MENKE & ASSOCIATES, INC.
ESOP ADVISORS AND INVESTMENT BANKERS

The ABCs of ESOPs Web Seminar

March 17th, 2017

Should you have any questions prior to the event, please contact Jeanie Kluga at 800-347-8357

www.menke.com

Meeting Logistics

- **Audio**
  - Broadcast mode
  - Operator will coordinate questions and answer on the phone following each section
- **Web Conference**
  - Main window to view slides
  - To ask a question, type in your query in Chat

Background of Menke

Oldest ESOP advisor
– Menke was founded in 1974. 2017 marks our 43rd anniversary!

Most ESOPs created
– over 3,000 ESOPs created

Largest number of Administration clients
– over 900 ESOPs

Largest ESOP advisor
– Over 50 expert advisors, lawyers, accountants and plan administrators

Largest regional presence
– 8 offices throughout the United States

Today’s Presenter

Kyle Coltman
CEO

Today's Agenda

- Why ESOPs
- Liquidity & Diversification for Seller
- Employee Productivity
- Increase Company Cash Flow
- Business Succession
- ESOPs vs. Other Alternatives
- ESOP Disadvantages
- Menke Services
- Q&A

Why ESOPs are Popular

1. Pay no tax on sale of your stock (C corp.)
2. Pay little or no income taxes (C corp. or S corp.)
3. Control your company just as you do now
4. Deduct not just loan interest, but also principal
5. Employees become more productive

E S O P

Beauty is in the Eye of the Beholder…

- To Business Owners the ESOP is..…*a buyer of stock and/or a means of succession planning.*
- To Companies the ESOP is..…*an alternative to a merger and a means to increase productivity & a qualified retirement plan.*
- To Employees the ESOP is..…*a company – funded retirement plan and an incentive to affect their own personal wealth.*

You are not alone

- Over 21,000 U.S. corporations have adopted ESOPs since 1974.
- Today, U.S. ESOPs have over 13.7 million participants with over $900 billion in assets, an average of $71,000 per participant!

Beneficial vs. Direct Ownership

- The ESOP Trust is the DIRECT owner of company stock, NOT the employees.
- Employees are BENEFICIAL owners, and thus, do not have the same rights as direct owners of stock.
- Required Information Disclosure is limited to employee account balance.

Is My Company:

- Big Enough for an ESOP ?
- In the Right Industry ?
- Ready for an ESOP ?

Uses of ESOPs

- Liquidity & Diversification for Seller
- Employee Productivity
- Increase Company Cash Flow
- Business Succession

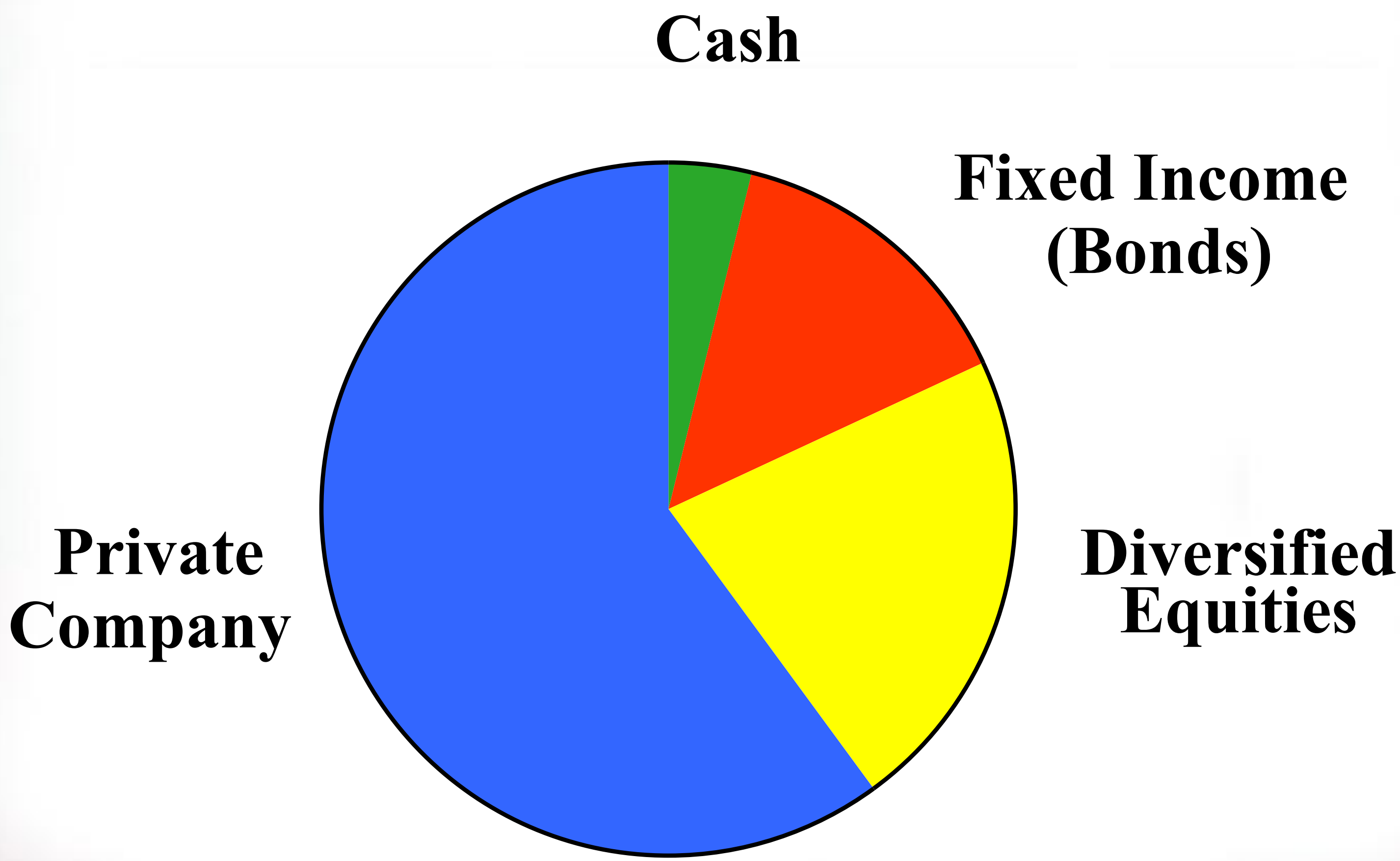
Questions to Consider

- Is there an exit strategy for the business?
- Do any shareholders want liquidity?
- Do current shareholders want to retain control while achieving liquidity?
- Is selling to an insider or an outsider attractive or viable?

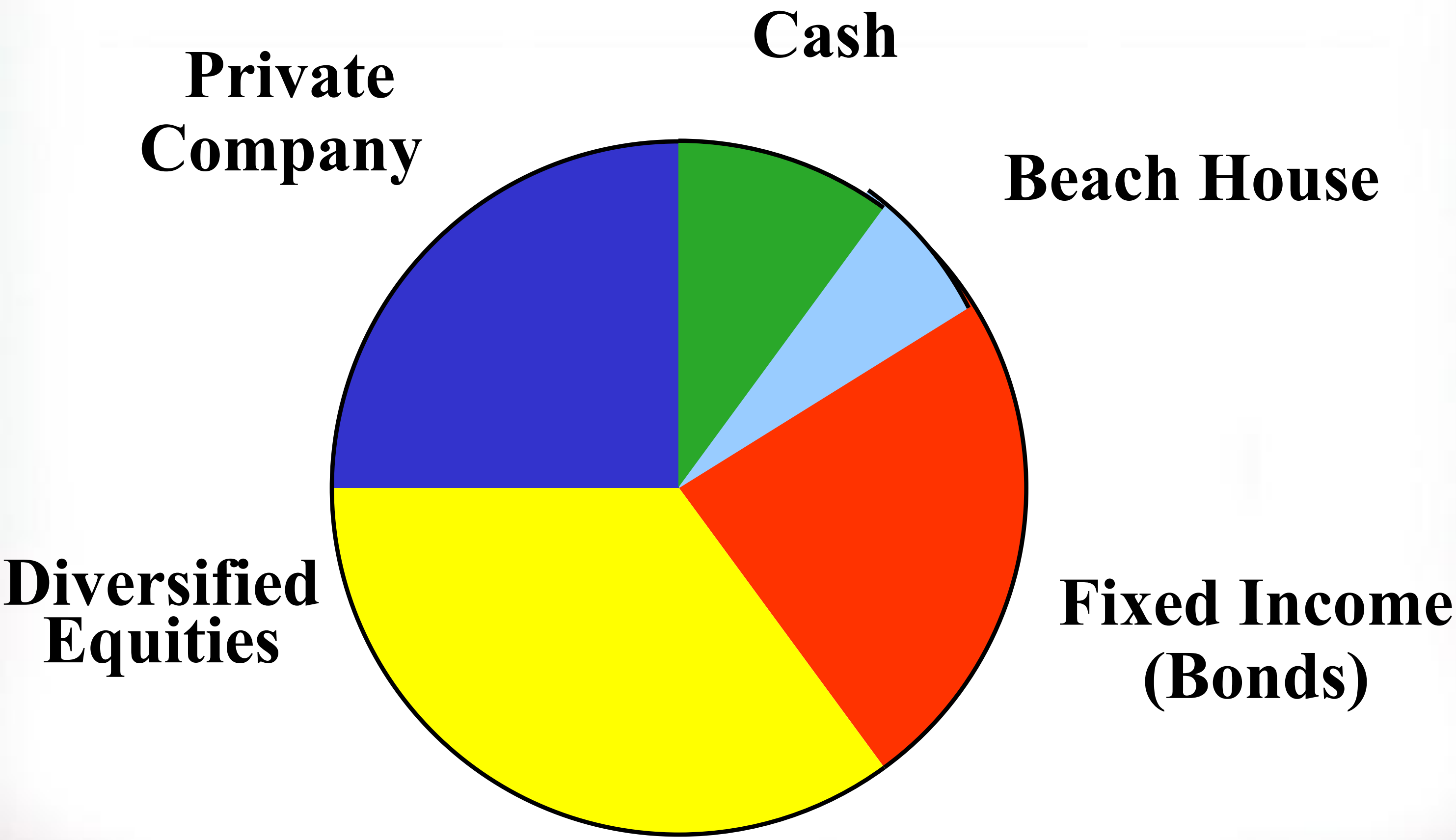
Liquidity & Diversification

- ESOP creates a market to sell shares
- Owners can sell all or part of their shares
- Can spread sale of shares over years
- No change of control
- No third party participation
- Low transaction cost

Your Current Asset Allocation



Allocation after ESOP Diversification



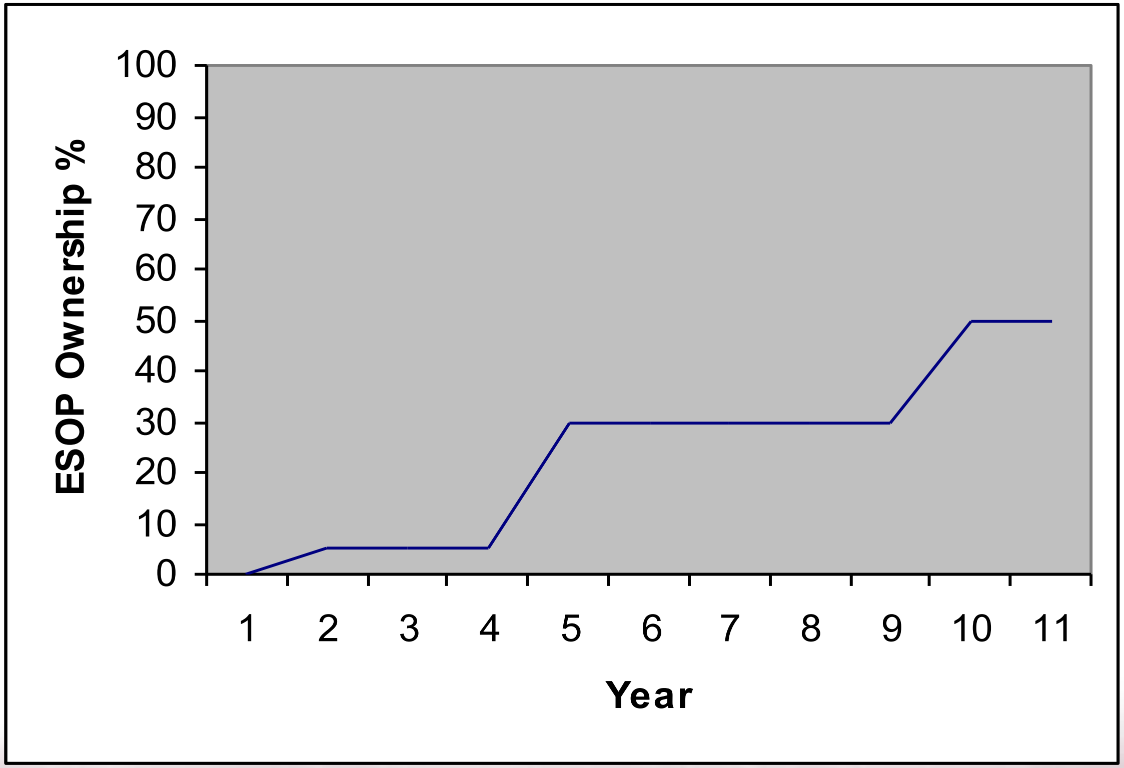
The Company Incorporated (TCI)

Sales	$ 20,000,000
Annual Payroll	$ 4,000,000
Pre–tax Profit	$ 2,000,000
Net Worth (Book Value)	$ 2,500,000
Fair Market Value	$ 10,000,000

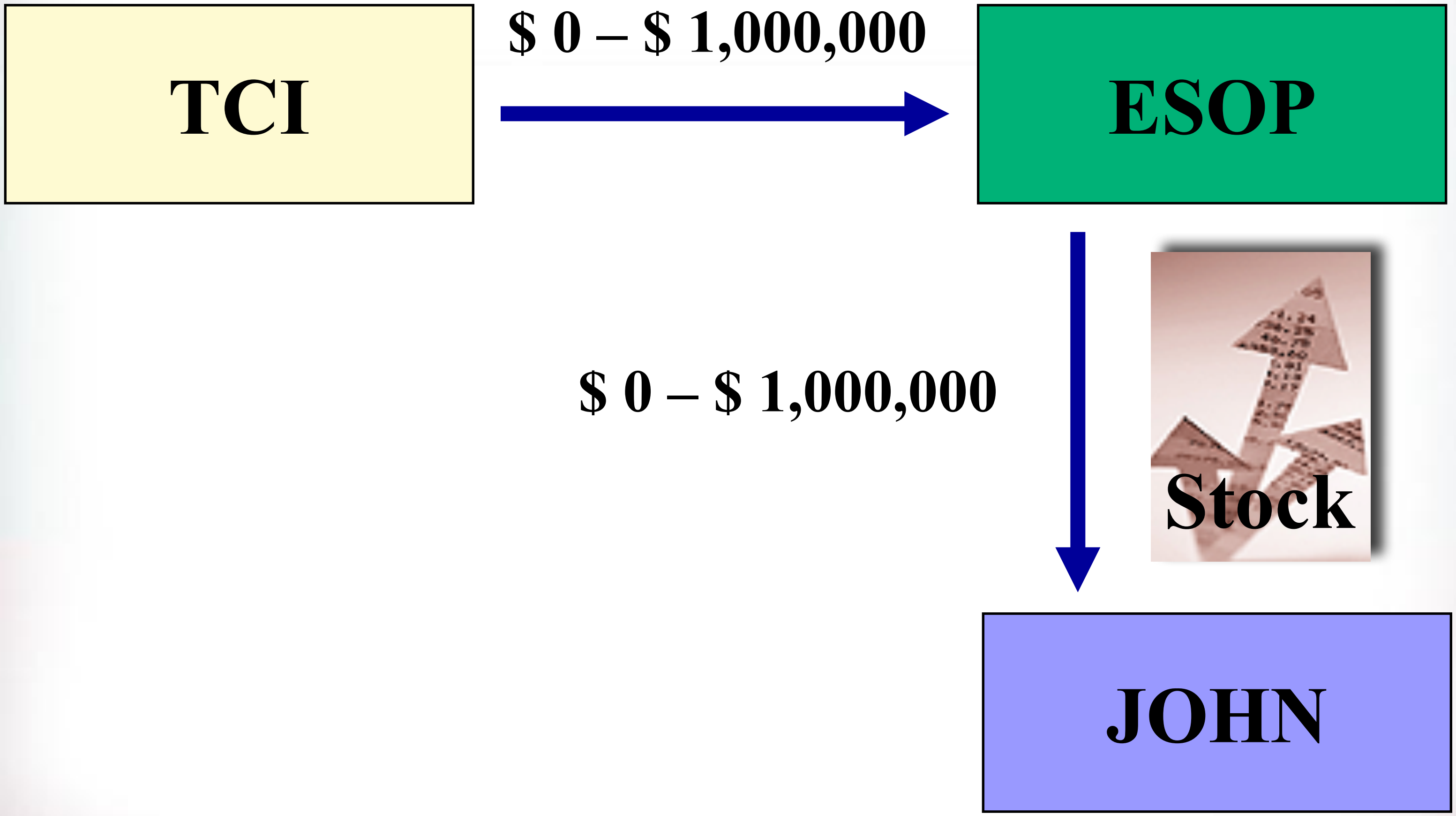
Owners:	John	75%
	Pat	25%

Case I – Gradual ESOP

John wants to cash out on a gradual basis (e.g. start with 10% sale)

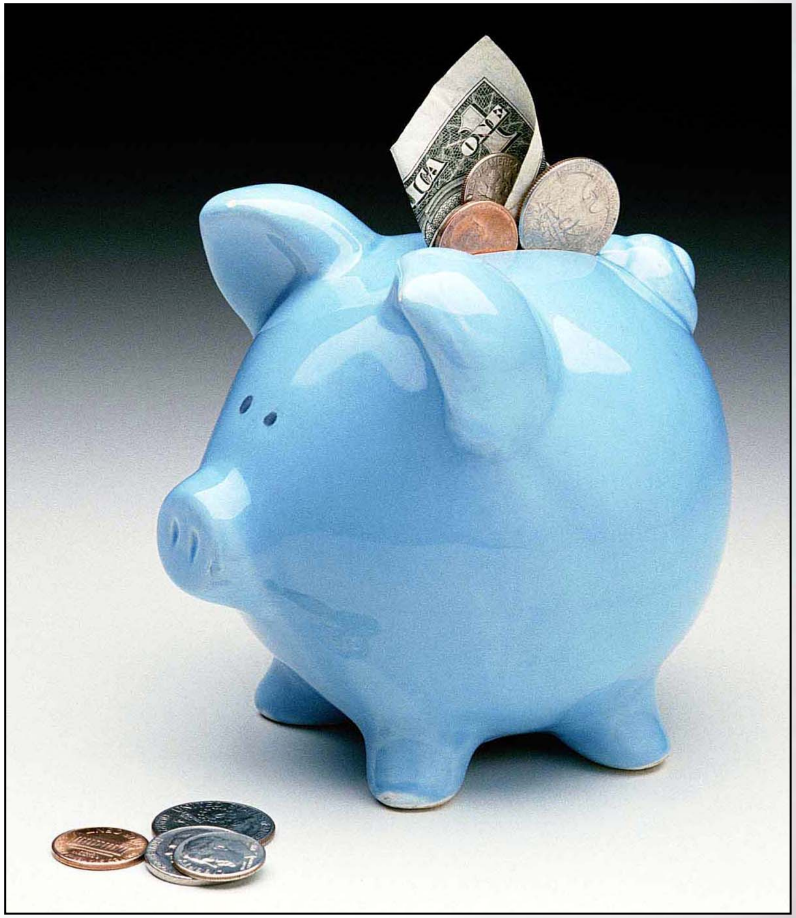


Case I – Gradual ESOP



Case II – The Prefunded ESOP

Shareholder(s) do not want to sell any stock this year.



Case II – The Prefunded ESOP

Year 1

TCI $\xrightarrow{\$\ 750{,}000}$ ESOP

Year 2

TCI $\xrightarrow{\$\ 750{,}000}$ ESOP

Results:

- ESOP accumulates $1,500,000 (+) for future purchase of stock.

Case III – Leveraged C Corp ESOP

- John wants to cash out more quickly
- At capital gains rates or tax deferred

Bank Lends to Company, then Company Lends to ESOP

$ 3,000,000

TCI

ESOP

$ 3,000,000

ESOP Purchases Stock

ESOP

$ 3,000,000

30% of TCI Stock

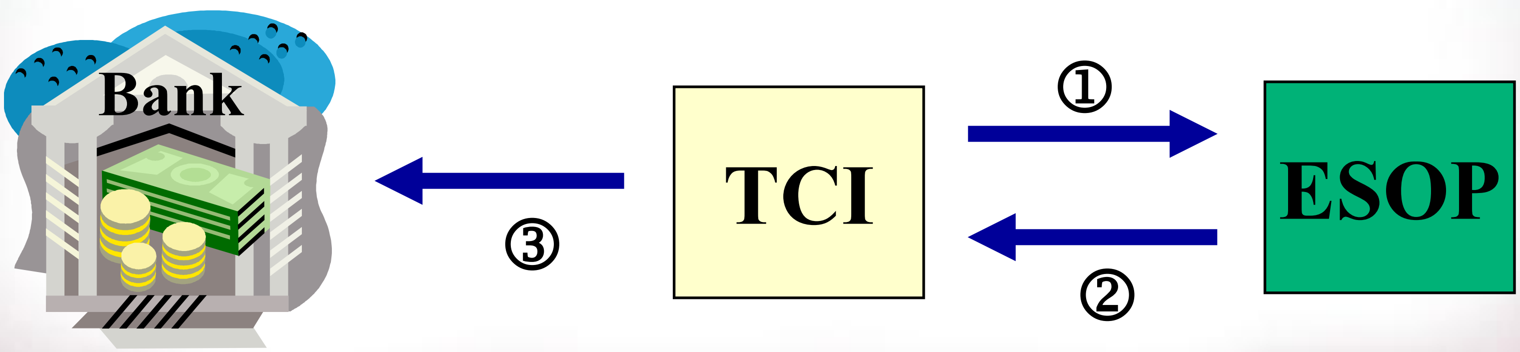
JOHN

TCI Repays the Bank with Deductible Dollars (Principal + Interest)

① TCI makes a deductible cash contribution to the ESOP.
- Up to $1,000,000 plus interest.

② The ESOP uses that contribution to repay interest and principal on the company loan.

③ TCI repays the bank loan.



More Cash To Reinvest (C corp. only)

	Tax–Free ESOP	Taxable Sale at 33% Tax Rate
Gross Purchase Price	$ 3,000,000	$ 3,000,000
Less Tax	–0–	($ 1,00,000)
Net to Seller	$ 3,000,000	$ 2,000,000

Seller's Extra Cash **$ 1,000,000 = 50% More Capital**

Case IV – Combining ESOP Prefunding and later 30% Tax-Free Rollover Sale

Assumes the Seller's 30% Sale to the ESOP occurs in the Third Year rather than the First Year.

Year	Company's Fair Market Value	30% of FMV Tax–deferred sales proceeds To seller	Prefunding ––– annual	Prefunding ––– cumulative	Required bank loan	Annual Debt Service
1	$ 1,000,000	$ 3,000,000	$ 750,000	$ 750,000	$ 3,000,000	$ 610,000
2	N/A	N/A	$750,000	$1,500,000	N/A	N/A
3	$ 11,000,000	$ 3,300,000	N/A	$ 1,500,000	$ 1,800,000	$ 366,000

Results:

1. Seller receives additional $ 300,000 in tax–deferred rollover funds.
2. Seller can participate in Prefunded assets in years prior to year of tax–deferred sale.
3. The required loan is reduced by 40% ($ 1,800,000 rather than $ 3,000,000) and the Company's first-year principal + interest debt service is reduced by $ 244,000 pretax.

Case V – Combining Year-by-Year Sale and later 30% Tax-Free Rollover Sale

Capital-gains sales followed by a tax-free rollover sale

Year	% Sale -- Annual	% Sale -- Cumulative	Taxable or Tax Deferred	S or C
1	3 %	3 %	Capital-gains	S or C
2	4 %	7 %	Capital-gains	S or C
3	5 %	12 %	Capital-gains	S or C
4	18 %	30 %	Tax Deferred	C

Case VI – The Two–Stage ESOP Buyout

Year	Market Value	Sale Proceeds	Debt Service	Loan Balance*
1	$10,000	$5,000 (50%)	$1,250	$4,000
2	10,500		1,200	3,000
3	11,000		1,150	2,000
4	11,600	$5,800 (50%)	1,700	6,800
5	12,200		1,632	5,440
6	12,800		1,564	4,080
7	13,400		1,496	2,720
8	14,100		1,428	1,360
9	14,800		1,428	0
10	15,500		0	0

*End of year

($ thousands)

Tax–Deferred Rollover
(Section 1042 Transaction)

- ESOP must acquire 30% or more of the stock of a privately–held C corp. (not an S corp.)
- Seller must reinvest the proceeds within 12 months
- Funds must be reinvested in "Qualified Replacement Property"
- Tax deferral continues as long as seller holds QRP

Qualified Replacement Property "QRP"

- Stocks or Bonds or Notes
- U.S. Corporations, Public or Private
- Can be a Brother/Sister, but not a Subsidiary of the ESOP Company

Unlocking the QRP Lockup

$ 3,000,000
From Sale
of Stock
To ESOP

$ 3,000,000
ESOP
Bond

$ 2,400,000
Margin
Loan
Proceeds

Net
Unrestricted
Proceeds
To Seller

Case VII – Cash Out the Minority Shareholder

Pat, who owns 25%, wants to retire & cash out

Case VIII – Pro Rata Sale

John & Pat
want to cash out pro rata

The S CORPORATION ESOP

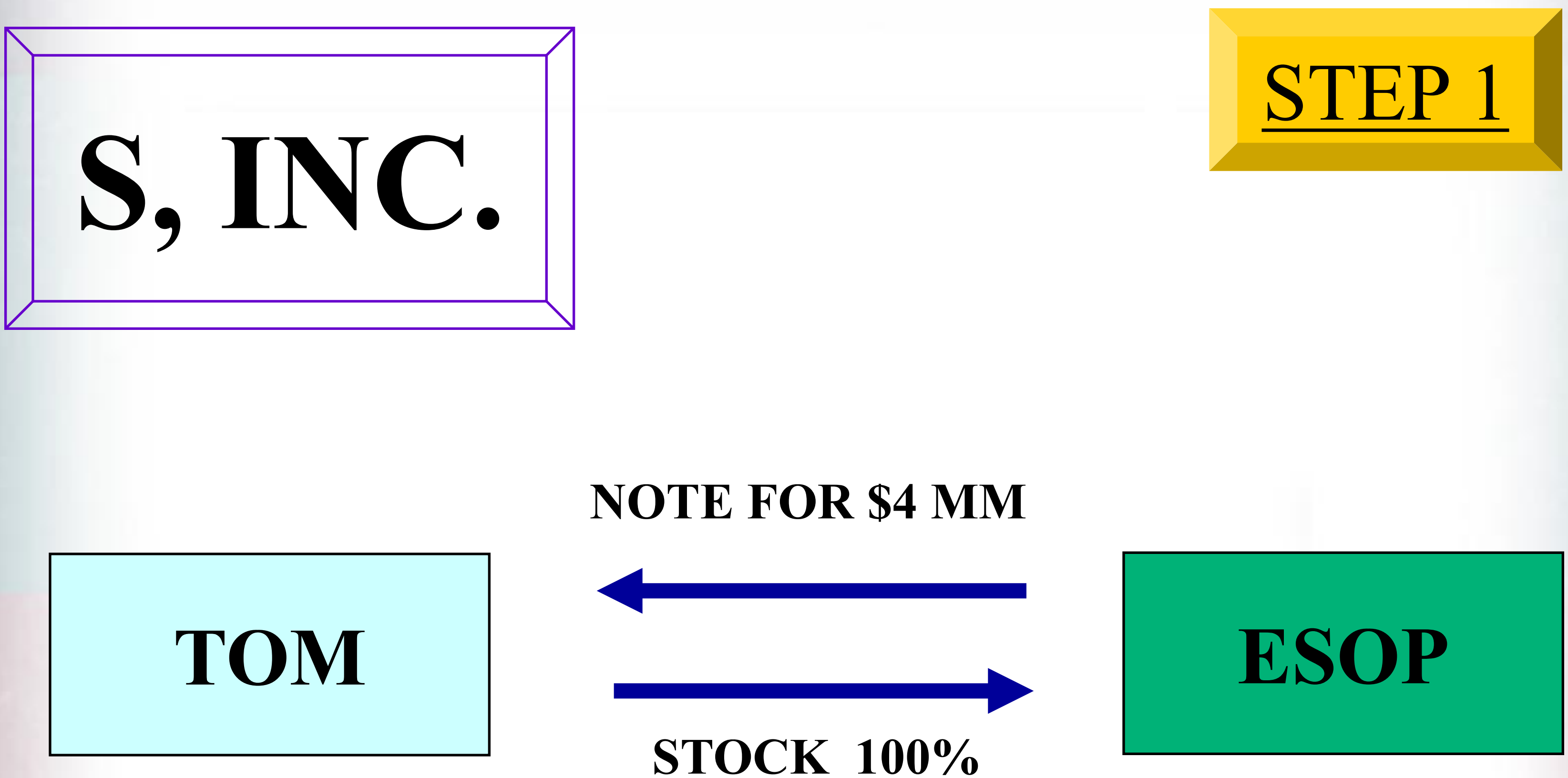
Benefits of S Corp. ESOPs

- ESOP’s share of S corp. earnings is exempt from unrelated business income tax (UBIT).
- Taxation is delayed until distributions are made to ESOP beneficiaries.
- **Thus, a 100% ESOP-owned S corp. would NEVER pay income taxes.**
- However, an S corp. ESOP must meet “broadly based” test.
- Selling Shareholders participate in ESOP allocation

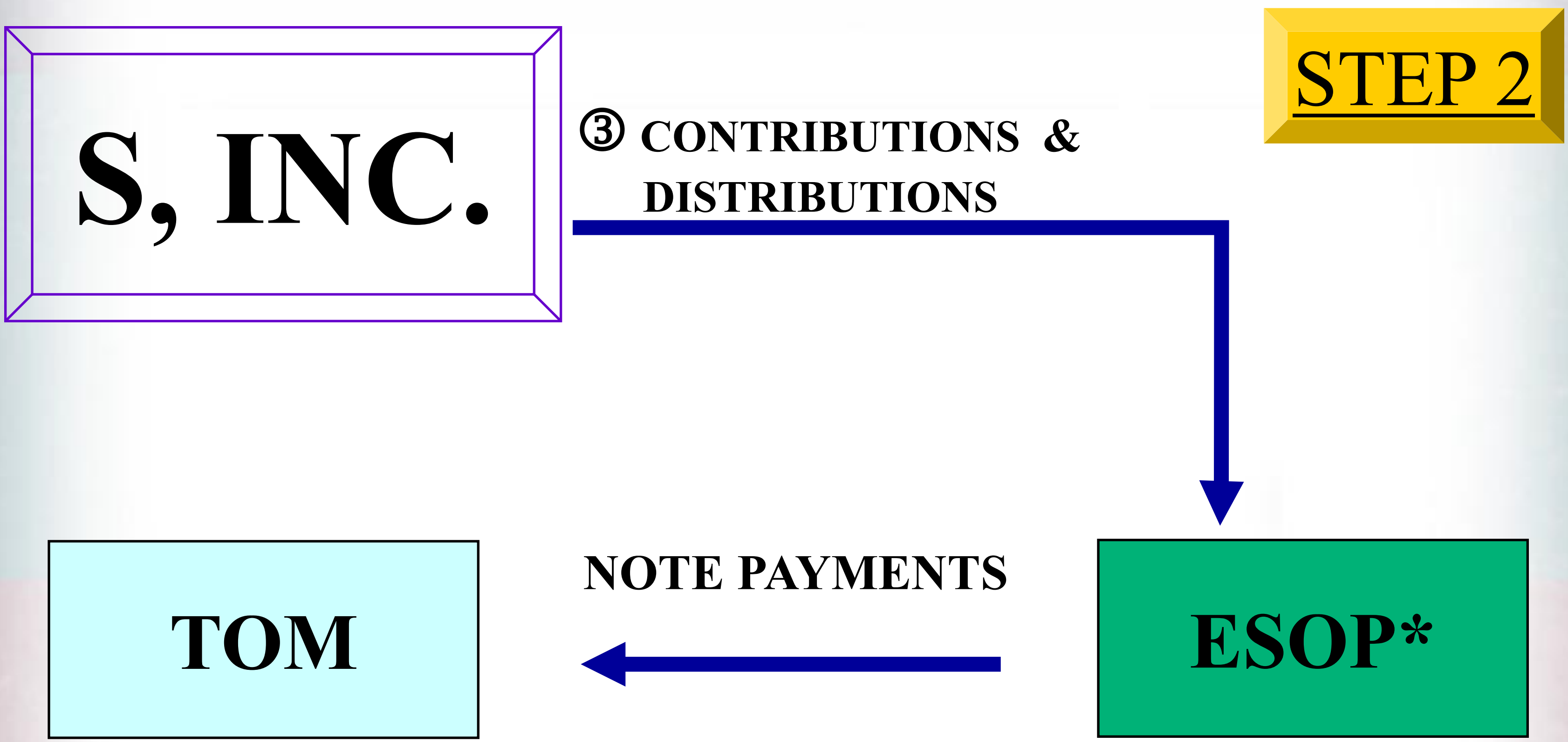
S Corp. ESOPs

- Tom, age 50, owns 100% of company, "S, Inc.", an S corp.
- Tom's compensation is $200,000/year
- S, Inc. employs 20 other employees with total compensation of $800,000/year
- S, Inc.'s annual pretax earnings are $800,000
- The fair market value of S, Inc. is $4MM

Case IX – Leveraged S Corp. ESOP (Seller Financed)



Leveraged S Corp. ESOP
(Seller Financed)



* Stock is allocated to participants as a note payments are made

Leveraged S Corp. ESOP (Seller Financed)

Seller Note Option

- Conventional Seller Note
  - 10 to 15 year term with prepayment provisions
  - 6% to 8% interest rate
- Fully Priced Seller Note
  - 10 to 15 year term with prepayment provisions
  - IRR of 12%, based on comparable mezzanine loan rates
  - 6% to 8% current-pay interest
  - Warrants for 10% - 20% ownership to make up the difference

Leveraged S Corp. ESOP

END RESULTS:

1. S, Inc. shareholders pay no more income tax!
2. Tom receives $ 4MM and, on the gain, pays only capital gains tax (not ordinary income tax)
3. Tom is allocated 20% of ESOP stock (which he will be able to cash out when he leaves Company)
4. Since Company avoids making distributions to fund S corp. shareholders' income tax (now nonexistent), additional Company funds are available to repay debt and increase Company value

Uses of ESOPs

- Liquidity & Diversification for Seller
- Employee Productivity
- Increase Company Cash Flow
- Business Succession

Human Nature

People Work Best When
They Work For Themselves

Nobody Washes a Rental Car

Do ESOPs Really Increase Employee Productivity?

- Yes!
- Numerous studies conducted over the last 17 years have <u>all</u> concluded that ESOPs increase company performance.
- The results are consistent and statistically significant.

Do ESOPs Really Increase Employee Productivity?

- **1987** – National Center for Employee Ownership:
  - ESOP companies with active employee participation programs had higher sales growth: 8-11%.
- **1987** – U.S. General Accounting Office:
  - ESOP companies with high levels of employee participation increased productivity growth rates by 52% per year.
- **1998** – Reish & Luftman:
  - 600 respondents – 93% had reduced absenteeism, 88% had reduced turnover, and 79% had increased morale.
- **2004** – National Center for Employee Ownership:
  - ESOP company workers' compensation incidents were up to 9% lower than non-ESOP companies.

Do ESOPs Really Increase Employee Productivity?

- **1992** - Washington State, New York State:
  - Study found that ESOPs are more effective than profit sharing at increasing results.

- **2001** – Wharton:
  - Larger than usual stock grants to executives (CEO, VPs, directors) did not significantly affect stock price.
  - Grants to managers, technical and non-technical employees, produced significant stock price increases, 5.1% on average.

Do ESOPs Really Increase Employee Productivity?

- **1998** – Washington State:
  - Average retirement benefits for ESOP employees were 2.5x higher than employees of comparable non-ESOP employees.
- **1998 & 2000** – Rutgers University:
  - ESOP companies had higher survival rate (fewer bankruptcies).
- **2004** – Department of Labor
  - The annual rate of return for ESOPs with more than 100 participants during the ten year period from 1990-1999 was approximately 10% higher than for 401(k) plans with more than 100 participants (13.3% vs. 12.0%).

Increase Revenues 2%

	Before ESOP	After ESOP	% Change
Sales	$10,000,000	$10,200,000	2%
Expenses	$9,600,000	$9,600,000	0%
Profits	$400,000	$600,000	50%

Decrease Expenses 2%

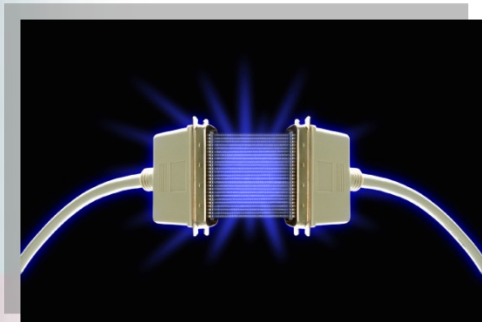
	Before ESOP	After ESOP	% Change
Sales	$10,000,000	$10,000,000	0%
Expenses	$9,600,000	$9,400,000	2%
Profits	$400,000	$600,000	50%

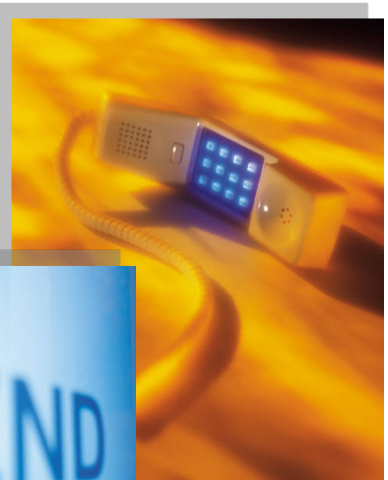
Increase Revenues 2% and Decrease Expenses 2%

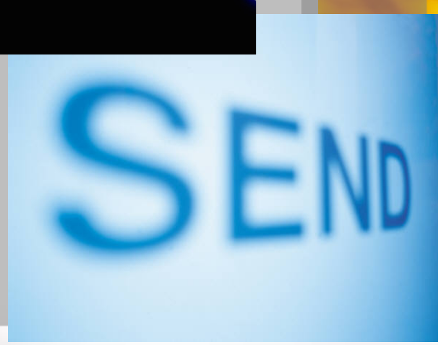
	Before ESOP	After ESOP	% Change
Sales	$10,000,000	$10,200,000	2%
Expenses	$9,600,000	$9,400,000	2%
Profits	$400,000	$800,000	100%

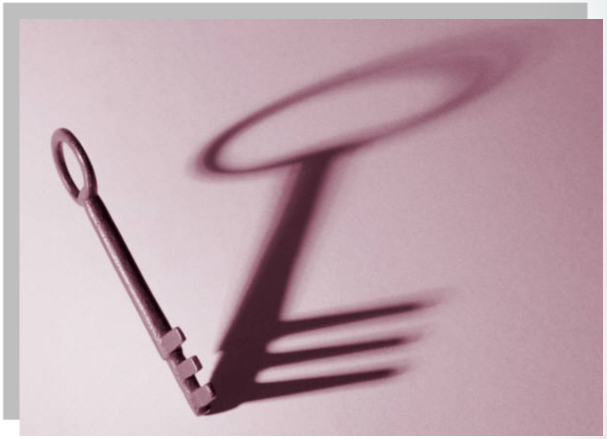
Employee Productivity

Communication is the Key









Uses of ESOPs

- Liquidity & Diversification for Seller
- Employee Productivity
- Increase Company Cash Flow
- Business Succession

The “Cash Flow ESOP”

- Issue **new shares** to ESOP.
- Take tax deduction for full market value of shares.
- Company conserves cash by:
  - Paying less taxes.
  - Replacing cash compensation program, like 401k match or profit sharing, with non-cash ESOP.

Increased Cash Flow

	Profit Sharing	ESOP
Earnings Before Taxes	$ 2,000,000	$ 2,000,000
Plan Contribution	($ 1,000,000)	($ 1,000,000)
Adjusted Pre–Tax Earnings	$ 1,000,000	$ 1,000,000
Federal & State Taxes (40%)	($ 400,000)	($ 400,000)
After–Tax Income	$ 600,000	$ 600,000
Plus Non–Cash Contribution	0	$ 1,000,000
Cash Flow	$ 600,000	$ 1,600,000

Increased Company Cash Flow $ 1,000,000

Uses of ESOPs

- Liquidity & Diversification for Seller
- Employee Productivity
- Increase Company Cash Flow
- Business Succession

ESOP IS INHERENTLY THE LEAST STRESSFUL MEANS OF TRANSFERRING OWNERSHIP

- Draws on pre–tax cash flow
- Done in stages – less leverage, less interest expense
- No change of management control

Getting Additional Equity To Key Employees

- Stock Sale To:
  - ESOP
  - Key Employees

- Stock Gift To:
  - Family
  - Key Employees (MSBP)

E S O P
vs.
OTHER ALTERNATIVES

Liquidity Options for Private Companies

- Sale
- Merger
- Going Public
- Redemption
- Management Buyout
- ESOP (for 1% to 100% of the Company)
- Combination of Alternatives

E S O P vs. S A L E

ESOP	SALE
You Control Timing	Must Find a Buyer
Retain Flexibility	All or Nothing
Usually Gradual	Cash on the Barrelhead?
Share Future Growth	Get Best Price You Can
Remain on the Job	Walk Away ?
Keep Jobs for Valued Employees	?

ESOP vs. MERGER

Tax–Free ESOP Rollover	Tax–Free Merger
You're the Boss	You May Become An Employee
You Choose Diversified Securities for Your Replacement Portfolio	You Take the Stock of the Acquiring Company
Company Continues As Independent Business	Company Often Disappears
Requires Sale of 30% or More	Usually Requires Sale of 80% or More

ESOP vs. Going Public

ESOP	Going Public
For Shareholder Liquidity	For Expanding Capital
Mature, Profitable Co.	Fast Growing, Sexy Co.
Profitable, Tax Paying	Minimum Capitalization: $50 Million
Start Up Costs Low	Start Up Costs High
Some Management Time	Considerable Management Time

ESOP vs. Redemption

Redemption More Costly

	Amount	After-Tax Cost
ESOP Contribution	$1,000,000	$ 600,000
Redemption	$1,000,000	$1,000,000

ESOP vs. Conventional Approach

Conventional Approach Significantly More Costly

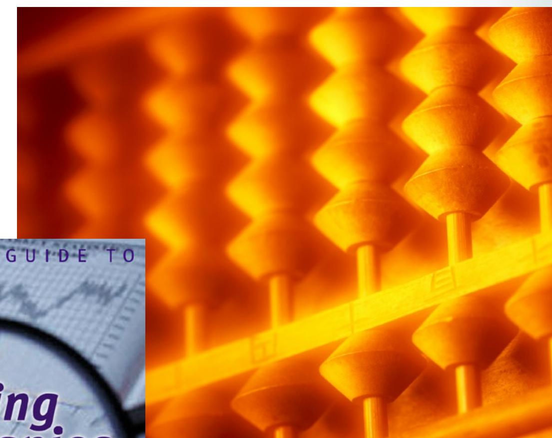
Conventional Approach	Amount	After–Tax Cost
Profit Sharing Contribution	$300,000	$ 180,000
Redemption	$1,000,000	$1,000,000
Total	$1,300,000	$1,180,000

ESOP Approach		
ESOP Contribution	$1,000,000	$ 600,000

ESOP vs. Management Buyout

ESOP	Management Buyout
May Be Done in Stages, Which Requires Fewer Bankable Assets	Requires More Collateral
Almost All Companies	"Hard Asset" Companies
Principal Deductible	Principal Not Deductible
All Employees Own Some	Some Employees Own All

Valuing Private Companies



ESOP Can Not Pay More Than FMV

Revenue Ruling 59-60

"Fair Market Value (FMV) is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."

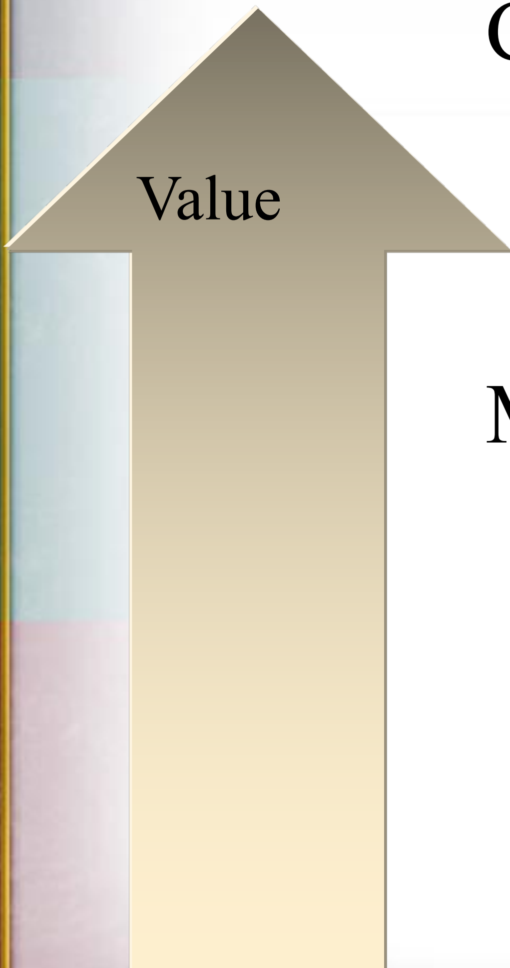
ESOP Valuation Procedures

- Independent appraiser required (unless publicly traded).
- Why? Required by DOL and IRS.
- Responsibility of ESOP trustee.
- Frequency:
  - As of transaction date.
  - At least annually.

What Defines "Independent?"

- "Independent Appraisal" is required by statute
  - Appraiser may not be a party to the transaction.
  - Appraiser's primary business is valuing privately owned companies.
  - Usually can not be your outside accounting firm.
  - Appraiser can not be currently or in the future valuing the business for other purposes (e.g., estate planning)

Tiers of Value



CONTROL VALUE

- Control Block – Strategic Buyer
- Control Block - Financial Buyer

MINORITY VALUE

- Public Market
- Private Market With an ESOP
- Private Market/Estate Planning
- Orderly Liquidation

Valuation Criteria

- General economic outlook.
- Nature and history of the industry.
- Nature and history of the company.
- Earnings capacity:
  - <u>Normalized</u> historical earnings & cash flow
    - Discretionary expenses
  - Projected earnings

Multiple of Adjusted Earnings

Pre-Tax Earnings	$1,500,000
Possible Adjustments (Non-Recurring Expenses or Revenues):	
Unusual Bad Debt	$200,000
Discretionary Expenses	$50,000
R & D	$50,000
Discontinued Compensation	$300,000
Gain on Sale of Assets	($100,000)
Adjusted Pre-tax Earnings	$2,000,000
Pre-tax Price Earning Multiple	x 5.5
Fair Market Value	$11,000,000

Multiple of Cash Flow

Adjusted Pre-Tax Earnings	$2,000,000
Plus: Depreciation, Amortization, and other Non-Cash Expenditures	500,000
Minus: Capital Expenditures	(200,000)
Minus: Working Capital increases	(50,000)
Net Cash Flow	$2,250,000
Price/Cash Flow Multiple	x 4
Fair Market Value	$9,000,000

Selection of Price/Earnings Multiple and Cash/Flow Multiple

- Determine multiples of comparable privately held firms from various databases of privately held firms.
- Determine multiples of publicly–traded companies in the same industry as subject company.
  - Apply “small company” discount.
  - Normalize for growth

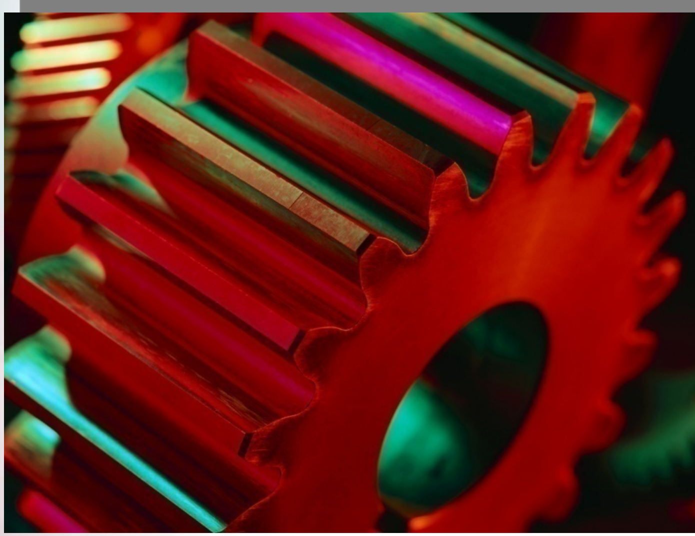
Discounted Cash Flow

- Management makes projections for future earnings and cash flows from operations. Differences from historical patterns are analyzed for reasonableness.
- Projected earnings and operating cash flows are discounted to arrive at their "present value" equivalent.

Final Weighted Average Valuation

Multiple of Adjusted Earnings	$11,000,000	50%
Multiple of Cash Flow	9,000,000	50%
Final Appraised Fair Market Value	$10,000,000	

How the ESOP Operates



Plan Operations - The Five Steps

1. Company contributions
2. Eligibility / Participation
3. Allocations
4. Vesting
5. Distributions

Step 1 – Company Contributions

- Each year the company may elect to make a "ESOP contribution" to the ESOP trust.
- The contribution may range from 0% to 25% of eligible payroll.
- There are no contributions from the employees.

Maximum ESOP Deduction

- Up to 25% of Eligible Payroll (§404)
  - For C Corporations, interest can be contributed over and above 25% of eligible payroll.
  - For S Corporations, interest must be included within 25% of eligible payroll.
- 25% includes Profit Sharing + ESOP + Employer 401(k) match.

Deduct More Than 25%
(C Corporations Only)

- Use "Deductible Dividends."
- Dividends are deductible when:
  - Applied to pay down the loan used to buy those particular shares.
  - Paid–out directly to plan participants.
- Must be "reasonable" (recommend ≤6.5%).
- Must be paid by fiscal year end.

Contribute More Than 25% (S Corporations Only)

- Each year the company may also elect to make an S corporation distribution to the ESOP.

- S corporation distributions made to an ESOP can be used to pay down an ESOP loan, or can be accumulated in the plan for future liquidity purposes.

Step 2 - Eligibility

Which employees are typically eligible?

- All employees

Possible exclusions:

- Union members
- Part time or short term employees
- Employees under age 21
- Employees of subsidiaries

Eligibility

When does a new employee join the Plan?

- Immediately.

  or

- Deferred - maximum is 1.5 years.
  - Most common: 1 year & 1,000 hours.

Step 3 - Allocations

How is the company's annual contribution apportioned among the participants?

- In proportion to eligible payroll,
  or
- UNITS – a combination of salary and seniority

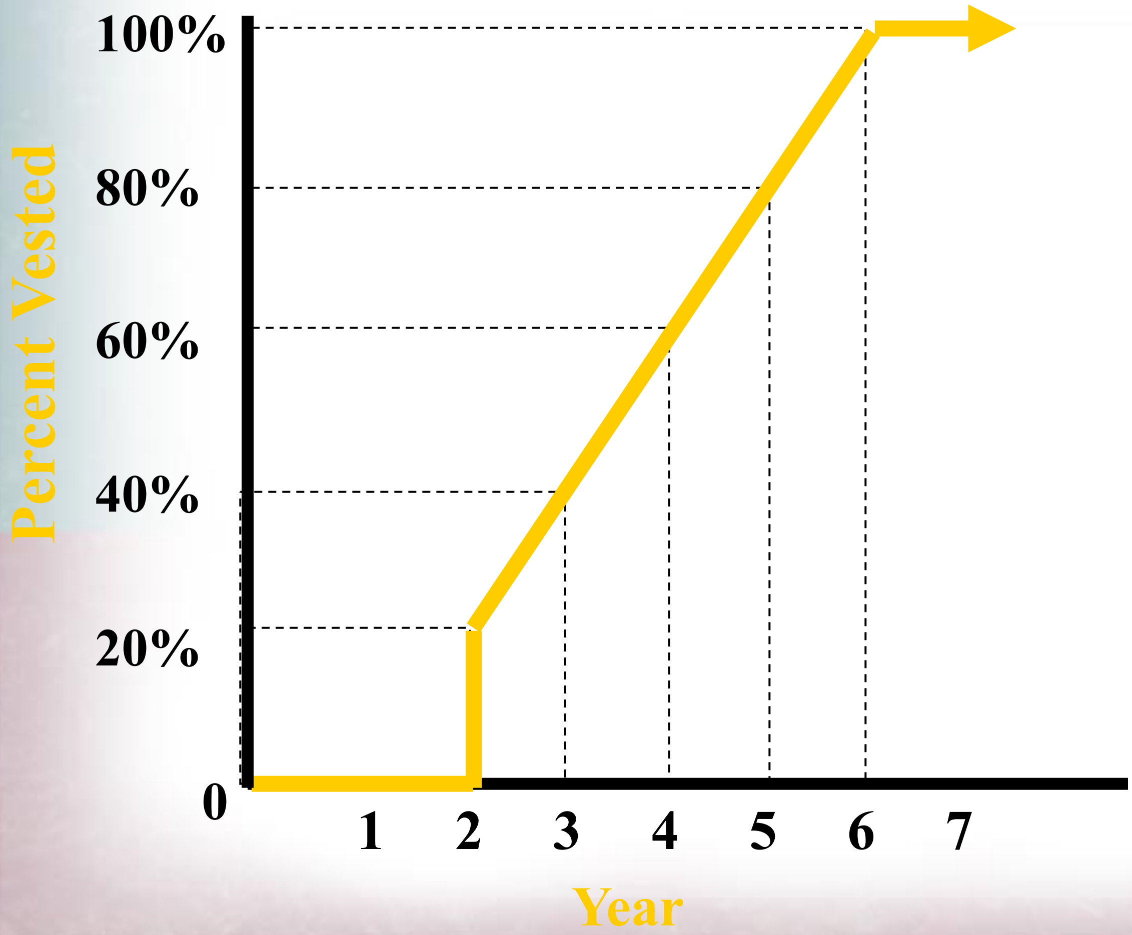
What is Eligible Payroll ?

- W–2 base pay wages, including or excluding:
  - Bonuses and overtime.
  - Commissions.
- Limitations per participant:
  - Contribution limitation - only first $270,000 of pay counts.
  - Allocation limitation - lesser of 100% of pay or $54,000.

Step 4 - Vesting

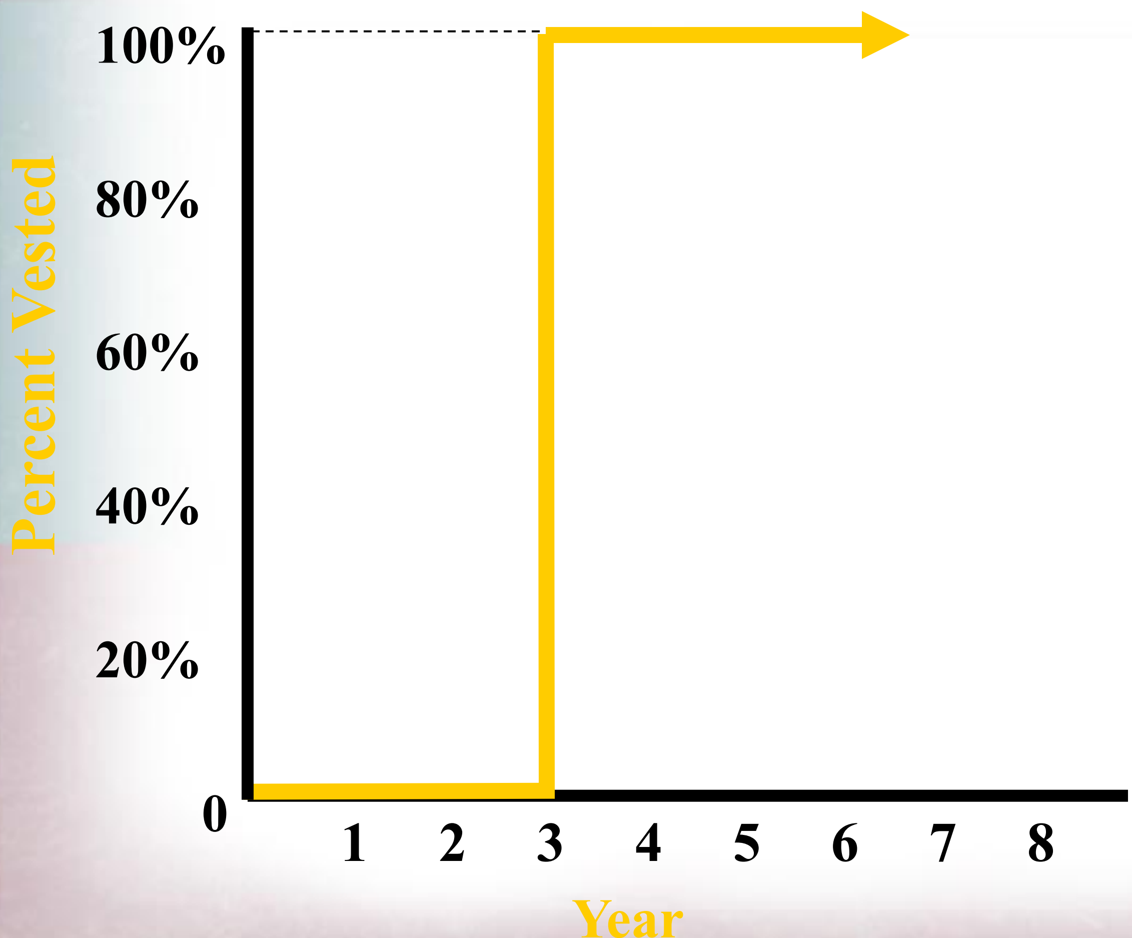
- Years of Service:
  - Inception date of ESOP (required by ERISA, but can elect a more generous vesting schedule), such as
  - All prior years of service
  - Service under prior plan (e.g., 401k plan).

Vesting – 6 year graduated schedule
(ERISA option 1)



Service Years	% Vested
1	0
2	20
3	40
4	60
5	80
6	100

Vesting – 3 year “cliff” schedule
(ERISA option 2)



Service Years	% Vested
1	0
2	0
3	100

Step 5 - Distribution at Retirement, Death or Disability

- Paid in year following event:
  - In a lump sum (small amounts), or
  - In up to 5 equal annual installments
  - Note: Distribution could start at age 68 if that is the year the participant decides to retire.

Distribution
for Involuntary or Voluntary Departure

- Years 1 to 5: no distributions.
- Thereafter:
  - In a lump sum (small amounts), or
  - In up to 5 equal annual installments.

Participant Diversification Option

A Participant who:

- is over the age of 55, and
- has 10 Years in ESOP.

May direct a portion of his/her account to be transferred from Company Stock into Other Investments:

- up to 25% first five years
- up to 50% after age 60

WHAT ARE THE DISADVANTAGES OF ESOP

Perceived vs. Real

Availability of Bank Financing

- Company cash flow
- Company assets not already pledged
- Possible seller's personal guaranty or partial pledge of QRP
- Possible use of seller's financing

Accounting for Leveraged ESOPs

Balance Sheet Effects

- ESOP debt recorded as employer debt
- Equity is reduced
- Equity is restored as debt is repaid
- Bonding availability?

Limitations of S Corp. ESOPs

- No tax-free rollover (capital gains tax)
- No deductible dividends
- Interest and forfeitures are included in 25% company contribution limit

Dilution (Only When New Shares Are Issued)

Company Value	$5,000,000
Contribution	$250,000
Dilution of Ownership Percent	5%

How much will the Company's cash and capital increase?

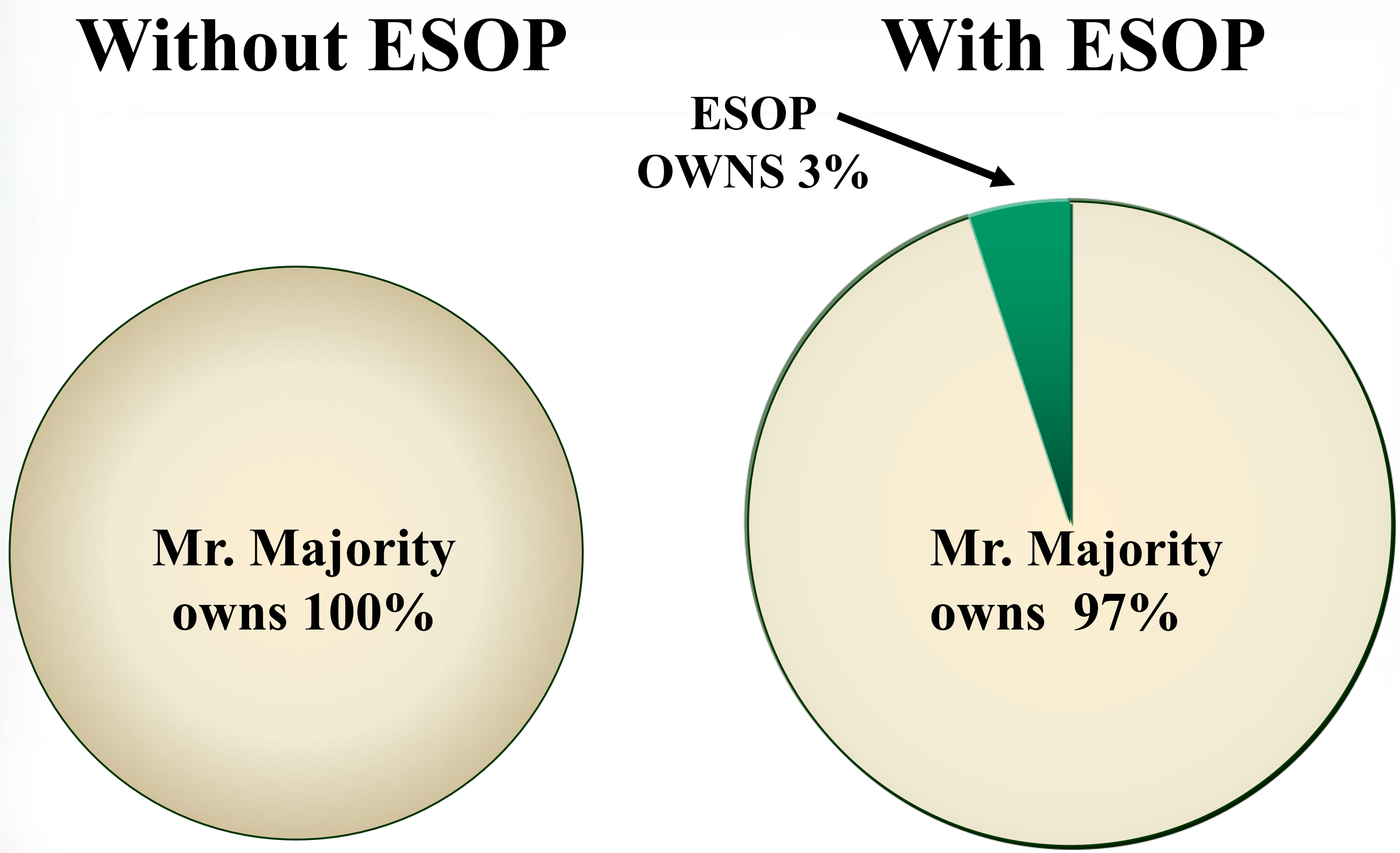
a) If there is no prior plan - Cash flow increase $100,000

b) If ESOP replaces prior Profit Sharing Plan $250,000

How profitably can the Company reinvest the extra cash?

"Smaller piece of a bigger pie"

Smaller Piece of a Bigger Pie



"Percentage" Dilution May Not Be "Economic" (Per-Share) Dilution

Control

- Bill initially owns 100%
- Bill appoints himself as the Plan Committee and Trustee
- Bill sells 60% to ESOP
- Bill votes his own remaining 40%
- As the Plan Committee and Trustee, Bill also votes the 60%
- Hence, Bill still votes 100%

Voting Rights

- On Ordinary Issues
- On Special Issues

Voting Rights Special Issues

- On Merger, Consolidation, Recapitalization, Liquidation or Sale of Substantially All Corporate Assets
- Employees only vote allocated shares
- No voting rights on sale of stock for cash

Selling the Company

- You can sell your non–ESOP shares
- Plan Committee can sell the ESOP shares
- Company can terminate ESOP

Disclosures

	Yes	No
Account Balance	☑	
Vested Percentage	☑	
Per Share Value of Stock	☑	
Financial Statements		☑
Salaries of Officers		☑
Valuation of Company		☑

Company Name

EMPLOYEE STOCK OWNERSHIP PLAN

PAT DOE

Your account(s) have been credited as follows for the period ended December 31, 2003:

COMPANY STOCK ACCOUNT	SHARES	PRICE	VALUE	VESTED--% VALUE
Last Year's Balance	1,000.000	$ 13.50	$ 13,500.00	100%
This Year's Contribution	1,153.846	$ 15.00	$ 17,307.00	
Share of Forfeitures	0.000	$ 15.00	$ 0.00	
Transfers To/From OIA	42.799		$ 577.78	
Unrealized Gain/(Loss)			$ 1,564.90	
Distributions/Transfers			$ 0.00	
BALANCE AS OF 12/31/03	**2,196.645**	**$ 15.00**	**$ 32,949.68**	**$ 32,949.68**

OTHER INVESTMENTS ACCOUNT	VALUE	VESTED--% VALUE
Last Year's Balance	$ 1,000.00	100%
This Year's Contribution	$ 384.62	
Share of Forfeitures	$ 0.00	
Transfers To/From CSA	$ (577.78)	
Investment Gain/(Loss)	$ 27.03	
Distributions/Transfers	$ 0.00	
BALANCE AS OF 12/31/03	**$ 833.87**	**$ 833.87**
TOTALS	**$ 33,783.55**	**$ 33,783.55**

Menke & Associates, Inc., San Francisco, CA

Fiduciary Liability

	Profit Sharing	ESOP
Fair Rate of Return	Yes	No
Diversification	Yes	No
Liquidity	Yes	No
Fair Market Value Appraisal	Yes	Yes

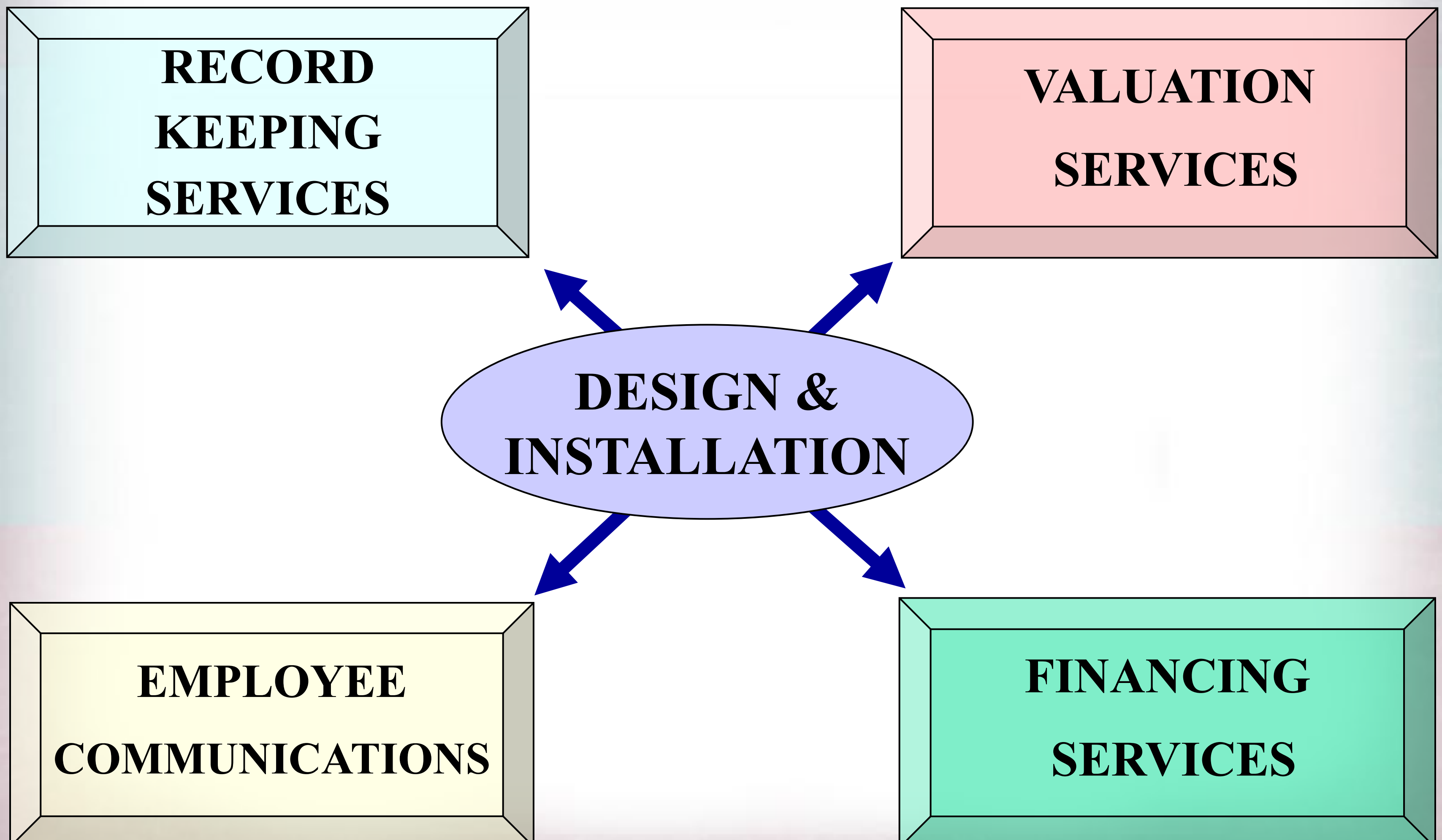
Repurchase Obligation

	Stock Redemption	ESOP
Timing	All at Once upon death or retirement of owner	Spread Over Lives of Many Plan Participants
Cost	Nondeductible	Deductible

What If I Change My Mind?

- ESOP does not prevent sale of Company
- Terminate ESOP and distribute
- Freeze ESOP and convert to profit sharing/401(k)
- Gradual phase-out

Menke & Associates
Total ESOP Servicing



Design & Installation Services

- Stock Valuation
- Financial Consulting
- Drafting of Legal Documents
- Obtaining of IRS Approval
- Employee Communications
  - Booklets
  - PowerPoint Presentation
- Accounting System & Administrative Forms

Annual Services

- Annual Recordkeeping
  - Continuing Consulting
  - Preparation & Filing of Tax Return
  - Preparation of Participant Benefit Statements
- Annual Update of Stock Valuation

Why it is Important to Use an ESOP Specialist

- Extensive Expertise
- Better Coordination
- Lower Cost
- Fewer Errors

Menke & Associates, Inc. has designed over 3,000 ESOPs since 1974

Menke & Associates Offices

ESOP Valuation Offices

Menke's ESOP Process

- Complete Feasibility Questionnaire
- Analyze ESOP Feasibility
- Propose Alternative ESOP Structures
- Engage Menke & Associates, Inc.
- Close Transaction

MENKE & ASSOCIATES, INC.

Confidential
ESOP
Questionnaire

For a free ESOP analysis, mail or fax this information to:

111 Anza Boulevard, Suite 422
Burlingame, CA 94010
Phone: 415-362-5200
Fax: 415-398-2260

Over 3,000 ESOPs ESTABLISHED SINCE 1974

Questions and Answers

A copy of this web seminar will be available on our website within 24 hours.

www.menke.com

The End

Thank You For Attending

MENKE & ASSOCIATES, INC.
ESOP ADVISORS AND INVESTMENT BANKERS

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