



Connection

THE MID-ATLANTIC CHAPTER ESOP ASSOCIATION QUARTERLY NEWSLETTER DECEMBER 2003

Message from the President

Two of the most important documents in our nation's history address the active involvement of the people in their government. The preamble to our Constitution begins with the words "We the people..." while Abraham Lincoln used the phrase a "government of the people, by the people, and for the people" in his 1863 Gettysburg address.

Interestingly, if we simply substitute the words "employee" for "people" and "company" for "government" we have the makings of a high-octane, employee-ownership environment.

This juxtaposition might make you ask -- what would it be like if our government functioned like a well-run ESOP company? (Feel free to substitute in federal, state or local government bodies as you wish.)

Customer service. Successful ESOP companies know that everything flows from great customer service. They are in a position to provide great service because each employee understands they "own" a piece of the company's success. These companies empower employees to think creatively and provide customer solutions. Think of this the next time you're waiting in line at the DMV.

Incentives. In an ESOP company, employees see the result of their efforts and share in the appreciation of the company stock value. On the other hand, government workers have less incentive to become more efficient or reduce waste.

Open book management. The State of the Union address should incorporate PowerPoint slides with pie charts and graphs of revenues (taxes/fees) and expenses (program costs). The address would then more closely resemble the State of the Company presentations that many CEOs give at ESOP companies.

Annual appraisal. Imagine an independent appraiser providing a barometer and scorecard for the government's performance. Don't think officials would want bad grades or a declining "value" from the GAO.

Create an environment of shared responsibility and shared opportunity. Good ESOP companies create this feeling from within. As citizens, we usually feel this level of cohesiveness with our government only on July 4th or when facing an external threat.

Here's a final slogan to consider, albeit less erudite, from the Three Musketeers... *One for all, and all for one.* Seems like a good slogan for both ESOP companies and our country.

-Paul Horn



ESOPs Golden at MAC Conference

The Mid-Atlantic Chapter (MAC) of the Employee Stock Ownership Plan (ESOP) Association held its 10th annual conference titled "ESOPs: Going for the Gold" in Charlottesville, VA on Friday October 17.

Conference attendees -- close to 120 -- joined in sessions including ESOP S Corp. issues, plan administration, stock valuation, ESOP basics, internal trustee issues, corporate governance, and advisory committees.

Following breakfast, MAC President Paul Horn greeted the group and showed his usual array of funny business cartoons. Paul noted what a difference a year makes -- last year drought, this year Isabel and flood; last year stock market down, this year heading up; but unfortunately for Cubs and Red Sox fans, some things don't change.

Conference sponsors were recognized (see inside) and many companies again sent multiple attendees including some of which registered five or more persons: American Systems Corporation, Blue Ridge ESOP Associates, CALIBRE Systems, Comsonics, Experimental Pathology Laboratories, Gala Industries, and Railside Enterprises. Well done!

Allison Light, outgoing ESOP Association Communications Director, provided the Washington Update on Hill happenings. The breakout sessions were great as usual, including another edition of ESOP Squares with our ESOP experts as "squares". At lunch we were treated to an inspirational speech by CALIBRE Systems CEO Bill DePuy (see photo above) who explained how his company creates and fosters committed employee-owners.

After the last afternoon session, all returned to the main ballroom to hear Dick Duffy talk about creating a positive work environment that allows employees to reach their full potential and grab the gold medal. We concluded with the Employee Ownership Foundation (EOF) raffle where we raised over \$300! There were numerous prizes including Pez dispensers, inflatable #1 hands, and of course some funny hats.

The success of the event was due in large part to our Chapter Administrator Jennifer Alvis who worked with the hotel, sent mailings, put together brochures and signs, and ran the registration desk. Thanks also to all our great speakers. See everyone next year!



Dear Dr. ESOP,

My company sponsors the BWC Employee Stock Ownership Plan (the "BWC ESOP"). Lately, there have been rumblings in the plant that the Company is on the selling block. I understand that the ESOP is a good thing, but what happens to my "good thing" if BWC is sold?

Signed,
Worried in Warrenton

Dear Worried,

If your employer is sold, you have every right to wonder about what will happen to your ESOP. The sale of a company can take one of several forms — it can be structured as a stock sale, a merger, or as a sale of assets. As a practical matter, most purchasing corporations terminate the ESOP.

When an ESOP is terminated, all ESOP participants become fully vested regardless of their years of service (a good thing!). Distributions from the ESOP must begin within a year of the ESOP's termination. Distributions may be in the form of a lump sum or five (5) equal annual installments. Regardless of the **form** of payout, the **VALUE** of the stock in your account balance will be its value as of the date of the sale of the Company. If the Company has been successful and profitable, you may very well receive a **premium** for your shares over the most recent valuation. Once your ESOP account has been revalued, the distributions are typically paid out in cash.

If the ESOP is a nonleveraged plan or the ESOP loan is paid in full, the allocated amounts may be paid directly to the ESOP participants or rolled over into a successor retirement plan. However, if the ESOP is leveraged, and the ESOP loan has not yet been repaid, the ESOP must use the proceeds of the transaction that are allocated to shares held in the suspense account to repay the debt. Any excess cash in the suspense account following the repayment of the debt must be allocated to the ESOP participants' accounts. If there is not enough cash in the suspense account to repay the remaining ESOP debt, the buying company may forgive the repayment of the remaining ESOP debt, assuming it was not outside bank debt. If bank debt, the sale of the Company cannot go through unless the bank is paid off or the bank agrees to forgive its debt (fat chance of the latter ever happening!).

In any situation involving a sale of ESOP stock or a sale of substantially all the assets of an ESOP company, the ESOP fiduciaries determine the proper price and terms of the sale. It may be a good idea for the target company to hire an independent trustee to evaluate the terms of the sale. Finally Mr. Worried, you may want to start looking into IRAs for your ESOP distribution.

Dr. ESOP seeks questions at rcmapp@kaufcan.com.

Thank You Sponsors!

10TH ANNUAL MAC CONFERENCE 2003

FRIDAY, OCTOBER 17, 2003

DOUBLE TREE HOTEL
CHARLOTTESVILLE, VA

PLATINUM SPONSORS

Golf

Blue Ridge ESOP Associates, Inc.
Equity Strategies, L.L.C, a consulting
subsidiary of Kaufman & Canoles
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Conference

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GOLD SPONSORS

Conference

ESOP Services, Inc.
Shareholder Strategies, Inc.
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MEMBER PROFILE:



Whitney, Bradley & Brown, Inc.

Helping Our Clients Make Better Decisions

Whitney, Bradley & Brown (WBB) is staffed with senior leaders and managers with extensive operational experience in the military, government and business. Its corporate headquarters are in Vienna, VA with an office in Hampton, VA.

The company was founded in 1981 and performs work for the Departments of Defense, Transportation, and Homeland Security. The company is anticipating CY 2003 revenue of about \$23 million with a workforce of close to 110 employees at year-end.

WBB began its ESOP with a purchase of 33% of outstanding shares in August 2001. It completed a second transaction April 2003, with the ESOP now holding 48% of WBB's equity.

The company plans to attain 100% ESOP ownership via several more transactions, to be completed in the 2006 – 2009 timeframe. As WBB had hoped from the beginning, the ESOP is proving to be a great retention incentive among employees, almost all of who are retired career military officers.

Employee ownership has fit well with the WBB culture, as it has strengthened team identity, and added significantly to the package of employer-provided retirement benefits.

Mid-Atlantic Chapter Officers

President: Paul S. Horn

American Systems Corporation
(703) 968-5008 Fax: (703) 968-5151
paul.horn@2asc.com

Secretary/Treasurer: Carolyn Zimmerman

Blue Ridge ESOP Associates, Inc.
(434) 979-5500 Fax: (434) 979-7667
czimmerman@blueridgeesop.com

Regional Vice-President – Capital Region: Carl Miller

Ellin & Tucker, Chartered
(202) 638-0902 Fax: (202) 638-4311
cmiller@etnet.com

Regional Vice-President – Eastern Virginia: Richard C. Mapp III

Kaufman & Canoles
(757) 624-3285 Fax: (757) 624-3169
rcmapp@kaufcan.com

Regional Vice-President – Western Virginia: Sonny Lasam

Truck & Equipment Corporation
(540) 434-2557 Fax: (540) 2552
sonnylasam@aol.com

Chapter Administrator: Jennifer L. Alvis

(434) 983-7788
jen@kinex.net



1st Annual MAC Golf Tournament Tees Off!

Rick Mapp, III, Esq.
Kelly L. Reblin, Esq.
Kaufman & Canoles, P.C.

While Friday was reserved for the serious business of the ESOP conference, Thursday was dedicated to fun and frivolity on the links. The 1st Annual MAC Golf Tournament was held on Thursday, October 16, 2003 at the Birdwood Golf Course, located in Charlottesville, Virginia. Twenty MAC members took advantage of the beautiful weather and hit the course for an afternoon of camaraderie. The tournament was followed by a dinner and awards ceremony during which Scott Levine of Willamette Management Associates, Doug Turner of CMS Information Services, Inc., and Kelly Reblin were named team champions of the event.

A special thanks to tournament director Rick Mapp and Kelly Reblin of Kaufman & Canoles and Equity Strategies, LLC who did a terrific job (if they do say so themselves!) organizing the event, and to our Platinum Tournament Sponsors: Blue Ridge ESOP Associates, Sid Baumann formerly of Morgan Stanley Dean Witter, Equity Strategies LLC, Houlihan, Lokey, Howard & Zukin, Northwestern Mutual Financial Network, and Squire, Sanders & Dempsey, L.L.P.

While we had wonderful participation, we intend to do a “mulligan” on the tournament in future years and expand its size. Please contact Rick Mapp if you are interested in participating. Detailed information will follow in future editions of this newsletter.



MAC Golfers relax at the 19th hole.

Welcome New MAC Members 2003*

CORPORATE MEMBERS

Antietam Automotive, Inc.
Frederick, MD

Builders Supply Company of Petersburg
Petersburg, VA

Harkins Builders, Inc.
Marriottsville, MD

High Performance Technologies, Inc.
Reston, VA

Kemron Environmental Services, Inc.
Vienna, VA

Mini-Giants, Inc.
Parkersburg, WV

PESystems, Inc.
Fairfax, VA

Wiley & Wilson, Inc.
Lynchburg, VA

PROFESSIONAL MEMBERS

Mr. Geoff Richard, Advanced Funding Solutions, LLC/Northwestern Mutual

Mr. Burl Bachman, RPAS, Ltd., Richmond, VA

Mr. Joe Landon, Willamette Management Associates, Arlington, VA

AFFILATE MEMBERS

The Onyx Group
Alexandria, VA

** Please let us know if we missed you.*

The ESOP Association
Jennifer L. Alvis, MAC Administrator
Rt. 3 Box 326
Scottsville, VA 24590