

Employee Stock Ownership Plan (ESOP)

Frequently Asked Questions about CALIBRE's ESOP

CALIBRE is an employee-owned management and technology services company. Employee ownership began at CALIBRE in 1994 with the establishment of our Employee Stock Ownership Plan (ESOP). What follows is a compilation of the most frequently asked questions about our ESOP. Please review the questions and answers and if you still want to learn more, don't hesitate to ask any member of our Employee Owners Advisory Committee (EOAC) or our ESOP Administrative Committee (EAC); they will be happy to get back to you with additional information in response to your inquiry.

1. What is an ESOP? An Employee Stock Ownership Plan (ESOP) is a federally qualified employee benefit plan that is governed and regulated by United States law under the Federal Employee Retirement Income Security Act of 1974 (ERISA). Individual company ESOP plans are approved by the Internal Revenue Service (IRS) and monitored by the Department of Labor (DOL).

An ESOP creates a direct link between company interests and employee interests through employee ownership. A company with an ESOP establishes a Trust into which it contributes new shares of its own stock or cash to buy existing shares. Shares or cash in the Plan are allocated to individual employee accounts. Employees who are a part of an ESOP are referred to as participants. As participants gain longevity in an ESOP they acquire an increasing right to the value of the shares allocated to their account, a process known as vesting. When participants retire or otherwise depart, the company must redeem their allocated shares at the fair market value for those shares. ESOPs are defined by ERISA legislation, the IRS, and the DOL as defined contribution plans.

2. What is a Defined Contribution Plan? A defined contribution plan is governed by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC). As such, the ESOP Plan provides for contributions to be made to eligible participants by a company without any guarantee of the future value that a participant may receive. This is in contrast to defined benefit plans which guarantee the value of future receipts or benefits. For our kind of plan, each ESOP participant receives a defined contribution, and in our case it is a percentage of total annual compensation received that applies uniformly to all

participants. Participants pay no taxes on their ESOP assets so long as they remain members of the ESOP or have diversified their ESOP assets into a personally owned qualified retirement account such as an Individual Retirement Account (IRA).

3. How Does CALIBRE's ESOP Work? The CALIBRE ESOP Trust receives contributions, usually annually, from the company. The amount of the contribution depends on many factors, not the least of which is the company's profitability. As a participant, an account balance is held for you in the ESOP Trust. Additions to this account are made from the company's contribution based on your total annual compensation received. CALIBRE's cash contribution is usually between 0 and 5 percent of total annual compensation received. The percentage is decided by the Board of Directors after reviewing profitability and other business factors at the end of CALIBRE's fiscal year.

4. How Does Length of Service Affect My ESOP Account? There are three important events associated with your participation in the CALIBRE ESOP: your date of hire, which determines when you become eligible to join the ESOP as a participant; your first year of service that earns you the right to receive a contribution; and your years of service which determine your vesting in your ESOP account.

First, to be eligible to participate in the ESOP, you must be at least 21 years old and have completed at least 120 days of employment. You become a participant at the end of the month in which you complete 120 days of employment. Great, now you're in!

Second, to receive a contribution you must have worked at least 1,000 hours in a Plan year and be employed on the last day of the fiscal year. A Plan year is defined as 1 March to 28/29 February - the same as the CALIBRE fiscal year. Meeting these two requirements allows you to receive a contribution to your ESOP account effective the end of the CALIBRE fiscal year. This contribution is based on a percentage of total annual compensation received that applies to all participants. Even better, you've now got an ESOP account with value to it!

Third, your right to the value of your ESOP account is subject to a process called vesting. Your vested account value equals the assets held in your name in the ESOP Trust that you own. Vesting is based on Years of Service (YOS). A Year of Service is a Plan year in which you work 1,000 hours. When you have two Years of Service, you are 20 percent vested in your ESOP account value. When you have three Years of Service, you are 40 percent vested. When you have four YOS you are 60 percent vested, and after five Years of Service, you are 100 percent vested.

5. If CALIBRE Grows, Does the Value of My ESOP Account Also Grow? Annual company contributions are not the only way your account value can grow. The performance of the company itself is an important factor in determining the value of the shares allocated to your ESOP account. As CALIBRE grows and increases in value, so can your share value. If the company is successful and earned a healthy profit, there is a good chance the share value will increase. On the other hand, if the value of the company decreases, then the ESOP account value can also decrease. Gains such as productivity, profits, revenues, and efficiencies, made by all of us can help to increase the value of CALIBRE and ultimately our accounts. It gives each of us, as employee owners, a clear incentive to help our company prosper and grow.

6. How is CALIBRE's Share Value Determined? The value of a public company's shares is generally determined by its trading value, defined as the price at which the shares are sold on publicly traded stock exchanges. ESOP shares in publicly traded companies are thus determined by the public market price. CALIBRE, however, is a privately held corporation with 100 percent of its shares owned by the ESOP Trust, certain employees, and members of the Board of Directors who own their shares directly under the provisions of the corporate by-laws. None of these shares are traded on a public stock exchange. The CALIBRE share value is determined by an annual appraisal performed by an external independent valuation firm using Department of Labor (DOL) Adequate Consideration guidelines and Internal Revenue Service (IRS) Revenue Ruling 59-60. The share value is based on CALIBRE's business performance and the valuator's analysis and objective review of the economic and industry trends that influence the environment in which we operate as a business.

7. How Do I Benefit as a CALIBRE Employee Owner? Ownership offers each employee owner the opportunity to participate in CALIBRE's future. As an employee owner, you have a financial stake in our company. Your efforts to make CALIBRE a success go a long way towards determining your individual personal rewards.

Over the years, studies have shown that ESOP companies grew faster after setting up their Plan than would have been expected otherwise. These studies seem to provide strong evidence that ESOPs can make a significant and positive contribution to corporate performance. Other research, however, suggests that it is the combination of employee ownership and employee involvement that really makes the difference.

Company performance can be improved by good work habits, efficiency, and conservation. It can also be improved by innovative ideas and by identifying better ways of serving our customers. As we all learn to work smarter and improve productivity, our ability to compete more effectively also improves. Cooperation and quality work play a big part in promoting company growth.

8. Who is eligible to be in the ESOP? All employees, age 21 or older, both full- and part-time, may become ESOP Participants.

9. When does an employee become a participant? To be eligible to participate in the ESOP, you must be at least 21 years old and have completed at least 120 days of employment. You become a participant at the end of the month in which you complete 120 days of employment.

10. Can I contribute money to the ESOP to purchase additional shares? No. CALIBRE makes all contributions to the ESOP. Contributions from you as a participant are neither required nor permitted.

11. What determines my annual ESOP contribution? The Board of Directors determines the percentage of total annual compensation received to be contributed to the ESOP each year. The amount contributed to you as a participant is based on that percentage, usually ranging from 0-5% in a CALIBRE fiscal year (1 March to 28/29 February).

12. When am I eligible to receive a contribution? To receive a contribution you must be a participant, have completed 1,000 hours in a CALIBRE fiscal year, and be employed on the last day of CALIBRE's fiscal year (February 28 or 29).

- 13. What is vesting?** Vesting is the means by which the non-forfeitable portion of your ESOP account is established; it determines what you own.
- 14. When will I be vested?** Participants are vested 20% in their ESOP account value upon completion of two Years of Service (YOS). Employees are vested 40% in their ESOP account value after completing three YOS. Employees are vested 60% in their ESOP account value after completing four YOS and are vested 100% in their account value after completing their fifth YOS.
- 15. What is a Year of Service (YOS)?** A year of service is defined as a CALIBRE fiscal year in which the employee works 1,000 hours or more. Remember, CALIBRE's fiscal year begins March 1 and ends February 28/29.
- 16. When would I actually receive my benefits from the ESOP?** You or your beneficiaries are eligible to receive your vested benefits from the ESOP at retirement, death, disability, or termination from employment in accordance with the terms of CALIBRE's Plan. There are also provisions that allow you to diversify your account once you have met age and YOS eligibility requirements specified by the Plan.

The following payout practices are used for all former employees: If you retire, die, or become disabled, distributions will be made in the CALIBRE year following your departure. If you depart for reasons other than retirement, death, or disability, distributions will be made over a 5-year period in equal payments beginning in the year following the year in which you incur a Break-in-Service and a Separation from Service.

The following are the requirements for diversification: When you reach age 55 or older and have 10 years in the Plan you become a participant qualified to diversify. Once qualified, there is a six-year period in which you remain qualified to diversify your account. During the first five years of this period, you may diversify up to 25 percent of your account. In the 6th year, you may diversify up to a total of 50 percent. Diversification allows you to make distributions from your ESOP account to a qualified plan that you own (e.g., the CALIBRE 401(k) Plan or an IRA) with all the rights and privileges of that qualified plan.

- 17. What are a Break-in-Service and a Separation from Service?** A Break-in-Service occurs at the end of a Plan year in which a participant has completed 500 or fewer hours of work. A Separation from Service means a participant is no longer an employee. Distributions will begin in the year following the year in which both a Break-in-Service and a Separation from Service occur.
- 18. What options do I have once I become eligible to Diversify?** You, as a qualified participant with 10 years in the plan and age 55 or greater could choose to do nothing in the first 5 years and then diversify 50 percent of your account value in the 6th year. On the other hand, you could diversify 25 percent of your account value in year one or you could diversify a total of 25 percent over the first 5 years. In the 6th year, you could then diversify up to a total of 50 percent of your account value.
- 19. Who qualifies for retirement?** You may qualify for ESOP retirement when you have reached age 65 and have at least five years in our Plan. Once you do reach normal retirement age) and have a Separation from Service at CALIBRE as an employee, you are considered "retired" for purposes of the Plan. You are eligible to receive your account

balance subject to IRS and DOL limits after the close of the Plan Year in which you depart. The Plan Year ends on 28/29 February and is closed no later than 180 days thereafter.

- 20. *What happens to my account while I'm awaiting a 5-year payout?*** An account value is established and segregated in the amount equal to your vested ESOP account value as determined by the Plan Administrator. This amount is then distributed in five substantially equal payments plus any interest that may be allocated as provided by the Plan.
- 21. *After departure, how may I receive my distribution?*** As a Federally recognized retirement plan, the ESOP is portable to another qualified plan that you own (e.g., an IRA) without tax consequences. You will be notified in writing as to your account value and your options to receive payments.
- 22. *How do I know the value of my ESOP account?*** Each August, you will receive a statement of participation via the CALIBRE ESOP Connection (our on-line ESOP account program – www.ESOPConnection.com) that shows your starting account balance, the dollar value of contributions and other account activity such as receipt of interest, the number of new shares allocated, the value of your account at the new share value, and the vested value of your account. You do not have to have a vested account value to receive a statement.
- 23. *What information does the ESOP Connection provide and how often is it updated?*** The ESOP Connection provides current and historical ESOP statements as well as the documents and forms needed to understand CALIBRE's ESOP and its benefits. You can access this site 24/7. Please note that the ESOP Connection, and your account balance, is updated once a year in August to coincide with updated contribution and share valuation changes.
- 24. *Who is responsible for ESOP Connection?*** The ESOP Connection is hosted by our ESOP administrator, Blue Ridge ESOP Associates, Inc., in accordance with the CALIBRE ESOP Administrative Committee's guidance.
- 25. *What if I have a problem with ESOP Connection?*** If you have a problem or questions about your account information or your ability to access the site, help is available at ESOPHelpDesk@calibresys.com.
- 26. *What help is available from the ESOP helpdesk?*** The ESOP help desk is designed to receive any question you may have concerning the CALIBRE ESOP. Your request will be logged and an answer provided by someone qualified to respond to your specific question.
- 27. *Does the ESOP guarantee my benefit?*** No. You, as an employee owner, carry the risk that your account value might decline. Remember, the independent valuator's analysis includes an objective review of the economic and industry trends that influence the environment in which we operate as a business as well as a review of CALIBRE's business performance. All of these factors play a part in determining our share value each year and may impact your account value positively or negatively.
- 28. *Who is the ESOP Trustee and what does the Trustee do?*** The External Directed ESOP Trustee is GreatBanc Trust Company. The Trustee is responsible for protecting the interests of the participants and is the ESOP Trust fiduciary. As the fiduciary, the External Directed ESOP Trustee has the responsibility and authority to control and manage the operation and administration of the ESOP for the exclusive benefit of the participants. The CALIBRE ESOP Administrative Committee, on behalf of the Board of Directors, directs the Trustee.

29. What is the ESOP Administrative Committee and what does it do? The ESOP Administrative Committee includes the CALIBRE Plan Administrator and a member of the Board of Directors. The ESOP Administrative Committee advises the ESOP Trustee on matters related to the ESOP Trust with the exception of issues that require pass-through voting authority. Pass-through voting involves decisions that affect a change in ownership of the company.

The ESOP Administrative Committee also:

- *Communicates with the Board of Directors on matters related to the activities of the External Directed ESOP Trustee and the Employee Owners Advisory Committee (EOAC)*
- *Communicates with the EOAC on matters and activities related to the CALIBRE ESOP Trust*
- *Recommends to the Board of Directors administrative policies relating to the CALIBRE ESOP Trust*
- *Interprets the Plan document*
- *With the authority of the Board of Directors, consideration of the advice of the External Directed ESOP Trustee, and the advice of appropriate legal counsel, recommends S-Corporation distribution policies and ensures that S-Corporation requirements are satisfied*
- *With the authority of the Board of Directors, consideration of the advice of the External Directed ESOP Trustee, and the advice of appropriate legal counsel, recommends investment policies for cash held in the Plan*

30. What is the Employee Owners Advisory Committee? The Employee Owners Advisory Committee (EOAC) serves the employee owners of CALIBRE by developing and sharing information about the ESOP and by conducting and participating in activities that promote CALIBRE's ownership culture. It is comprised of seven employee owners who are nominated for service on the Committee by their fellow employee owners. The members are volunteers who seek to be nominated by a vote of the ESOP participants. Nominees and the votes they receive are presented to the Board or Directors for decision and appointment to the available positions on the EOAC.

31. What does the EOAC do? The EOAC's charter directs the committee to: (1) promote a broad-based understanding of CALIBRE's ESOP; (2) support a vibrant culture of employee ownership at CALIBRE; and (3) represent the interests of all employee owners to the Board of Directors. The EOAC charter, describing the committee's specific roles and responsibilities, can be found on CALWeb (our intranet) in the ESOP section of our Corporate Information/Documents category.

32. How does someone become a member of the EOAC? The EOAC prepares a slate of volunteer candidates to run for nomination based on a set of general qualifications designed to ensure a diverse and well-rounded membership. These general qualifications include the following:

- *100 percent vested in CALIBRE's ESOP*
- *Ability to manage tasks or projects*

- *Ability to present ideas visually and/or in writing*
- *Demonstrated interest in CALIBRE as a business*
- *Ability to take an active part in meetings, both internally and externally, with personnel involved in the management of the ESOP*
- *Ability to assist with the design and presentation of employee ownership awareness training.*

These qualifications are meant to serve as guidelines. Individuals who are interested in becoming a member of the EOAC do not have to meet all of the qualifications.

Participants vote for the nominees prior to the Annual Meeting of Shareholders held each September. Each participant is also given the opportunity to write in a nominee on the ballot provided. The Board of Directors reviews the voting results and formally appoints new members to the EOAC. Members serve staggered terms. If you are interested in submitting your name as a candidate to the EOAC at the next election period, please contact a current member.

33. How long do committee members serve? Members serve three-year terms. Shorter terms may be necessary if a member is appointed to replace a member who departs the committee before serving a complete term. Committee member terms are staggered to maintain effectiveness and continuity within the committee.

34. Do the EOAC, ESOP Administrative Committee, and Board of Directors share information? Yes. There is an open sharing of information among the Board of Directors, the ESOP Administrative Committee, and the EOAC. The information flow among the three bodies helps support their distinctly different responsibilities.

- *The Board of Directors is accountable for the policies, fiscal matters, profit, and property of the corporation to the shareholders – its overarching responsibility to the shareholders is corporate governance.*
- *The ESOP Administrative Committee is directed by the Board of Directors to ensure the ESOP Plan is followed, up-to-date, and consistent with applicable laws, regulations and statutes, and that the performance of third party administrators and the External Directed Trustee meets best practice governance expectations of the Board.*
- *The EOAC, through its charter, supports ESOP understanding, employee ownership culture, and advocates for employee owners to the Board of Directors.*

35. Who votes the shares of CALIBRE stock? In general, all company stock held by the ESOP Trust is voted by the External Directed ESOP Trustee based on instructions from the Company which come through the ESOP Administrative Committee.

However, on certain major corporate matters such as the election of members to the Board of Directors or any corporate matter which involves the voting of shares with respect to the approval or disapproval of any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all of CALIBRE's assets, or such similar transitions as may be prescribed in Treasury regulations, you, as a participant may be entitled to direct the Trustee how to vote. In these cases, each participant will have one vote,

and the Trustee will then vote the shares held in the ESOP in proportion to the results of the votes cast by the participants.

- 36. *In what ESOP-related actions will I participate?*** At a minimum each year, you and each of your fellow participants will be presented with the opportunity to direct the Trustee on how to vote for recommended candidates for the Board of Directors. In a similar fashion, you will be able to vote to nominate participants for appointment to the EOAC. The Board of Directors issues to all participants two ballots, biographical sketches, and an agenda for a new Annual Meeting of Shareholders that is held each September. The first ballot is a list of candidates for the Board of Directors. The second ballot is a list of candidates for appointment to the EOAC. Each ballot contains space for write-in candidates, should you wish to nominate someone. The ballots are issued to allow sufficient time for all participants to review the candidates and to cast votes prior to the meeting. At the Annual Meeting of Shareholders, the External Directed ESOP Trustee votes the shares held in the ESOP Trust in proportion to the results of the votes cast by the participants.
- 37. *What else happens at the Annual Meeting of Shareholders?*** All employees who attend the Annual Meeting of Shareholders receive three presentations. The Chairman of the Board provides an assessment of the company's performance from the Board's perspective of corporate governance. A representative of the ESOP Administrative Committee reports the company's new share value resulting from the independent valuation of the prior fiscal year's business operations conducted under the auspices of the External Directed Trustee. And, a member of the EOAC addresses the company on Employee Ownership and Culture. Following the Annual Meeting of Shareholders, the President & CEO provides a mid-year assessment – CALIBRATION – based on the goal, objectives, and performance metrics described and explained in the company's Strategic Plan.

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