

- Informal sharing and collaboration strategies
- Cooperatives
- Employee Stock Ownership Plans (ESOP)
- Business law and transactions
- Business succession planning
- Equity compensation



Share your way to success

"It's 8:30 a.m. ... and Neal Gorenflo is already busy sharing. Inside his Mountain View town house, ...Gorenflo hands over his 15-month-old son, Jake, to a nanny he shares with his neighbor. At a local coffee shop, he logs on to a peer-to-peer banking site called Lending Club to make a series of small loans to someone planning a wedding, another starting a pet business, and a guy named Pat who wants to move. After biking down to the station, he drags his ancient [bike] onto the train to San Francisco, where he hops into a [car] he's reserved for a few hours from City Car-Share, a not-for-profit version of Zipcar." – "Sharing Economy" by D. Sachs, Fast Company

At Church of the Messiah, on Detroit's east side, an 11-year-old girl, who just made stereo speakers from coffee cans, is teaching soldering to two young men; a volunteer from Ann Arbor is teaching 4 young people woodworking; several kids are learning how to repair bikes they will then own; several others are learning computer programming; members are working in the gardens or picking up their community-supported agriculture (CSA) boxes; while 3 church run businesses and Nikki's Ginger Tea are providing jobs to neighborhood residents. Most of this was developed and is run by volunteers.

The Sharing Economy

The Sharing Economy is an exciting movement with a multitude of platforms that allow people to share assets and own fewer things. They benefit financially and build community, by sharing what they own and what they know. They have use of other assets on a rental or barter basis when they need them. This movement has various names that focus on different aspects of the sharing concept including: Sharing Economy, Community-Based Enterprise, Cooperatives, Employee Ownership, Sustainable Business and Triple Bottom Line (which either stands for "people, planet and profit" or "environment, economics and equity.")

Deborah Groban Olson, Attorney at Law

www.esoplaw.com | 313-331-7821 | dgo@esoplaw.com

1021 Nottingham, Grosse Pointe Park, MI 48230

New business models are emerging

Fueled by the economic crisis, environmental concerns, the maturation of the social web, and open source experience, new businesses are emerging. They enable the sharing of cars, clothes, couches, apartments, tools, meals, and skills. Many are being created by young people who are feeling the brunt of the housing bubble, banking crisis and high unemployment. However, hard economic times have often led to booms in cooperation. Detroit in the 1930s was a key example, spawning Twin Pines Dairy, Co-op Optical, Co-op Services Inc. housing and Circle Pines Center.

U.S. and internationally

CouchSurfing (an international example of the sharing economy) is a system for travelers to get free housing from trustworthy, interesting people. Sustainable startup businesses that have grown out of the sharing economy include **Zipcar**, a car-sharing service that allows members to rent vehicles by the hour and **Airbnb**, a peer-to-peer marketplace for lodging.

Detroit examples

- **Grown in Detroit** is an informal co-op of neighborhood growers who sell together at Eastern Market and other farmers' markets.
- **Detroit Food Lab** is a collaborative of sustainable, community-minded food businesses who share knowledge and resources to build an ecosystem of diverse triple bottom line food businesses.
- **Green Garage** is an incubator of triple bottom line small businesses which actively collaborate on work and maintaining their space.
- **Ponyride** is a creative incubator for artists and socially conscious entrepreneurs, who share space, tools, knowledge, maintenance tasks, and have committed to teaching their skills 63 hours per month.

Tools for sharing and cooperation

Employee ownership and cooperatives

Since 1981, our law practice has specialized in creating and advising employee-owned companies and many types of cooperatives, community organizations and unions, throughout the US. The firm helps people and companies by providing tools for sharing, cooperation and broad equity ownership to grow sustainable businesses, communities, and living wage jobs.

Sharing assets in starting/running small businesses

New business owners can help each other by sharing knowledge, assets and resources. When sharing assets or referrals, a written agreement helps maintain harmony.

Business transitions

Our law firm helps transition existing traditional corporate and family businesses to employee ownership. ESOPs (Employee Stock Ownership Plan) help retiring business owners sell their businesses to their employees with tax advantages to the owner, the business and the employees. ESOPs and co-ops help workers keep their jobs and create new jobs by buying financially viable companies that no longer fit the corporate owner's plans. (See more on page 4)



Community Economy Group

Deb Olson is a founder of the Community Economy Group (CEG), which is developing a cooperative network of sustainable, community-based and worker-owned businesses in SE Michigan. The Group, including the non-profit Center for Community Based Enterprise (C2BE), IngenuityUS, L3C (IUS) and the law firm, is adapting proven models of cooperative economic and social practices that provide sustainable living wage jobs.

The Community Economy Group is working with partners to build cooperative enterprises in Detroit's neighborhoods. With:

- MOSES (an organization of 35 Detroit area congregations) – a food buying club that brings good food at good prices into neighborhoods;
- ACCESS – back office services to in-home child care businesses;
- Church of the Messiah – co-housing for young families;
- Möbel Link Furniture™ – a worker owned furniture company;
- Home Health Care Co-op – helping home care workers to own their jobs;
- Detroit Community Co-op – monthly gatherings for people interested in or working in co-ops.

What methods of sharing and collaborating are right for your business or startup?

Business succession opportunities

Our client, the worker owners at Maryland Brush Company kept their jobs by using an ESOP to buy an old industrial brush making company in 1990. They recently launched a new, green product, Skylouver, which will create new jobs and carry their business into the future as their brush business wanes.

When considering a business startup it may be worthwhile to see if there is an existing business owner looking to retire from a similar business (even if your concept is quite different and more with the times). The established business could provide existing equipment and space, licensing, business contacts, experience and tax advantages to seller and buyer in the transition.

Resource sharing strategies

Consider sharing space, equipment, marketing, clients and employees with similar or synergistic businesses. Start with an informal agreement about how the sharing will work. To avoid later conflict, the agreement should have enough rules to make the sharing fair, protect shared or loaned tools and assets and protect tool lenders from liability. You can start with simple operating rules or a contract. As the group of cooperators grows you will likely need to formalize your agreements as a co-op or LLC.

Employee ownership advantages

- Sale of part or all of a company to its employees can provide substantial tax benefits for the seller, the company and the employees, while keeping good jobs in the community.
- For a business owner considering business succession or looking to sell, employee ownership provides tax deferral of capital gains on the sale, and a motivated buyer who will keep the business local. The company can repay its purchase debt with pre-tax dollars.
- A 100% ESOP owned sub-chapter S corporation pays no federal income taxes.
- Compared to their pre-ESOP performance, well-documented research shows that, employee-owned companies are more profitable, productive, innovative and sustainable in difficult economic times.
- Employee owners don't lay themselves off. They innovate new products and services.
- Employee ownership can be created using many different legal structures to meet different needs, including ESOP, cooperatives, LLCs, S corporations and B corporations.



SkyLouver

made by MBC Ventures, Inc. (formerly Maryland Brush Company) is a 100% employee-owned old industrial company that develops new green tech products with money saved as an S corporation ESOP.



Mustard Tree Co-op

is a 23 unit non-profit housing cooperative in Detroit’s Island View neighborhood, originally founded by Church of the Messiah. Attorney Olson helped them obtain their independent IRS 501(c)(3) status in the 1980s and has represented them ever since.



High Five Co-op Brewery

is the first worker and consumer multi-stakeholder co-op created under Michigan’s Consumer Co-op Act. In 2013, Atty. Deborah Groban Olson helped this group of workers and consumers incorporate and they are now seeking members.

What is a co-op?

Cooperatives are defined by their principles not their legal form. Cooperatives can be formed under state cooperative statutes or inside other types of corporations or limited liability companies (LLCs). A cooperative generally means: 1) one vote per person; 2) profits allocated based on member patronage not financial investment; and 3) limited return on financial investment (such as preferred stock). The 7 international co-op principles are: 1) voluntary and open membership; 2) democratic member control; 3) members economic participation; 4) autonomy and independence; 5) education, training and information; 6) cooperation among cooperatives; and 7) concern for community.

Why do people create co-ops?

People usually create cooperatives when they need to join with other people to fill a common need or to help solve a joint problem. Our client, **Mustard Tree Co-op** created a housing cooperative to rid their Detroit neighborhood of a problem-causing building and to provide affordable housing to active community members. Our client, **High Five Co-op Brewery**, is creating a worker and consumer owned micro-brewery in Grand Rapids where they can share brewing skills and good beer. Over a billion people in over 100 countries have created them. Most common reasons are to:

- lower cost
- improve quality or service
- create democratic control over that aspect of life
- build community
- have equity in the business

What is an “Eligible Worker Owned Co-op” (EWOC)?

An EWOC is special type of co-op (defined in the tax code) that permits selling owners to defer payment of capital gains tax on the proceeds of the stock they sell to a worker co-op, if the proceeds are invested in domestic stock. If the reinvestment stock is in the owners’ estate upon death, the family never pays the capital gains tax. To qualify as an EWOC, a worker co-op must have these features:

- A majority of the co-op’s members must be company employees;
- A majority of the co-op’s voting stock must be owned by co-op members;
- A majority of the board of directors must be elected by the members on a 1 vote per person basis, and
- A majority of earnings and losses are allocated to members on the basis of their work, their capital contributions or a combination of both.

What are ESOPs?

An ESOP (Employee Stock Ownership Plan) is an employee benefit plan that invests primarily in employer stock. An ESOP is a highly tax-favored way for employees to share ownership in their company through a trust fund. ESOPs allocate shares to each eligible employee every year, giving employees an increasing ownership stake as they accumulate seniority. The ESOP distributes these shares to employees, usually sometime after they leave the company, so they can use them to fund their retirement. They can provide a way for an owner to transition ownership to employees over time.

Advantages of ESOPs

- Tax advantages for seller, company and employees.
- Company makes tax-deductible contributions of stock or cash.
- Stock is allocated to accounts for individual participants.
- Participants receive stock or its cash value on retirement or end of employment.
- Employees vote stock through a trust.