

Creating Effective ESOP Committees



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Moderator

Alex Moss, Praxis

Panelists

Carolyn Maloney, Hypertherm

John Dionne, Windmill International

- **Brief introductions**
- **ESOP Committee Framework**
- **Key questions: for the panel, for you**
- **As we go: examples of tools we use**

Introductions



Who is Windmill International, Inc.



➤ **A New Hampshire Corporation**

- Proudly Serving National Defense since 1988
- 120 Members Strong
- Revenues of \$40M Annually

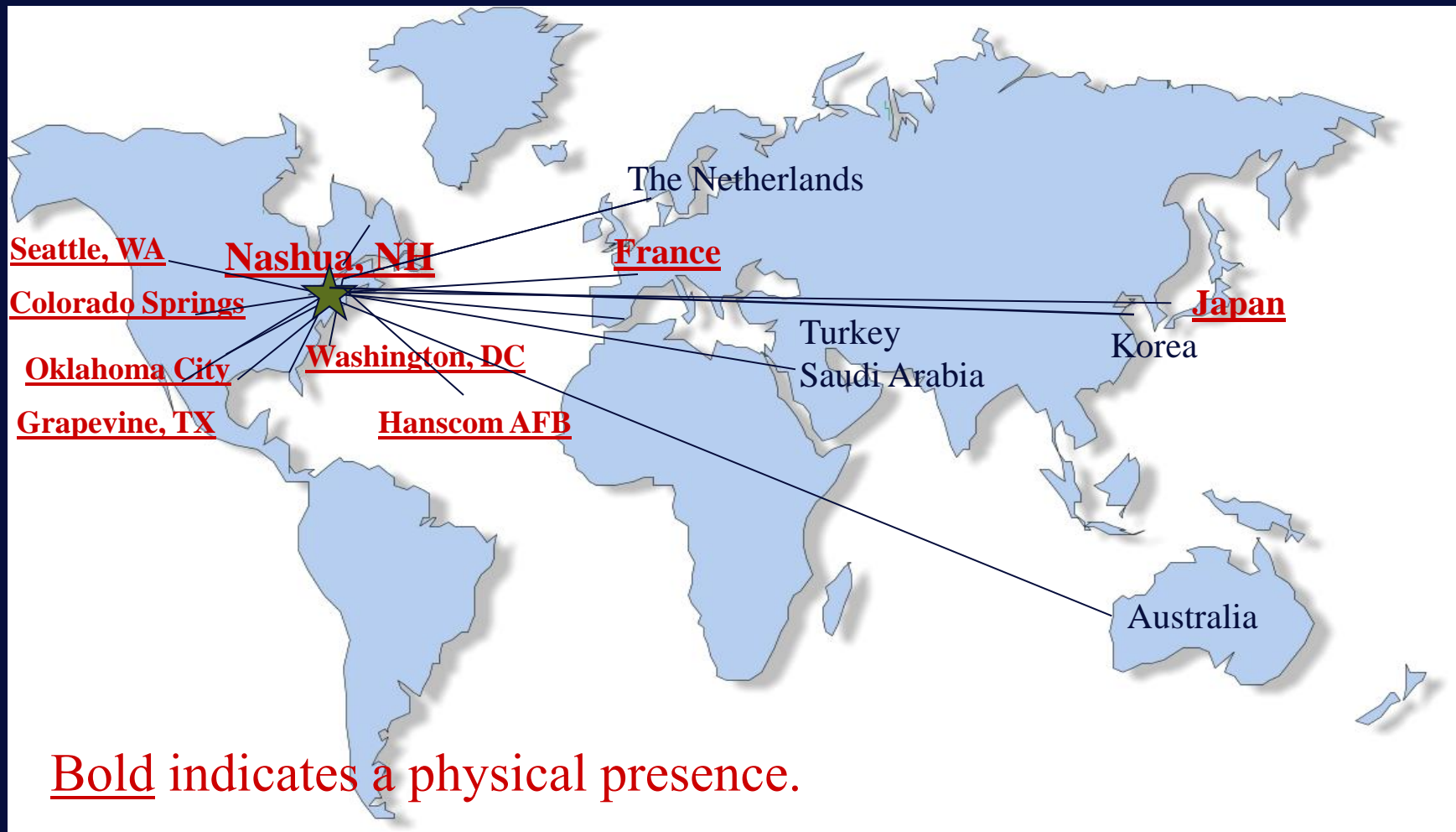
➤ **Customer Base:**

- USAF (US and International Programs)
- NATO (Direct Contract with NATO Program Management Agency [NAPMA])
- Transportation Security Administration (TSA)

➤ **Both National and International**

- National Defense 24%
- International Defense 7%
- Homeland Defense 69%

Where We Are / Customers We Support



Windmill's Unique Corporate / ESOP Fabric



- Windmill is a 22 year old Defense Contractor, Founded and Fostered by Air Force/DoD Rules, Regulations and Lineage
 - Very Formal Chain of Command
 - Only Government/Agency Work - Long Term National and International Clients
 - Majority of Workforce is Mature/Highly Educated/Military Trained and Ranked (many approaching retirement)
 - Variety of Non-Windmill Working Locations/Time Zones
 - Extremely Low Attrition Rate
 - All Business is Centered on Extremely Close Customer Relationships

Windmill Became an ESOP in Dec 2005 – Exit Strategy for Corporate Ownership

Currently 49% ESOP - 20% Through Corporate Earnings/29% Through Debt Service

5 Year Vesting Schedule – Original Members now 100% Vested

Who is Hypertherm, Inc.



- **Company started in 1968 in a Garage**
- **1068 Global Associates**
 - 905 USA Participants in ESOP Plan
 - 27 USA Associates pending eligibility
 - 136 Global associates in Global Stock Value Plan -- Phantom Unit Plan
- **HSOP (Hypertherm Stock Ownership Plan) started in 2001**
- **CAGR of 19% of Stock Value since 2001 vs. CAGR of Dow of 1%**
- **Culture focused on Empowerment, Continuous Improvement, Ethics, Respect for the Individual, and Ongoing Development since 1968**

Where We Are / Customers We Support

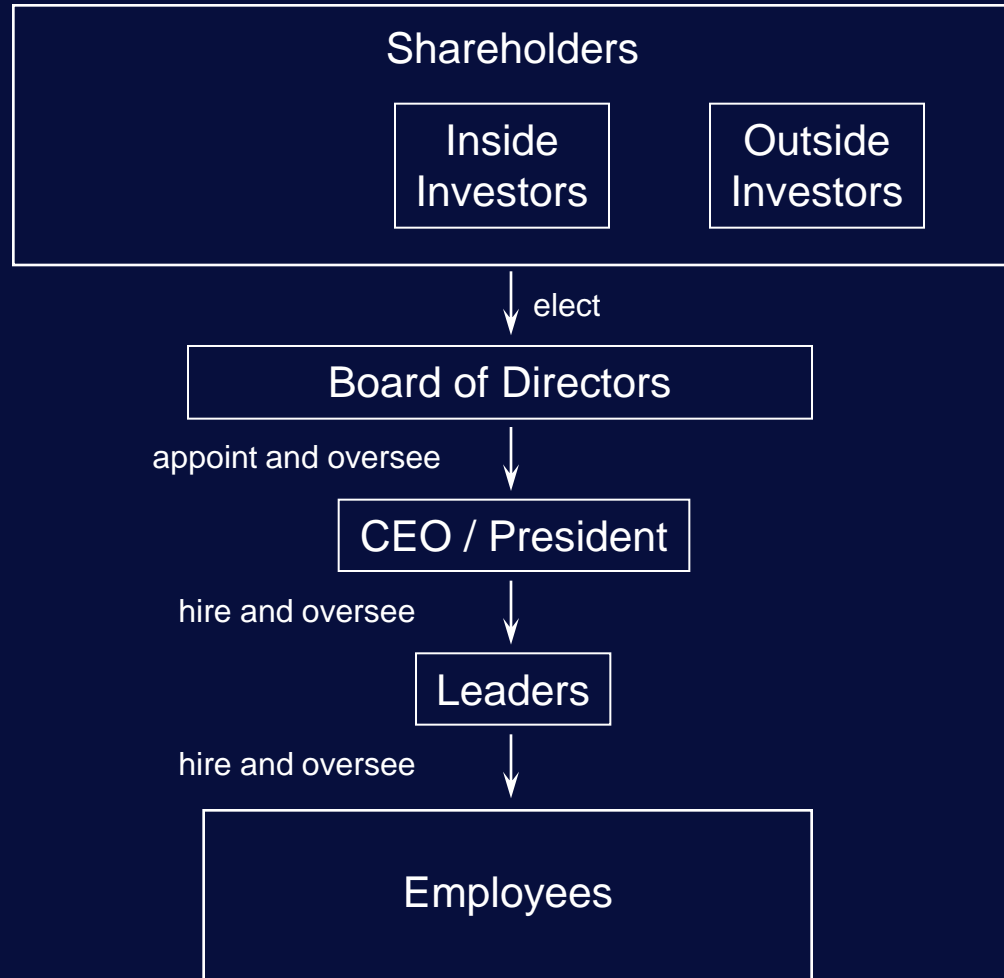


- **12 Subsidiaries Globally**
- **Hypertherm, Inc. is the worldwide market leader in the technological development, manufacturing, and marketing of high temperature cutting equipment and service.**
- **Hypertherm serves a wide range of industrial metal-cutting needs from its headquarters in Hanover, New Hampshire, subsidiaries in Germany, Singapore, the United Kingdom, Italy, The Netherlands, sales offices throughout the world, and through welding distributors and OEMs in 60 countries.**

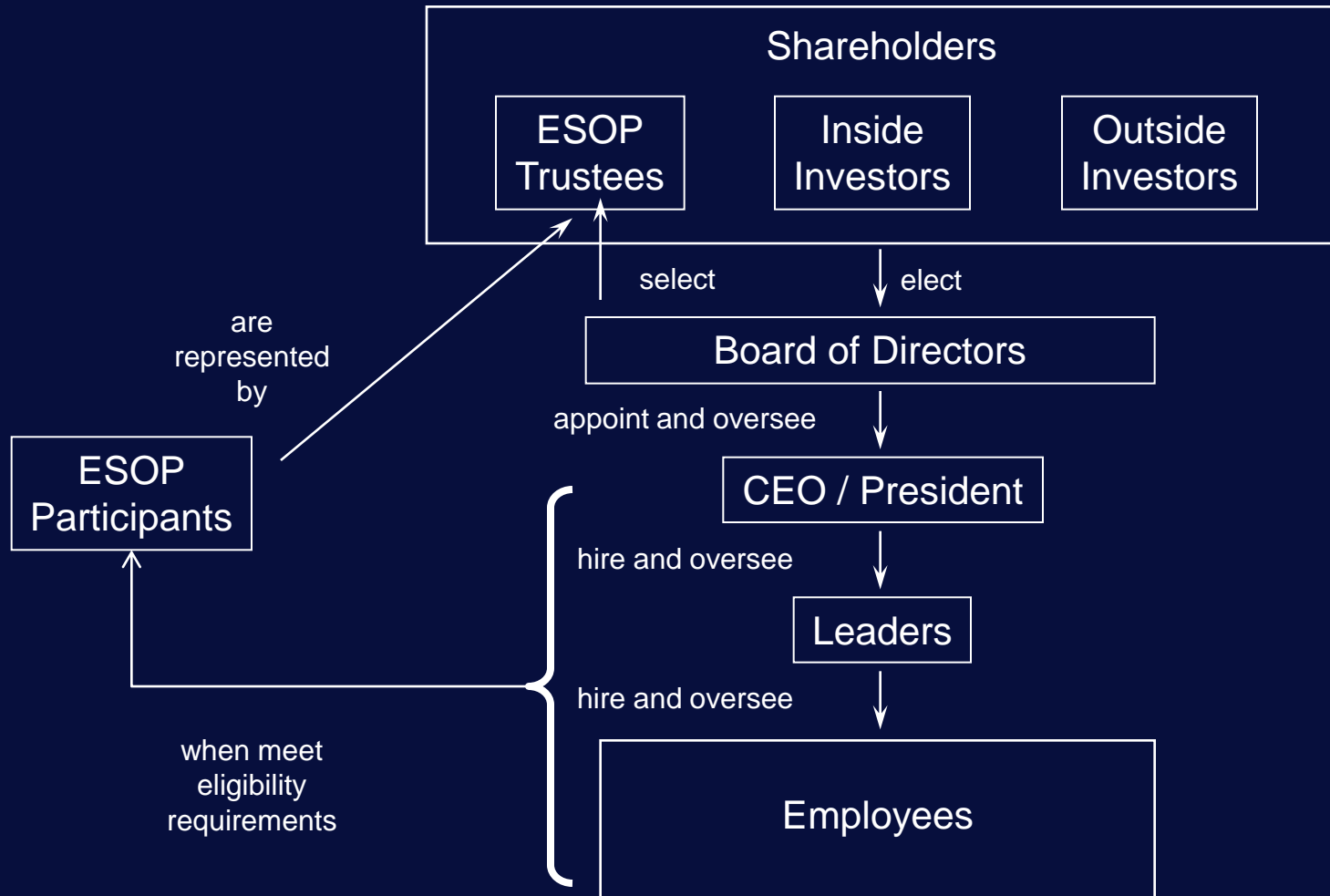
ESOP Committees: Where They Fit



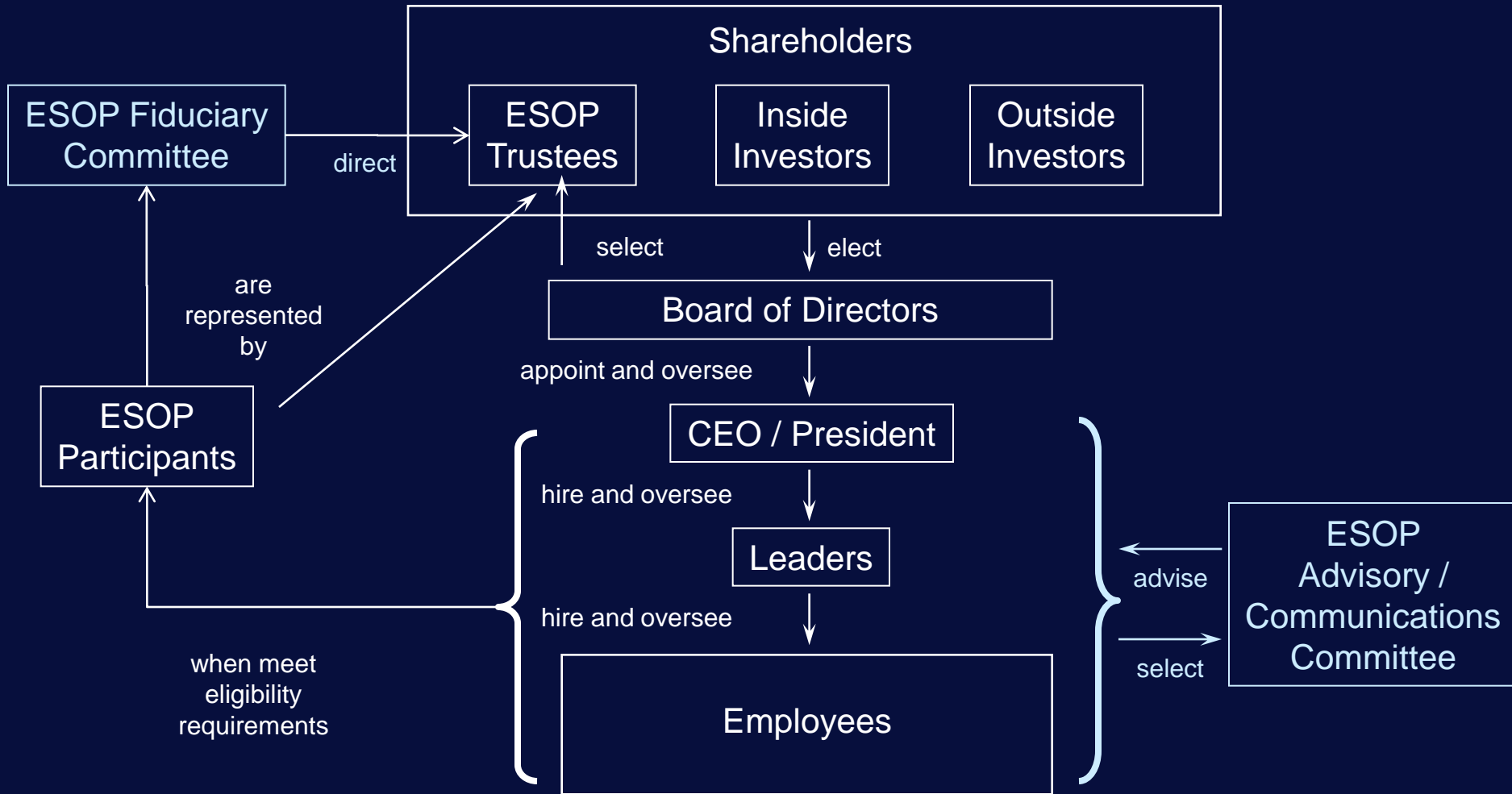
Typical Company: Before ESOP



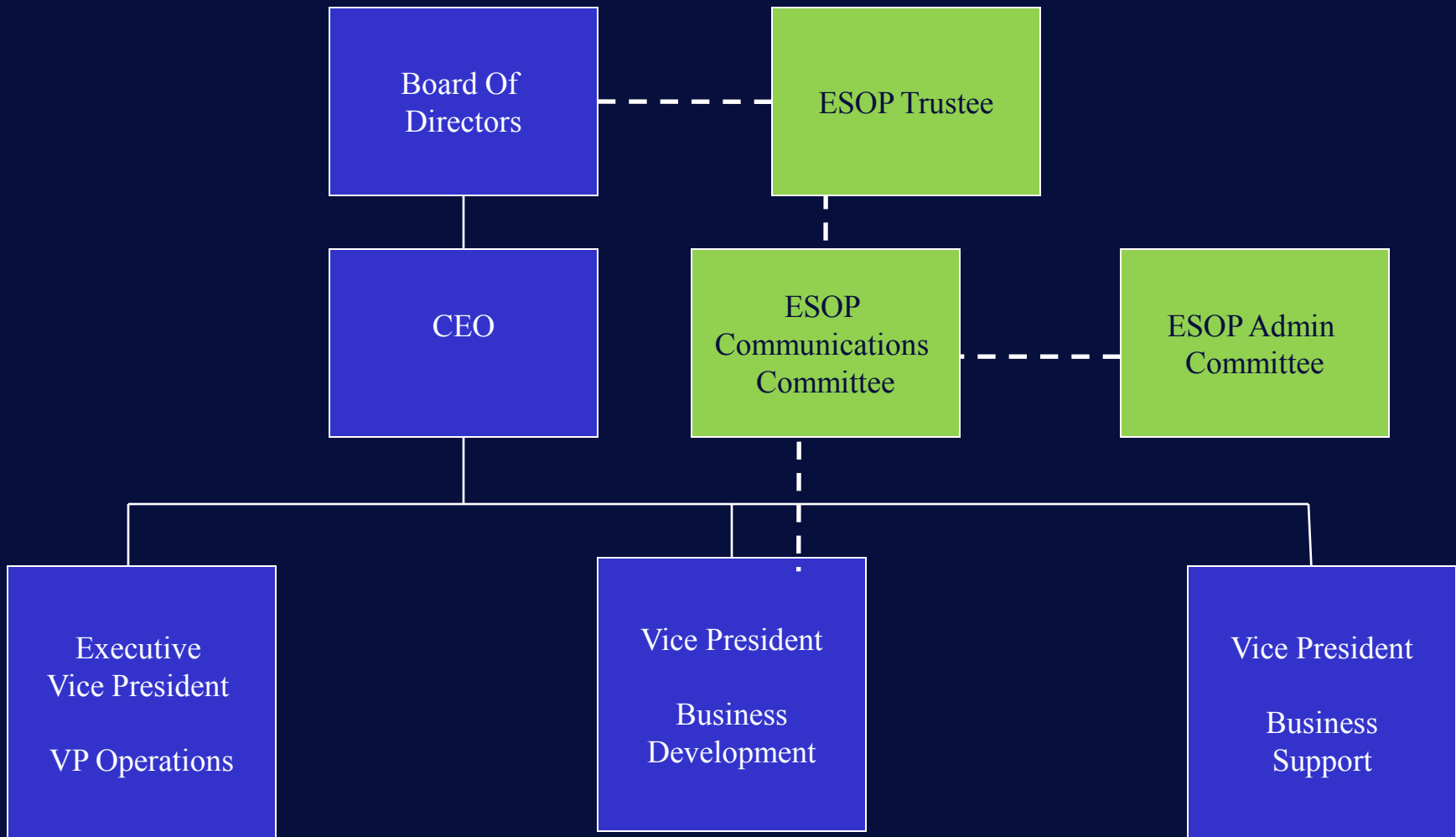
Company Structure: Required ESOP Elements



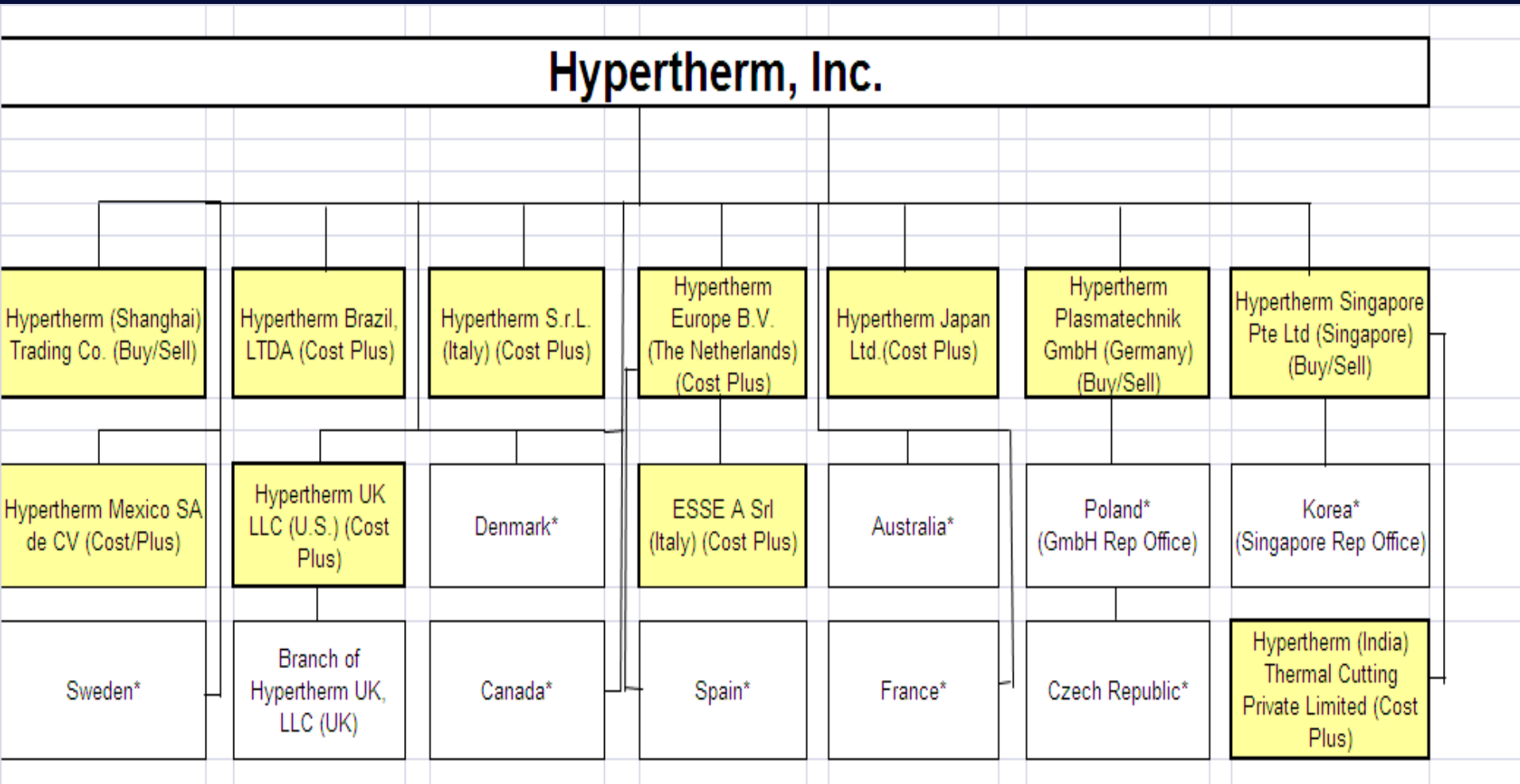
Company Structure: ESOP Committees – 2 types



Windmill: Corporate / ESOP Structure



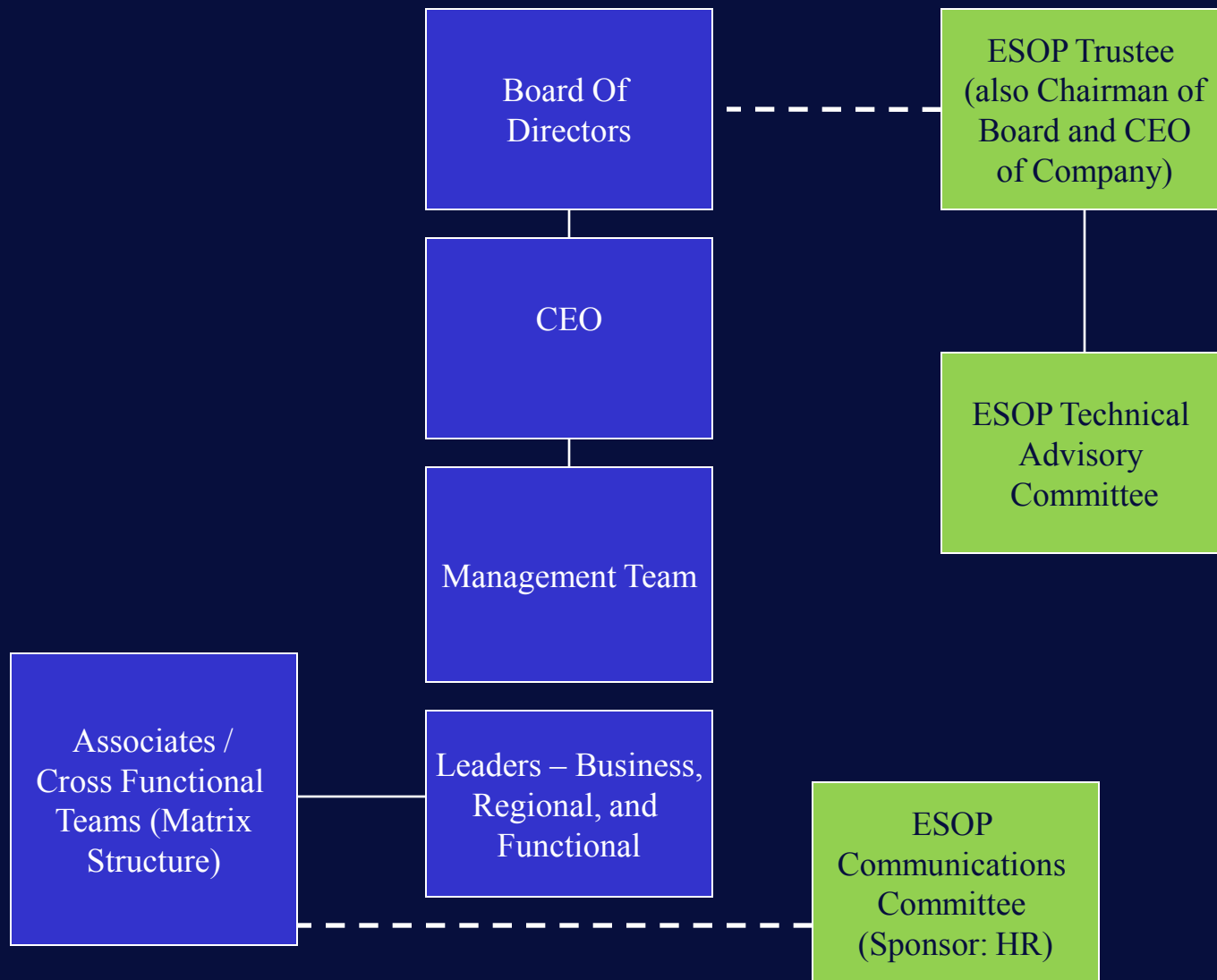
Hypertherm: Organization Legal Chart



Dark Highlighted Boxes Designate Separate Legal Entity (Subsidiaries).

*Represent locations where Hypertherm has only a DSM performing pre-sales activity that do not rise to the level of PE and no legal entity exists.

Hypertherm: Corporate / ESOP Structure



- **Goals & Authority**
- **Structure**
- **Activities**
- **Budget**
- **Accountability**

- **What are the goals of your ESOP committee?**
- **Authority**
 - What decisions does the EC make on its own?
 - On what other issues does it offer input?
 - Why?
 - How has this evolved, how do you keep the expectations clear?

Questions: Goals & Authority

Windmill



- **What are the goals of your ESOP committee?**
 - **Member Owner Support Team (MOST)**
 - **Communications/Training/Member Awareness and Education**
- **Authority**
 - **What decisions does the EC make on its own?**
 - **Budgetary Authority \$25K, Training, Correspondence**
 - **On what other issues does it offer input?**
 - **Trustee Sounding Board/Executive Management Communications Resource**
 - **Why?**
 - **Management Sees MOST as Pure/Non Spin Group**
 - **Inclusion of Management to run the MOST yields much more authority/autonomy than other groups**
 - **How has this evolved, how do you keep the expectations clear?**
 - **Strong MOST Leadership**
 - **Say what we will do and then do what we say**
 - **Earned Management Trust**

Questions: Goals & Authority

Hypertherm



- **What are the goals of your Two ESOP committees?**
 - **Communications Committee (Non-Leaders; Nominations by Committee Members)**
 - Communications/Training/Member Awareness and Education / Celebration

 - **Technical Advisory (Nominated)**
 - Advisory to Plan Administrator and Trustee
 - Three Leaders and Three Non-Leaders
 - Focus on Plan Design Issues / Funds Performance / Development of Organization in regards to ERISA / Sounding Board in respect to Associates for Trustee
 - Key Core Competencies include: Communication, Impact and Influence, External Awareness and Organizational Awareness

Questions: Goals & Authority

Hypertherm



➤ Authority

- What decisions does the Communication Committee make on its own?
 - Budgetary Authority - \$5000., Training, Correspondence
- On what other issues does it offer input?
 - Management Communications Resource
 - Certificate Training
 - Plan Design Training
- Why?
 - Opportunity for Associates to take on Leadership roles
 - Associates from many teams in order to have cross – team representation
 - Staggered Membership
- How has this evolved, how do you keep the expectations clear?
 - Monthly Meetings and Committees
 - Links to Core Values of Company – Development / Growth / Respect for the Individual / Shared Rewards
 - Go to people on teams on how HSOP works

- **What is your EC structure?**
 - Members & criteria
 - Selection process: nominations, selection / election
 - Terms & rotation
 - Committee leadership & special roles
- **How does your structure reflect your goals?**

Questions: Structure Windmill



- **What is your EC structure?**
 - Members & criteria
 - Limited Criteria to membership, vocal proponents selected first
 - Selection process: nominations, selection / election
 - Appointed at first, Elections Envisioned for Future
 - Terms & rotation
 - Rotating Two/Three Year Terms
 - Committee leadership & special roles
 - EC Leadership Presently Part of Management
- **How does your structure reflect your goals?**
 - Our Structure has allowed us to meet and define our goals
 - Executive management trusts our actions and funds us accordingly

Questions: Structure Hypertherm



- **What is your Communication Committee structure?**
 - Members & criteria
 - Suggestions from Committee for members
 - Interest in HSOP
 - Communication Skills, Understands Plan
 - Selection process: nominations, selection / election
 - Committed Members Choose from Suggested Members
 - Leader Commitment
 - Terms & rotation
 - Rotating Three/Two Year Terms
 - Committee leadership & special roles
 - HR Sponsorship; Chair, Vice-Chair and members
- **How does your structure reflect your goals?**
 - Links to Core Values of Company
 - Transparent Communication
 - Leadership Opportunity

- **What have been the most effective activities?**
- **What activities have been less successful?**
- **What themes do you see and how have you responded?**

Questions: Activities

Windmill



- **What have been the most effective activities?**
 - “Ownership Tastes Great” Statement Lunches
 - Owner’s Manuals
 - Cup is ½ Full Mugs
- **What activities have been less successful?**
 - E-mails
 - Legal Documentation
- **What themes do you see and how have you responded?**
 - MOST is seen as the only responsive unit
 - MOST can become the action item machine for the company

Questions: Activities Hypertherm



- **What have been the most effective activities?**
 - Testimonial Books / HSOP Abby in Newsletter
 - Community Service Donations
 - 40th Hypertherm Anniversary
 - “Name That Tune” Contests – HSOP Plan
- **What activities have been less successful?**
 - Trainings in 2010 – Over Capacity Production
 - Poster Contest in 2010
- **What themes do you see and how have you responded?**
 - Need to Reenergize Training tools – Certificates Walk
 - Rotation of Members – Strong Leadership

Questions: Roadblocks Hypertherm



- **What Roadblocks have you encountered?**
 - Disperse Population Globally
 - Many Buildings

- **Tools Used?**
 - Go to Meeting
 - Building in all Buildings
 - GSVP (Global Stock Value Plan) Conference Calls
 - Intranet Site

Questions: Budget



- **How much time do member spend – monthly, annually?**
- **What is the expense budget and what are the key items?**

Questions: Budget Windmill



- **How much time do member spend – monthly, annually?**
 - MOST Meetings are 30 Minutes/Month Via Telecon
 - Probably 1-2 hours additional effort per month
 - With Conference Attendance - 40-60 hours per year
- **What is the expense budget and what are the key items?**
 - The MOST Budget is about \$20-\$25K Per Year
 - Key Items are Event Attendance
 - Statement Lunches

Questions: Budget Hypertherm



- **How much time do member spend – monthly, annually?**
 - Monthly Meetings – 1 hour
 - Committee Meetings
 - Probably 1-2 hours additional effort per month
 - With Conference Attendance - 40 hours per year
- **What is the expense budget and what are the key items?**
 - The Budget is about \$5K
 - Conference costs hit team budgets
 - Brown Bag Lunches

Questions: Accountability



- **Do you measure the return on this investment, and how?**
- **How do you monitor & evaluate the effectiveness of the committee?**

Questions: Accountability Windmill



- **Do you measure the return on this investment, and how?**
 - MOST Committee Feedback
 - Member Satisfaction/Grass Roots Intel Gathering

- **How do you monitor & evaluate the effectiveness of the committee?**
 - Management Feedback
 - Survey Responses

Questions: Accountability Hypertherm



- **Do you measure the return on this investment, and how?**
 - Training enrollment in Cornerstone tool
 - Survey in 2010 on knowledge of plan
 - Number Questions from Associates have dropped

- **How do you monitor & evaluate the effectiveness of the committee?**
 - Management Feedback

Website Hypertherm



Hypertherm Stock Ownership Plan (HSOP)

This page has been developed to provide Hypertherm Associates access to important information about the **H**ypertherm **S**tock **O**wnership **P**lan (introduced in 2001).

Plan Design:

- [FAQ's on Changes to the HSOP](#)
- [Summary Plan Description, 2009](#)
- [Summary Material Modifications, 2008](#)
- [Summary Material Modifications, 2007](#)
- [IRS Determination letter, September 2004](#)
- [Explanation of Amendments, 2009 Fourth Amendment to 2009](#)
- [2008 HSOP Annual Report](#)

Notifications:

- [IRS Determination letter filing, 2006](#)

Education:

- [HSOP Orientation Training](#)
- [HSOP Training Spring 2009](#)
- [HSOP Quick Reference Guide](#)
- [HSOP Introduction](#)
- [Frequently Asked Questions](#)

Stock/Fund Performance:

- [History of HSOP Share Price](#)
- [Q1 2010 Fund Performance](#)

Global Stock Value Plan (GSVP):

- [FAQ's on Changes to the GSVP](#)
- [Summary Plan Description, 2009](#)
- [Frequently Asked Questions](#)

Additional Resources:

- Do you have questions about the HSOP? [Email HSOPAbby!](#)
- OLT holds extra paper copies of the **ESOP** informational session handouts, access to the pdf file of the handout, a video tape of the session as well as the original DVCam cassette recording.
- Employee Stock Ownership Report* (periodical), published by National Center for Employee Ownership, Inc. - see [HyperCat](#) for holdings information.
- [ESOP Association](#)



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