



## **Testimony before the U.S. House Committee on Small Business**

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President, Hardy Diagnostics  
In support of H.R.2096  
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## Oral Testimony – Jay Hardy

First of all, I would like to thank Chairman Chabot today for inviting me to voice my support of H.R.2096 and the proposed incentives to increase Employee Ownership in America. I would also like to thank Ranking member Valazquez and the other members of the Small Business Committee.

My name is Jay Hardy. I am the President and founding partner of Hardy Diagnostics, a medical device manufacturer based in California with a manufacturing facility in Ohio and Texas. We have been in business for 36 years serving the laboratory industry and currently have 350 employees.

Four years ago, I sold 70% my shares to our newly formed ESOP (Employee Stock Ownership Plan). Last year I sold the remaining shares, making our company a 100% employee owned S Corporation. I have never had any regrets in making this decision, which has set our company on a course of increased growth and prosperity for the reasons that I would like to describe for you today. Since becoming an ESOP our company has grown by 78%. The numbers speak for themselves.

The ESOP structure was defined by Congress as a part of the ERISA laws in

1974. Just as the Abraham Lincoln's Homestead Act of 1862 created wealth for ordinary citizens by granting them 160 acres of land, the ESOP also has the potential to create wealth for all Americans without having to own land. Within the ESOP, employees are granted shares of the company they work for without cost or taxation. Currently there are over 11 million ESOP participants in America. This number needs to grow.

Recent studies have shown that:

1. ESOP companies are 25% more likely to stay in business than non-ESOPs.
2. Employee Owners were four times less likely to get laid off during our last recession.
3. Employee Owners have 2.5 times more money in their retirement accounts than non-ESOP employees
4. Employee Owners receive 5 to 12% more in wages than non-ESOP employees.
5. Employee Owners are 5 to 10% more productive than their non-ESOP counterparts.

So you can see that ESOPs are undoubtedly a very good thing for the American worker, and thus good for the overall American economy.

Today we hear a lot of talk about income inequality and capitalism being good only for the privileged 1%. Why can't capitalism be accessible for all American workers by owning a portion of the companies that they work for? While capitalism may have its flaws, the modern ESOP provides a way to correct those flaws. This is why the ESOP has been nicknamed "Universal Capitalism" or "Capitalism for the Masses."

The Employee Owner turns out to be highly motivated, because they know that their efforts will be directly rewarded through an increase in share value. This in turn makes the American ESOP more able to successfully compete in a world market.

Today many workers are afraid that Social Security or their meager 401(k) savings will not be adequate for their retirement. The ESOP will substantially supplement those retirement programs in a significant way.

The original idea of Employee Ownership came from Luis Kelso, who formed the first ESOP in 1956. He once said, "*The trouble with today's finance is that they're designed to make the rich richer. None is designed to make the poor richer.*" He also said "*If capital ownership is good for the rich, it is a thousand times better for the middle class and the poor.*"

The workers at Hardy Diagnostics now know that their daily work is not drudgery, but rather an exciting investment in their financial future.

In preparation for this testimony, I asked the Employee Owners of our company to provide me with their thoughts about the ESOP which they own. One of them said, "*Since becoming an ESOP, I have found an avenue in which every employee has an opportunity to be engaged in the company's steady climb of growth. As a manager, nothing is more rewarding than seeing individuals in my department with such a high level of enthusiasm for the success of our company, as well as their own personal growth and achievements.*"

Another Employee Owner said, "*Being a part of an ESOP breaks down title barriers. We all have the same title... **OWNER**. Ownership inspires greater value and satisfaction in our daily work. Our work turns into an investment. It is no longer just a job.*" I think you get the idea...

H.R.2096 is an excellent piece of legislation that provides incentives for S Corp business owners to create an employee ownership program. This will make the S Corp ESOP a very attractive exit plan for business owners that wish to do the "right thing" in turning the ownership of their companies over to the

workers that made their business successful. H.R.2096 also provides incentives for banks to loan the funds that make this transaction possible.

Those that study history know that socialism and its close cousin communism don't work. They rob the worker of incentive and the rewards that could be theirs. Winston Churchill once said, "*Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its only inherent virtue is the equal sharing of misery.*" Capitalism

for all its flaws remains the best system the world has ever known. Let's improve upon it, by putting true ownership within the reach of all American workers through the wealth building program of the modern ESOP.

I'm passionate about employee ownership and I enjoy being an evangelist for the ESOP movement in America. I thank you once again and would be glad to answer any questions that you may have.

# Employee Ownership



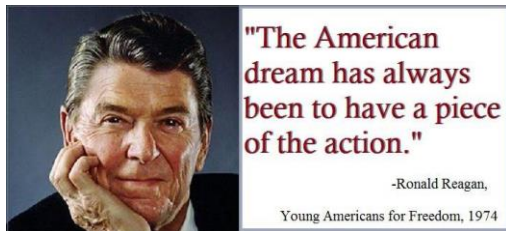
*As described by Luis Kelso –  
originator of the ESOP and “Universal Capitalism”*

By Jay Hardy

## The man who created 11 million capitalists...

Louis Kelso was born in Denver in 1913. Because he grew up during the Great Depression, he was acutely aware of capitalism’s occasional failings.

While serving in the Navy during WWII, he dreamed of creating a way in which the common worker could share in building wealth through corporate ownership. In 1956, Kelso enabled the employees of a newspaper company in Palo Alto, California, to buy out its retiring owners through a new financing concept. Thus, Kelso created the “**Employee Stock Ownership Plan**” (**ESOP**), a new sort of “capitalism for the masses.”



Thanks to this financing technique, working people, without much in the way of savings, were able, for the first time, to obtain stock in their company and pay for it out of the company’s future dividend yield. Thus, this ESOP was the prototype for many leveraged buy-outs to come, which would offer real shares to workers at no personal cost.

What Kelso was aiming for was to democratize access to capital credit for the benefit of the common worker. He called this “**Universal Capitalism**.” His first book, co-written with Mortimer J. Adler and published in 1958, was playfully named *The Capitalist Manifesto*. In 1968, he and his wife wrote another book, *How to Turn 80 Million Workers into Capitalists on Borrowed Money*.

Kelso considered the success of the ESOP as pragmatic proof that his revolutionary

financial techniques were sound and workable in today's economic and business world.

He further believed the business corporation was society's greatest social invention and that its executives had a fiduciary responsibility to exercise its vast power for the good of society.

Kelso long believed he had not originated a new economic theory but only discovered a vital fact that classical economists had somehow overlooked. This fact was the key to understanding why private property and free market economy were notoriously unstable, pursuing a roller coaster of exhilarating highs and terrifying descents into eventual economic and financial collapse.

Technological change, Kelso concluded, makes tools, machines, structures, and processes ever more efficient while leaving human productivity largely unchanged. The result is that primary distribution through a free market economy delivers progressively more market-sourced income to capital owners and progressively *less to workers who make their contributions through labor.*

In an effort to build wealth amongst its citizens, Abraham Lincoln signed into law the Homestead Act of 1862. This law granted the opportunity for ordinary Americans to become owners of up to 160 acres of land at no cost to them. Obviously, we can no longer give away free land. However the modern ESOP, which has been aptly nicknamed "The Industrial Homestead Act," can help the common worker to fulfill their dreams of capital ownership, just like Americans did in the 1800s.

Something has gone awry since then. It's alarming that Pew research has uncovered the following trends in income disparity in the US from 1971 to the present:

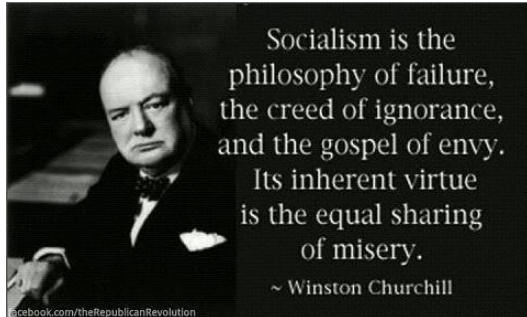
- The middle class (median income of \$73,400 now) has declined from 61% of adults to 50% today.
- The upper class (median income of \$174,600 now) has climbed from 14% to 21%.
- The lower class (median income of \$24,074 now) has also risen from 25% to 29%.

It's staggering to think about the social unrest and other dire consequences should this trend continue in the future. Kelso has ingeniously offered a viable solution that is capable of reversing this trend.



The symptoms of dysfunction are capital concentration within a select few, income inequality, and, thus, inadequate consumer demand. These effects translate into poverty and economic insecurity for the majority of people who depend entirely on wage income and cannot survive more than a week or two without a paycheck. Also, as Adam Smith declared, since economic demand begins with the consumer and consumer purchasing power, the production side of the economy is under-nourished and hobbled.

We all know that socialism and its more draconian cousin communism have failed miserably again and again throughout history. It saps the incentive and motivation that is needed for innovation and advancement. Instead of tossing capitalism with all its faults into the trash can of history, why not perfect it and make it more accessible to the common worker?



Now, at the beginning of the 21st Century, interest in Louis Kelso's economic thought is on the rise. Economists now admit they do not understand economic growth—how to stimulate it in poor countries or how to restore the “magic” at home after it has gone. They cannot explain the economic decline of the middle class. Most unsettling, they still do not understand the cause of a depression, nor do they know how to prevent the next one. Not long ago, Lester Thurow, a famous economist, admitted without apology, “*Economic collapses are an intrinsic part of capitalism.*” Kelso believed that this can be fixed.



If Kelso is right, private property free market principles can be used to correct the faults of the market economy. ESOPs distribute income to the workers as

efficiently as it produces it: creating stability while expanding economic growth and creating new markets and more customers. All this can be accomplished without a forced redistribution of wealth *and without sacrificing our constitutional guarantees and freedoms.*

In conformance with the private property/free market principles identified by Smith and his followers, all of Kelso's financing tools and economic proposals are designed to correct the imbalance between production and consumption *at its source.*

**Therefore, the modern ESOP is an excellent way to correct the ever increasing imbalance of wealth that persists in America today without forcing a socialistic redistribution of wealth.**

*What are the ultimate benefits of employee ownership?*

- Accumulation of wealth beyond mere wages
- Increase in productivity, motivation, and competitiveness
- Greater harmony between labor and management – a unified purpose
- Broad ownership of capital that is available to all – not just a few
- Sustainable and secure jobs
- Stronger belief in the free enterprise system



## *Famous Kelso Quotes...*

*“If capital ownership is good for the rich, it is a thousand times better for the middle class and the poor.”*

*“We have an economic policy that is just about 10,000 years out of date!”*

*“The trouble with today’s techniques of finance is that they’re designed to make the rich richer. None are designed to make the poor richer. That’s why the poor are poor; because they’re not rich.”*

*“When capital owners are few, the private property conduits of necessity create vast savings reservoirs for those few. If there were many owners, the same conduits would irrigate the economy with increased purchasing power.”*

*“People are starving for property — for a secure, permanent and independent link with spaceship earth that ownership represents and which only ownership can protect or defend. It is humiliating to possess nothing, to own nothing and hence to produce nothing and to count for nothing.”*

“Socialism has been discredited. Plutocracy (rule by the wealthy) is in the process of being discredited. Democratic capitalism has yet to be tried.”

*“What the economy needs is a way of legitimately getting capital ownership into the hands of the people who now don’t have it.”*

*“America must rethink the meaning of democracy and set about within its borders to rationalize its economic policy into one that synchronizes the shift from labor intensive to capital intensive production, with universal capital ownership and the payment of the full wages of capital to capital owners, so to restore economic democracy to our economy. We should democratize our plutocratic capitalist economy before we preach democracy to others.”*

*“The Roman arena was technically a level playing field. But on one side were the lions with all the weapons, and on the other the Christians with all the blood. That’s not a level playing field. That’s a slaughter. And so is putting people into the economic arena without equipping them with capital, while equipping a tiny handful of people with hundreds and thousands of times more than they can use.”*



*“There is no future for those who cannot or will not think.”*



## EMPLOYEE QUOTES REGARDING OUR ESOP

### *What Employee Ownership Means to Me...*

***Hardy Diagnostics is a medical device manufacturer that operates production facilities in California, Texas, and Ohio. The company was founded in 1980 and has been an ESOP (Employee Stock Ownership Plan) since 2012. The company has grown by 78% since becoming an ESOP. About 300 of its 350 employees own shares in the company through the ESOP program. When the Employee-Owners were asked what owning a business means to them, this is what they said...***

“Being a part of an ESOP breaks down title barriers. We all have the same title... **OWNER**. Ownership inspires greater value and satisfaction in our daily work. That work turns into an investment. It is no longer just a job.” – *Rebecca Richards, Accounting Manager*

“One of the most rewarding experiences a person can participate in is ownership of property, professional growth, and destiny.” – *Mark Widle, New Product Specialist*

“Being an owner of Hardy Diagnostics gives me a sense of security about my future and eventually my retirement.” – *Chuck Williams, Regional Territory Manager*

“...my initial thought is that I don’t feel I represent some large, nameless corporation. The fact that I am an owner is all over our website and our paperwork that our customers see. So when they call me on the phone, they know I am an owner. I don’t represent some big faceless corporation, I represent ME. I’m not a powerless drone that can pass off the blame for a bad experience. I am responsible for that customer’s experience and responsible for fixing it,

on MY reputation. That is a very strong motivator for me.” – *Kate Massey, Technical Support Specialist*

“Since becoming an ESOP I have found an avenue in which every employee has an opportunity to be engaged in the company’s steady climb of growth. As a manager, nothing is more rewarding than seeing individuals in my department with such a high level of enthusiasm for the success of our company, as well as their own personal growth and achievements.” – *Joe Cortez, CA Distribution Center Supervisor*

“For me, it’s all about my outlook. I used to come to work and talk about the direction the company was going—as if it were controlled by someone behind a curtain—or used divisive words like “they” or “he.” Now, I realize as a co-owner of Hardy Diagnostics, I have a huge stake in the outcome. Today, I used the terms “I” and “we.” I know I can help steer this mighty ship that helps save the lives of Americans and people around the world every day. That’s something that makes all of “us” owners very proud. Having just received the biggest profit sharing check since I started work here nine years

ago, it's hard not to think about how the ESOP is making Hardy Diagnostics—my company—more profitable. I'm able to use this money to sow back into my community through charitable giving. I can't wait for the harvest my humble seeds of generosity will reap." – *Dan Theisen, Manufacturing Systems Manager*

"Since becoming an owner of Hardy Diagnostics, I have gained a better understanding of how my work impacts our company's profit. I am motivated to work hard to contribute to the value of our company stock and my retirement plan. I am happy to work for a company that shares the company profit with the employees who produced that profit." – *Sue Pruett, Director of Quality Assurance*

"ESOP provides individuals with a sense of ownership and representation of something greater than themselves. It is not only a means for financial gain, but individual growth as well. As owners we must learn about financials and successful business practices. We now must put our best foot forward to ensure the longevity of the company, which in turn assists with economic health. It is a 'Win Win!'" – *Honey Hoe, Document Control Manager*

"When you are both an employee **and** an owner you can really affect the bottom line for yourself and the company." – *Steve Smith, Ohio Distribution Center Supervisor*

"In this day and age where the American dream has been seemingly held just outside the reach of the middle class, the ESOP has become a beacon of hope. It renews the mentality that if you work hard as an individual and together as a company, everyone has the opportunity to earn the financial stability that was once common place. In a world where the "home with a white picket fence" has grown more difficult to attain, ESOP's have provided me the chance to not only be proud of what I do and who I work for, but has also provided me with the ability to provide for my family as it continues to grow. I would much rather work for a company who considers each member a crucial part of the team, rather than a conglomeration of nameless faces who are worth nothing more than a

means to generate profit." – *Daniel Ballew, Marketing Associate*

"Becoming an owner has motivated me to do my very best work, so that the company will succeed. It gives me a sense of having control over my own destiny, and fills me with a sense of pride. It provides my family an extra layer of financial protection." – *Chris Catani, Director of Sales and Marketing*

"ESOP: The fight for the American dream in an instant. God bless America." – *Mary Kelly, OH Distribution Center Clerk*

"After reflecting on what the Hardy Diagnostics ESOP means to me and my family, the first thing that came to mind was the "American Dream" for which I found the following description: "***The ideal that every US citizen should have an equal opportunity to achieve success and prosperity through hard work, determination, and initiative.***" This is exactly what the Hardy ESOP provides. As a Hardy partner I have the ability every day to directly impact the performance of our business, the loyalty and quality of our products, our company brand and finally the valuation of our business. This in turn directly impacts my family's financial security today and tomorrow, which I can simply describe as financial peace of mind, and that is a beautiful thing. When people ask me what I do, I am proud to say I am a business owner of a company that helps save lives." – *Robert Meijer, National Sales Manager*

"Thanks to the ESOP our family knows that we can look forward to staying in business with a company that already has been successful for the last 30 plus years. We feel secure and our future ahead looks bright when retirement comes. Thank you, Jay, for thinking of your employees. My family will always be thankful to you all their lifetime. I enjoy coming to work every day working for an employer that I know cares about his workers." – *Eduardo Cuna, Manufacturing Cook II*

“Being a partner in the business means lots more than just getting a paycheck. Anything I can do to help, improve or solve a problem directly affects my business partners and my family. In looking ahead to my retirement, I will see the difference that our individual contributions have made. It feels great to be in a successful partnership.” – *Allen Millikan, Maintenance Technician*

“I’ve always been told that Social Security will no longer exist by the time I reach retirement age. Now, thanks to our ESOP program I have confidence knowing that every day I am working towards a financially secure future; one where I will be able to afford retirement without having to rely on a tenuous governmental support system. At Hardy Diagnostics we’re all very proud of our ownership, and knowing that we all have a stake in the company’s outcome makes everyone pull together even more to achieve our goals and accomplishments. Holding our financial future in our own hands is an empowering and amazing experience, and it is a great feeling to interact with one another as **co-owners** rather than as co-workers.” – *Wendy Hadley, Quality Control Manager*

“An ESOP provides me and my family with an opportunity for a better financial future. I am not left to work all my life and wonder if social security will be enough or even be there. Working hard every day affects the bottom line of any business but with an ESOP that bottom line is my family’s future.” – *Eddie Yubeta, Customer Service Manager*

“I feel like the ESOP brings a sense of community to our company. We are all in this together for a common good. For my family, I feel it brings security to our future in these very uncertain times we live in with no hope for social security, etc.” – *Kathy Stellar, Regional Territory Manager*

“You can quote me as having a household of ESOP workers. At my husband’s work, Okonite, which made the cable that goes from mainland to the Statue of Liberty, has been a very successful ESOP

since June 1976. Chuck has been working there for 33 years.” – *Joan O’Hern, Document Scanning Technician*

“Becoming an ESOP company has definitely changed our culture - and for the better! Since we are now all owners of the company, departments communicate and work towards a common goal more effectively. That unity of purpose improves the health and viability of our company and facilitates our future growth plans.” – *Kimball Lombardi, Director of Manufacturing*

“Not only did becoming an owner motivate me to come to work and give my 100%, but it also provided peace of mind for my retirement in the long run. Thank you, Jay.” – *Gilberto Zarate, Manufacturing Cook II*

“Becoming a Hardy Partner has enabled me to set an example to my daughter. Being part owner of something with such a great cause definitely gives you a sense of self-worth. It is truly a **“hand up,”** as oppose to a hand out: which only keeps you at a distance from attaining what the American Dream use to be.” – *Shirley Del Remedio, Customer Service Representative I*

“Being a part of an ESOP company like Hardy Diagnostics is a trailblazing experience!” – *Nathan Bowersock, OH Distribution Center Manager*

“This year I joined my husband Pete, and became an ESOP partner. Now, Pete and I are both owners of Hardy Diagnostics. It doesn’t get any better than that.” – *Rosa Prendergast, Packaging/Labeling Production Technician*

“As my wife and I begin to think more seriously about retirement planning, we find ourselves counting up the various sources of retirement income that we will draw on—401(k) and IRA accounts, possible inheritance from our parents, Social Security and the like. The results have not been comforting. Enter the Hardy Diagnostics ESOP. In just four short years, the value of my Hardy ESOP account is beginning to approach the combined value of our 401(k) and IRA accounts and

will likely surpass these sources in just two more years. This has us breathing a lot easier!” – *Mike Welch, Director of HR*

“During my professional career, I have worked for three companies, one public company and two ESOP companies. I would choose an ESOP company over any other company, hands down. Since I don’t know if Social Security will be there when I retire, it is comforting to know my Company and my co-workers are all working towards a common goal...to grow the Company and the bottom line, which in turn increases the ESOP stock price and therefore adds to all of our retirement funds. We all benefit! I am so proud to say I own a piece of the Company that I work at each and every day. When I tell individuals outside of the Hardy family about the ESOP and how it benefits not only the Company but also all the employees, those individuals are so intrigued they want to hear more. Then at the end of our conversation, I usually hear...”Let me know if they ever need someone with my skill set.” They want to be owners as well.” – *Darla Prevish, Chief Financial Officer*

“My name is Steve Stuart. I work in the sales and marketing department of Hardy Diagnostics as a videographer and package designer. I was previously employed at a sporting goods retailer as their advertising director. I was with this firm for 20 years. In 2004, the owners of the company decided to sell so that they could pursue other ventures. Since this was a family owned business, the owners wanted the company they had built, and which bore their name, to continue and prosper. To that end, they searched for a buyer to satisfy this goal. They found a company based in New York that had acquired and successfully run several retail businesses. Once the sale was complete, a new CEO and CFO were brought in to run the business. Within two months of this event, my position was eliminated. The new CEO decided to run all advertising through an out-of-house advertising agency. By 2006, because of mismanagement, the company filed for Chapter Eleven and was forced to close after almost 35 years in business. Employees at over 30 stores in four states, two distribution centers, and the corporate office, ended up without

jobs just like me. As for myself, I struggled to find long term, full time employment for five years. Being hired and working for Hardy Diagnostics has been a Godsend. I have never worked for a better company or one that does such important work. We make products that save lives! When I learned that our company president Jay Hardy was planning on selling the company he built to his workers as an ESOP, it caused me to sigh with relief! Jay was insuring not only the future of Hardy Diagnostics; he was insuring the future of us who work here. And with the stock we all share as employee owners, it’s not just our jobs that are secure; we have a constantly growing resource that will be available to us upon retirement. When Hardy Diagnostics prospers, we prosper! If my old company had become an ESOP, it would still be here today.” – *Steve Stuart, Graphic Designer/Videographer/Packaging Specialist*

“Since we became an ESOP corporation I have found it very much easier to assume a leadership role with my colleagues, when needed, due to the fact that they know I am not interfering with them or their work but rather I am assisting them to do what we all want, which is to improve the company's performance.” – *Derek Tinsley, Chemist*  
“I think becoming an owner of this company would mean a lot to me! First of all I would take pride in my work knowing that what I am doing is going towards a great cause and that someone will be affected by our products. Now, every time I come home I talk to my parents and family about how working here is such an enjoyment and I am always bringing up what we produce, where our products go, and how it will affect the lives of others. Working here has showed me that one person can make a difference, and from our stance, a company can really make a difference!” – *Kevin Good, CA Distribution Center Clerk I*