

**Testimony of Lawrence F. Clark**  
**before the**  
**Commerce Committee**  
**of the**  
**General Assembly of the State of Connecticut**

**In Support of**  
**Commerce Committee Bill Number 3**  
**“An Act Establishing an Employee Ownership Program to**  
**Promote Business Retention and Growth”**

My name is Larry Clark. I am Chairman and Chief Executive Officer of Sonalysts, Inc., an employee owned company with headquarters and principal operations in Waterford, Connecticut.

Thank you for the opportunity to present this testimony in support of employee ownership on behalf of the approximately 350 employee owners of our company.

Sonalysts, Inc. -- the name is derived from Sonar Analysts -- was founded by David and Muriel Hinkle following Dave's retirement from the Navy in 1973 after command of the attack submarine USS PARGO (SSN 650) at the Naval Submarine Base in Groton. So we have just entered our fourth decade in business here in Connecticut. Approximately half of our work is in Waterford. The remainder is distributed among smaller offices in ten other states.

Our roots are deep in the Submarine Force, with a number of people working on Federal contracts supplying operations analysis, high technology training, and other professional services to the Navy at the Submarine Base here, as well as in other submarine-related facilities around the country (and not infrequently overseas). Approximately half of our workforce served in the military, so over the years we have also built other lines of business, primarily but not exclusively with the Federal government. Our customers today include various other parts of the Navy, as well as elements of the Air Force, the Marine Corps, the Army, the Nuclear Regulatory Commission, the Department of Energy, the Department of Homeland Security (Coast Guard, among others), and other Federal agencies.

Most of such work is done in classified facilities or on an export-controlled basis (or both), so it cannot be discussed in public. However, we also have one of the largest media production facilities in New England in which we work for various commercial clients. For example, some in the General Assembly will recall that the court room scenes for the Spielberg film *Amistad*, much of the ESPN television mini-series *The Bronx Is Burning*, and a season's worth of the

television game show *Deal or No Deal* were shot on our sound stages. We also have a line of award-winning computer games, primarily in the military simulation genre. Both the media and the computer game lines of business are expansion into commercial areas resulting from our experience providing high end technology training and modeling and simulation work for the Navy.

Dave had been one of the Navy's leading experts in submarine sonar. In fact, by the time he retired he had acquired the nickname, "Mr. Sonar." He knew that there were various needs at what was then the New London Laboratory of the Naval Underwater Systems Center. Most of the people who could help the engineers and scientists to better understand submarine operations were at sea, fighting the Cold War. So he and Muriel thought there was a unique business opportunity. And they had to do something because they had three children to put through college, for which the Navy retirement income was grossly insufficient.

But Sonalysts was initially only a short-range plan. Dave had started law school at night at the University of Connecticut. He had intended to become a practicing attorney, with Sonalysts merely serving as a temporary stepping stone to reach that goal.

As luck (and hard work) would have it, however, the business began to grow. Dave and Muriel offered all newly hired partners (our internal term here for one another) the opportunity to buy some shares because they wanted as many people as possible to take an ownership interest in the business. The plan was still that Dave would in due course begin to practice law, but now there would also be an opportunity for those who had purchased shares to participate in the growth in value of company and, if the business were later sold, in the proceeds obtained.

But the business kept growing, and the plan evolved further. Dave was aware of the concept of employee ownership because of his studies at law school -- specifically, the enactment of the Employee Retirement Income Security Act of 1974. So in 1979, with the business growing significantly and many new partners arriving, the Hinkles set aside the thought of Dave's becoming a practicing attorney and of selling the business. They decided instead to expand the involvement of the partners in determining their own futures by continuing in the business while establishing an employee stock ownership plan, or "ESOP."

Beginning in 1980, the Hinkles gradually sold their shares to the ESOP, with the result that the company had become majority-owned by the ESOP in the early 1990s. It then became 100% owned by the ESOP in 1998. Significant employee ownership at Sonalysts is now more than 40 years old, and widespread ownership through our ESOP is among the oldest such structures in the country -- at 34 years and going strong.

Dave and Muriel could have made much more money by selling the business to one of the big prime contractors. In fact, they turned down several offers.

The Hinkles believed -- and they were correct -- that employee ownership would contribute both to the growth and long-term success of the business, as well as to the retirement security of the individual partners. They also believed that participating in an employee owned business themselves would present the opportunity to enjoy their work and their partners more than selling out to a big company.

Over the years, the company has contributed more than \$55 million to the ESOP, with an average contribution of approximately 7.5% of compensation. Of course the contribution percentage can fluctuate considerably, depending upon financial performance of the company in any particular year. In the aggregate, former partners have received more than \$80 million in cash distributions for their ESOP stock.

The average account balance at distribution depends on a number of variables. But one statistic may be useful for the Committee to consider. Since November 1, 2013, there have been 18 distributions to long-term partners or their beneficiaries. The average ESOP account balance of these 18 individuals was more than \$325,000.

It should also be noted that our company, as is true of many employee owned companies, sponsors a second pension plan. Our Retirement & Savings (“R&S”) Plan offers partners a selection of mutual funds from Vanguard. It has a 401(k) element with a 25% match up to 8% of salary deferred, and a further discretionary floor contribution. As a rule of thumb, a long-term partner has deferred enough salary so that with the floor and the match contributions, the partner’s account balance in the R&S Plan is similar in size to the ESOP account. This of course depends heavily on the rate of contribution from an individual, the particular mutual fund(s) at Vanguard chosen by the individual, the length of participation, and other factors.

Usually a retiring partner who has worked here for a long time rolls the distributions from the ESOP and the R&S Plan into an individual retirement account (“IRA”). He or she then makes withdrawals from the IRA over time, paying taxes -- at ordinary income tax rates, not the lower capital gains rates -- as the money is withdrawn.

Dave and Muriel Hinkle have been proud that the company they created has done important, challenging work for the Federal government and other customers. They have also been proud that this company, and employee ownership specifically, have made it possible for many long-term partners to purchase an annuity that rivals the income available from Social Security. Although Dave died a few years ago, Muriel remains active on the Board of Directors. The corporate history she wrote last year, alluded to earlier, demonstrates how important employee ownership has been in the growth of our company.

We believe that employee ownership has been good for our company, good for us as individuals, and good for the country as a whole. We believe it is a sound public policy, and that its expansion should be encouraged.

Retirement security is a national problem, and employee ownership is one of the best available antidotes.

We applaud the General Assembly for taking up Commerce Committee Bill 3, and we look forward to its passage.