



# Connection

THE MID-ATLANTIC CHAPTER ESOP ASSOCIATION QUARTERLY NEWSLETTER

SEPTEMBER 2003

## *Message from the President*

A collection of random thoughts on the ESOP world follows.

Incoming ESOP Chair George Ray has made membership recruitment a priority. While estimates of 11,000 or so ESOP companies exist, corporate membership in the ESOP Association hovers around 1290. We realize that non-members are missing all the fun, but I'm pleased that MAC ESOP is having fun while helping to meet this recruitment goal.

The Mid-Atlantic area is a hotbed for ESOP activity and the 2003 membership data certainly underscores this. Through mid-July, we had added eleven corporate members to reach a total of 122. The only other Chapter with over 100 corporate members is our friends in the geographically large California/Western States. We also have 106 professional members, bringing total membership to 228.

How can we keep this momentum going? First, tell ESOP companies that do not belong about the value of membership. Second, encourage companies considering an ESOP to attend ESOP Association events to learn more. Both corporate and professional members can help us in this recruitment effort.

Now for something completely different as Monty Python used to say. We can understand folks not returning calls from telemarketers or bill collectors, but from someone who wants to pay them money? Truth is stranger than fiction as we continue to try to make ESOP distributions to unwilling recipients. Neither mail (correctly addressed) nor phone calls (to answering machines) can break the impasse. (As you know, we can't force sums out to non-retirees who have account balances of \$5000 or more.) We envision the next Newsweek cover story: *Procrastination: The New American Epidemic.*

As for the majority taking distributions, too many still use the money to pay bills rather than do a rollover to another qualified plan. Our emphasis on ESOP communication often does not include much information on this equally important ESOP "endgame."

Support your Chapter by attending our October 17 conference. I think you'll agree that our conference is a tremendous value with great information, fun, and food. Hope to see you there!

—Paul Horn

## **Sixth Annual Communications Conference a Winner!**

On July 10-11, 2003, The ESOP Association ("TEA") held the Sixth Annual Communications Conference at the Hyatt Regency in Oak Brook, IL. There were 168 participants from all over the United States. Ninety-one companies were represented in all.

This year's program, chaired by Loren Rodgers of Ownership Associates in Cambridge, MA, with the help of TEA's Advisory Committee on Ownership Culture, concentrated especially on topics that would be of interest to ESOP Advisory Committee members.

Highlights of the conference included the following:

**Open Space** — This process assigns topics taken from conference attendees to specific tables among which participants can choose their subject matter. Professional facilitators are available to provide information when requested, but the real value comes from conference attendees meeting with other attendees to help solve similar problems.

**Lunch with the Experts** — Certain tables at Friday's luncheon were designated with topics and facilitated by a member of the Ownership Culture committee or other professional. For example, Blue Ridge's Carolyn Zimmerman facilitated a table dedicated to discussing how to come up with new ideas year after year, e.g. the process of "brainstorming."

**Communicating Technical Issues** — Two break-out sessions dealt with how to talk to employees about technical issues. The subject of one was the legal aspects of ESOPs and was led by attorneys David Ackerman of Jenkens & Gilchrist and Steve Lifson of Seyfarth Shaw. The second one, new to this conference, dealt specifically with explaining your valuation and was facilitated by Carolyn Zimmerman with Bob Gross of Prairie Capital Advisors who provided valuation expertise.

**Breakfast with Steve Sheppard** — Always a popular speaker, Steve, CEO of Foldcraft Company, presented much food for thought in an absorbing, early morning talk peppered with proverbs as perceived by first graders (Example, "If at first you don't succeed...get new batteries!").

**AACE Highlights** — A prominent and valuable part of every Communications Conference has been the viewing of the 2003 AACE entries (Annual Awards for Communications Excellence). This was THE place to find new ideas among the 40-odd companies who submitted their communications efforts to the competition. On Thursday evening, AACE Chair Carolyn Zimmerman presented the winning entries and discussed why the judges chose them over their stiff competition.

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**Sixth Annual Communications Conference a Winner!**  
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**Networking, Networking, Networking** — Over and over we hear from conference attendees that they found the interaction with other attendees to be one of the most valuable aspects of this conference.

So... mark your calendars for July 2004. We'll share the exact dates as soon as they are set. The Seventh Annual Communications Conference will incorporate all the suggestions from the Sixth, and undoubtedly add a few new items. We look forward to seeing you there.

—Carolyn Zimmerman

*Any ideas for the next Communications Conference or comments may be sent to Loren Rodgers, [lr@ownershipassociates.com](mailto:lr@ownershipassociates.com) or Carolyn Zimmerman, [czimmerman@blueridgeesop.com](mailto:czimmerman@blueridgeesop.com).*

**Thank You!**

On August 5, 2003 the Capital Area region of the Mid-Atlantic Chapter held a meeting hosted by Deloitte & Touche. Thomas Roback, Jr., CEP, Senior Employee Ownership Consultant from the Beyster Institute for Entrepreneurial Employee Ownership, gave an informative seminar on Complementary Equity Compensation Vehicles in an ESOP Company. The event was well attended and many questions were asked and answered. I want to personally thank Deloitte & Touche for their generosity and willingness to sponsor our meeting. For those unable to attend, please feel free to contact Tom at 202-530-8926, or email him at [trobback@fed.org](mailto:trobback@fed.org).

—Carl F. Miller, CFA



**ASC employees enjoy eats at ESOP barbecue.**



Dear Dr. ESOP,

*I came to work for Acme Slice & Dice 1½ years ago. I am now eligible to participate in our Employee Stock Ownership Plan (the "Acme ESOP"). The Acme ESOP has been around for almost ten years and owns 100% of Acme, and I understand from co-workers that for the past nine years, the employees have received large allocations of company stock. However, now that I am eligible to participate in the Acme ESOP, I am told that the ESOP loan will be paid off at the end of the year, and there will not be nearly as many shares allocated as were allocated over the past nine years. What can I do?*

Signed,

Worried in Warrenton

Dear Worried,

I hate to tell you this, but you should be worried. Once the original ESOP loan is paid off, unless the company puts together another ESOP transaction, there will be fewer shares to allocate to plan participants, especially new hires.

In most ESOPs the only source of stock after the ESOP loan is repaid is the reallocation of shares from the accounts of terminated participants who receive cash distributions. Reallocation will provide some equity benefit for new employees, but not nearly as much as the original ESOP stock purchase.

To address the scarcity of shares in fully mature ESOPs, some companies add "reshuffling" provisions to their ESOPs, whereby current cash contributions to the plan are used to purchase shares from the stock accounts of longer-term employees, so these shares can be allocated in lieu of cash to newer employees.

Some companies also utilize newly issued shares, but this can create accounting and valuation complexities, as the new shares dilute the position of existing shareholders, including the ESOP. Of course, the good news is that the company, after repaying the ESOP loan, may have more cash available to "goose-up" other benefit programs, such as matched 401(k), profit sharing, and/or cash contributions to the ESOP.

The short answer to your question is that those employees who work for the company throughout the period of the ESOP loan benefit the most. If the company is a success, these same employees continue to benefit from the stock allocated to their accounts, as the shares appreciate in value over time.

Mr. Worried, maybe you should just ask your boss for a raise.

Dr. ESOP seeks questions at [rcmapp@kaufcan.com](mailto:rcmapp@kaufcan.com).



## MEMBER PROFILE:

### FLIPPO CONSTRUCTION COMPANY, INC.

B. Earl Flippo founded Flippo Construction Company, Inc. (Flippo) in 1971. Headquarters are in Forestville, MD with a regional office in Alexandria, VA. The company specializes in site utilities, heavy concrete and bridge construction. It has 375 employees working locally in D.C., Maryland and Northern Virginia. Revenues for 2003 are estimated at \$60 million.

Some of the Flippo's recent projects include work at the D.C. Convention Center, the Pentagon, the Kennedy Center, the U.S. Capitol Visitors Center and the Georgetown utilities project.

Flippo became a 100% ESOP company on January 1, 2000, when Mr. Flippo decided to sell the company to its employees. Displayed prominently at its web site, [www.flippo.com](http://www.flippo.com), is the ticker-tape announcement of the ESOP ownership.

The ESOP has been a success as the company's share price has increased by almost 300% since the 2000 transaction. The company made a contribution of almost \$2 million to the leveraged ESOP in 2002.

Flippo actively promotes its ESOP through the following activities:

- Quarterly articles in Company Newsletter.
- Annual Shareholders Day – At this event employees are given information on how to read their annual statements, past and present share values and company contributions to the ESOP.
- Shareholders Day typically involves a catered lunch – this year by Red, Hot and Blue. Gave all employees a Koozie lunch bag and presented a 2-minute movie showing our employees in the field and office working together.
- Everyone wears a sticker on the hardhat that reads “An Employee-Owned Company.”
- A Company flag has our Logo and says employee-owned on it.
- Survey employees on the ESOP and provide shirts for returned surveys.
- Educate our supervisors on the ESOP at our quarterly Operations Meetings.
- Promote that we're Employee-Owned on our company stationary, business cards, golf shirts, etc.

We look forward to the years ahead as employee-owners supporting our credo of “Safe Productive Quality Jobs with Pride.”



Employees at Flippo Construction gather to celebrate ESOP Shareholders Day with picnic and giveaways.



ComSonics ESOP Advisory Committee (EAC) members Sheri Campbell and Mike Nesselrodt serve CEO Dennis Zimmerman at ESOP breakfast on August 5th. Breakfast introduced the new 2003-2004 EAC to the 125 hungry employee-owners who stopped by. That's a lot of bacon.

#### Mid-Atlantic Chapter Officers

##### President: Paul S. Horn

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## Welcome New MAC Members 2003\*

### CORPORATE MEMBERS

#### **Banner Glass, Inc.**

Silver Spring, MD

#### **EEI Communications**

Alexandria, VA

#### **MacFadden & Associates, Inc.**

Silver Spring, MD

### PROFESSIONAL MEMBERS

#### **Sean Geoghan**

Chesapeake Transaction Services  
Washington, D.C.

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



**Have YOU Signed Up?**

**10<sup>th</sup> ANNUAL MAC CONFERENCE**

**DOUBLE TREE HOTEL  
CHARLOTTESVILLE, VA**

**OCTOBER 17, 2003**

**For additional information contact:**

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