

Employee
Stock
Ownership
Plan



McFarland Johnson
100% Employee Owned

Employee Owner's Handbook

Quick Reference Guide to
Employee Ownership at MJ

TABLE OF CONTENTS

Introduction.....	1
History	1
Eligibility	2
Contributions & Allocations	3
Vesting	4
Distributions	4
Diversification	5
ESOP Value	6
Employee Owner Top 10	7
Rights & Responsibilities	7
Ownership Attitude	8
Additional Information	9

Introduction

McFarland Johnson (MJ) is a 100% employee-owned company with all of its stock held by the company's Employee Stock Ownership Plan (ESOP), a federally regulated employee benefit retirement plan. The stock is held in the ESOP Trust Fund which is managed for the benefit of the company's employees and is invested in the stock of McFarland Johnson itself, enabling employee-owners to benefit from the growth in value of the company.

There is certain general information you should understand about the ESOP and this handbook is meant to be a quick reference guide. A full Summary Plan Description is available to you on MJ's intranet site.

History of McFarland Johnson's ESOP

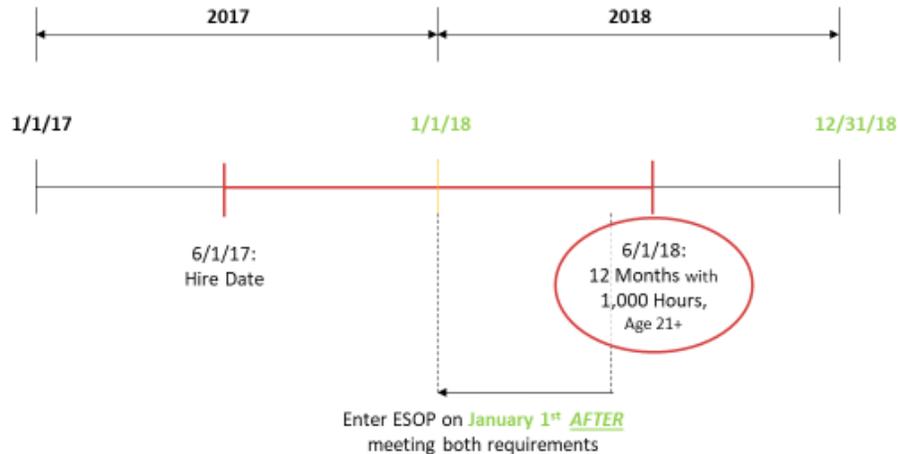
MJ adopted an Employee Stock Ownership Plan (ESOP) on December 1, 1992. At the time, the firm had previously been acquired by the firm Balfour Beatty back in 1982. MJ's ESOP was leveraged, meaning funds were borrowed through a loan, in order to purchase the company back from the British construction firm. ESOP shares were established and held by the lender as collateral. As re-payments on the loan were made to the bank by MJ, purchased shares were released and allocated to participating employee's accounts.

Although the intent of the plan was to purchase MJ from the former owners as an alternative to selling to another firm, the Company believed in the future of the firm and its employees. Through this process, a tax-qualified retirement plan was established to recognize and reward employees with the opportunity to share in ownership of the Company. It was the ultimate **Win-Win** solution.

Eligibility Requirements – *When do you enter the plan?*

You are eligible to participate in the ESOP when you have worked a minimum of **1,000 hours** during your first **12 months** of employment or subsequent plan (calendar) year, are at least **21 years** of age, and are not covered by a collective bargaining agreement excluding you from participation in the plan.

Once you meet these eligibility requirements, you will enter the plan as of the **1st day of the year** in which you meet all eligibility requirements.



ESOP Entry Date Example

Contributions & Allocations

Employees meeting the eligibility requirements and employed on the last day of the plan year (Dec 31st), are eligible to receive a contribution to their individual ESOP account within the plan. MJ makes an annual contribution of company stock to the ESOP and the shares are allocated to eligible employees' accounts based on an equal percentage of your compensation to total eligible compensation and number of available shares, as noted below.

Allocation Formula:

$$\frac{\text{Your Total Compensation}}{\text{All ESOP Participants Total Compensation}} \times \text{\# of Shares Released} = \text{\# of Shares You Receive}$$

Each year MJ stock is valued by an independent appraisal company. Because MJ is a privately held company whose stock is not traded on an established stock exchange, the appraisal is conducted to determine the value of MJ stock based on current earnings, corporate assets, projected profitability, the performance of comparable companies and industry trends, among other factors. The valuation is completed in the month of May for the previous plan year.

MJ provides employees with an annual statement reflecting the number of shares in their account and the current account value based on the appraised value. Contributions to the plan and any appreciation in the value of the shares are exempt from taxation until distributions are made after an employee leaves the company. Annual statements are distributed in May once the valuation is complete.

Vesting

Shares allocated to eligible employee accounts are subject to a graduated vesting schedule, a process in which employees accrue non-forfeitable contributions made to their ESOP account. Employees qualify for 1 year of vesting for any plan year in which they work 1,000 hours or more.

After 2 years of credited service, 20% of contributions are vested, increasing 20% annually, until contributions become fully vested after 6 years of credited service.

Employees may also become fully vested by reaching Normal Retirement Age (day you reach age 62 or, if later, the 5th anniversary of the date you began to participate in the plan), if you become permanently disabled, or upon your death while still employed with the company.

Years of Service	% Vesting
< 2	0 %
2	20 %
3	40 %
4	60 %
5	80 %
6	100 %

Distributions – *When are Benefits Paid?*

You are eligible to receive cash payment of your vested ESOP account balance only after you leave the company or during the Diversification Period (see below). When distribution occurs upon your Retirement, Permanent Disability or Death, the ESOP will make a distribution before the end of the calendar year following the year in which employment ended. Payments are made over a period of 5 years of annual, equal shares.

If you became a participant ***before January 1, 2001*** and leave MJ prior to attaining retirement age, you're eligible to begin distributions no later than the year after the year in which you terminate employment.

If you become a participant ***on or after January 1, 2001*** and leave MJ prior to attaining retirement age, you're eligible to begin distributions no later than the fifth year after the year in which you terminate employment. Payments will be made in five annual installments, with each distribution based upon current fair market value of MJ's stock as determined by that year's appraisal.

Every year MJ, as the Plan Administrator, has the option to offer more favorable distribution options to terminated participants. Distribution options may vary from year to year, depending upon the business conditions at the time, so an **ESOP Distribution Policy** statement is issued annually to all participants. Terminated participants will be notified of their options when they are eligible to begin distributions.

Diversification Period – *How can I spread out my risk?*

You can reinvest a portion of your account balance once you reach **age 55** or older and have participated in the plan for at least **10 years**. Once eligible, you will be given this option each year for 6 years. During years 1 – 5, you may diversify up to **25%** of your shares less any amount already diversified. In year 6, you may diversify **up to 50%** of your shares, less any amount already diversified (ie. if years 1 – 5, you diversified maximum of 25%, year 6 you may diversify another 25%).

Each year, during the 6 year Diversification Period, you'll be notified of your eligibility to exercise the diversification option regardless of whether or not you choose to diversify in any given year. Once this period is over, you will not be offered this option again. It's a use it or lose it option.

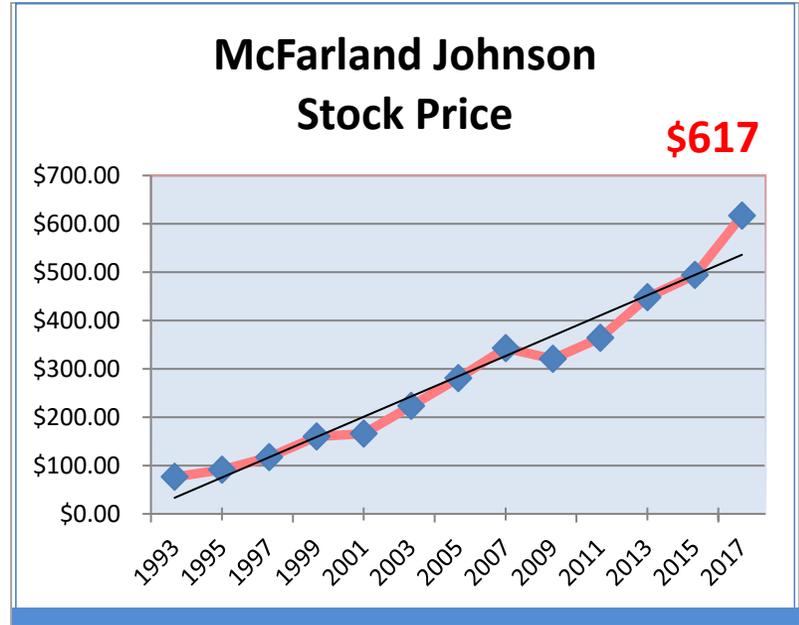
Increasing ESOP Value

Since establishing the ESOP, MJ has continued to build upon its growth and success over the years. MJ's ESOP has a successful track record, but as with any investment or stock, there is no guarantee of continued success. As a retirement plan, the ESOP doesn't create value as much as it's a plan for **sharing value** that employee-owners create!

Future value of the ESOP depends in large part on our ability to continue working together to help the company grow and innovate. Being engaged as an employee owner is a powerful motivator, as we all share in and benefit from MJ's overall success.

Today's Innovations = Tomorrow's Profits

At MJ you're encouraged to embrace your role as an employee-owner. Providing "Innovative Solutions with Sustainable Results" may be our tagline, but as an employee owner, you have the unique opportunity to make a positive contribution that directly influences the success and future profitability of our company. Our challenge as employee



- 8.7% Compounded Average Growth Rate with 7.8% Average Salary Contribution, Fully Funded by MJ!

Employee Owner Top 10

From MJ "Home Office" in Binghamton, NY

1. **Know your task scope & budgetthen Beat It!**
2. **Know your utilization goal & be as utilized on projects as possible.**
3. **Push Client Service & Satisfaction levels higher.**
4. **Provide high quality products that add value to our Clients.**
5. **Automate your work processes to increase efficiency.**
6. **Identify/ support cost & effort reduction opportunities.**
7. **Offer to take on or get involved in something that improves MJ.**
8. **Recognize the extra efforts of other MJ Employee/Owners.**
9. **Market MJ all of the time...including promoting firm to prospective employees.**
10. **Support fellow Employee Owners; treat them same as our Clients.**

owners is to understand how our day to day actions and individual performance translates to company performance so you can improve and maximize both.

[Understand What Drives MJ Value](#)

“MJ’s mission is to be recognized as a progressive company comprised of innovative employee owners working together as a team in a fun and learning environment, who are dedicated to achieving our client’s goals while improving our communities, our families and ourselves”.

As employees we need to embrace this vision. As employee owners, our actions and performance is what drives it. Employees working individually and collectively to provide outstanding client service lies at the core of MJ’s past, current and future success.

[Rights & Responsibilities of Ownership](#)

As an owner, you have the right to receive basic information about your ESOP account and to share in the value of the company. You will receive a statement on your ESOP account balance annually, once your shares are allocated and the valuation is complete.

You also have the responsibility to take ownership of your role as an employee-owner. Develop a mindset of shared responsibility to evaluate how decisions, projects or services affect the company’s best interest as

well as your fellow employee-owners. Whenever an MJ client interacts with an employee, they are truly working with an owner.

Embrace the Ownership Attitude –

“If we’re acting like we own the place, it’s because we do!”

When employees think and act like the owners they are, it puts MJ at a competitive advantage. By thoroughly understanding all that MJ can do to meet our clients’ needs, you help ensure MJ becomes a trusted advisor to our clients and that we’re prepared to respond to new opportunities as they arise.

**Employee Ownership
Performance Cycle**



Think of all you do on a daily basis in your position at MJ within the larger context of how it affects the performance of the firm. MJ’s culture of ownership provides you the opportunity to continuously share

your ideas and opinions. Every employee owner has the ability to apply their strengths and perform to their highest potential will influence MJ's overall performance in a positive way. This in turn drives the value of MJ's stock and ultimately how you, as an owner, are rewarded.

[Additional Information](#)

The full ESOP Summary Plan Description is available on the HR Page of the intranet under Employee Benefits.

If you have additional questions about the ESOP, please contact **Human Resources**, or you may contact any of the current Plan Trustees: Frank Greco, Jim Festa, or Tom Kendrick.

rev 2018