



Connection

THE MID-ATLANTIC CHAPTER ESOP ASSOCIATION NEWSLETTER

April 2006



2006 MAC ESOP Company of the Year ComSonics, Inc. Harrisonburg, VA

ComSonics was established in 1972 and formed its ESOP in 1975. It became 100% employee-owned in 1985 and converted to S Corp. status at year-end 1997. ComSonics shares, which in its early years were valued below \$1, are currently valued above \$60, and in 2005 the ESOP created more wealth for its owners than in any single previous year.

ComSonics is a manufacturer and service provider to the Cable TV (CATV) industry. It operates the largest CATV repair center in the world, and is a recognized industry leader in CATV leakage detection products. The company employs over 225 people in facilities located in Harrisonburg and Weyers Cave, VA, Jupiter, FL, Sacramento, CA, and Indianapolis, IN.

ComSonics embodies the spirit of employee-ownership in numerous ways. Here are some of them:

- ✓ Provide a new participants ESOP luncheon which is after one year of service (during the interim period have a mentoring program).
- ✓ Win frequent AACE program awards, 10 first place awards over the past 15 years.
- ✓ Have an active Employee Advisory Committee (EAC) that is responsible for coordinating the Annual Participants (Stockholders) Meeting. The EAC chair also sits on the company Board of Directors.
- ✓ Have pass-through voting for the Board by ESOP participants.
- ✓ Provide for in-service ESOP distributions beyond that required by IRS rules.
- ✓ Hosted the MAC ESOP Western Region breakfast at one of its corporate locations.
- ✓ Have employees actively involved as officers in the MAC Chapter and in lobbying visits to D.C.
- ✓ Featured in local media and by local organizations as a great place to work.

Congratulations ComSonics!



2006 MAC Employee Owner of the Year Brandi Garrett Flippo Construction Company, Inc., Forestville, Maryland

Successful ESOP companies happen because they create environments for employees to succeed. Brandi Garrett (Brandi) is such a success story.

Brandi joined Flippo Construction Company, Inc. (Flippo) in September 1998 as an Administrative Assistant. She was promoted to Benefits Administrator in May 2000, and was promoted again to Personnel Director in February 2005 where she supervises a staff of two. As you will read, she is the person who makes the Flippo ESOP tick.

First some background on Flippo. It was founded in 1971 by B. Earl Flippo and specializes in site utilities, heavy concrete and bridge construction. It has about 375 employees working in D.C., Maryland and Northern Virginia.

Flippo became an ESOP company on January 1, 2000, when the owner sold 100% of the company to the employees. The share price has risen significantly since that date. Flippo became an S Corp. in October 2005.

Flippo promotes its ESOP through various events which Brandi is instrumental in orchestrating. The main event is Annual Shareholders Day where, in addition to the usual celebrations, the company takes time to educate employees on reading their annual statements, past and present share values, and the level of company ESOP contributions. "Goodies" are provided and a brief movie shown of employees in the field and office working together as one unit.

Flippo is proud of its ESOP identity. Everyone at Flippo wears a sticker on their hardhat that reads "An Employee Owned Company" and Flippo also promotes this fact on its company stationary, business cards, golf shirts, and other material.

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Record Crowd and Fun at MAC ESOP Half-Day Conference

The Mid-Atlantic Chapter (MAC) of The ESOP Association held its 8th annual half-day conference, **"What I Wish I Knew Then: Avoiding ESOP Problems & Pitfalls,"** on April 7 in Charlottesville, VA. A record crowd of 85 participants from throughout the MAC region was on hand.

The conference began at 10:00 a.m. and concluded with lunch and the MAC awards. Several golfers then enjoyed the fine weather with Rick Mapp at his afternoon outing at the Birdwood CC.

MAC President, Paul Horn, greeted the participants and then turned things over to Carolyn Zimmerman (Blue Ridge ESOP Associates) and Keith Robertson (ComSonics) to discuss what to do and not do in employee communication. One thing to do -- submit for an AACE award. One thing not to do -- stick with a program or event that is no longer generating excitement.

After 30 minutes, it was time for the next session with Becky Hoffman (Principal Financial Group) and Tom Roback (Blue Ridge ESOP Associates) on Administrative Anxiety. To avoid such anxiety, mature ESOPs need to focus on their diversification process, all ESOPs need to be clear about their distribution rules, and the proper coordination of ESOPs and 401(k) plans needs to be addressed.

Coming back after a half-time break, Rick Mapp (Kaufman & Canoles) and Peter Briggs (Shareholder Strategies) waxed eloquent on plan design and valuation issues. The audience was enthralled by a scenario on valuing ESOP stock for upcoming distributions where a buyer has approached the ESOP company with a generous purchase offer.

Our last session presented ESOP company reflections with Steven King (Gala Industries), Don Taylor (CALIBRE), and Ron Gilbert (ESOP Services). Both Steven and Don showcased their talents as stand-up comedians, venturing into the audience with Don also bringing his now customary props to enliven his presentation (though our plan document may not be quite as thick as a phone book).

After a great buffet lunch, the Chapter's Employee Owner of the Year (EOY) and ESOP Company of the Year (ECOY) were presented to Brandi Garrett and ComSonics, Inc., respectively. (See full article on awards).

Then it was time for our raffle, with outstanding prizes thanks to our generous sponsors. Our raffle raised a record \$573 for the Employee Ownership Foundation!

Everyone had an outstanding time. Chapter Administrator, Sandra Tilley, did a fantastic job handling conference registration (folks really enjoyed the spiffy nametags as well) and related activities. ■



And ESOP Companies.



Scott Levine and Meg Shrum captured by the paparazzi.



Steven King takes the microphone into the crowd.



Bob Webb stands below our Conference Sponsor banner. Bob's firm, Squire, Sanders & Dempsey, LLP was a Platinum sponsor and also donated some great raffle items.

Capital Region MAC Meeting Lists Lessons Learned

Thomas Roback, Jr.



Panelist Jeff McCartney (l) chats with other attendees during pre-program warm-ups.

Despite the D.C. beltway traffic, the February MAC breakfast seminar in the Tysons Corner, VA office of the law firm Squire, Sanders & Dempsey, LLP was both well attended and participative.

A virtual dream team panel of ESOP company representatives led the discussion. Paul Horn of American Systems Corporation, Jeff McCartney of Social & Scientific Systems, and Jeanette McTegart Fine of CALIBRE Systems (that's a lot to get out of my system ☺) did a great job gathering input from an audience of both new and mature ESOP companies.

A few of the topics included:

- Processing mid-year company redemptions of stock from the ESOP to fund ESOP cash distributions at current fair market value requires a contemporaneous appraisal.
- Defining disability under your ESOP plan document to require a finding of Social Security disability can help avoid interpretive issues.
- Reviewing and administering Qualified Domestic Relations Orders (QDROs) raises various procedural issues that can be expedited with templates and detailed procedures.
- Sending the proper messages about your employee ownership culture can help avoid that term from Organizational Behavior 101 -- "cognitive dissonance."

The first few topics generated some head-scratching self-evaluation, and the last topic led to some interesting perspectives. Several attendees asked questions around the following theme -- should we say employees are owners and/or shareholders if the company does not extend the attributes typically associated with such status as voting for the Board of Directors, paying stock dividends, and invitations to shareholder meetings? Moreover, what role does an active Advisory Committee play in this process? The dialogue focused on the need to accurately communicate the value of the ESOP and the rights and responsibilities of employees.

It's always most valuable to hear from the ESOP companies who face these issues daily and this meeting was no exception. As Paul Horn said, "There are always things we need to learn more about, no matter how mature our ESOP." ■

Western Region Breakfast Hits the Spot

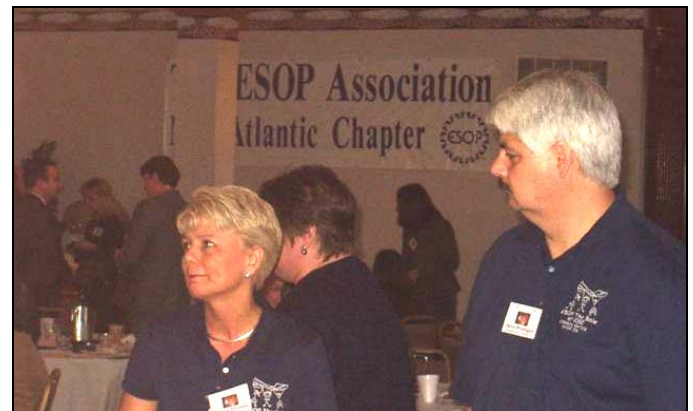
Keith Robertson

The Western Region sponsored an Eggs & ESOP meeting on Thursday, March 16th at Rowe's Family Restaurant in Staunton, VA. It was again a good turnout for the region as we had 26 people. We also had a lot of companies represented: Gala Industries (Eagle Rock), Thomas Rutherford (Roanoke), Blue Ridge ESOP Associates (Charlottesville), Corporate Capital Resources (Roanoke), IDM Trucking (Weyers Cave), Lawrence Transportation (Roanoke), Transprint, USA (Harrisonburg), and ComSonics (Harrisonburg).

Keith Robertson, MAC Membership VP, kicked off the meeting and highlighted the upcoming MAC Half-Day Conference in April as well as TEA's Annual Conference in May. He also mentioned that Bob Goodlatte is now a cosponsor of H.R.3111, joining fellow Virginians Virgil Goode and Eric Cantor. Senator George Allen is a cosponsor of the companion bill in the Senate (S.1319). He passed around the recent press release from Michael Keeling that explains the concern over the recommendation from the Presidential Tax Commission that most defined contribution plans be eliminated, which would eliminate ESOPs if not specifically excluded. Finally, he mentioned that the Virginia General Assembly is in the process of passing legislation that will allow some professional firms to sponsor ESOPs in the Commonwealth.



Jan Thomas & Andrew Lohmann of Hirschler-Fleischer in Richmond (<http://www.hf-law.com>), then led a discussion of various ESOP administrative issues. Discussed were the need to stay on top of your Summary Plan Description and some pitfalls to avoid, and to carefully document all fiduciary decisions related to the ESOP. They also highlighted some items from TEA's S-Corporation Seminar held in February. Many questions were provided and a lot of good discussion resulted. The food was excellent as always and Keith closed the meeting with an important tip: the homemade pies at Mrs. Rowe's are to die for and you should pick up one and take it home. ■



Employee-owners from Consolidated Shoe get ready for ESOP action at MAC ESOP Half-Day.

MAC in Baltimore Discusses Complex ESOP Transactions



Thomas Roback, Jr.

Twenty individuals attended the March MAC breakfast seminar in the Baltimore office of the law firm of Miles & Stockbridge on March 8th. Three ESOP company executives shared their ESOP transaction and subsequent experiences.

Jeff Taylor, CFO of Columbia MedCom Group, Peter Ney, CFO of EA Engineering, Science and Technology, and David Rubley, President of Hedwin Corporation, did an excellent job outlining the specifics of their ESOP deals while sharing valuable words of wisdom. Ron Gilbert of ESOP Services, who “quarterbacked” all these transactions, moderated the session.

David Rubley started by outlining his experience with the creation of **Hedwin's** 100% ESOP-owned S Corporation. Hedwin was named the Association for Corporate Growth – Baltimore Chapter – Deal of the Year, Manufacturing for 2005. The company was divested from Solvay America for sale to outsiders. When potential buyers announced that they would terminate the company's defined benefit plan, senior management at Hedwin looked at an ESOP buyout alternative.

The transaction involved senior debt, mezzanine financing, management investment and a \$2.5 million dollar loan guarantee by the Maryland Industrial Development Financing Authority (MIDFA). Ron Gilbert pointed out that Maryland has a unique program not found in any other state. Bob Ehrlich, the Maryland Governor, and other politicians made special appearances at the deal closing since it saved many Maryland jobs. The employees have kept the defined benefit plan, in addition to the ESOP. Dave is a humble down-to-earth, “straight shooter” who took a great deal of personal risk as did the rest of Hedwin senior management to see that the ESOP transaction happened.

The **Columbia MedCom Group** (CMG) June 2005 transaction also received a lot of press in Maryland. The purchase achieved the goal of the founders and executive management to maintain CMG as an independent firm amid a growing wave of agency acquisitions by large, publicly-held marketing-services companies. It also makes CMG the only employee-owned medical communications firm in the U.S. The ESOP acquired a majority interest by purchasing the stock of the outside, non-employee shareholders.

The financing required senior debt and mezzanine financing, and the management team of CMG also invested in the transaction taking on a good deal of personal risk. Despite CMG's lack of collateral, Maryland again helped make the ESOP possible via another MIDFA loan guarantee, which backed part of the bank loan. All of these funding sources were necessary in this situation. In most ESOPs, you do not have employee investment of any kind. CEO, Susan Torroella, one of 15 outstanding business leaders named a “2004 Best Boss” by FORTUNE Small Business Magazine

(FSB) and Winning Workplaces, is very focused on the motivational aspects of the ESOP. Jeff and Susan discovered the ESOP structure in 2004 and it turned out to be the perfect fit for CMG. One thing CMG did to reward employees for their contributions to the firm's success was to give vesting credit for prior years of service with CMG before ESOP established. Therefore, employees who had been with CMG for six years or more were immediately 100% vested.

EA Engineering, Science and Technology (EA) was arguably the most complex ESOP transaction in Maryland last year. EA, formerly a publicly traded company, even filed full disclosure with the SEC to use employee directed funds from a 401(k) plan for the transaction. In the post-Enron era, however, few employees exercised this privilege and the funding generated was minimal, providing a disappointing but nonetheless important lesson learned for the audience.

Despite this setback, the ESOP was able to proceed and purchased a substantial interest from the founding shareholder. Management investment was also involved. EA has a significant outside shareholder who did not sell to the ESOP and provided an integral vote to the viability of the ESOP transaction. Peter quarterbacked the transaction internally and is a very financially savvy CFO. ESOPs are popular in engineering firms and EA's workforce should enjoy the benefits of the ESOP for a long time.

It is always valuable to hear from ESOP companies shortly after their transactions while the experience is still fresh. We appreciated the knowledge shared, and hope to recreate this type of panel again soon.■

Eastern Region Holds Eggs & ESOPs Session

Rick Mapp

The Eastern Region of the Mid-Atlantic Chapter of the ESOP Association had its Eggs & ESOPs breakfast meeting at the Holiday Inn Executive Center in Virginia Beach, VA, at 8:00 a.m. on March 2, 2006.

Rick Mapp presided over the meeting, and there were approximately 20 people in attendance, including representatives from four local ESOP companies and practitioners from McPhillips, Roberts & Deans, Wall, Einhorn & Chernitzer, Blue Ridge ESOP Associates, and The Principal Financial Group.

Matthew Keene, Senior Consultant with The Principal Financial Group, presented an informative workshop session on ESOP repurchase liability, and Shad Fagerland, of the Williamsburg office of Kaufman & Canoles, reported on the proposed revisions to the DCAA cost accounting standards (CAS 415) for ESOP costs as allowable expenses for government contractors.

Rick Mapp reported on the status of the ESOP Promotion and Improvement Act currently pending in Congress (House Bill 3111 and Senate Bill 1319), as well as legislation pending in the Virginia General Assembly which would allow certain professional corporations to sponsor ESOPs.

The audience engaged in a lively question-and-answer interchange and dialogue with the speakers, and a good time was had by all. All were invited to attend the MAC Chapter half-day technical conference in Charlottesville on April 7, 2006.■

On the administrative side, Brandi almost does the ESOP single handedly (except for the annual appraisal), and is still responsible for hiring, benefits, and other HR areas. She deals with day-to-day ESOP matters and answers employee questions. She designs, distributes and educates employees on annual participant statements. About 30% of the workforce is Hispanic speaking, so materials also are translated in-house and distributed in Spanish. Brandi also is responsible for overseeing that new employees receive orientation on the ESOP. In effect, she serves as a one-person ESOP Advisory Committee.

In addition to her in-house activities, she has been an active representative of Flippo at MAC and TEA events. She spoke at both the 2005 MAC October conference and the TEA Washington meeting. She also attended the Feb. 2005 S Corp. ESOP meeting and the Sept. 2005 ESOP Repurchase Liability Seminar.

Brandi is a champion outside the office as well, participating actively in community and athletic events. She appeared on ESPN as a featured athlete on the "50 STATES IN 50 DAYS" program for her skiing at Snowshoe, WV. She was the 1st female cyclist to cross the finish line in the 2003 Marine Corps Marathon, completing the course in a little over 2 hours. She also likes to whitewater raft and skydive. In her spare time, she raises funds for the Canine Partners for Life (service dogs for disabled persons).

Congratulations Brandi! ■



REMINDER

MARK your calendars for the

MAC 13th Annual October Conference

DATE: Tuesday, October 26, 2006

**WHERE: Doubletree Hotel
Charlottesville, VA**



Keith shows how to communicate.

Message from the President

Build it and they will come.

You may recall that phrase from the 1989 movie Field of Dreams where the protagonist hears voices that inspire him to build a baseball field where corn rows once stood. Overcoming doubters, he builds the ball field, the players magically appear, and the fans come to watch.

While this was only a movie, the dream of building a workplace where employees will come to participate and play is a reality at many ESOP companies. Just like the movie, there are doubters who do not believe such workplaces exist. A workplace of "we" rather than a workplace of "us and them" is not part of their language.

The ESOP community knows these workplaces exist right in our own backyard, not over the rainbow or in an Iowa cornfield. Many companies realize that the best way to make ESOP accounts grow is by creating organizations that encourage employee empowerment. Employees from such companies share similar traits, regardless of industry or type of work. They are engaged, motivated, willing to take risks and eager to share information. Go to an ESOP Association or ESOP Chapter event and you will see these people in action.

So how are these workplaces of "we" created? Perhaps some hear voices like in the movie. For others who would like the recipe, here are some of the major ingredients.

Trust them with information. Call it open book management or whatever you want. Employees need to know what the score is, ways they can help tally more points, and how much time is left on the game clock.

Give them the tools and training to get the job done. Why do you think sports teams have so many coaches? Hint: not just to mark down those late for practice. Their job is to coach, mentor, instruct and train. As for tools, the right bat, golf club, and tennis racket are important implements for Derek Jeter, Tiger Woods, and Roger Federer. It's the same for someone sitting behind a computer or working the assembly line. Provide the right tools and training and the employee is more likely to hit a proverbial home run by solving that day's vexing problem or satisfying a customer.

Share praise and the fruits of their labor. Derek, Tiger, and Roger hear crowd applause and are richly rewarded when they succeed. When was the last time you received applause at work and then were handed a big check with a trophy? Give employees opportunities to take a bow and receive contemporaneous rewards for jobs well done.

Good luck in following your voices or recipe in creating your own Company of Dreams where employees will come, stay and prosper.

Paul Horn

Dr. ESOP



Dear Dr. ESOP:

I can look up my 401(k) account and see its value is updated daily. How come my ESOP account is updated but once a year and this update does not usually occur until about June?

Sincerely,

Waiting in Williamsburg

Dear Waiting in Williamsburg:

Good things come to those that wait; eventually that traffic light will turn green.

Most ESOP accounts are valued as of the company's applicable tax year-end (typically December 31). In contrast, 401(k) plans consisting of mutual funds are valued daily. For those older members of the workforce, you may remember back when 401(k) plans did not have daily valuation.

In any event, valuation but once a year may be a good thing. Unlike public companies, the value of private company stock is not subject to the daily vagaries and vicissitudes of the turbulent market. Instead, the valuation process is a rigorous examination of the company's overall performance and prospects taking into account various metrics from the public markets.

So why the many months to generate the new stock price? Let's look at all the steps involved.

- The company provides a year-end census to the ESOP recordkeeper to determine eligibility for ESOP allocations.
- The company closes its books for the year.
- The outside auditing firm comes in to review the books and issue its report.
- The appraiser reviews all this financial information and talks with company management. The appraiser recommends a stock value range.
- The ESOP trustee reviews the recommendation and approves the stock value. The appraiser issues a final report.
- The stock value is communicated to the ESOP recordkeeper so new ESOP statements can be generated. See the happy faces of participants as the new stock value is announced.

Of course, the fun is just beginning as the ESOP distribution process now begins. Look around and June is busting out all over. Hope this was worth your wait.

Sincerely,

Dr. ESOP

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Welcome New MAC Members 2006*

CORPORATE MEMBERS

Certified Roofing Systems & Contracting Corp., Bladensburg, MD
Dominion Paving & Sealing, Inc., Moseley, VA
EBA Engineering Inc., Baltimore, MD
Kloker Group, Richmond, VA
McCrone, Inc., Annapolis, MD
Miklos Systems, Inc., Fairfax, VA
R & K Engineering, Inc., Roanoke, VA
Tabard Corporation, Washington, D.C.

PROFESSIONAL MEMBERS

Michelle Ahn, Morgan Stanley, Washington, DC
Joel Codiamat, Blue Ridge ESOP Associates, Inc., Charlottesville, VA
Karen Hurley, Blue Ridge ESOP Associates, Inc., Charlottesville, VA
Andrew Lochman, Hirschler Fleischer, Richmond, VA
Brenda May, Brockman Drinkard & Pennington Benefit Solutions, Lynchburg, VA
Michael N. Mulkey, Mulkey & Company, P.C., Virginia Beach, VA
Megan Mouberry, Blue Ridge ESOP Associates, Inc., Charlottesville, VA

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

TO:

Sandra Tilley
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*We want to keep in touch...please make
sure that MAC has your current e-mail address.
Simply send an e-mail to stilley@ntelos.net today!*