

The Ever-Changing Corporate Structure of Organically Grown Company

Organically Grown Company (OGC) began as a discussion group of former UO Urban Farm students in the early 1970's.¹ The students had fallen in love with organic agriculture when they participated in the new UO program and decided to become career farmers after graduation.² The OGC founders were farming for the first time in their lives, struggling to make a living wage, and renting the land they farmed. Soon, they realized they were competing against their friends in the organic market.³ They began meeting on the UO Urban Farm once a month to discuss a better way of doing business as organic food producers in the Willamette Valley.⁴ These meetings continued for five years. Eventually, they got a VISTA grant and started coordinating crops to maximize profits for all of the member farmers and collectively decided on minimum prices for produce.⁵

In 1978, the farmers chose a name for their collaborative mission-driven organization (Organically Grown Cooperative) and decided to incorporate as a nonprofit cooperative.⁶ The company remained a nonprofit co-op until 1999, when it shifted to a small business corporation structure.⁷ Then, nearly ten years later in 2008, when OGC had outgrown the S-class corporation model, an employee stock ownership program (ESOP) was adopted.⁸ With each iteration of Organically Grown Company's corporate structure, the mission statement and ethos of the organization has been a driving force. The company is continually searching for a structure that meets their growth needs while keeping their employees invested in the health and mission of the organization.

A cooperative is a legal entity owned and controlled by its members.⁹ The members join together for an economic and purpose-driven enterprise; for OGC, the farmers wanted to promote organic produce, create a sustainable living for small-scale local farmers, and incentivize collaboration instead of competition among member farmers. Oregon follows the model US code on the issue of tax-exempt cooperatives in that only farmers' cooperatives are exempt.¹⁰ The co-op must be operated "for the purpose of marketing the products of members or other producers and turning back to the members the proceeds of sales."¹¹ Additionally, the proceeds may be used to purchase supplies and equipment for the use of the members if the equipment and supplies are provided at cost to members.¹²

A Small Business Corporation (also called an S-Corp) must be a domestic corporation with fewer than 100 shareholders, and the shareholders must be individuals (with a few

¹ ANN BETTMAN, THE URBAN FARM 45 (JANUARY 2002).

² ID.

³ ID.

⁴ ID.

⁵ ID.

⁶ ORGANICALLY GROWN COMPANY, OUR HISTORY FROM THE ROOTS.

[HTTPS://WWW.ORGANICGROWN.COM/ABOUT/ORGANICALLY-GROWN-HISTORY/](https://www.organicgrown.com/about/organically-grown-history/)

⁷ ID.

⁸ ID.

⁹ 26 U.S.C. §521(b)(1)

¹⁰ ID.

¹¹ 26 U.S.C. §521(b)(1)(A)

¹² 26 U.S.C. §521(b)(1)(B)

exceptions).¹³ S-Corps have limited liability, as their shareholders are only liable for their personal investment in the company.¹⁴ The S-Corp itself is also not subject to taxes, but the shareholders who receive profits do have to pay a tax on their income; however, the profit distributions from an S-Corp are not subject to a self-employment tax.¹⁵

OGC shifted to an ESOP organizational structure because the company grew beyond the 100 shareholders allowed in an S-Corp. The company wanted to transfer ownership to the next generation of contributors, foster a culture of ownership, and enable the company to continue to grow.¹⁶ OGC wanted to foster a workforce that is focused on the success of the company. Employees are encouraged to take part in annual shareholder meetings and quarterly updates on finances of the business.¹⁷

OGC's corporate evolution has continued, with a new trust structure in place that should facilitate the continued growth and success of a dually mission-driven and profit-driven corporation with a high level of employee buy-in.

Alexandria Roullier
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¹³ 26 U.S.C. §1361

¹⁴ Tom Tauli, *Understanding the S Corp*. Forbes (July 29, 2017), <https://www.forbes.com/sites/tomtaulli/2017/07/29/understanding-the-s-corp/#688a59e54cae>.

¹⁵ ID.

¹⁶ SES ADVISORS, ESOP CASE STUDY: ORGANICALLY GROWN COMPANY. <HTTP://SESADVISORS.COM/ESOP-KNOWLEDGE-CENTER/ESOP-CASE-STUDIES/ESOP-CASE-STUDY-ORGANICALLY-GROWN-COMPANY>

¹⁷ ID.