Mini-Case Study: S&C Electric Company

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Abstract: This mini-case study examines S&C Electric Company, the Chicago-based employee-owned company that was founded in 1911. The mini-case study introduces the company's history and describes how employee ownership preserved the company and its jobs during a key generational transition.

S&C Electric Company employs about 2,000 people on its 47-acre campus on Chicago's north side. Wages start at $18 per hour, plus benefits and workers live locally. These are good, community-sustaining, jobs.

This 110-year-old company, a global provider of equipment and services for electric power systems, was founded by Nicholas Conrad in 1911. In the 1950s, Mr. Conrad was succeeded by his son John Conrad, who went on to steward the company for decades. John Conrad was fiercely determined to keep the company independent; he is known to have declared: "We're privately held, and we don't have to bother with Wall Street's grumblings about this or that. We're accountable to ourselves and the community where we live."

When John Conrad passed away in 2005, however, S&C Electric's legacy of independence—and its good jobs—were placed in jeopardy. John Conrad's daughters, who were not active in the business, inherited the company. They had little interest in keeping the stock and two of the three daughters intended to sell their shares to an outside buyer. Had they succeeded, that likely would have meant the end of the storied company founded by their grandfather.

Instead, after a period of deliberation and negotiation, the daughters sold their shares in a series of transactions over several years to an Employee Stock Ownership Plan or ESOP. In doing so they took advantage of the Section 1042 provision of the Internal Revenue Code, known as the tax-deferred rollover, a tax benefit for sellers of shares who sell to an ESOP. The provision allows for the deferral of capital gains tax when selling qualified securities to an ESOP if the securities are reinvested in stock and bonds of U.S. companies. If those replacement investments are held until death, they may avoid any taxation if the basis of the gains is "stepped up," meaning if the value of the investments are adjusted to reflect their increased market value. This can amount to a large tax savings.

For the company, too, there were tax benefits associated with the transition. Now, as an S Corporation 100% owned by the ESOP, the company owes no federal income taxes. (The taxes are deferred and paid by the shareholders.)

For the workers of S&C Electric, the company's transition to an ESOP meant that their jobs would continue, and that now, in addition to earning good wages and benefits, they would become the company's sole shareholders.