerunner of the PAYSOP), and implemented a number of other important concepts. The ESOP Association worked closely with Senator Long and the U.S. Senate Committee on Finance in developing the bill, suggesting some of its provisions. The Association also encouraged members to write letters and make phone calls to Washington in support of the legislation, an activity which has consistently helped ESOPs' fortunes in Congress.

At the request of Jack Curtis, Kelso & Company, assisted by The Association, began working on a confidential survey for Senator Long in May 1979. ESOP Association member companies, as well as non-member Kelso & Company clients, were asked to provide confidential information on sales, profits, employee productivity, and taxes in order to estimate ESOPs' positive impact on tax revenues received from ESOP companies and ESOP participants. By September 1979 the results were in. The data showed that the typical ESOP had been installed three years before and that the typical ESOP company, due to a 157% increase in earnings, had paid 150% more in taxes to the government since the installation of its ESOP. These results were very helpful to Senator Long and other employee ownership supporters in Congress as they fought for passage of the Employee Stock Ownership Improvements Act. Members and officers of the Association presented testimony and appeared whenever necessary in support of the Act. Although the provisions of this Act were not enacted by Congress at this time, several provisions were enacted later.

The ESOP Association also continued to monitor and influence regulatory developments. For example, the Department of Labor came out with final regulations on the prudent man rule in July 1979. The regulations stated that risky or undiversified investments by a benefit plan are not necessarily deemed imprudent if they further the purpose of a given benefit plan. DOL also solicited public comments on whether a defined contribution plan, such as an ESOP which is used in combination with a defined benefit plan qualifies as an eligible individual account plan which is exempt from ERISA's limitations on investments in employer securities. The Association's Legal Advisory Committee, still chaired by Ron Ludwig, submitted comments.

Also in July, final Defense Acquisition Regulations eliminated objectionable features of rules covering the allowability of counting ESOP contributions as reimbursable expenses for defense contractors. The Association's Legal Advisory Committee had provided extensive input on these regulations since 1978 on behalf of Association members who were defense contractors.

The ESOP Association opened a Washington office in August 1979. This office was staffed by Sheldon I. London, a capable legislative counselor who also represented a number of other trade associations on Capitol Hill. The lobbying efforts of the ESOP Association were about to accelerate, and a Washington office was an important asset.

A Long Fight for Legislative Improvements

One ESOP bill, the Technical Corrections Act of 1979, was enacted in March 1980. The bill, which the Legal Advisory Committee had commented on, cleared up a number of legal drafting problems in the Revenue Act of 1978. The Chrysler Loan Guarantee Act also became law in January 1980, mandating an ESOP as a condition for the federal government’s bailout of the nation’s third largest auto maker.

In May 1980, Senators Donald W. Stewart and Max Baucus had introduced a bill which would have allowed a retiring owner who sold stock to an ESOP to roll the proceeds, tax free, over into the stock of businesses with equity of less than $25 million. This bill did not pass, but the tax-free rollover provision eventually would.

In July and August of 1980, Bob Strickland and Ron Ludwig each testified before the U.S. Senate Committee on Finance and the House Ways and Means Committee on panels relating to ESOP tax incentives.

In July of 1980 President Carter signed the Small Business Employee Ownership Act. This Act specifically made ESOPs eligible for the Small Business Administration’s regular business loan programs, and also made ESOPs eligible for a range of loan guarantee programs.

At the Association’s urging, Congressman Bill Frenzel of Minnesota introduced a bill in January 1981 like that earlier introduced by Senators Stewart and Baucus. His proposal added a twist. It would have allowed a deceased owner’s estate a tax credit equal to the amount of stock transferred to an ESOP. The ESOP would then have had 15 years in which to pay the estate tax liability in installments, the same treatment normally awarded an estate. Unfortunately, nothing came of this proposal either -- yet.

Meanwhile, a Miscellaneous Revenue Act had passed into law in December 1980 and contained several provisions which were important for ESOPs, including one allowing all qualified stock bonus plans to distribute cash to participants subject to the participants’ right to demand stock.

ESOP Association legislative counsel Luis L. Granados, of Washington, D.C., then an associate of Shelly London’s, testified before the House Ways and Means Committee on April 1 and 2, 1981, in favor of forthcoming amendments to President Reagan's tax bill. These amendments, collectively known as the Expanded Ownership Act, were introduced by Senator Long on May 12, 1981. The ESOP Association newsletter praised this as "the most comprehensive ESOP bill ever written" because the bill contained several powerful provisions. These included a provision allowing a tax-free rollover for retiring owners of closely held businesses worth less than $25 million, a deduction for dividends passed through to ESOP participants, and a provision allowing companies to take a tax credit as a percentage of payroll (PAYSOP) instead of as a percentage of total investment. The bill also included the estate liability assumption provision. This bill was written with extensive input from the ESOP Association and was partially based on the extensive answers ESOP companies gave to a legislative questionnaire. The ESOP Association was disappointed that these provisions were not enacted.

The Association was, however, delighted that there were important provisions included in the Economic Recovery Tax Act of 1981 (ERTA). The TRASOP tax credit was replaced by the PAYSOP tax credit as of January 1, 1982. The PAYSOP had greater applicability to labor intensive industries. ERTA also substantially increased the deduction limits for contributions to leveraged ESOPs and clarified the distribution and put option rules for ESOPs. The change in the deduction limits signaled an expanding use of ESOPs in connection with leveraged buyouts.

Outside the Federal Legislative Arena

All through this legislative odyssey, the Association sought to strengthen and foster the development of employee ownership in other ways.

The Association had held its Third Annual Convention at the Capital Hilton in Washington on June 20-21, 1980, with seminars on ESOPs' role in an inflationary economy, securities laws and their bearing on ESOPs, laws and regulations affecting trustees, and more material on valuation, administration, distributions and their tax consequences, communications case studies, and many other crucial topics.

The Association's Fourth Annual Conference, held in San Francisco at the Hyatt on Union Square June 15-16, 1981, was attended by a record 244 people from 35 states. Congressman Bill Frenzel of Minnesota gave the keynote address. Paul Eckel, of

Los Angeles, chief pilot at Continental Airlines, spoke about that company’s determined (but ultimately unsuccessful) efforts to set up an ESOP to avoid a hostile takeover.

The Association moved its headquarters to Washington in June 1981, into offices adjacent to those of Shelly London. Timothy Maloney of Shelly London’s staff was hired as executive director. Luis Granados continued as legislative counsel for the Association.

In July 1981 the Association upgraded the format of its newsletter, which continued to announce new resources and developments in employee ownership. In July, for example, the newsletter let members know that two states, Ohio and Delaware, had just passed laws which encouraged employee ownership. Court cases illustrating the importance of independent appraisals of ESOP stock were reported. President Reagan endorsed ESOPs (not for the first -- or last -- time) in a June 22 letter to Delaware Governor Pierre du Pont, congratulating him on the passage of the Delaware law; the newsletter reproduced the President’s message.

In September, the Association reported that the Pope endorsed employee ownership in the papal encyclical *Laborem Exercens (On Human Work)*. The newsletter also noted that the SBA had issued its proposed regulations implementing the Small Business Employee Ownership Act allowing the SBA to guarantee ESOP loans, and the Legal Advisory Committee submitted comments.

The newsletter regularly featured useful technical columns written by practitioners. The important, time-consuming contributions of these many able practitioners has kept a lot of ESOP companies, and many practitioners new at ESOPs, out of technical difficulties.

The Association was conducting many other vital programs. Staff members were putting together dozens of concise and informative “Profiles”, descriptions of member companies and their ESOPs. Companies such as Viking Engineering, in Fridley, Minnesota, Bates Fabrics in Lewiston, Maine, ComSonics in Harrisonburg, Virginia, Canterbury Press in Rome, New York, the Mad Butcher in Pine Bluff, Arkansas, Fastener Industries in Berea, Ohio, Lowe’s Companies, Inc., in North Wilkesboro, North Carolina, Brooks Cameras in San Francisco, California, and Allied Plywood in Alexandria, Virginia, and dozens of others, each had their own unique ESOP story explained, for others to learn from.

The Association was producing a whole series of ESOP payroll stuffers and posters with slogans like “Our ESOP Company is One You Can Take Stock In”, “Our ESOP Makes Dollars and Sense”, and “ESOP -- Feather Your Nest With Nothing Down”. The ESOP Association had also prepared a slide-sound presentation for employees, “ESOP is Not a Fable”, which members could either rent or buy. As part of its efforts to continually improve the communications material offered to members, in March of 1982 the Association held a communications contest to bring together communications material from many ESOP companies -- winners were honored by Senator Russell Long at the Fifth Annual Conference, and included Richard Phenneger, then of Pan Am, now of Phenneger & Morgan in Spokane, Washington, Donald Williford of Ruddick Corporation in Charlotte, North Carolina, and Joseph W. Russell of E-Systems in Dallas, Texas. An Information Bureau and Research Library were available to members. The Association also developed material for employee owned companies to advertise themselves as such. These effective sample ads encouraged customers to “Deal with an Owner”.

At the Fifth Annual Convention at Washington’s Capital Hilton on May 2, 1982, Senators Long, Robert Dole, and Bill Bradley were featured speakers. Fifty-three other speakers addressed 15 important seminar topics. As with each of the preceding conferences, the Association made binders of conference materials and transcripts of conference presentations available to those members who could not attend. Advisory Committee chairmen continued to guide their committees through legal and regulatory mazes and provide useful reports to the board and membership.

Joe Dee, chairman of the Association, and Charles Fry, president, continued to serve for another term. The board and the membership considered this continuity especially important during the transition year before and after the move to Washington.

For the fiscal year ending June 30, 1982, the Association had accumulated substantial reserves and enjoyed a 25% increase in membership from the end of the last fiscal year as a result of Tim Maloney’s active membership drive. The Association has always been profitable, except during its initial startup period.

Regional seminars held by the Association in February 1982 drew almost 100 in Los Angeles and more than 100 in San

Francisco. Based on this response, the Association decided to hold more such regional seminars in the fall. With the assistance of members the Association began hosting regular seminars on ESOPs around the country. Planning was underway in August 1982 for seminars in Dallas and Chicago in October, and Atlanta in November. All three were well attended, drawing several dozen local businesspeople, who were introduced to employee ownership by company and practitioner members of the Association.

In December of 1982 Tim Maloney stepped down as executive director of the ESOP Association in order to devote his full efforts to his duties as a member of the Maryland State Legislature. Luis Granados, the Association's legislative counsel, became the new managing director. J. Michael Keeling was retained as legislative counsel.

1982 Legislative and Regulatory Developments

The Association reported on the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 in October 1982. This Act sought to address abuses of some employee benefit plans and included new, tighter "top-heavy" rules.

In September 1982 the Association reported the passage of state laws highly favorable to employee ownership in California and Illinois. The Association's lobbying efforts were critical in the case of the California law.

The ESOP Association: Accelerating in 1983

In February 1983, the ESOP Association successfully lobbied against a proposal by House Ways and Means Committee Chairman Dan Rostenkowski to eliminate PAYSOPs.

In March 1983, the ESOP Association reported some of the results of its 1982 member survey and announced a new series of surveys designed to determine the likelihood of an ESOP getting audited, how much stock the typical employee gets in an ESOP, what design features of an ESOP might affect productivity, national trends in basic ESOP design and operation, and answer a number of other questions which members of Congress had asked in connection with ESOP legislation.

The Association continued to make new resources available. For example, it published a Valuation Booklet, which provided information on ESOP share appraisal practices, court decisions relating to ESOP appraisals, a sample valuation report, and other relevant information on ESOP valuations. The Association also continued to publish directories of its members and associate members.

Over 300 ESOP company executives and ESOP professionals attended the Association's Sixth Annual Convention in New Orleans at the Marriott in the French Quarter on May 11-13, 1983. Speakers included Senator Long, Senator Alan Dixon of Illinois and Congressman Henson Moore of Louisiana. Elise du Pont, Assistant Administrator of the Agency for International Development, spoke on employee ownership developments and prospects abroad. A highlight of the New Orleans convention was a speech given by Joseph W. Recinos of Union Solidarista in Guatemala on employee ownership as a tool for economic development and justice in Latin America. The Association first tried out its "Company Roundtable" format at this conference, where ESOP company representatives get together and discuss relevant and timely issues. The format proved extremely successful and the Association soon began to sponsor many such company Roundtables around the country. Only ESOP company executives may attend these meetings. The first was hosted by Phillip S. Hunter of Hunter Labs in Reston, Virginia. Since then Roundtables have been held in Atlanta, Greensboro, New Orleans, St. Louis, Detroit, Denver, Phoenix, Boston, Cleveland, Pittsburgh, and many other cities.

The Association continued to present testimony on ESOPs. In July 1983, managing director Luis Granados presented testimony and appeared before the House Ways and Means Committee. In September 1983, Robert L. Strickland, then president of the ESOP Association (and chairman of Lowe's Companies, Inc.) and then Association vice chairman Warren Braun of Comsonics spoke at the White House Conference on Productivity on the contributions of ESOPs to employee motivation and economic growth.

The Association sponsored a specialized seminar, on banking and ESOPs, on June 8, 1983. Bank trust and loan officers from around the country met at New York's Grand Hyatt Hotel to learn about ESOP lending, plan administration, and the fiduciary obligations of an ESOP trustee.

Landmark: Passage of the Tax Reform Act of 1984

In December of 1983 Senator Long introduced a new bill which would ultimately add significant tax incentives to an already favorable ESOP environment. This was the Employee Stock

Ownership Act of 1983, S. 2128. Congressmen Charles Rangel of New York and Doug Bosco of California introduced the same bill, as H.R. 5095, in the House of Representatives. Senator Long had 46 cosponsors when he introduced the original bill. The Tax Reform Act of 1984 (which was part of the Deficit Reduction Act) included four significant provisions from this bill. This Act represented the conclusion of ceaseless efforts by Senator Long and others in Congress, and by the ESOP Association. It created an opportunity for many new ESOPs. Especially important was the impact of the 50% interest exclusion in attracting lenders' attention to ESOPs. All this naturally meant many new members for the Association.

Three of the four key provisions of the bill grew out of work done by the Association as far back as 1980 and repeatedly introduced by Senator Long and other members of Congress. These were the provisions which created a tax-free rollover for retiring owners of closely held companies, provided that the proceeds are reinvested in the stock of other companies within one year; allowed commercial lending institutions to deduct fifty percent of the interest earned on ESOP related loans; allowed an ESOP company to deduct dividends paid to ESOP participants; and permitted ESOPs to assume the estate tax liability of an estate in return for a stock contribution from the estate worth as much as the tax liability.

Recent Developments

David Binns became managing director of the Association in December of 1984. David had been a public relations account executive and an aide to New York Congressman Tom Downey before coming to the Association. Luis Granados left to work with the ESOP Consulting Group, in Washington.

Over 400 people attended the Seventh Annual Convention in Washington, May 9-11, 1984 at the Capital Hilton. Robert L. Strickland, president of Lowe's Companies, Inc., and Association president, spoke, along with Jeffrey R. Gates, Senator Long's ESOP expert on the staff of the U.S. Senate Committee on Finance, Ron Ludwig, Congressman Doug Bosco, and many other excellent speakers. The videotaped convention highlights were made available, making the conference accessible to those members who were unable to attend.

The Association held a gala reception on Capitol Hill for Senator Russell Long as part of the Seventh Annual Convention. Many ESOP companies presented gifts manufactured by employee owners to the Senator, including a picture frame from M.W. Carr in West Somerville, Massachusetts, and a “We Can Do It” jacket from Weirton Steel in Weirton, West Virginia. These gifts expressed the appreciation of companies which enjoy more profits and jobs thanks to Senator Long.

All through late 1984 and early 1985 the ESOP Association was watching the various tax reform proposals closely. The Treasury’s original proposal would have been a disaster for ESOPs, eliminating all the provisions which encourage their formation. The Administration’s revised proposal would have substantially changed and complicated the requirements for ESOPs as well.

Current ESOP Association Chairman Bob Strickland and ESOP Association President Warren Braun testified before the U.S. House of Representatives Ways and Means Committee and the U.S. Senate Committee on Finance, respectively, on tax reform. In June 1985 the Association formed a Legislative Advisory Committee of ESOP practitioners to advise the Association regarding pending ESOP proposals. Members of the committee include Jared Kaplan (Chairman) of Chicago, Keck, Mahin & Cate, Ronald J. Gilbert of Scottsville, Virginia (ESOP Services, Luis Granados, Ron Ludwig, Merri A Kratzer of Alexandria, United Virginia Bank, Joseph S. Schuchert of New York, Kelso & Company, and other practitioners.

The Association’s Eighth Annual Convention, held at the J.W. Marriott hotel in Washington on May 15-17, 1985, had a record 540 guests. The board made several important decisions at this meeting, including the Association’s first dues raise since its first year, and also the formation of a political action committee as part of an effort to broaden Congressional support for ESOPs in preparation for Senator Long’s retirement. Also, Louis Kelso became economic advisor to the board of directors.

In the fall of 1985 the Department of Labor announced a study project to develop guidelines for the use of ESOPs in leveraged buyouts. It is expected that this project will also include the development of regulations defining adequate consideration for purposes of ESOP transactions. Guidelines are expected by September of 1986.

The tax reform bill passed by the House in December 1985, H.R. 3838, adds substantial new requirements for ESOPs. The House bill is substantially better than what had been proposed the Administration, and by the House Ways and Means Committee.

The bill passed by the House would terminate the PAYSOP credit at the end of 1985, would end the tax incentives added by the tax Reform Act of 1984 (DEFRA) at the end of 1988 and would add some significant new qualification requirements for ESOPs. Much of the credit for the improvements over the Administration’s proposal is attributable to the lobbying efforts of the Association, led by J. Michael Keeling. Mr. Keeling organized an extensive lobbying campaign during the latter half of 1985. Congressman Beryl Anthony of Arkansas, a member of the House Ways and Means Committee, led the efforts to modify the harsh proposals drawn up by the House Ways and Means Committee’s staff.

Senator Robert Packwood of Oregon, now Chairman of the U.S. Senate Committee on Finance, presented his own proposal in March 1986, which would have maintained present law on ESOPS. In early May of 1986 Senator Long was successful in adding significant additional tax incentives for ESOPs to the Committee’s bill. Included was a strong statement of Congressional intent regarding the use of ESOPs as a technique of corporate finance. It is hoped that the final version of the Tax Reform Act of 1986 will follow the Senate version rather than the House version. Overall, chances are good that a more favorable bill will emerge from the Senate.

The 1986 Convention

The Association’s Ninth Annual Convention may be still underway, or just finished, as you read this. Held May 14-16 at Washington’s Hyatt Regency Hotel, the convention’s featured and keynote speakers were Burton Borgelt, CEO and president of Dentsply, Inc. in York, Pennsylvania, David Walker of the Department of Labor, Jeff Gates of the U.S. Senate Committee on Finance, Paul Rusen of Employee Ownership, Inc. (and for many years a high official in the United Steelworkers), Bruce Mazzie of the Presidential task force Project Economic Justice, Joe Recinos of Union Solidarista, and Congressman Hal Daub of Nebraska. The theme of the conference, “Making Employee Ownership Work”, was explored through panels of a wide range of technical issues, but this year’s convention also included panels examining employee communication and participation programs, employee ownership and unions, and how to manage ESOP companies.

A special highlight of this year’s convention was the testimonial dinner honoring Senator Russell Long, whose long years of work in Congress on behalf of employee ownership has brought employee ownership to thousands of companies and millions of employees.

Other important developments so far in 1986 include progress on the General Accounting Office's study of ESOPs. Requested by Senator Long after the passage of the Tax Reform Act of 1984, this study, the most comprehensive study of ESOPs ever undertaken, will look at ESOPs' effects on productivity, the distribution of wealth, and government revenues, among other issues. The Association is providing extensive information and assistance to the GAO.

In February 1986 the IRS proposed regulations on certain provisions of the Tax Reform Act of 1984. The Legal Advisory Committee has submitted comments. Ron Ludwig, who has chaired the Legal Advisory Committee since its inception in 1978, was designated by the executive committee of the ESOP Association as Special ESOP Counsel earlier this year. The Legal Advisory Committee is being merged with the Legislative Advisory Committee to form a new Legislative and Regulatory Advisory Committee, to be chaired by Jared Kaplan, and consisting of Ron Ludwig, Robert Smiley, Phil Hunter, Shannon Pratt, Merri Kratzer, John Menke, Roland Attenborough, Dickson Buxton, Paul Much, Luis Granados, Armand Brecher, Norman Kurland, Greg Brown, Jack Curtis, Joseph Schuchert, Neil Wassner, Nicholas Damico, Bruce Grussing, and Louis Paone.

The Association is now participating in a fund-raising drive for The Employee Ownership Endowment Fund for Research Interns. The fund will provide support for research interns at the National Center for Employee Ownership, a private, educational and research organization in Arlington, Virginia. Previous internships at the National Center have provided valuable information about how employee ownership is working. These internships have included a study of employee ownership and corporate performance for the New York Stock Exchange (1984); a study of how the average worker fares in a typical ESOP (1985); and a collection of case studies published as *Taking Stock: Employee Ownership at Work* (Ballinger Books, 1986). Research topics for Fund-sponsored projects will be jointly decided by the Association and the National Center.

Conclusion at the Crossroads

Over the years the ESOP Association has been a vital force for the growth of employee ownership in the United States. It has accomplished and continues to further the goals of its early leaders -- by maintaining a wide supply of employee ownership communications materials, holding a variety of conferences and seminars which provide forums for the exchange of information on employee ownership, operating special committees to provide comment to government agencies on regulatory issues, maintaining an active lobbying effort, and in many other ways. Since the founding of the ESOP Council and NAEC in 1977, the number of ESOPs, PAYSOPs, and stock bonus plans has grown from about 3,500 in 1977 to 9,000 in 1986. The Association's membership grew from approximately 300 company members at the time of the merger of the ESOP Council and NAEC, to about 550 in 1984, before the passage of the tax reduction Act, to today's 900+. Over the years since the Association was established, ESOPs have moved to the front page of the *Wall Street Journal*, as well as *Business Week*, Barron's, *Inc*., *Psychology Today*, and *The New Republic*. With its strong foundation of loyal members, the Association will continue to play a key role in defending and expanding employee ownership in American business.

Important Milestone – The Creation of the Chapters

Shortly after this history was completed, Vit Eckersdorf, of Bofor's Printing, John Menke, and Dick Buxton met in San Francisco to discuss the high turnover of members of The ESOP Association. Dick Buxton explained the highly successful Chapter system of the Society of Financial Service Professionals and 225 Chapters in major cities all over the nation. Why not borrow from this successful model for the Association?

Vit Eckersdorf volunteered to become the California Chapter President as he was stepping down as national President of The ESOP Association. Dick Buxton called Bob Midkiff and he said he would form the Hawaii Chapter. Others were recruited and here we are.

The Chapter system has been a primary reason for the sustainable growth of TEA.