

Worker Cooperatives Demystified

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The Concept

**A business owned and controlled by its
members for their common good**

Key Worker Coop Characteristics

- ✓ Democratic Governance
- ✓ Returns to Labor
- ✓ Equitable Ownership

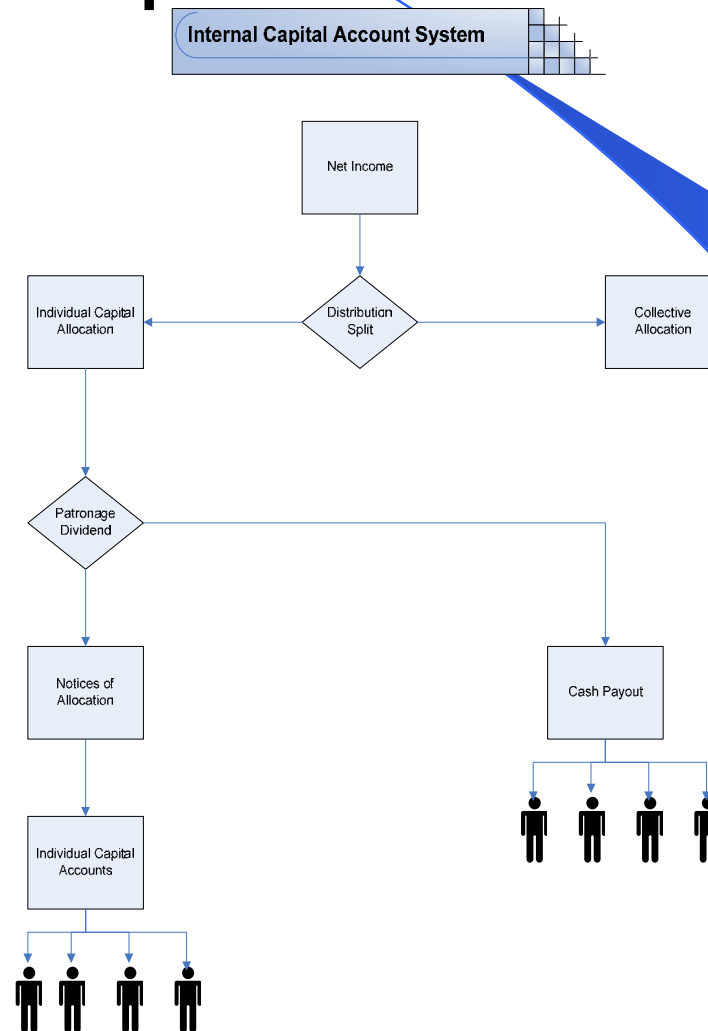
Governance in a Worker Cooperative

- Board of Directors
- Management
- Worker Owners / Members

Returns To Labor

- ✓ **Profits allocated to members according to their patronage**
 - **First a fixed % of profit (usually 30-40%) is put in a Collective Account**
 - **The remainder is allocated to members according to hours worked**
 - **The allocation can be paid to members or put in their “Internal Capital Account”**
 - **Company losses are charged first against the Collective Account and then charged against members’ Accounts**

The Internal Capital Accounts System



Creating a new Worker- Cooperative

Key Activities

- ✓ **Decide how the cooperative will work**
- ✓ **Elect a provisional Board to plan the coop**
- ✓ **Create a business plan**
- ✓ **Raise the financing**
- ✓ **Incorporate the cooperative**

Key Cooperative Design Decisions

- ✓ **Terms and conditions of membership**
- ✓ **Allocation of Profits**
- ✓ **Rights and responsibilities of Members, Board and General Managers**
- ✓ **Maintaining/enforcing quality standards**
- ✓ **Grievance procedures**
- ✓ **Rights of members who leave**
- ✓ **Form of Incorporation**

Converting To A Cooperative

Three Basic Steps

- ✓ Determine if there is a deal
- ✓ Design the transaction
- ✓ Do the deal

Converting To A Cooperative

Is there a Deal: Seller's Perspective

- ✓ The Seller needs to decide exactly what is being sold
- ✓ Time Frame For Completing Transaction
- ✓ If the Seller is financing part of the deal what safeguards will he get?
- ✓ If the Seller is leaving will there be a non compete agreement?
- ✓ Ongoing role in company
- ✓ Can the Seller and employee-buyers negotiate their differences?

Converting To A Cooperative

Is there a Deal: Workers' Perspective

- ✓ The employees need to know what they are buying
- ✓ Do the employees want the Seller to stay on?
- ✓ Will Seller help finance the deal?
- ✓ Will Seller sign a non compete agreement?
- ✓ Does the Seller want a guarantee of future employment?
- ✓ Is a cooperative structure appealing?

Converting To A Cooperative

PRICE

Converting To A Cooperative

Designing the Transaction

- ✓ **Develop Financial projections for the cooperative**
- ✓ **Identify financing need**
- ✓ **Decide on financing structure**
- ✓ **Write business plan**
- ✓ **Arrange Financing**
- ✓ **Agree on the Bylaws for the new cooperative**

Converting To A Cooperative

Doing the Deal: Asset Purchase

- ✓ Legally Incorporate the cooperative
- ✓ Members buy shares in the cooperative
- ✓ Members hold first Annual Meeting
- ✓ Board Members, Sellers, Financing Sources and Attorneys meet to do the transaction
- ✓ The cooperative is now in business

Converting a “C” Corporation Stock Purchase

Conversion Process

- ✓ **Decide if there is a deal (same process)**
- ✓ **Put the Deal together (same Process)**
- ✓ **Do the deal**
 - **Seller exchanges all but one share for a note**
 - **Company bylaws changed to a worker cooperative**
 - **New members buy shares**
 - **Financing drawn down and seller’s note bought back immediately or over time.**

The BIG Issues

Safeguards for Seller financing

Leadership Transition

Price

The BIG Issues

How Will Price Be Set?

- ✓ **Must be supportable by the business**
- ✓ **Can hire an independent appraiser**
- ✓ **Some rules of thumb do exist**
- ✓ **Both parties must be happy**

Design Issues

What are your objectives?

- Equal Ownership
- Everyone an Owner
- Sharing Governance
- Tax Advantage
- Remain in the Company

Considerations

- Tax Implications
- Cost of Implementation
- Ongoing Costs
- Administrative Burden
- Flexibility
- Health of Company

Coops: What's Not To Like?

- Equal Ownership
- Shared Governance
- No Stake in Future Value Of Company
- Difficult to Attract Outside Equity
- Challenging to Incent Management

Other Worker Ownership Options

- Share Ownership
- Profit Sharing
- Section 423 ESPP
- Non Qualified ESPP
- Stock Grants
- Phantom Stock
- LLC