Employee Stock Ownership Plans In The U.S.: A Case Study

CHART REHABILITATION OF HAWAII

"Before it was just a job, now it is a family."

— *Lynnette N. Masuda, CHART Rehabilitation of Hawaii, Medical Administration VP*

It was a beautiful Hawaiian day. The weather was humid but the cool breeze coming off the ocean was a welcome respite from the heat. Frieda Takaki took a deep breath, filling her senses. She was about to make a very difficult decision. She took off her shoes, placed them next to her desk and started pacing her office barefoot as she was thinking aloud. "I can't let this business close down," she whispered. "I have to do something about it."

The answer was now abundantly clear: why wouldn't the employees buy the business from the owners?

More than three decades ago in 1979, Dr. Rowlin Lichter and his wife established the *Comprehensive Health and Active Rehabilitation Training (CHART) of Hawaii.* Dr. Lichter was an orthopedic surgeon and reflecting on his practice over the years, he decided to start a business that focused on active rehabilitation services. CHART Rehabilitation of Hawaii was founded with the purpose of helping patients who suffer from work-related and auto-accident injuries regain their physical health.

The concept was brilliant. The founding owners, however, lacked business knowledge, particularly on how to create a business from the ground-up. They looked for assistance with their new business venture and ultimately hired Harry Flagg as a consultant to help them. Harry Flagg was a classic visionary businessman whose ultimate goal was to expand the services and grow the company. They needed someone to run the business and subsequently hired Frieda Takaki to be responsible to manage the company operations.

CHART Rehabilitation of Hawaii was so successful that the owners (Flagg and Lichter) decided to franchise it. The business flourished and reached a total of 21 clinics across the mainland U.S. Frieda ran the Hawaii operations as well as provided the training for the franchise operations. The franchise operation eventually failed and the only clinic that remained successful was the Hawaii operations. Due to the operational success of the Hawaii clinic, Flagg and Lichter in 1998 decided to offer Frieda a 20% partnership in the Hawaii operations.

Professor Shirley J. Daniel, and graduate student Ozge Tekin, University of Hawaii at Manoa, developed this case for class discussion. *The authors are deeply grateful to Frieda Takaki and the Employee Ownership Foundation for their support in preparation of this case.*

CHART Hawaii continued operating very successfully until 1999 when worker's comp reform took place and reimbursement for rehabilitation services were dramatically reduced by new state law, severely limiting the company's profit potential under the original business model. Frieda Takaki recalls that reimbursement was reduced almost 70%, thereby impacting profitability dramatically. A new focus on customer service, efficiency and measured outcomes was needed to survive under the new regulatory regime. The future of CHART Hawaii did not look promising for the future unless a major reorganization was considered. Frieda cut the staff and management by about 40% and managed to pull the company out of a disastrous future.

In 2000, Flagg and Lichter decided to retire and offered CHART Hawaii for sale. There were a few interested buyers, however, there was no assurance that the business would remain the same or that the loyal employees would be guaranteed a job. It is at this point that Frieda began to think about how to buy the business from the original founders, to ensure that the business could survive and the loyal staff could be retained. It was during this period that the concept of creating an ESOP came to her mind.

Frieda knew that one of the key factors of success for CHART was high levels of satisfaction on the part of the patients who use their services and the doctors who refer patients to CHART.

Since this is directly influenced by the work of the physical and occupational therapists, CHART could be a good candidate for implementing an ownership culture. Another key factor of success for CHART was an efficient administrative structure and team that could keep the company's administrative costs low, while making sure not to reduce the level of any rehabilitation services. Frieda believed that involving the employees in the business would contribute to the success of the company, as well as provide an attractive exit strategy for the original owners to recoup their investment in the business.

THE BUSINESS MODEL & COMPANY STRUCTURE

CHART Rehabilitation of Hawaii is a multi-disciplinary, outpatient physical rehabilitation clinic and is one of the oldest and most comprehensive orthopedic rehabilitation centers in the state of Hawaii and across the country. CHART's revenue comes primarily from insurance providers and originates from four main sources: workers compensation, private insurance companies, auto accident patients, and Medicare. One of the features that make CHART unique and more profitable than its competitors is the company's specialization in work-related injuries. CHART is regarded as the gold standard in rehabilitating Hawaii's injured workers.

Exhibit 1 details the organization structure of CHART. As a small company, CHART has 33 employees, 17 physical, occupational and assistant therapists and 16 administrative employees. Of the 33 employees, 31 are employed full-time and 2 employees work an average of 20 hours per week.

CHART's management team consists of 8 members, the CEO, Vice President Administration and Marketing, Vice President — Medical Administration, Manager—Honolulu Clinic, Manager —Waipahu Clinic, IT Manager, Manager — Patient Services and Manager —Accounting. The management team holds weekly meetings in which all aspects of the operation are discussed from ESOP concerns, personnel, marketing, financial, medical operations, etc. This information is then communicated to staff at weekly department meetings. Communication flows very openly and freely up and down.

ESTABLISHING THE EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 2000, the founding owners of CHART Rehabilitation of Hawaii, Dr. Rowlin Lichter and Harry Flagg, agreed to sell the company to the employees through an ESOP on the condition that Frieda would match the price that they requested. Soon after she got the owners' consent, Frieda took classes in order to obtain a better understanding of how an ESOP works. Next, she conducted a feasibility study and then had an appraisal of the business. The appraisal supported the valuation that the owners requested. Then, on a crisp Hawaiian morning, Frieda went to the bank and took out a loan on behalf of CHART of slightly under $2,000,000 to buy 80% of the company shares from the founding owners.

CHART ESOP's original loan was guaranteed by an SBA loan, the first of its kind in Hawaii. Although the bank loan was owed by the company and guaranteed by the SBA, Frieda had to personally guarantee the loan repayment if the company defaulted. Frieda recalled that day: "The day I signed the papers, I came into this office and I cried," and she continued cheerfully: "I said to myself that I should have sold my shares and ran away!" she laughed and she concluded: "Yet, in my heart I knew it was the right thing to do," and "to this day the decision I made proved itself." [1]

Simultaneously to buying out the original owners, the company formed a leveraged ESOP, putting 80% of the company's shares into the ESOP trust for the benefit of the employees. Essentially, the ESOP Trust bought the shares from the company on credit, and would pay back the company over time with cash contributed by the company to the ESOP as part of CHART's benefit package to employees. The company would repay the bank loan from normal profits of the business, which were enhanced due to the tax benefits provided by an ESOP.

The ESOP Trust is managed by a board of Trustees. The company makes tax-deductible cash contributions to the ESOP trust (similar to a company's contribution to a 401K plan) on behalf of the employees based on a percentage of payroll (not to exceed 25% of payroll per year). In return, the ESOP Trust paid back the loan to CHART. The company used these loan proceeds from the trust, as well as their higher after-tax earnings, to repay the bank loan.

[1] F. Takaki. Personal Communication, April 20, 2009.

As the ESOP repaid the loan to CHART, the loan was amortized, the net worth of the Trust increased, and the CHART shares were "released" to increase the net value of the employee owner accounts. The increasing net worth of the Trust is available for allocation to the employee participants in proportion to their annual pay.

There were 30 employees in the company when the leveraged ESOP was formed. Employees who had been with the company for 5 years or more were immediately fully vested in the ESOP at initiation. For the rest of the employees, the plan required that they be employed for at least one year and put at least 1000 total hours in order to participate in the ESOP. After they became participants, vesting occurs at 20% per year, so that by the end of year five, the employee becomes fully vested in the ESOP.

Each year, the company is required to obtain an independent valuation of the business. The value of the business fluctuates with market conditions, and the earnings of the company. The company must provide the ESOP participants with an annual statement detailing their share in the plan. Since one of the primary assets of the ESOP trust is the company's stock, the fair value of the ESOP trust will fluctuate with the value of the company. However, the ESOP trust may also hold cash, other marketable securities and other assets, which are valued at market value. **Exhibit 2a** is an example of a CHART employee-owner's 2001 participant statement (first year shares were allocated). **Exhibit 2b** is an example the same employee-owner's 2007 participant statement.

The CHART Rehab ownership plan states that employee-owners can receive distribution funds from their account under three circumstances: retirement, loss of life, and termination of employment with the company. If one chooses to terminate prior to retirement, they may roll over their balance into another benefit plan without being taxed when distributions are made.

Otherwise, cashing out distributions prior to retirement are taxable and can be subject to penalty. In addition to protect the asset position of the Trust, employees may only receive distributions for a portion of their account each year. The distribution policy of CHART's plan indicates that a participant's account is valued at the appraised value at the end of the year in which termination occurs, and is paid out in 5 equal installments in subsequent years. The amount of each installment is determined according to the prior year-end's appraised value of the shares. However, the employee-owners is offered a "put" option in which the company agrees to repurchase all or a portion of the stock at a price set by an independent valuator.

STRATEGIC MARKETING AND THE SUCCESS OF CHART

While CHART's revenues come from billings to patient/client insurance companies, the patients/clients are referred for rehabilitation by their physicians. Technically, patients can choose their rehabilitation service provider, however, they are strongly influenced by their physician's recommendation. Therefore, maintaining an adequate pool of satisfied doctors who refer their patients to CHART is key to the company's success.

"It's a tough market to satisfy," says Frieda Takaki, and she explains: "we deal with three different groups; the physicians who refer, the insurance companies who pay, and the patients for whom we actually provide the service."[2]

CHART's employee-owners are aware that they operate within a tough market to satisfy. They understand that their performance affects the end product and the profitability of their company. Therefore, they maintain monthly patient evaluation reports and share the results with doctors and insurance companies. In addition, they ask patients to fill out a "comment sheet" where they describe their experience with CHART Rehabilitation of Hawaii. With the client's permission, CHART employee-owners forward these comment sheets to doctors' offices and thank them for referring their patients to CHART Rehabilitation. CHART also tracks the outcome of each patient's full course of treatment and maintains detailed statistics on their overall success rates, as described below.

Due to federal government reforms in workers compensation laws, which established universal fixed rates and hours for active rehabilitation services, rehab service providers cannot compete on price, or raise their fees. As a result, CHART Rehabilitation of Hawaii expanded its marketing campaigns to focus on quality service and value to the employer. They released a campaign slogan: "Get the most out of the same buck!" and initiated a public relations campaign in which they highlighted the superior performance of CHART Rehabilitation of Hawaii, which indicated that 80% of CHART patients return to work after completing treatment.

Another feature that makes CHART Rehabilitation of Hawaii more profitable than its competitors is the Dynamic Evaluation Center, which they operate as a separate, functional capacity test center. Here, the company utilizes a technology that enables them to detect whether an injury was due to a recent work related accident. Utilizing spinoscope equipment, this enables CHART to validate the aggressiveness and duration of treatments. The technology also mitigates false claims due to malingerers, which are perceived to be a problem in workers compensation insurance claims.

RETAINING THE OHANA AND THE VALUABLE HUMAN CAPITAL

Ohana is a native Hawaiian term, which, when translated literally, means family or related. However, ohana means much more than its literary translation. It stands for the sensation of a family, and emphasizes that a family is bound together and its members voluntarily cooperate, take personal interest in each other, and remember one another ad infinitum.[3]

When Frieda Takaki became the Vice President of Operations in 1984, CHART Hawaii's structure was a classic case of top-down hierarchical management. However, Frieda successfully utilized the Hawaiian concept of ohana to create a participatory and open-book business culture in CHART Rehabilitation of Hawaii. "Even when Harry Flagg and

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[2] F. Takaki. Personal Communication, April 20, 2009.

[3] As it defined in Hawaiian-English online dictionary that is provided by the UH Manoa Hawaiian studies department.

Dr. Lichter were the owners of the company, mainly because of Frieda there was an *Ohana* culture here," stated Lynnette Masuda, the 25-year veteran and the Vice President of medical administration of CHART Rehabilitation of Hawaii. Hence, when Frieda took on the responsibility of transforming CHART into an employee-owned business, she capitalized on her natural management style and the strength from the existing culture of ohana that the CHART employees collectively shared to develop an increasingly efficient and profitable business.[4]

ESTABLISHING AN OWNERSHIP CULTURE

It is widely known that the success of any business largely depends on the motivation of its employees. Motivation is essential for creating an environment where optimal performance is possible. Employee incentive programs are key tools in cultivating such an environment. However, there is a limit to what company owners can offer to their employees as incentives. Moreover, most incentive programs are highly individualized and they are usually effective in improving certain aspects of business. The data and literature on ESOPs suggest that employee ownership plans can successfully fill the gaps created by incentive-based programs.

The research on ESOPs demonstrates that companies that are successful in establishing an ownership culture among their employees notice lower turnover rates and increased employee motivation.[5] The most important impact of increased motivation is that of increased performance. Data indicates that if company managers succeed in establishing an ownership culture among employees, increased productivity becomes attainable.[6]

CHART Rehabilitation of Hawaii is the living, real-world example of how one can institute the ownership culture and utilize it towards the success of the company. CHART employees take pride in what they do as employee-owners. They are very enthusiastic about sharing their experience and knowledge with others. They prepare brochures and handouts to explain how they do what they do. **Exhibit 3** is the brochure that CHART employees designed to map the way to incorporate ownership culture and exercise it to build success. "Building Success with T.O.O.L.S." assigns letters for each step that eventually leads to general success of the company.

CHART employee-owners also take active responsibility in organizing events in the ESOP Association's Hawaii Chapter. CHART's president has also highly encouraged and allowed all staff members to attend local and national ESOP conference to further their education and awareness on employee-ownership. Employees also design posters yearly for the National ESOP Association's poster contest, and in 2002 CHART was awarded runner up **(Exhibit 4).**

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[4] L. Masuda. Personal communication. April 21, 2009.
[5] Steven F. Freeman. 2007. "Effects of ESOP Adaptation and Employee Ownership: Thirty years of Research and Experience." *Organizational Dynamics Working Papers,* p. 16-17, retrieved on March 3, 2009 from http://repository.upenn.edu/od_working_papers/2/
[6] Freeman (2007): 7.

CHART's president holds semi-annual, annual, and monthly meetings in which employee- owners communicate financial results. "The company has also initiated a couple employee owner reward programs", stated Kevin Takaki, the 16-year veteran and the Vice President of Marketing/administration.[7] The first is a CHART Staff Star rewards program. This program allows a co-worker to anonymously nominate another co-worker for going beyond the call of duty. The nomination letter is read at monthly general staff meetings and the CHART Staff Star is recognized. The CHART Staff Star and the guest of their choice get to select to have dinner at any restaurant of their choice that is hosted by the CEO. The second rewards program is an employee-owner suggestion system. Employee-owners are encouraged to write up suggestions that may help save costs for the company, without sacrificing the quality of what's being proposed. The employees that have a winning suggestion(s) are recognized and cash rewarded at the monthly general staff meeting.

As small and medium-size business owners struggle to afford medical coverage, CHART Rehabilitation of Hawaii offers remarkable benefits to its employee-owners. In addition to existing medical, dental and vision benefits, CHART Rehabilitation bolsters its benefits program by offering other desirable, non-medical benefits, such as disability insurance, prepaid bus passes, long-term care insurance, group life insurance, and a flexible spending and 401(k) account, along with educational benefits.

THE EFFECT OF OWNERSHIP CULTURE ON PRODUCTIVITY AND PROFITS

The advocates of employee stock ownership plans vigorously contend that a firm's adaptation to an ESOP generally results in increased productivity, growth and employee satisfaction. Many take these claims with a grain of salt. On the other hand, the attitude that CHART Rehabilitation employee-owners have towards their jobs support the claims advanced by ESOP advocates.

"I see a big different in the management style," said Lynnette Masuda, the Vice President of the medical administration of CHART Rehabilitation of Hawaii. "Before [the ESOP] it was just a job, whereas now it is a family." Then, she explained: "not putting the [previous] owners down but they were in there for the profit - we were there to make them the money, and that's how it was. But since we became an ESOP, whatever we make is ours," she concluded.[8]

The ownership culture is in the air at CHART Rehabilitation of Hawaii. It is tangible in the initiatives of employees to save the company money and effort by reducing the costs of daily operations. Employees also greet their patients with a genuine eagerness and desire to help that is evidenced by their meticulous attention to detail.

[7] K. Takaki. Personal Communication. April 20, 2009.
[8] L. Masuda. Personal Communication. April 21, 2009.

They ensure that treatment alone is not enough; patient should be happy with the results. It is almost as if patients are walking into a family owned company where the employee owner is just another part of the family.

The employee-owners of CHART Rehabilitation of Hawaii are well aware that anything they do to make their company more profitable contributes to increased profits that they all share in at the end of the year. Consequently, there is no conflict between the managers and the employees regarding pursuing a company policy that is in line with responsible accounting.
For instance, before they leave the company for the day, they make sure that the electronic devices that consume electricity during the night are turned off along with the lights. Instead of outsourcing cleaning services to another company, they clean the floors and carpets themselves.

Another example that indicates that the CHART employees embraced the ownership attitude through the ESOP is the decision to purchase a washing and a drying machine in order to wash the towels and sheets used in the business themselves by taking turns. "The employees decided on their own that we should not hire a laundry service company to clean our towels and sheets," explained Frieda Takaki, the president of the company. As another example, she continued, "One day, I realized that there weren't enough pens and stationary supplies in the office even though we purchase them in bulks and replace them regularly. I addressed this concern in the next staff meeting and one of our employee-owners came up with a suggestion that everyone should bring pens, pencils and paper as much as they wish from home," she said. "We ended up having a lot of supplies without having the company spend a penny," she concluded.[9]

"Once the ownership culture takes effect, costs drop noticeably," Frieda pointed out. "The company was doing very well, and I was noticing that everyone worked really hard. In the next monthly staff meeting, I suggested that CHART should be closed during Saturdays. The majority of the employees refused my suggestion. They said we cannot make up for the income we would lose if the company is closed on Saturdays," she concluded.[10]

WEALTH CREATION AND DISTRIBUTION OF RETIREMENT ACCOUNTS

Since the inception of the ESOP in 2001, CHART has repaid over *3/4* of its bank loan and has contributed approximately $1.5 million to the ESOP trust. As a result, the average employee account balance after 9 years of service is approximately equal to their annual salary. As shown in **Exhibit 5**, the value of CHART's ESOP shares on average has outperformed stock market averages, providing an excellent bonus for the employee-owners to supplement their other retirement savings accounts.

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[9] F. Takaki. Personal Communication. April 20, 2009.
[10] Ibid.

ESOP balances of CHART employee-owners vary depending on compensation as well as seniority of the employee within the ESOP. ESOP balances are mostly affected by the profitability, which has immediate impact on share value of the company. With this in mind, it is important to remember that varying stock prices alone do not depict the value of the ESOP balances for employee owners. However, if the share value drops significantly because more shares are released then the total value of each account can be affected significantly.

CHART's ESOP is nine years old. Currently, the average ESOP balance for a 20-year CHART employee is calculated as $76,000 with average compensation of $78,000, for a 15- year employee the amount is $58, 000 with average compensation of $60,000, and for a 10-year employee the ESOP value is $57,000 with average compensation of $59,000. It appears that the average ESOP balance for each category is worth 1 year worth of salary. Frieda Takaki points out that the ratio would be 3 to 1 if CHART's ESOP were 20 years old.

Moreover, the evidence indicates that re-stock prices averages about 65% increase since the inception of the ESOP.

DETAILS ON THE STRUCTURE OF ESOP

At the end of 2000, CHART Rehabilitation of Hawaii became an 80% employee-owned company. As previously mentioned, Frieda owned the other 20% of the company shares. As soon as the other founders were bought out with the bank loan, a leveraged ESOP was formed, whereby the ESOP Trust bought the 80% of the shares from CHART in exchange for a loan from the ESOP Trust to the company.

CHART has been successful and profitable and has been repaying the bank loan as planned. As she began to plan for retirement herself, Frieda Takaki sold her 20% share of CHART to the ESOP in 2004, and CHART Rehabilitation of Hawaii became a 100% employee-owned company. Frieda remains CEO of the firm and is an active participant in the ESOP.

With respect to employee participation in decision making, the CHART ownership plan delineates that employees do not have direct voting rights on administrative issues except for certain decisions such as the sale of the company, subsidiary or anything that would have an immediate effect on the ESOP. Trustees exercise voting rights on all administrative matters on behalf of the employee owners.

CHART's board of trustees are composed of 4 members: Frieda Takaki, CEO; Kevin Takaki, VP; Lynette Masuda, VP of Medical Administration; and Derek Yamamoto, the IT Manager.

The subject of employee participation in decision making is a controversial one even within the ESOP society. In theory, if employees own a portion of the company shares, they should be granted direct voting rights with respect to their stock portion. In practice however, the employees are treated as “perpetual children” when the issue comes to exercising their fair share of the vote.[11]

There is wide agreement on the executives’ side that the direct involvement of the employees in administrative decisions would decrease general efficacy of the business for the obvious reason that the employees lack the expertise and knowledge of how to run a business. The consensus begs the question then: Can the employees be real owners when in practice ownership rights are exercised by the managers?

The shortcoming that surrounds the ESOP ownership-voting rights issue is in principle the same problem with representational democracy. Democratization scholars often criticize the representational democratic system by reasoning that it enables people to elect their representatives, giving them the illusion that they are taking part in the decision making when in fact they are passing their voting rights to the experts who will decide on their behalf on various issues concerning their daily lives.

With this in mind, when criticizing the validity of ESOP’s hypothesized effect on employee participation in decision making, it is important to remember that ESOPs are originally designed to serve as profit sharing plans to decrease employees’ dependence on wages and increase their income through capital earnings.[12]

THE FUTURE FOR CHART AND SUCCESSION PLANNING

One of the most important issues in any business is succession planning. This is particularly the case when founding management is nearing retirement. As Frieda Takaki noted “succession planning is always at the forefront but should have no direct impact just because you are an ESOP. [However,] change in senior management could impact the ownership culture if succession planning is not well defined to insure new hires possess the same vision.”[13] Over the past year, Frieda has discussed succession planning with her employees, but no clear answer has resulted. As she nears retirement, she is increasingly concerned with who will be able to take her place in the leadership of the organization.

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[11] Douglas Kruse. 1984. *Employee Ownership and Employee Attitudes: Two Case Studies*. Norwood, PA: Norwood Editions, 161.
[12] Louis O. Kelso and Mortimer J. Adler. 1975. *The Capitalist Manifesto*. Greenwood Press, Westport: CT, 149, 219.
[13] F. Takaki. Personal Communication. September 21, 2009.

CASE QUESTIONS

1) Now that CHART is a 100% employee owned company, how do you think succession planning should be addressed as Frieda nears retirement?
2) How much of the culture of CHART is due to the ESOP and how much is due to Frieda's management style?
3) Would an ESOP work equally well if CHART had 300 employees rather than 32?

Exhibit 1: Company Structure with Full Time Employees

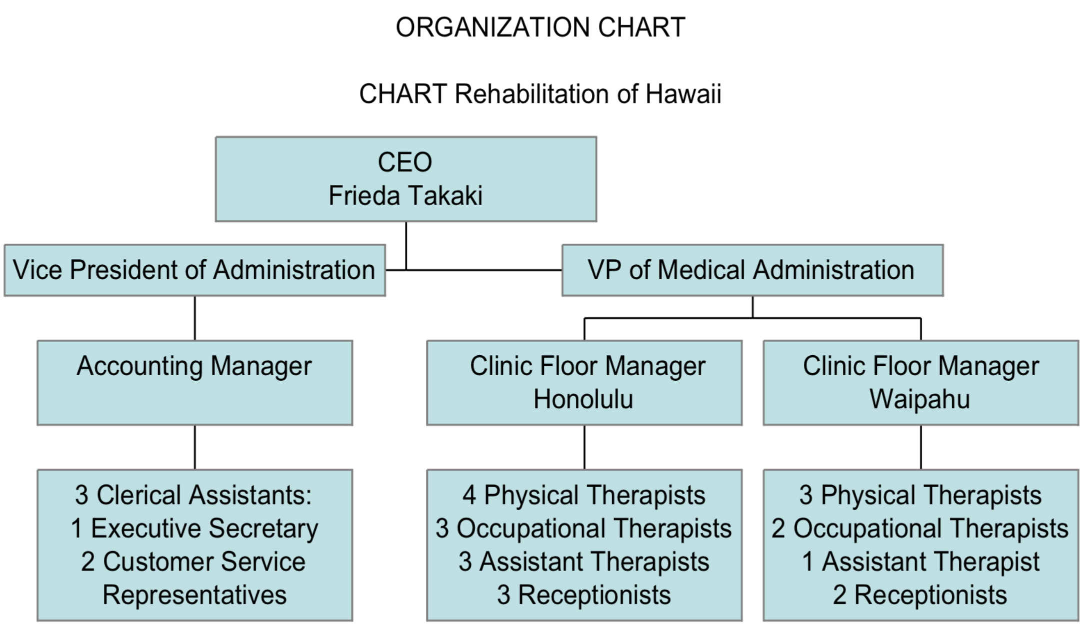


Exhibit 2a : CHART Employee Owner 2001 Participant Statement

CHART REHABILITATION OF HAWAII, INC.
EMPLOYEE STOCK OWNERSHIP PLAN
PARTICIPANT STATEMENT

Name:	Vested Pct: 100.00%
Soc. Sec. No.:	Fair Market Value: $ 11.27

SUMMARY OF YOUR ACCOUNT BALANCE AS OF DECEMBER 31, 2001

EMPLOYER STOCK ACCOUNT:

Shares as of January 1, 2001	0.0000
Shares Allocated	255.1226
Shares Sold	0.0000
Shares Distributed	0.0000
Forfeitures	0.0000
Total Shares as of December 31, 2001	255.1226
Total Vested Shares as of December 31, 2001	255.1226

GRAND TOTAL - STOCK ACCOUNT:

Total Value of Stock $ 11.27 x 255.1226	$ 2,875.23
Total Vested Value of All Accounts	$ 2,875.23

Please note that this statement is intended to be as accurate as possible. If an error has occurred in its preparation, the provisions of the plan document will govern and you will be entitled to a corrected statement. Please see the Plan Administrator if you believe an error exists.

Exhibit 2b : CHART Employee Owner 2008 Participant Statement

Chart Hawaii

Employee Stock Ownership Plan
Participant Statement

December 31, 2008

Date of Participation: 01/01/01 Participant Status: Active Years of Service: 25

	% Vested (non-forfeitable)	Number of Common Shares	Value of Common Shares	Other Investments	Total
Balance at Beginning of Plan Year		9.203.27	$183.789.27	$ 0.00	$183.789.27
Distributions		0.00	0.00	0.00	0.00
Forfeiture/Reallocation - Share Purchase		0.00	0.00	0.00	0.00
Reallocations of Forfeited Shares		0.00	0.00	0.00	0.00
Dividend & Interest Income		0.00	0.00	0.00	0.00
Employer Contributions		2.225.97	39.755.84	0.00	39.755.84
Increase (or Decrease) in Value of Accounts		0.00	-19.418.90	0.00	-19.418.90
Balance at Ending of Plan Year	100%	11.429.24	$204,126.21	0.00	$204,126.21

Total Amount Vested (Capital Accumulation) $204,126.21

Fair Market Value Per Share $17.86

Exhibit 3 : Educational Brochure

"Building" Success with T.O.O.L.S.

CHART…always strives for excellence in quality therapy services, patient care, and employee growth and development.

Having the right TOOLS are essential in building anything. We at CHART Rehabilitation are always striving for excellence. We are always building and planning. The quality of our services and patient care is our success. Our TOOLS are our people, who strive to make a difference <u>every day</u> in the lives of others. These are the T.O.O.L.S. we believe will help build our success into the next millenium.

Taking Ownership

When you "own" something, you take pride in it. "Taking ownership," is an action word and it reminds us that we are responsible for our success or failure.

Overcoming Obstacles

Obstacles are what we see when we take our eyes off of our goals. Overcoming and conquering new challenges results in personal growth and helps each of us work more effectively together as a team.

Offering Solutions

If there's a problem…fix it. Instead of always finding fault, find a solution. Ask yourself, "how can we solve this problem. What solutions can I offer?" "What would an extraordinary person do to handle my situation?" These questions can lead to new discoveries and ultimately to answers and solutions.

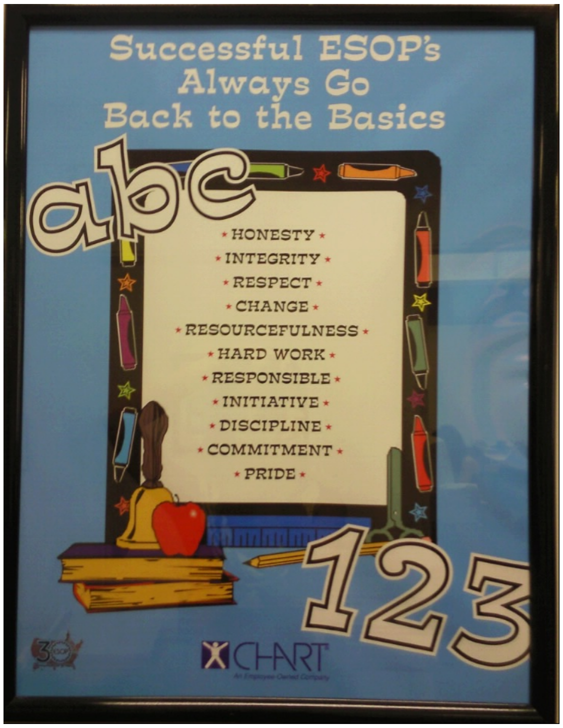
Lasting Impressions

There is no second chance to make a good first impression. Make a good first impression, then make your last impression as good as your first: everything we say and do is done with excellence.

Signature Service

It is the goal of our company to provide uncompromising service. Providing a Signature Service places you apart from the rest. We take enough pride in what we do to put our signature on it.

Exhibit 4: Posters



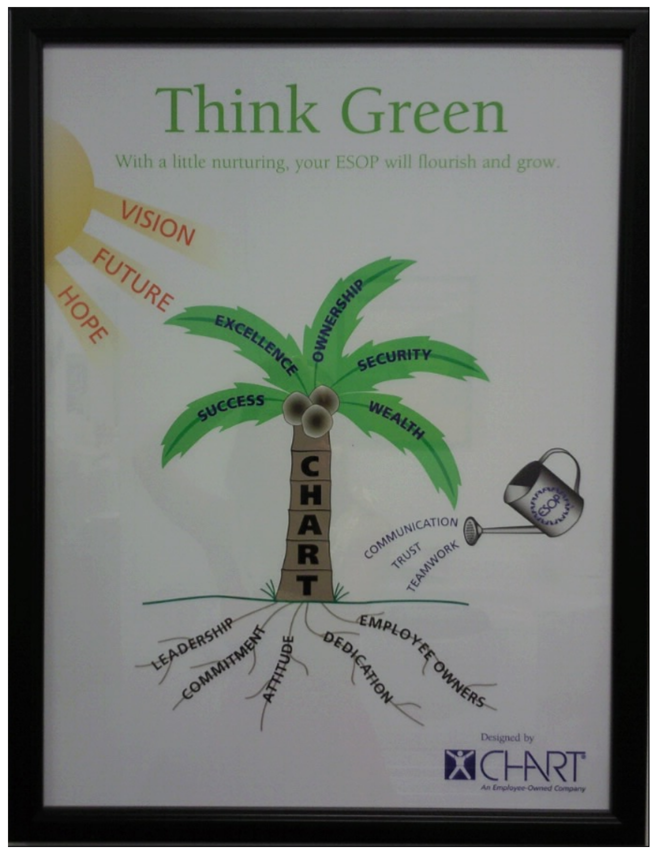


Exhibit 5: The Value of CHART's ESOP Shares