

**Testimony of H.Grady Payne, CEO of Conner Industries, Inc. before the House
Oversight and Government Reform Committee
Monday, June 18, 2012**

Thank you Mr. Chairman and members of the committee for the opportunity to testify. I am Grady Payne, CEO of Conner Industries. Our headquarters is in Fort Worth, Texas and we currently have plants in eight(8) states including our plant in Fayetteville, Tennessee. We supply cut lumber and assembled wood products to manufacturing companies for their shipping and crating needs as well as logistics and supply chain management services.

Our company was started in 1981 with five people and one location. Today, thirty one years later, we have grown to over 450 employees and eleven plant locations. Over 120 of our people have been employed with Conner for more than five years and 22 of those have been with us for over fifteen years.

Each of our locations operates in a distinct and self-contained market and each location employs fewer than 50 people. We're an average American business trying to finish each year with a fair profit, a profit that can be plowed back into growing the business and creating opportunities and jobs; as we have historically done.

Ours is a commodity business which works off of low margins. Our competition is both local and international. In each of our markets we compete against companies that have fewer than 50 employees as well as companies importing crating products. These companies will not be subject to penalties and mandates imposed under the new law. This law will give them an unfair cost advantage over us. In today's highly competitive and global marketplace companies with cost disadvantages do not survive and jobs are lost. This law places us in a disadvantaged position and at a minimum should be changed to restore a level playing field for all businesses.

According to the Small Business Administration a company of our size and in our industry classification is considered a small business, but under the Affordable Care Act we are not treated as a small business. In fact, we are caught in the no-man's land between assistance and exemptions for small business and waivers for large corporations and other powerful entities.

Providing health insurance has always been challenging. When we started our medical plan in the 1990's, we offered coverage to all employees. Most of our production line employees opted out due to cost. The insurance companies refused to write coverage unless we could provide 75% or better participation. Because of this, and federal discrimination rules, we were forced to create groups of employees and significantly reduce the number to whom insurance was offered.

This remains today. We offer coverage to approximately 140 employees and struggle each year to get 75% participation. The company pays approximately 55% of the total premium cost.

Ours is a fully insured plan. We are not comfortable with the open ended cost potential of a self-insured plan and have not been successful in finding an underwriter to write a self insured plan for our group that is affordable. The new discrimination rules created by the law have the effect of pushing us immediately into a self-insured alternative or face a fine of up to \$500,000. Although the IRS has delayed enforcement of the new non-discrimination testing until regulations can be written, our plan could be tested and penalized as early as the 2013 plan year. Without changes to the harsh penalties associated with this testing, we may be forced to drop our plan completely prior to state based exchanges becoming available. The mandate to us may be in 2013 not 2014.

In 2014 we will be faced with an even more difficult choice:

- Option one is to expand coverage to all of our employees. Our past experience tells us this will not be acceptable to them unless we pay most or the entire premium cost. To do this the additional cost would be approximately \$1,750,000 over the approximate \$750,000 in premiums we pay today.
- Option two is to expand coverage to all of our employees and have employee contributed cost set at adjustable amounts based on the laws' affordability rate of 9.5 % of each employee's household income. If all employees stayed in the plan our additional new cost would be estimated at over \$1,200,000. We expect that many would drop out and for those we may be charged a non-tax deductible penalty of \$3000 per employee.
- Option three is to discontinue all policies and pay a non-tax deductible penalty of \$2,000 for each of our 450 employees less the statutory 30 exemptions, plus some portion of the penalty for employee turnover during the year. At today's employee count that penalty estimate is over \$1,000,000 in new cost to our company and, again, not deductible from taxable income.

The impact of this law will cost our company over \$1,000,000 no matter which option we take, and worse, some of the extra cash cost, if not all, will be classified as a penalty and not tax deductible. We would owe income tax plus the penalty. Today these estimates could significantly impact the Company's financial strength and stability. This does not even consider the significant additional administrative cost we will and are incurring to manage the program, prepare mandated government reports and track all employee's household dependents and earnings. No doubt additional computer software and hardware will have to be purchased and maintained for this purpose. In addition, there are other annual fees and costs such as the Comparative Research Fee. None of this adds one penny of productivity or revenue to our business.

We have been very blessed to be a profitable company even in these hard times. We have had to make many sacrifices in pay, bonus programs and people. We have no tax loopholes, no grants or subsidies. Our company is a taxpayer and NO, the Private sector is not doing fine. Our own government laws, rules and regulations are choking us out. Jobs require capital; capital comes from profits.

We are a company caught in the middle. As the law stands now our 30 year business is at risk of being legislated out of existence. How can this be? Our lives are in this company and we have done a good job for our customers, our employees, and all of our families. This law has taken a problem and made it a potential fatal blow. Our people may have exchange insurance, but no job.

We understand the goal of getting everyone medical coverage and we agree that it is a worthy goal, but the massive cost hits us right between the eyes. For us it may come down to having a job or insurance. The ratio of cost to earnings is overwhelming to us plus we are put at a competitive disadvantage in our market areas. There has to be a more equitable way to achieve this goal than to cripple a small business like ours and possibly throwing us all out on the street.

Our current capital expansion and business development plans are and will be stopped by this law because expansion and hiring requires cash. The impact of the law robs us of our needed capital for maintaining equipment and fixed assets for continued operations and for business expansion. Our goals turn from hire and grow to cut and survive.

Our Tennessee plant was started as an expansion plant in 2007. We relocated the plant to a much improved location for expansion and growth in 2010. The plant currently has 48 employees. This law may force us to close our expansion locations as the new cost and penalties cannot be absorbed. Men and women working hard and providing for their families today may be faced with going home with no job in a difficult job market with the fear for what the future holds for their families. A man without work carries a sense of shame and a feeling of failure to his wife and children; the family may have subsidized exchange insurance, but the job he knows may be gone.

Each of our co-workers has a responsibility to each other. I and our managers feel the extra burden for company direction and sound business decisions, our people depend on us. This law mandates a cost we may not be able to overcome. No new efficiency or productivity or tech change can offset this cost, it is out of our control. I work with men like Adolfo and Ricky, brothers who started their careers with us from high school and today, over twenty years later, both have advanced to leadership roles. They are married and have young children. They, like all our people, do a great job and are proud of our company. I lay awake at night considering what can be done. These men and many others like them and their families deserve the jobs they have, they've earned it. A federal mandate that was not well thought out could destroy these men's lives, careers and plans for their future. I pray that something might be done that these wives and children may not see and feel the pain caused by such reckless legislation.

I thank all of you for your service to our great nation and for allowing me to plead the case of Conner Industries.

H. Grady Payne
Conner Industries, Inc.

Committee on Oversight and Government Reform
Witness Disclosure Requirement - "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:

H. GRADY PAYNE III

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2009. Include the source and amount of each grant or contract.

NONE

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

CONNER INDUSTRIES, INC.
CORPORATE OFFICER: CEO

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2009, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE KNOWN

I certify that the above information is true and correct.

Signature:

H. Grady Payne III

Date:

6/14/12

H. Grady Payne III

Grady Payne graduated from Texas Christian University in 1973 with a degree in business and accounting. He obtained his Certified Public Accountant certificate in 1975. From 1973 to 1979, Mr. Payne worked for Price Waterhouse in Fort Worth and from 1979 until 1991, he owned and operated Payne & Associates, a Certified Public Accountant practice, in Fort Worth. Mr. Payne is a licensed Texas real estate broker and owned and operated a Tarrant County, Texas home building and real estate business from 1979 until 1992. He started with Conner Industries, Inc. as CFO in 1991 and was promoted to CEO in 2006.

Mr. Payne is a member of the Fort Worth Chapter, Texas Society & American Institute of Certified Public Accountants and a member of the Texas Board of Realtors.