

Ohio Employee Ownership Conference

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ESOP Sustainability

ESOPs occupy a different space than other capital structures such as:

- Family owned businesses
- Sole proprietorships
- Partnerships (whether general or limited)
- Foreign owned businesses
- Private equity funds/hedge funds
- Public companies
- Consumer / producer / worker coops
- Non-profits (human services, educational, trade association, religious)
- Non-governmental / governmental agencies

Why is this important?

- Requires a language to:
 - describe the space
 - understand the requirements of success within that space
- Three ways to arrive at the new language:
 - redefine currently used terms
 - eliminate legacy language which is irrelevant
 - create/define new terms as needed

Proposed Definition

ESOP sustainability means:
being employee owned
through an ESOP
in perpetuity.

Sustainable ESOPs must define shareholder value

- **What is shareholder value in an ESOP company?**
 - **Proposition 1:** Shareholder value in an employee owned (ESOP) company is solely share price, and all the organization's energy should be directed towards maximizing the share price.
 - **Proposition 2:** Shareholder value in an employee owned (ESOP) company is something other than solely share price, and all the organization's energy should be directed towards maximizing that value proposition.

Sustainable ESOPs must resolve differing interests

- Board of Directors / Trustee(s) / Senior Manager / Non-Trust owner
- Trustee / senior management
- CEO / CFO
- Employee / beneficial participant / corporate creditor
- Older employees versus younger employees, or why is my ten years worth more than your ten years?
- Recently hired employees (the “have nots”) versus more long term employees (the “haves”)
- Terminated vested employees versus current employees
- Eligible employees versus non-eligible employees

The power/problem of compounding

Years	15%	3%	7%	10%
5	2.0	1.1	1.4	1.6
10	4.0	1.3	2.0	2.6
15	8.2	1.6	2.8	4.2
20	16.4	1.8	3.9	6.7
25	33.0	2.1	5.4	10.8
30	66.2	2.4	7.7	17.5
35	133.2	2.8	10.7	28.1
40	267.9	3.3	15.0	45.3

Reformulated Shareholder Value Proposition for ESOPs

Shareholder value in an employee owned (ESOP) company is a balance of share price, sustainability, the ESOP employment dividend, and (some other company specific criteria), and all the organization's energy should be directed towards maximizing that value proposition.

Are ESOPs Sustainable?

- The answer, I believe, is yes.
 - Not entirely clear as to all the pieces but includes
 - Unshakable belief in employee ownership through ESOPs
 - Appropriate language and consistent use of that language
 - Articulation of a shareholder value proposition that is communicated to all stakeholders
 - Sustainability of the ESOP is a strategic imperative
 - Proper governance and management practices to balance (not align) differing interests
 - Share price reflects sustainable cash flows
 - Corporate culture which passes the philosophy of ESOP sustainability from generation to generation
 - Others to be discussed in later sessions today