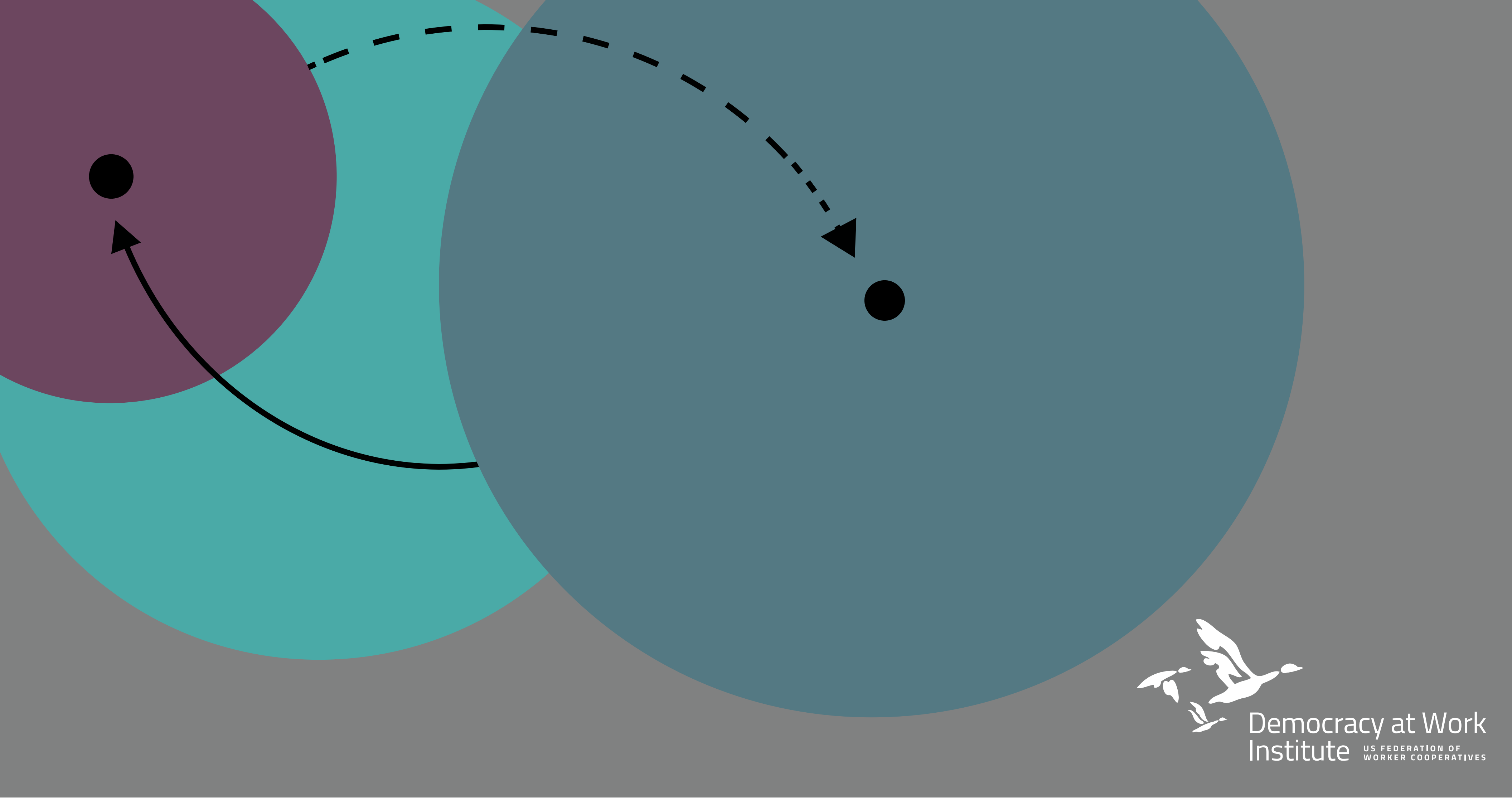


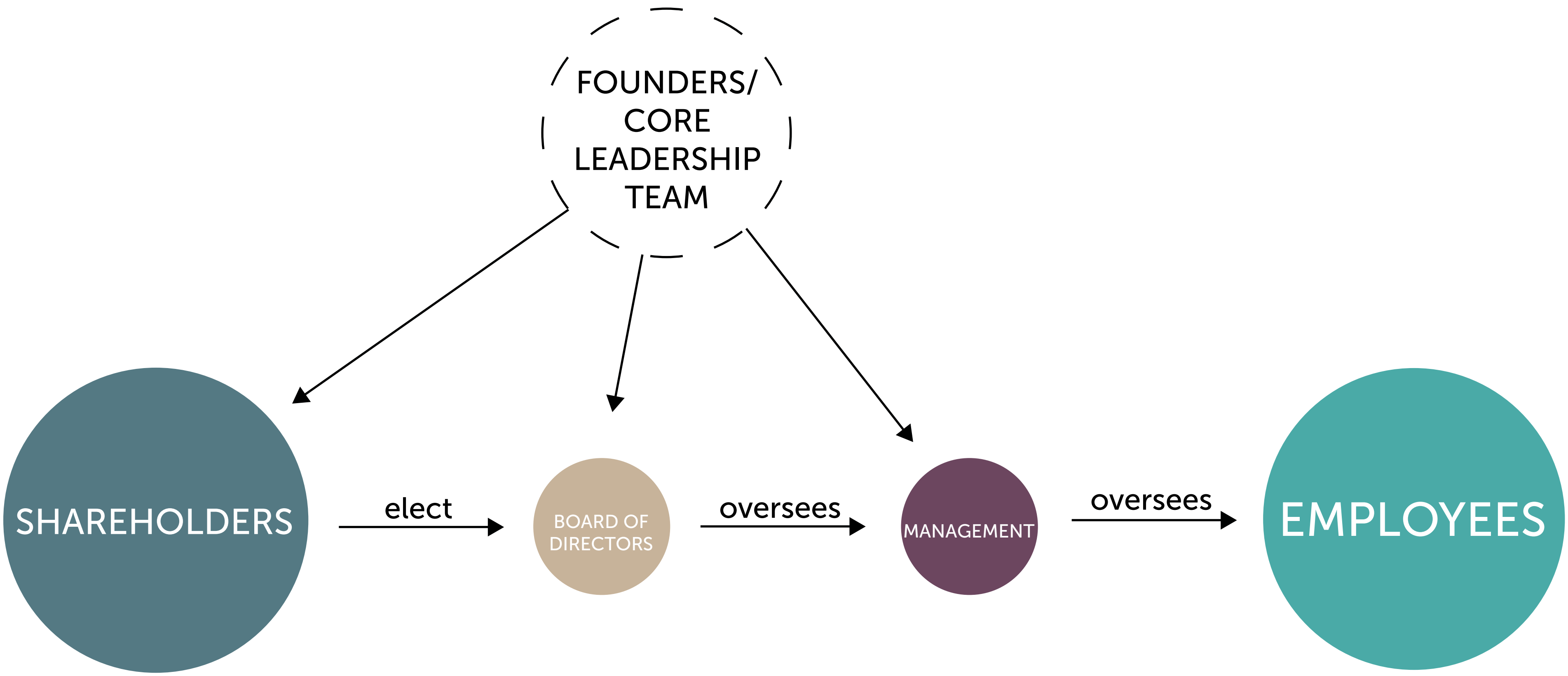
A brief, visual guide to understanding

EMPLOYEE OWNERSHIP STRUCTURES

by Camille Kerr

Conventional Company

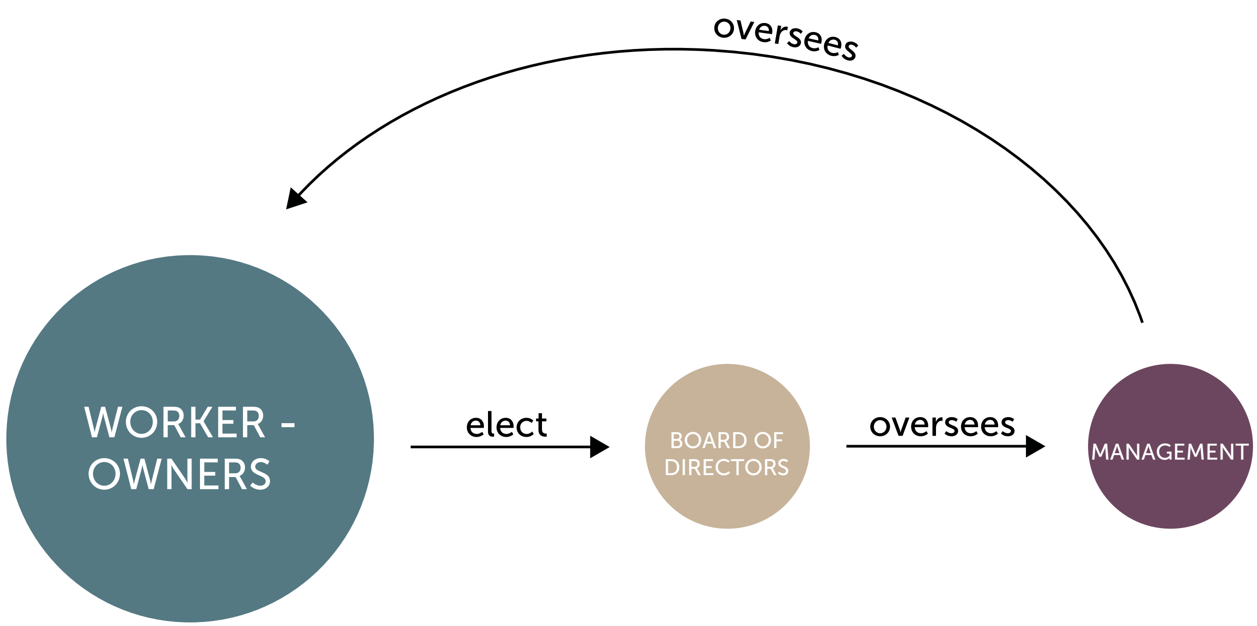
In a conventional privately held company, there is generally a closely knit group of founders who own the majority of the company's stock, serve on and elect the board of directors, and serve as the company's executive team. Overtime, this core group maintains control of the company, although it may not always include the original founders. The business may also have some outside shareholders (who may be friends and family members or professional investors such as venture capitalists), who do not influence the day-to-day management of the company, but influence major corporate decisions such as whether the company will go public or sell to a competitor or strategic buyer. There may also be members of the board or executive team that are not part of this core group, although the core group generally controls each of these circles.



Worker Cooperative

A worker cooperative has a fundamentally different structure than a conventional firm, as it is owned and controlled by its workers. The shares are not just held by a select group of managers or supervisors, but all workers who have met certain basic eligibility requirements. The worker-owners, on a one-member-one-vote basis, elect the board who oversee the management of the company, who in turn oversee the worker-owners. As a result, in contrast to a traditional firm, the worker cooperative model has an accountability loop that starts and ends with worker-owners.

Unlike in a conventional firm, the founders of worker cooperatives have the same voice as all worker-owners in governance decisions. However, they may receive additional compensation based on their early commitment and sweat equity in forming the company.



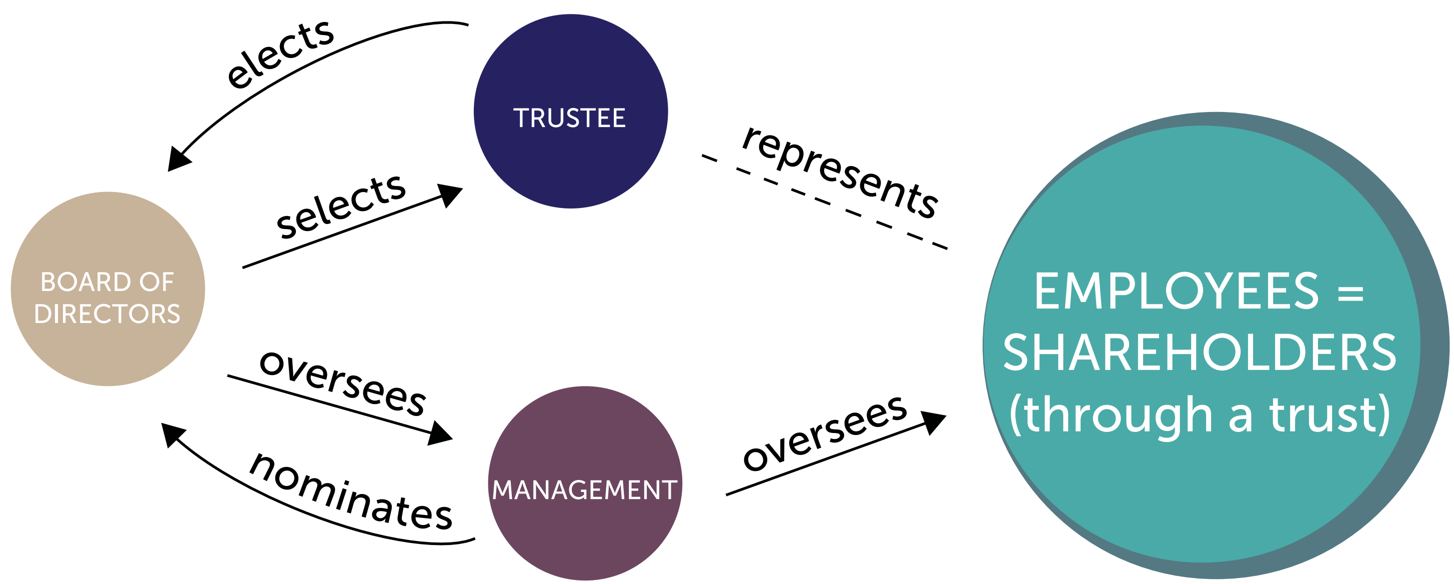
Worker Collective

Furthermore, some worker cooperatives (often called worker collectives) forgo a board and management layer altogether, instead having all worker-owners serve as governing body of the organization. At larger companies that use this structure, worker-owners may organize into semi-autonomous work groups that govern the different functions of the business (for instance marketing, sales, operations, etc.).

Typical ESOP

An employee stock ownership plan, or ESOP, is a type of employee benefit plan (like a 401(k) or profit sharing plan) that can be used to transfer partial or full ownership of a company to employees. With an ESOP, the company is structured as a C or S corporation where the stock is held by an ESOP trust, which is administered by a trustee on employees' behalf. Under the plan, participants must have voting rights on certain major issues (called "pass-through voting rights) such as dissolution or sale of company assets, which is typically provided on a one-share-one-vote basis. However, they do not necessarily vote for the board or have other governance or management rights.

ESOPs are often run very similarly to a conventional corporation, although the trust feature creates an extra element in the governance structure. In a typical ESOP, a small number of executives typically select (or serve as) the trustee and compose the majority of the board of directors. The board oversees the management, which is responsible for choosing and overseeing employees. Because the trust is administered on the behalf of participants, employees who participate in the plan have representation in governance, but only in their role as shareholders of the company. The trustee is not allowed to consider participants in their role as employees when voting the shares of the corporation.

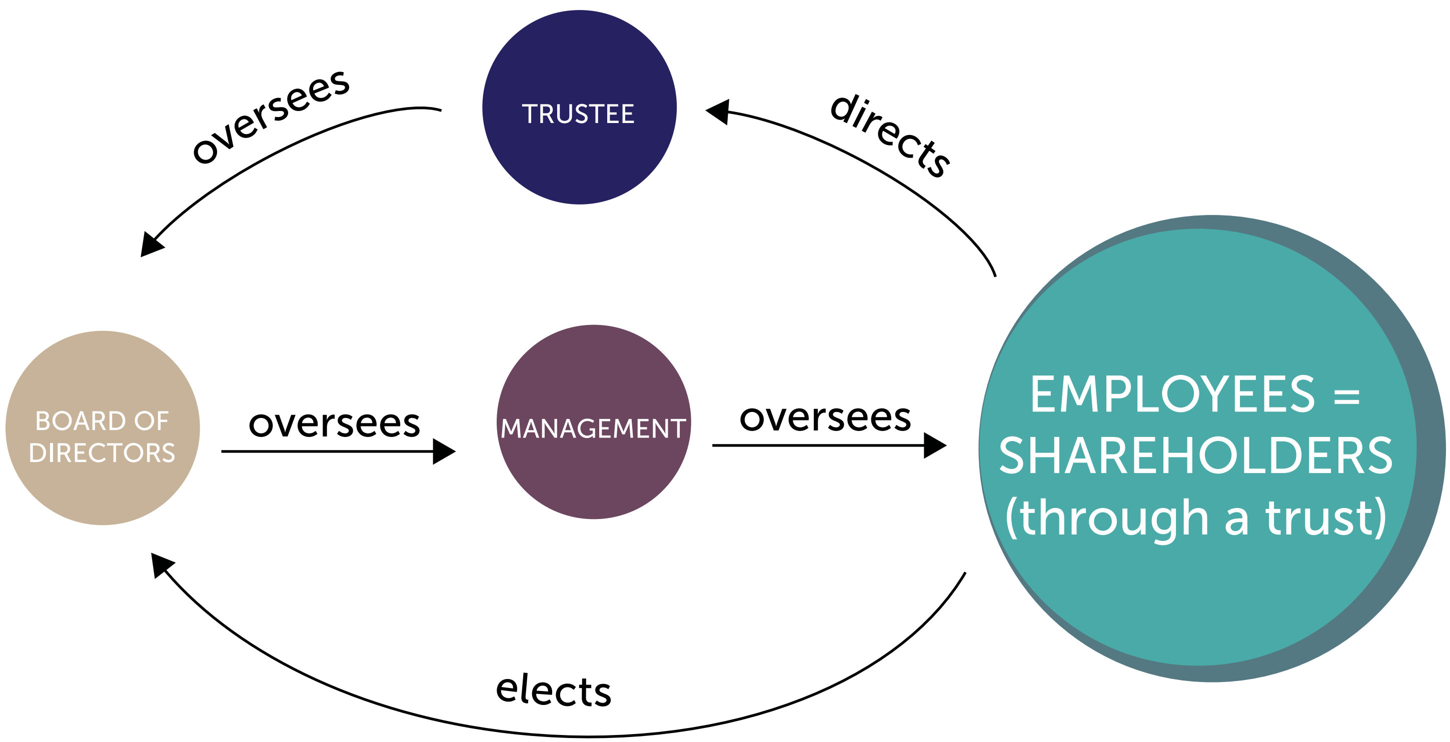


Democratic ESOP

A democratic ESOP lays worker cooperative principles on top of an ESOP structure. The primary attribute differentiating a typical ESOP from a democratic ESOP is a participation and voting structure that provides for election of the board of directors (and voting on shareholder matters) by the entire workforce on a one-person-one-vote basis.

The primary way to structure a cooperative ESOP is through an instructed-trustee model. In this model, the ESOP trustee exercises the voting rights of all shares held in the ESOP rather than passing the votes through the trust directly to the employees. Democratic voting rights are codified in the trust documents that require the employees to vote on a one-participant-one-vote basis on all shareholder issues and then require the trustee to vote all shares in accordance with the results of employee voting.

However, the instructed-trustee structure has several limitations. First, it is complex. Second, it places the trustee in a position of potential conflict between voting as instructed by a majority of the employees and exercising normal fiduciary responsibilities. However, for companies that want to operate cooperatively while also taking advantage of the significant tax benefits of ESOPs, the democratic ESOP is an attractive option.



Benefits of Ownership

Why do these structures matter? Business ownership has significant benefits that fall into two categories: money and control of the business. Money includes the current and future profitability of the company, along with the company's book value, including any assets the company holds. In most companies, company profits typically go to a handful of executives and outside investors. At democratic companies, workers receive the benefits from the success that their work creates

Control includes the right to make decisions about the future of the company, such as whether the company should sell, move out of state, send jobs overseas, or discontinue its employee benefit plan. In most companies, workers do not have any say over these decisions, which can profoundly affect their work lives, finances and family stability. At democratic companies, workers have a say in how the company is governed, and the leadership of the company is accountable to the people who work there.

Benefits of Ownership		Conventional Company	Worker Cooperative	Worker Collective	Typical ESOP	Democratic ESOP
Money	**Profits**	Shareholders (and usually management through equity interests and bonuses that are technically compensation costs)	Worker owners	Worker owners	ESOP participants (and usually management through equity interests and bonuses that are technically compensation costs)	ESOP participants
	Book value of company	Shareholders	Worker owners	Worker owners	ESOP participants	ESOP participants
Control	**Governance control**	Board of directors, chosen by the shareholders (but effectively the executive team.) Shareholders have some direct voting rights.	Board of directors, chosen by the workers. Workers have some direct voting rights.	Worker owners directly	Board of directors, chosen by the trustee (but effectively the executive team.) ESOP participants have limited required voting rights.	Board of directors, chosen by the workers. ESOP participants have limited required voting rights.
	Management control	Management team	Management, elected by the board, which is chosen by the worker owners	Worker owners directly	Management, chosen by the board, which is chosen by the trustee	Management, chosen by the board, which is chosen by the workers