



February 14, 2022

The Honorable Guy Guzzone
Chair, Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

Dear Chair Guzzone,

On behalf Capital Forest Products, Inc, I am submitting this letter in support of Senate Bill 516 which would eliminate Maryland tax on the sale of shares to an Employee Stock Ownership Plan (“ESOP”). My testimony reflects the financial transactions and culture of mid-sized ESOP company located in Annapolis for over forty years.

I wish to thank the committee for hearing my testimony in strong support of SB 561, which I believe will encourage more ESOP formations, retain jobs in Maryland and increase tax revenue dollars. In my time here today, I wish to focus on the significant benefits my company and its employees have experienced since becoming an ESOP.

By way of background, Capital Forest Products was founded by Michael Tichenor in his hometown Annapolis, Maryland circa 1981 (hence the name Capital). Over the next 40 years, Mr. Tichenor and his wife Barbara grew from a two-man wholesale lumber operation to over fifty plus employees nationally. Mike instilled an entrepreneurial mindset among many lumber traders, ambitious to start their own business but lacking the resources. Capital Forest’s model attracted the top tier in the lumber trader industry. Today, we are a quarter of a billion-dollar sales annually with double digit growth year over year. Mike and Bobbie Tichenor sold a 20% tranche of company to the employees in 2016 and becoming 100% owned last year. Capital’s entrepreneurial model was extended to all employees of company. In Mr. Tichenor’s own words, “I wanted to give back to those who helped Capital Forest grow over the last 40 years”.

Capital Forest Products, a 100% Employee-Owned Company.

Great ESOPs like Capital Forest Products promote a culture of inclusion where all team members have a voice, and those voices are empowered. Since our company’s recent transition into a 100% fully owned ESOP, the enthusiasm generated by my team members to participate in the financial growth of the company is palpable. The owner mindset fostered by the ESOP has increased everyone’s commitment to the company. This is leading to inspiration for new product lines and improved operational efficiency in all areas of the company.

Unlike other companies, we are experiencing the opposite of the so-called great resignation. Out of fifty employees, only one voluntary resignation of a newly hired member has occurred in the last year.

The ESOP provides team members with an equity interest and a direct stake in the economic benefit of the company’s performance. The profits ultimately go into their pockets through

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increase share value, not just the owner. It's a living example of the famous motto from the Three Musketeers – one for all and all for one.

As CFO, it is my duty to share financial information – a concept known as open book management -- and encourage team members to engage in the ESOP and the company. To use a sports analogy – it would be unfair to play in a game where you don't know the score or the rules. Unfortunately, that is the case today for many workers at American companies.

That is not the case at Capital Forest where team members know both the rules and the score. Accordingly, they feel empowered knowing that their input and opinions are both sought and valued. My ESOP team members are more motivated than ever and hold other team members accountable to perform at their best.

Who has benefited from our ESOP?

The answer is everyone. Our founder who sold his shares has benefited by receiving fair market value for his stake after a lifetime of building the business. I note that he may have enjoyed the sale even more if this tax advantaged bill provision had been previously enacted. Importantly, our founder is remaining with the company after the transaction. Additionally he helped finance much of the sale by taking back a seller note from the company for his shares. The ESOP is the best exit strategy for many sellers to remain associated with and involved with the company they created.

The team members benefit because in addition to their 401(k) accounts, they now have a meaningful equity interest in the place where they work. The diversification prevents team members from putting their eggs in one basket. There's also the corollary, since the team members have skin in the game, they monitor the company very carefully. That's what employee-owners at an ESOP do. They are very involved in the day-to-day operations. When employees eventually retire or leave, the company has an obligation to buy back those shares at the last annual value as determined by the independent appraiser. These funds can then be rolled over to an IRA or taken into income. This is no different from other retirement programs.

The community benefits because ESOP companies stay where they were founded. They are not relocated out of state or have corporate staff downsized following a strategic acquisition. The company and its employees continue to lease office space, support local merchants, and pay applicable taxes. It's clearly a win-win for all.

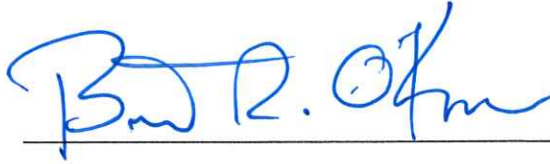
Past, present, and future.

A good ESOP company also goes above and beyond for its team members. For example, in March of 2020, as the pandemic was ramping up with fear of the unknown, Capital's management team stepped up to protect our own. The executive team was concerned about institutional closures, the banking, payroll, and mail services would be interrupted or come to a complete stop. Therefore, we prepaid our employees three weeks of salary before being earned to ease any financial burden caused by the pandemic. At the same time, executives also

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volunteered to suspend their salary for three months until economic conditions improved. It turned out that these concerns for the company's livelihood did not materialize, but our team members knew that by its actions Capital Forest cared about them. I hope after hearing my remarks you now can appreciate the ESOP concept as much as I do. I now welcome any questions you may have.



Bryant R. O'Kane
Chief Financial Officer
Capital Forest Products, Inc.