



Blue Ridge ESOP Associates

The Leader in Professional ESOP Administration

ESOP Strength in Minnesota – Why ESOPs work well for Minnesota companies

By Thomas Roback, Jr., CEP

Edited by Minnesota native Nicole Medgaarden of Blue Ridge ESOP Associates

http://blueridgeesop.com/articles/mn_esops.php

March 10, 2006

The state of Minnesota has a proud history and is fertile ground for employee ownership. Large numbers of immigrants came to Minnesota beginning in the 1830s to work in lumbering and farming. More moved to Minnesota after the Civil War, living and working mainly in the cities. Today Minnesota boasts diverse industries big and small, high technology and low tech.

ESOP Popularity in Minnesota

While federal ERISA law regulates ESOPs, it is interesting to note that ESOP popularity varies from state to state. The state of Minnesota claims more ESOPs per capita than any other state. Minnesota is a large state with many companies so it does have a geographical advantage over small states like Rhode Island. However, Minnesota is not our largest state in terms of population, number of incorporations, or square miles. The most recent ESOP Association statistics show a total of 10,584 ESOPs in the U.S. Minnesota alone has approximately 400.

Some local Minnesotans attribute the fact that attorneys, CPAs, and financial professionals endorse ESOPs as a viable alternative for their clients as the number one reason ESOPs are so prevalent in the state. David Johanson of Johanson Berenson LLP is very proud to have grown up in Minnesota and to have graduated from the University of Minnesota for undergraduate Political Science, Accounting/Business Administration and Law Schools. David pointed out that

“the dominant political party in Minnesota for many years was the Democratic Farmer Laborer (DFL) Party. I believe this political history and the family farm backgrounds of many Minnesotans also helps to explain the proliferation of employee ownership through ESOPs in Minnesota. Of course, this is not to say that Republicans do not support employee ownership strongly as I believe that Congressman Ramstad has been a very good ESOP Champion for many years. I simply believe that the political underpinnings dating back to the DFL and the cooperatives that many family farms participated in before, during and after the Great Depression also created an environment where people strongly accept and support the primary ESOP concept of “raising all boats together”. Minnesotans understand that the collective and productive efforts of many employees banding together creates profitability and value that can be shared with all.”

David Johanson worked for the Bowman & London law firm in the mid-1980s. Dennis Bowman and Ron London focused their practice on employee ownership and ESOPs dating back to the late 1970s. Dennis Bowman was very successful in generating ESOP clients for many years prior to his early death. Ron London continues to develop and promote ESOPs throughout the region. Furthermore, Bowman & London spawned a number of very good ESOP attorneys and advisors who now work throughout the region with other high profile firms.

Many consider Bruce Grussing of Gray Plant Mooty one of the most prolific and knowledgeable ESOP attorneys. Bruce's ESOP work dates back to pre-ERISA. David Johanson believes that Bruce has been "a major force in the development of ESOPs in Minnesota for the past 33 years." Susan Lenczewski of Gray Plant Mooty has also been instrumental in creating many new ESOPs over the years. The ESOP professionals section of the ESOP Association directory notes more entries than any other state and the NCEO and Beyster Institute also have noticeable support in Minnesota. Firms like Briggs and Morgan, Dorsey & Whitney, Faegre & Benson, Felhaber, Larson, Fenion, & Vogt, Fredrikson & Byron, Gray Plant Mooty, Kelly, Hannaford & Battles, Larkin, Hoffman, Daly & Lindgren, Leonard, Street and Deinard, Lindquist & Vennum, Parsinen Kaplan Rosberg & Gotlieb, Vogl, Winthrop & Weinstine, and others.

Minnesota also boasts leaders in the field of ESOP independent appraisal. Chartwell Financial Advisory values the majority of ESOP companies in Minnesota and enjoys an excellent reputation. Their clients appreciate their independence and professionalism. One of Chartwell's Principals, Paul Halverson, is a board member for the Northland Institute. This Minnesota non-profit believes that ESOPs have significant potential to be a valuable community asset-building tool by extending business ownership to workers and families that typically are asset-poor, and by rooting businesses more firmly in their communities. Employee ownership is especially significant for rural people and communities because it is typically more difficult to attract and retain quality employment opportunities in rural areas. This kind of grassroots organization makes for a dramatic difference in the future use of ESOPs for the long-term economic growth and stability of rural Minnesota communities.

Some advocate that the cold climate and hardy natives of Minnesota have also contributed to MINNESOTA ESOP popularity. Johanson agrees with this connection, "Minnesotans historically have struggled together to survive very difficult and extreme weather conditions during the winter and summer (thunderstorms and tornadoes) months. The sense of community in Minnesota historically has been very strong. ESOPs and ESOP companies that work well involve individuals who band together to accomplish objectives for founding shareholders, companies and their employees. Minnesotans have banded together for more than 150 years to face the elements of life in the Upper Midwest as a group, pitching in to help one another in difficult times."

This parallel may explain some of what drives employee ownership in Minnesota and surrounding communities.

Minnesota ESOP Association Chapter

The Minnesota chapter of the ESOP Association has over 100 active member companies. Those recognized in recent years as Minnesota's Outstanding Employee-Owned Company have included: Colle & McVoy, Bloomington, Foldcraft Co., Kenyon and Toll Company, Plymouth

who have also been named national company of the year. Braas Company, Eden Prairie and Padilla Speer Beardsley, Minneapolis have received the Minnesota Chapter company of the year award.

The Minnesota Chapter (www.mnesop.org) has been selected three times as the Outstanding Chapter in the country. This recognition can be attributed to the tremendous network it has created among the members of the Minnesota ESOP community. The chapter mission statement encourages prosperity with justice through employee ownership. Sheryl Neuman of Toll Company, and President of the Minnesota ESOP Association chapter, attributes a lot of the ESOP popularity in Minnesota to the positive ESOP attitude of the various Minnesota practitioners. There are several large ESOPs in Minnesota such as Andersen Windows, Cargill, Donaldson, General Mills, Lifetouch, Medtronic, Regis, Target, and Toro. However, the smaller employers with ESOPs like G&R Elevator Manufacturing of Andover, MN are the ones that remind us how valuable employee ownership can be. Generally speaking, the smaller the company, the more pride they have in their ESOP.

Minnesota ESOP Leadership Pre-ERISA

While the state of Minnesota cannot claim Louis Kelso or a Russell Long as a local, it did have early ESOP champions who helped spread the benefits of employee ownership. For example, Charlie Pillsbury from Minneapolis became interested in ESOPs after reading Kelso's writings and persuaded his father, George Pillsbury, to support ESOPs. George, of that famous "dough boy" company, was also a state Senator in Minnesota. Father and son discovered in Kelso an idea that could unify the supporters of both George McGovern and Richard Nixon. George and Charlie Pillsbury became friends with Louis Kelso and arranged for Kelso to testify before one of the state legislative committees on what the state could do to encourage ESOPs in Minnesota. The conversion of defense industries into peacetime manufacturers was a hot topic during this late Vietnam era and Kelso was able to show how ESOPs could be a valuable tool to facilitate this industry change. Norman Kurland of the Center for Economic and Social Justice worked closely with Louis Kelso and the Pillsburys during this time. Kelso and Kurland used the influence of George Pillsbury on Capitol Hill to help build early ESOP enthusiasm. These introductions led to a Senate Finance Committee presentation that spurred legislation called the Accelerated Capital Formation Act in 1972, which opened up dialogue with both political parties.^[1]

ESOP Success Story

There are many successful ESOP companies in Minnesota and a few of them will tell their stories at the upcoming NCEO/Beyster Institute Annual Conference in late April. One Minnesota company that will no longer be an ESOP highlights how employee ownership through ESOPs is not always sustainable, but can nevertheless end happily.

Twin Modal, Inc., a Minneapolis freight transportation and logistics company and ESOP since 1990, will be formally terminating their ESOP as a result of their sale to freightquote.com. Ted Hansen, Vice President of Finance for Twin Modal, oversaw the transaction and verifies that the "ESOP worked well for us and is a success story for our employee-owners". Immediately after their 50% first stage transaction sixteen years ago, Twin Modal built an employee ownership culture successfully. The company utilized Open Book Management which helped employees

understand that the ESOP was a "Win-Win"...work hard and you will be rewarded via the appreciation in the company stock. 1995 began with a second stage ESOP transaction in which the last founding shareholder sold the balance of the outstanding stock to the ESOP. Twin Modal's 100% ESOP owned S Corporation status allowed the company to be aggressive looking for strategic acquisitions while continuing their reputation for outstanding service. However, freightquote.com turned the tables on the company by making such a lucrative offer for Twin Modal. The trustees of Twin Modal could not ignore such a premium offer compared to the company's fair market value. freightquote.com bought Twin Modal for their "real" business to complement their successful internet business. Twin Modal will be kept as a wholly owned subsidiary bearing the Twin Modal name and heritage. In addition, current employees will be rewarded handsomely with the full value of the transaction. Quality service providers such as Joe Kinning, Bruce Grussing and Steve Eide of Gray, Plant, Mooty, Jude Carluccio of Parsinen Kaplan Rosberg & Gotlieb P.A. and Paul Halverson of Chartwell Financial Advisory among others ensured that the transaction was fair to all parties involved including the ESOP. "Twin Modal will enable freightquote.com to diversify and strengthen our service offering," said Tim Barton, President and CEO of freightquote.com. Founded in 1977, Twin Modal will continue to be driven by their loyal employees who will all remain with the company including President Chip Smith.

Minnesotans are proud people. Employees there are proud of the ESOP companies they work for and believe in teamwork. They not only work hard for themselves, but also for their fellow employee-owners.

[1] Kurland, Norman. "EOC Research Publication", Owners at Work, Winter 1997-8.