

SUCCESSFUL IOWA ESOPS:

employee ownership helps
companies thrive



JOHN KROGMAN

*Director of Sales and Marketing, Connect-A-Dock,
a subsidiary of Owner Revolution*



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FEBRUARY 2015
VOLUME 4 | NUMBER 2



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Business Record® (USPS 154-740, ISSN 1068-6681) is published by Business Publications Corporation Inc., The Depot at Fourth, 100-4th Street, Des Moines, Iowa 50309, (515) 288-3336. Contents © 2015 Business Record. Published weekly. Annual subscriptions \$69.95. Single copy price is \$1.75. Copies of past issues, as available, may be purchased for \$4.50 each. Periodicals Postage Paid at Des Moines, Iowa. POSTMASTER: Send address changes to Business Publications, The Depot at Fourth, 100-4th Street, Des Moines, Iowa 50309.

A VIEW FROM THE TOP



Mark Hanawalt

ABI Chairman

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ABI on track for another successful year

I find it hard to believe my term as chair of ABI is more than half over. However, that fact is not nearly as important as this one: By any measure, ABI is enjoying one of its very best years ever. On behalf of the board of directors, thank you to ABI members all across Iowa for making that success possible.

It is exciting to see continued increases in metrics related to membership, revenue, foundation programming, public policy advocacy and many other areas. Personally, I am even more excited by the enthusiasm and passion ABI members exhibit when they talk about the association.

After visiting every corner of our state and listening to member after member talk about their pride in the important work being done by ABI, it is easy to be excited about what lies ahead. Very soon, the ABI Board of Directors will receive a report about what leaders are seeing in the areas of programming, outreach and new initiatives (among other things). Please stay tuned for more information about this subject, called Engage ABI, in the weeks ahead.

There does seem to be something that generates even more passion, and that is when members are talking about their own company and its employees. There is fierce pride in the people, products and services that are a part of ABI companies.

Whether business people participate in companies managed through Employee Stock Ownership Plans (see the article inside this edition of Business Record Iowa for more on ESOPs) or in other business formats, ABI members are passionate about their companies.

Finally, one passion I share in common with other ABI Chairs is a commitment to delivering a terrific annual convention. Despite what past chairs may claim, this will be the best one ever. Make plans now to join your ABI colleagues in the Quad Cities June 10 - 12 for the 2015 Taking Care of Business Conference. ABI's 112th annual meeting will be something special, and you do not want to miss it! Register now at www.iowaabi.org. In the meantime, thank you once more for your support.

EMBARRASSED EXECUTIVE

Q. What benefits could an ESOP provide for my business?

Employee Stock Ownership Plans (or ESOPs) are retirement plans giving employees equity through ownership of their employer's securities. Unlike a 401(k), an ESOP can borrow to acquire all or a portion of a sponsoring company's stock.

- **ESOPs are a tool to facilitate ownership transitions.** An ESOP can acquire 100 percent of a company using a combination of bank debt and seller financing. For sales of minority interests, an ESOP creates liquidity options, providing business owners an opportunity to sell some shares, thereby diversifying their investment while retaining some shares to benefit from future profits and value increases.

- **ESOP tax advantages increase company cash flow.** An ESOP sponsored by an S-corporation pays no taxes on income attributable to shares owned by the ESOP. There are also potential capital gains tax advantages to selling C-corporation shareholder(s).

- **ESOP companies are stronger.** Studies show that businesses with ESOPs are more productive and more profitable, last longer in the marketplace, are more stable during economic downturns and provide greater shareholder returns than the market at large.

- **Employees benefit from generally larger account balances at retirement.** Increased employee motivation and involvement often improve employee retention and company profitability.

ESOPs are attractive to business owners who are interested in providing a legacy to their employees and local communities, which has created a tradition of employee ownership in Iowa.

ESOPs require a team of qualified ESOP advisers. With ongoing ownership transition of Iowa's middle market businesses, ESOPs will continue to be a popular tool for ownership transition and employee retention.



Gregory Weber

*Senior Vice President,
BCC Advisers*

greg@bccadvisers.com





◀ EVENT REWIND

ABI Legislative Briefing & Reception

JANUARY 14 | DES MOINES



Rep. Dave Dawson (D-Sioux City) talks with Rob Kane (CliftonLarsonAllen) and Alex Taylor (University of Iowa).



Iowa Workforce Development Director Beth Townsend and Sen. Rob Hogg (D-Cedar Rapids).



Garrett Burchett (Mississippi River Distilling Co.), Lt. Gov. Kim Reynolds and Scott VanDeWoestyne (Quad Cities Chamber) chat during the reception.



Rachel Geilenfeld, ABI policy and political affairs counsel, and Zach Dalluge, ABI policy and regulatory affairs coordinator, discuss legislative priorities during the briefing.



Rep. Mike Sexton (R-Rockwell City) speaks with Roger Hargens (Accumold) during the legislative reception.



Senate Republican Leader Bill Dix (R-Shell Rock) (right) discusses ABI priorities with Paul Gregoire (Emerson/Fisher) and Mike Ralston (ABI).



Sen. Chaz Allen (D-Newton), pauses for a photo with Kim Didier (DMACC) and Dick Davidson (Thornbert, Inc.).



Sen. Bill Dotzler (D-Waterloo), Steve Firman (Greater Cedar Valley Alliance & Chamber), Sean Abbas (Threads) and Rep. Bob Kressig (D-Cedar Falls) speak during the reception.



Gov. Terry Branstad draws a laugh from attendees at the legislative reception.



Scott Peterson (Interstates Co.), Nicole Crain, ABI Vice President, Government Relations, and Larry Den Herder (Interstates Co.) discuss legislative priorities.



Rep. Bobby Kaufmann (R-Wilton), Rep. Rob Bacon (R-Slater), Rep. Matt Windschitl (R-Missouri Valley) and Sharon Presnall (Iowa Bankers Association) enjoy the reception.



Speaker of the House Kraig Paulsen (R-Hiawatha) (third from left) and Senate Majority Leader Mike Gronstall (D-Council Bluffs) (second from right) talk with attendees.

A CUSTOM PUBLICATION FOR ABI



Rep. Linda Miller (R-Bettendorf) (center) speaks with Jeff Weida and John Riches, both of Alcoa.



ABI President Mike Ralston, Charles Sukup (Sukup Mfg) share a laugh with Speaker of the House Kraig Paulsen (R-Hiawatha).



Gov. Terry Branstad speaks with Leadership Iowa class members Kellan Longenecker (General Mills), Natalie Merrill (Renewable Energy Group) and LaNisha Cassell.



Rachel Geilenfeld discusses ABI priorities with Mark Snell (Secretary of State's Office) and Rep. Dave Deyoe (R-Nevada).



Steven Bradford (HNI), Leisa Fox (ABI) and Rep. Gary Carlson (R-Muscatine) catch up during the legislative reception.



Rick Tollackson (Hubbell Realty), Rep. Dennis Cohoon (D-Burlington) and Rep. Scott Ourth (D-Ackworth) discuss priorities during the legislative reception.



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CAPITOL BUSINESS

MARCH TRIP TO THE CAPITOL WILL PROMOTE BUSINESS ISSUES



If you attended the ABI Legislative Briefing & Reception last month, you understand the importance of communicating with your legislators.

ABI organizes an annual visit to the Statehouse where members can continue to build on those relationships. This year, we are partnering with the National Federation of Independent Business of Iowa (NFIB) to host Business Day on the Hill and provide an even greater awareness of the issues affecting Iowa businesses.

This two-day event March 9-10 will include a how-to session on Monday, where members can learn the ins and outs of meeting legislators at the Capitol and receive advice on how to make the most of those interactions. Following the session, ABI and NFIB members can enjoy a networking reception with refreshments.

On Tuesday, business leaders from both organizations will head to the Capitol to talk with lawmakers about the issues that matter most to you.

By March 10, the legislative session will be well underway. We need your help to make sure Iowa's senators and representatives understand how the policies they are considering will affect Iowa businesses.

Legislators want to hear firsthand from the employers and employees in their districts about how decisions being made at the Statehouse are affecting everyday Iowans. Join us March 9-10 to help educate Iowa's elected officials on the issues important to Iowa businesses.

WHAT IS NEW THIS YEAR?

- Partnership with NFIB to provide even greater business presence at the Statehouse.
- Lobbying 101 session to learn the ins and outs of contacting legislators at the Capitol.
- A reception to meet with other business leaders and political leaders from across the state.



CALENDAR OF EVENTS



FEBRUARY 20

2015 ABI Legislative Update Teleconference (members only)

teleconference
9:00 AM - 9:30 AM

FEBRUARY 25

Securing Iowa's Public Pension Systems Forum

Greater Des Moines Botanical Garden | 909 Robert D. Ray Dr | Des Moines
11:00 AM - 1:30 PM

MARCH 5

Connecting Statewide Leaders

Fairfield Arts & Convention Center | 200 N Main St | Fairfield
10:30 AM - 1:00 PM

MARCH 9

Iowa Business Day on the Hill – Lobbying 101

State Historical Building | 600 E. Locust St | Des Moines
4:30 PM - 6:30 PM

MARCH 10

Iowa Business Day on the Hill

State Historical Building | 600 E. Locust St | Des Moines
9:00 AM - 11:45 AM (8:30 AM registration)

MARCH 13

2015 ABI Legislative Update Teleconference (members only)

teleconference
9:00 AM - 9:30 AM

MARCH 25

Workers' Compensation Program

Prairie Meadows Event Center | 1 Prairie Meadows Dr | Altoona
8:00 AM - 3:30 PM

APRIL 9

Connecting Statewide Leaders

Storm Lake
10:30 AM - 1:00 PM

APRIL 17

2015 ABI Legislative Update Teleconference (members only)

teleconference
9:00 AM - 9:30 AM



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SUCCESSFUL IOWA ESOPs:

employee ownership helps
companies thrive



JOHN KROGMAN

*Director of Sales and Marketing, Connect-A-Dock,
a subsidiary of Owner Revolution*

W

When John Krogman joined Owner Revolution 15 years ago, he became more than the director of sales and marketing. Krogman was an owner. He and all of Owner Revolution's 265 employees have investments in the company through an Employee Stock Ownership Plan, or ESOP.

Under this type of employee benefit plan, employees own stock in the company as part of their retirement plan. The ESOP model is gaining popularity in Iowa and around the U.S. for several reasons.

The structure can provide tax benefits for the party selling the company to the ESOP, employees may benefit from larger account balances when they retire, and studies show that ESOP companies typically are more productive and profitable than their competitors, said Greg Weber, a senior vice president at BCC Advisers in Des Moines.

Chris Schafer founded the company, then known as Schafer Systems, in 1986 as a manufacturer of lottery ticket dispensers for the new, fast-growing industry. Over the past 29 years the company has grown to include four subsidiaries that create everything from floating dock systems to high-end point of purchase product displays and dispensers.

When Schafer decided to retire about 16 years ago, he sold the company to the ESOP and it has continued to thrive, Krogman said. We have seen significant growth in revenue and stock value.



ESOP SPURS GROWTH FOR IOWA BANK

Heritage Bank has grown significantly since Tom Geiger's parents first joined the financial industry in 1969.

The Geiger family got their start in banking by purchasing Holstein State Bank in Holstein. Over the next 46 years, the family acquired 11 bank charters, grew to include 12 locations in northwest Iowa and Minnesota, and changed the company's name to Heritage Bank.

Now, Heritage is looking to continue its expansion and it has implemented an Employee Stock Ownership Plan to help provide capital for that growth.

"We've seen success in our approach to community and ag lending and have the potential to grow beyond my family's capacity to fund it," Heritage CEO Tom Geiger said.

The bank is selling 6 percent of its stock to its employees and will provide them an opportunity to purchase more in the coming months, Geiger said. Employees could end up owning about 25 percent of Heritage Bank.

The sale provides capital for the company to expand, and because ESOP investments are not taxed until they are cashed out by employees, the bank is able to use 100 percent of the capital to fund further growth, Geiger said.

Heritage Bank's 150 employees have met the transition with excitement, said Market President Dave Brown, who oversees the company's operations in Sioux City.

"We have a very engaged group of employees, and they take pride in owning the bank," Brown said. "We've had a good response from employees, customers and community members."

Geiger considers the model a good way to raise capital while also rewarding employees for their work and dedication to the company.

"This just makes a lot of sense for us," he said. "We have a family atmosphere, and our employees have really put the work in. This is just as much their success as it is ours."

For many companies, one of the greatest benefits of an ESOP is the increased interest employees tend to take in the company's success.

"Everyone is committed to making improvements because they know it is going to help their stock," Krogman said.

Selling the company to the employees also meant Owner Revolution would stay in southwest Iowa, which was important to Schafer.

"This was something he created, and this way, the jobs he created stay in his hometown. They are not sold to the highest bidder and moved," Krogman said.

That was one key reason Cliff Wilson and his employees chose the ESOP route when Wilson was ready to retire about 11 years ago from the manufacturing company he owned, Ritchie Industries.



“There is a **lot of flexibility** (when it comes to establishing an ESOP). Whether an ESOP will work for a certain company often depends on the **corporate culture.**”

Alice Helle, attorney, BrownWinick law firm

The company employs about 80 people in the 1,100-person town of Conrad north of Marshalltown.

"There are all kinds of equity groups trying to buy small manufacturers, but a company our size in a small town – it keeps it going," said Leon Yantis, Ritchie CEO and Wilson's son-in-law.

Federal regulations require that ESOPs be sold at fair market value. Wilson likely could have sold his company for more money to a third party. Instead, he had his employees provide a down payment and lent them the rest of the money.

Yantis says it was a win-win for everyone because the employees received a good deal on the loan, Wilson was able to make a premium on the interest as the loan was paid off, and, most important, the company stayed in Conrad.

"Our business is on Main Street, and now it's owned by members of the community, not owned by someone on the outside," Yantis said. "That's good for our employees, our company and the community."

Many ESOP companies also offer 401(k) options for employees, but employees receive stock in the company instead of a match to the 401(k).

Ritchie, which manufactures automatic livestock watering equipment, offers both. The company's benefits plan is a valuable recruitment and retention tool, Yantis said.

"We're able to recruit from other larger companies even if our salaries are a little lower because the long-term payback is there," he said.

While Ritchie Industries chose an ESOP model to avoid ownership by a third party, other businesses choose to join an outside company because of it.

That was likely a factor for some companies that have chosen to become a part of Dexter Apache Holdings, said Andy Kretz, president of Dexter Apache subsidiary Dexter Laundry.



“Our business is on Main Street, and now it's **owned by members of the community**, not owned by someone on the outside.”

Leon Yantis, CEO, Ritchie Industries

Dexter Apache is an umbrella company with several operations around Iowa and Wisconsin. It has operated as an ESOP since 1987, and as new companies are acquired, their employees become owners in Dexter Apache stock.

"The ESOP model certainly benefits a wider group of people, and that's probably one reason why our companies chose to sell to us, because they like the structure and the previous owner wanted to take care of the employees who helped get them to where they are," Kretz said.

Businesses of all sizes in many industries, both public and private, have ESOPs. Some are entirely employee-owned. Others only offer a portion of their stock to the employees.

"There is a lot of flexibility, and you actually see them in quite a variety of industries," said Alice Helle, an attorney with BrownWinick law firm in Des Moines. "Whether an ESOP will work for a certain company often depends on the corporate culture."

A company with high turnover, for instance, could run into problems because it would have to buy back stock each time an employee leaves.

ESOPs do require significant administrative work to be successful, Helle and others said.

They are regulated by the Internal Revenue Service and the Department of Labor to help ensure that employees' retirement savings are being managed responsibly.

Often, a company will go through a feasibility study to determine whether the ESOP model is a wise choice. A valuation must be completed annually.

At Owner Revolution, the company also completes a repurchase obligation study each year to forecast how much it will likely have to pay employees who are expected to retire or leave the company in the coming years.

"We have quite a few employees all around the same age, so when they retire, that will be a big expense," Krogman said. "We need to be prepared for that."

There also is a learning curve for employees who are entrusting the company with a significant portion of their retirement savings.

"It can be challenging to communicate, and that's something we focus on," said Steve Doerfler, president and CEO of Metalcraft Inc., a label and radio-frequency identification product manufacturer in Mason City.



"We're a **very team-oriented** company, and so we wanted to take that to the **next level**. We all own our own home and our own car. We thought, 'Why shouldn't we own our business?'"

Steve Doerfler, *president and CEO, Metalcraft Inc.*

Doerfler's company has an ESOP committee, which hosts lunch and learns to discuss how the model works and the value it provides to employees.

"You can never spend enough time communicating that," Doerfler said.

Metalcraft became an ESOP company in 2006.

"We're a very team-oriented company, and so we wanted to take that to the next level," Doerfler said. "We all own our own home or vehicle. We thought, 'Why shouldn't we own our business?' We thought we'd be better off than with a 401(k) plan, and in reality we are."



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TOP: Members of the 2014–15 Leadership Iowa class pose for a photo in front of a Chinook helicopter at Camp Dodge in Johnston.

BOTTOM: (Left) Members of the 2014-15 LI class pause after completing a tank rollover simulator. (Middle) Class members prepare to take off on their Chinook helicopter ride over Des Moines. (Right) The LI class visits the Iowa Supreme Court as part of its government session.



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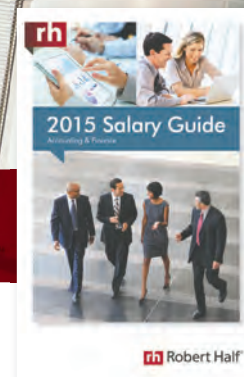
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INNOVATION IN IOWA

Bioresins may be the next big thing in the plastics innovation race



Sam McCord

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What if you could take the waste from ethanol plants and make a composite resin? Wouldn't that cause a possible change in the overall economics of plastics? This may seem a bit far-fetched, but with a little research, you'll find it is possible. One of our clients, New Composite Partners, LLC, has a patent do just this. It has and is in the process of developing several Bioresins using "composite materials with grain as filler to virgin and recycled plastic resins."

According to the patent, "a composite material has two common constituents, including a reinforcement (e.g. fiberglass, carbon fiber and/or other suitable fiber or reinforcement) and a binder material integral with the reinforcement for providing a matrix" and it goes on to state, "the agriculture grain particulate filler may be a refined product (e.g., starch or flour), a byproduct from grain processing such as distiller dried grain (DDG), and/or simple ground up grain products."

Now this is a lot of techno-babble, but what it means for the rest of us is they are able to take the DDG's and cob flour, add it to virgin and recycled polymers and extend the life of the polymers being produced from petrochemical production or gasoline. The process also diverts ethanol waste from the waste stream. It also is indirectly producing a revenue stream for ethanol producers, who have to pay for this material to be removed in some cases.

We have introduced the first generation of Bioresin to several companies that produce plastic parts and components, and they have been well received. We are currently targeting large original equipment manufactures in the agriculture, automotive, trucking and industrial applications. This is just the beginning. There are many more applications and companies that will be using this product, and it is making an impact on the financial side of business and politics.

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EXPERT ADVICE

Buy-sell agreements are essential at the outset

Buy-sell agreements are like prenuptial agreements for people that are in business together. Reality dictates that it is not a matter of IF a business partnership will end, but rather WHEN your partnership will end. As a fellow business law blogger said, "As with prenuptial agreements, people tend to overlook the importance of buy-sell agreements or simply don't want to deal with the subject; after all, they are in love!"

What is an effective buy-sell agreement designed to accomplish? A buy-sell agreement should cover how an owner can sell his or her ownership interest and how that ownership interest is valued. Further, a buy-sell agreement sets forth what happens in the event of the owner's death, disability, retirement, termination, divorce or bankruptcy and most often contain a right of first refusal for the other owners to purchase.

When should you enter into a buy-sell agreement? The best time to enter into a buy-sell agreement is at the beginning of the business relationship, when everyone is excited and getting along well. Drafting a buy-sell agreement helps to prevent the unenviable position of negotiating under difficult circumstances with a former friend, their families and their estates. Without a buy-sell agreement negotiated up front, owners may end up in court and the business may suffer. The cost of litigating a business dispute can easily run in excess of \$100,000 per side, while a buy-sell usually costs less than a few thousand dollars. We find most business owners would prefer to concentrate on running their business rather than spending time in court.

**Rush Nigut**

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Read Rush's
business law blog at
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ARE YOU AN ABI MEMBER? CHANCES ARE THE ANSWER IS YES.

ABI is Iowa's oldest and largest business network, representing almost **1,500 businesses** of all types and sizes employing **over 350,000 Iowans** in all **99 counties**. If you are not sure if your organization is a member of ABI, contact Dorothy Knowles at 515-235-0568 or dknowles@iowaabi.org.

JOIN US

LEARN ABOUT THE CHALLENGES FACING IOWA'S PUBLIC PENSION SYSTEMS

The mounting cost of public pension systems has made headlines in Iowa and across the country. Cities and states are facing the difficult task of meeting the obligations they made to public servants while also protecting the taxpayers responsible for covering pension costs.

ABI is partnering with several organizations, including the Taxpayers Association of Central Iowa, the Iowa League of Cities, the Metro Coalition, the Greater Des Moines Partnership, the Iowa Taxpayers Association and the Iowa Business Council, to host a conversation about Iowa's public pension systems.

The program, "Securing Iowa's Public Pension Systems: Keeping Promises Made While Protecting Taxpayers and Public Services," will feature several speakers including:

- Greg Mennis, Director, Public Sector Retirement System.
- Donna Mueller, CEO, Iowa Public Employees' Retirement System (IPERS).
- Dan Liljenquest, architect and champion of Utah pension reform; Liljenquest Strategies, LLC.
- Terry Slattery, Executive Director, Municipal Fire and Police Retirement System (MFPRS).

Join us Feb. 25 from 11 a.m. to 1:30 p.m. for a conversation about Iowa's public pension systems in the context of national reform efforts.

Visit www.iowaabi.org to register.

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