

ABC COMPANIES
OWNER PLAN FOR FY ENDING 2017
Draft January 12, 2017

We (John, Jane, Julie, Jodie, and Jeff) are presenting to the Board of Governors this Owner Plan for ABC LLC (formerly ABC Corporation) and all its subsidiaries (collectively the “ABC Companies” or “Companies”) for fiscal year ending 2017.

This Plan is based on the draft John prepared in July, 2016. It was expanded to include input from the other family owners. It reflects our collective vision, values, needs, and goals (“VVNGs”) for the Companies and ownership for 2017.

We are asking the Board to review and evaluate this Owner Plan and give us feedback on whether it: (i) is comprehensive, consistent, clear, detailed and doable; and (ii) speaks to the risk-reward ramifications for the businesses and ownership.

Our Vision

We see the ABC Companies continuing after John passes away as family-owned, professionally-managed, design-manufacturing-selling companies that provide complete, timely, and high-quality solutions for customers and that:

- Balance entrepreneurialism and discipline to continue the “ABC magic”
- Prepare for the future
- Continually innovate to respond to new and changing markets
- Hire, promote, retain, and reward employees based on their commitment and contributions to the success of businesses
- Take calculated risks
- Grow in share value and provide a fair annual cash return to the owners
- Treat its people fairly and show they are appreciated and respected
- Focuses on being a Great Company

Our Values, Expectations and Commitments

1. We value:
 - (a) Working hard and smart
 - (b) Patience
 - (c) Financial security
 - (d) Solving problems
 - (e) Taking calculated business risks
 - (f) Learning
 - (g) Finding a way to get people to enjoy their work
 - (h) Providing a safe work environment for employees

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- (i) Getter better (“continuous improvement”) every day
 - (j) Promoting from within because we better know the person and the person knows us, ensuring a better fit for everyone
 - (k) Getting the right people in the right places so that:
 - (i) Their responsibilities match their skills
 - (ii) They can be successful
2. We expect our managers to:
- (a) Work hard
 - (b) Work smart
 - (c) Bring their passion, knowledge and skills to their job
 - (d) Contribute to the success of the Companies and our employees and customers
 - (e) Develop our employees; by this we mean:
 - (i) Being patient
 - (ii) Helping people to learn from their mistakes
 - (iii) Matching a person’s skills and passion with their job
 - (iv) Modeling collaboration
 - (v) Supporting team work
 - (f) Protect our culture; by this we mean:
 - (i) Balancing discipline and entrepreneurialism
 - (ii) Balancing accountability, quality and timeliness with making people feel good about themselves and helping people get better
 - (iii) Promoting a trusting environment
 - (iv) Hiring, promoting, retaining and rewarding people based on their commitment and contributions to the success of the Companies rather than their pedigree
 - (g) Protect our business; by this we mean:
 - (i) Balancing planning and creativity
 - (ii) Balancing continuous innovation with results and profitability
 - (iii) Staying agile; that is, getting from concept to reality in a short period of time
 - (iv) Keeping current with changes
 - (v) Anticipating the next generation of products
 - (vi) Taking calculated risks
 - (h) Grow share value and provide a fair annual cash return to the owners
 - (i) Support our Brand Promise: “Customer Focused/Solution Driven/Field Proven”

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3. We expect our employees to:
 - (a) Work hard
 - (b) Work smart
 - (c) Learn from mistakes
 - (d) Do their jobs
 - (e) Help others do their job
 - (f) Make a positive contribution to the success of the Companies

4. We value paying our managers and other employees based on performance, their contributions to the Companies, how long they have been with us, and how difficult they are to replace.

5. John ABC supports and is committed to:
 - (a) Working with the other family owners to modify this Plan to reflect any changes in his thinking as an owner
 - (b) Developing, implementing, and evaluating a Succession Plan for the Companies
 - (c) Being willing to change how things get done, including how he does things, so long as his VVNGs are being achieved
 - (d) Suspending any disbelief of what might be possible or not; in other words, being open to new ways of solving old problems, and he expects others to do the same
 - (e) Accommodating as much as possible the VVNGs of the Companies; our managers; and Jane, Julie, Jeff and Jodie to the extent his VVNGs are being met
 - (f) Giving other people the support and opportunity to practice, learn, and then do what they are going to have to do when he is no longer involved, while he is still involved

Our Needs and Goals

ABC Companies—General

1. We would like the ABC Companies to continue doing what it does well today and what we believe makes the Companies great, namely:
 - (a) Focusing on providing complete, timely, and high-quality solutions for customers.
 - (b) Balancing “entrepreneurialism” and “disciplined.”
 - (c) Hiring, promoting, retaining, and rewarding company employees based on their commitment and contributions to the success of the businesses; this includes:
 - (i) Looking at what a person can do and his passion and character and how he will make us better rather than their degrees and where they have worked.
 - (ii) Paying a competitive base salary and benefits.

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- (iii) Sharing profits with employees making significant contributions to the Companies' profitability.

- (d) Being employee and customer focused
- (e) Providing an inspiring, caring, fun, and family-oriented work environment
- (f) Helping to improve the quality of life in the communities where our plants are located.
- (g) Being "entrepreneurial" includes:
 - (i) Always keeping an eye on what is happening in our industries and markets, new opportunities, but we also need to pay attention to the here and now.
 - (ii) Staying abreast of what our customers need now and in the future and what changes may be affecting our customers' markets and industries, but we also pay attention to our "bread and butter."
 - (iii) Investing in R&D (dedicate people and resources to explore new ideas and solutions, continue to look for the next big "kahuna" product), but we also need a way to sift through all the ideas and determine what will move us forward within our capabilities.
 - (iv) Being innovative, agile, and flexible and staying open to (that is not shutting down automatically) new product and service ideas, but we also need to remain grounded, provide clear direction to our employees, and predictable services to our customers.
 - (v) Committing to lifelong learning to stay on the cutting edge, but we also need to respect "tried and true" practices that others in our organization need to do their jobs.
 - (vi) Taking risks (the biggest risk is taking no risk), but our risks need to be understood, calculated, and subject to evaluation.

- (h) Being "disciplined" includes:
 - (i) Planning (vision, mission, values, goals, strategies, tasks), but we also need to be willing and able to adjust plans to accommodate changes and new opportunities within the scope and capabilities of the businesses.
 - (ii) Tracking/measuring goals, strategies, and tasks, but we also need to be open to accommodating "overruns" on promising projects.
 - (iii) Holding employees accountable, but we also need to treat them with respect, allow them to make mistakes that promote learning and opportunities, and help them develop to their full potential.
 - (iv) Building systems that deliver to our customers high quality services and products; help our employees do their jobs efficiently, effectively and safely; and document procedures and processes to support quality, timeliness,

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predictability, and succession, but we also need to have fun, remain open to new ideas, trust our people, and encourage team work.

- (v) Developing and maintaining a work force with the comLarryncies, commitment, and character to serve our customers and keep the businesses profitable, but we also need to remember that education does not equate to comLarryncies—some of our best contributors do not have college degrees—street smarts, character (e.g. trust, integrity, “can do attitude”) and commitment (e.g. hard work, passion) can be valuable to our businesses.

2. We would like the ABC Companies to continue:

- (a) Growing its sales and profits (15% in sales annually over the long term; continue high profit margins)
- (b) Investing in new products and solutions (2% to 4% of sales in true R&D)
- (c) Diversifying with things we have a passion for, can be the best in the world at, and drive our economic engine
- (d) Taking calculated risks, realizing that if we wait until things make perfect economic sense we may be too late
- (e) Minimizing corporate debt; that is, attempt to grow with internally generated cash, but debt to fund working capital may be required from time to time.
- (f) Retaining contingency and opportunity funds (1% rolling average of previous five years gross sales)
- (g) Providing a clearly understood way to identify, vet, and bring to market new products (including how to balance entrepreneurship and discipline and obtain broad input and support within management (head of NPD, product managers, etc.))
- (h) Growing ownership equity and providing a fair annual cash return to the owners (10% non-tax dividend is current policy; owners are to plan for how they will position themselves not to rely on dividends and be prepared for low or no income years)
- (i) Financing the businesses without owner guarantees

3. We want our managers and other employees to be:

- (a) Questioning
- (b) Hard working
- (c) Creative
- (d) Open minded
- (e) Paid well

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4. We want our executive management team to prepare long term and annual business plans that:
- (a) Describe where we are at as a business (our industries, markets, customers, competitors, strengths, weaknesses, and opportunities)
 - (b) Describe where we are heading over the next several years
 - (c) Identify the Companies' vision, values, objectives, and goals
 - (d) Explain how the Companies are going to achieve the vision, values, and goals for the businesses and the owners' VVNGs
 - (e) Integrate our innovative and creative process into the business planning (discipline) to maintain our unique balance, including explaining the structure, process and support (including money) for:
 - (i) Staying on the cutting edge of innovation (continuously thinking of new products and ideas)
 - (ii) Doing research to assess feasibility
 - (iii) Understanding feasibility standards (the why and what; rate of return (real & potential, long-term & short term); safety; risk (micro & macro)
 - (iv) Evaluating feasibility and approving or not (the who, how)
 - (v) Reviewing/appealing a decision (the who, how, why, what)
 - (f) Describe the people, systems, facilities, equipment, and cash needed to accomplish all of these interests
 - (g) Respond to the owners' VVNGs and are clear; consistent; well thought out; reflect the risks and rewards to the Companies and the owners; consider contingencies; include financial projections and benchmarks
5. We our executive management team to:
- (a) Manage the businesses according to the business plans approved by the Board and consistent with this Owner Plan
 - (b) Be proactive towards, focused on, and caring about:
 - (i) Our employees; including:
 - (1) Hiring, developing and taking care of employees based on the value they can bring to our customers and the Companies
 - (2) Providing opportunities for employees to move up for those who are willing to put in the efforts
 - (3) Creating safe work practices and a safe work environment
 - (4) Empowering our employees, from middle managers on down, to make decisions to grow and better the businesses and thereby themselves
 - (5) Remaining open to ideas and changes generated by the employees

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- (ii) Our customers by listening to their issues, proposing and providing solutions, and executing to exceed their expectations
 - (c) Make wise, “calculated risk” decisions that promote growth and profitability
 - (d) Create and maintain trusting relationships with our board members and owners
 - (e) Develop and maintain healthy and effective channels of communication:
 - (i) Within management and between management and our employees; we want to foster a culture of sharing information so our employees have the information they need to do their jobs effectively
 - (ii) Between the business and its customers and the communities in which we do business
 - (iii) Between management and the board and ownership
6. We believe leadership (and not just management) can greatly enhance a business, and we want our business run by leaders, not just managers. We want the Companies led by a Level 5 Leader. (This is in reference to the 5 levels of leadership Jim Collins identified in his book *Good to Great*.)
- (a) By a Level 5 Leader, we mean someone who can do all of the following:
 - (i) Makes high quality contributions by his/her involvement and possesses the knowledge, talent, and skills to do a good job (Level 1 leader--highly capable)
 - (ii) Uses his/her knowledge, talents, and skills to help the team succeed and who works effectively, productively and successfully with other people in the group (Level 2 leader--team member)
 - (iii) Is able to organize a group effectively to achieve specific goals and objectives (Level 3 leader--competent manager)
 - (iv) Is able to galvanize the management team and organization to meet performance objectives and achieve a vision (Level 4 leader--effective leader)
 - (v) But most importantly, we mean a leader who also:
 - (1) Acts with humility; that is,
 - (a) They don't seek success for their own glory, but so that the business thrives;
 - (b) They share credit for success and they tend to be the first to accept blame for mistakes; and
 - (2) Is fearless when it comes to making decisions, especially ones that most other people consider risky (Level 5 leader—great leader)
 - (b) We want management and the Board to make sure there is a Level 5 leader capable to lead the business when John is not at the top

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- (c) We want to have a formal development program in place for the purpose of elevating all of our senior managers through the 5 stages of leadership and for the board and owners to be given regular updates on its effectiveness
7. We need a succession plan for everyone on the executive management team
8. We want an executive compensation plan that rewards performance based on EBITDA.
- (a) The EBITDA bonus plan needs to include all key people, be more predictable, and be approved by the CEO and Board
 - (b) We would like following factors considered when establishing the plan for these key employees:
 - (i) Their contributions to the overall success of the Companies
 - (ii) How long they have been with us
 - (iii) How difficult it is to replace them

ABC Companies—Succession

1. We want to see the ABC Companies continue as family-owned and professionally-managed design-manufacturing companies even after John passes away (or become incapacitated). We want the Companies to continue after John is no longer involved because of:
- (a) The difference we make in the world with the products we create, the people we employ and develop, the customers we serve, and the communities we support
 - (b) The contributions we make to our employees and their families and the communities in which we do business by providing high-quality jobs
 - (c) The relationships we build among and between our employees, customers, vendors, and communities
 - (d) The “closeness” within the family that can be generated through effective family ownership
 - (e) The financial return it provides to our employees and the owners
2. John makes most of the significant decisions in management, ownership and at the board level right now. We want a plan that will explain who will make what decisions if something happens and John is no longer able to make the decisions he makes now. This Plan needs to:
- (a) Describe the system to sustain and perpetuate what we have built *as if John is no longer involved* and how the system is going to work and be implemented
 - (b) Prepare people to make decisions without relying on John
 - (c) Transfer the “ABC magic” to the appropriate people. We want everyone in senior management, ownership and the board to understand the last 40 years of decisions

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relative to their scope of responsibilities and why those decisions were made so we transfer capture this insight

- (d) Provide opportunities to learn the system, practice it, test it, and make changes to get it running efficiently
- (e) Allow all of this to be done now, while John is healthy

For example, current management and ownership (other than John) may feel unsure of their own ability and rely on John to make decisions. We need to make sure that as we practice the plan we are actually learning how to make decisions without relying on John. Perhaps we can make decisions and John can weigh in later if he would make the decisions differently.

- 3. We want the senior managers, working with the Board, to develop that portion of the Succession Plan that relates to management, including the following:
 - (a) How John will continue to be involved as an employee of the businesses
 - (i) John loves working at the Companies. He wants to continue being involved until the day he dies or becomes incapacitated.
 - (ii) Even though he is CEO now, John knows that he does not perform the functions of a typical CEO and he does not need to be CEO. We see him as an entrepreneur and leader, and we want management to learn from his entrepreneurship and leadership.
 - (b) How John's Transition Objectives will be met:
 - (i) How he can affect big decisions like the direction of the Companies (products, markets, opportunities, risks, positioning, and culture). This may be done within management, ownership, and/or at the Board level.
 - (ii) At some point, no direct reports.
 - (iii) A position where he is in "the field"; that is, with the customers on their turf. He likes to solve problems when he is able to see directly what customers are wrestling with. He wants a position where he can:
 - (1) Bring value to customers.
 - (2) Help to solve problems (for our customers or our design teams).
 - (3) Look for the next big "Kahuna" project for the Companies.
 - (4) Mentor, inspire, and help people on the design teams as needed and requested.
 - (iv) Recognition for what he has brought to the Companies.
 - (v) The opportunity to be gone 2 weeks/month.

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- (vi) A base salary and bonus based on profitability (Possibly 1.5% EBITDA). He does not want to financially strap the Companies, but some compensation and payout based on profits seems appropriate.

- (c) How Larry’s responsibilities are being covered.
- (d) How the senior managers are going to make significant management decisions without being dependent on John and how differences within management will be resolved.
 - (i) John and Larry had their way of making significant business decisions.
 - (1) John tended to represent the entrepreneurial, inventor, visionary, problem-solver, design-builder, and people-person ideals, and Larry was the planner, organizer, and numbers guy.
 - (2) John represented the interests of ownership, and collectively, John and Larry (with the help of others managers) represented the interests of the businesses.
 - (3) They did their best to balance the various competing interests, seeing that people were aligned and differences were result.
 - (4) John and Larry were a great “yin-yang” for the Companies; their relationship had been described as a “dynamic duo” “love-hate” and “needing each other.” By most standards, our system worked well.
 - (a) They found a way to use their different skills and nature to create a decision making system and business environment that was entrepreneurial, creative, fun, and responsive to market changes and opportunities as well as disciplined, performance-driven, accountable, and profitable
 - (b) They worked extremely hard, built great businesses, helped a lot of people, and built a strong business
 - (c) They found a way to overcome their differences and balance or align the different interests that they each represented
 - (d) They were able to do this in part because, whatever their differences, they were always 100% committed to the success of the businesses
 - (ii) The decision making “system” John and Larry created has to change because Larry is gone, *and* John wants to build a system that is not dependent on him. John wants the new “system” to continue integrating entrepreneurial factors with business discipline; he believes this is one reason we have been successful
 - (iii) John knows this will require everyone to step up and change, especially him, but he knows we can do it and he is committed to change.

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4. We, as owners and working with the Board, will develop that portion of the Succession Plan that relates to ownership and how we want the Board to work with us as owners and management, including the following:
- (a) How ownership is connected to the Companies.
 - (i) John has historically made whatever ownership decisions have had to be made. When he did this, he did not make much distinction between ownership and management decisions. He just did what he thought was right for the businesses and everyone involved.
 - (ii) When John dies, most of the ownership of the Companies, including voting control, will be held in various trusts for the benefit of Jane, Julie, Jeff and Jodie and more remote descendants. It is unlikely that any owner will have a foot in ownership and management like John has had so that all of us would accept that person making all of the decisions on their behalf.
 - (iii) How owners are connected to the business will address:
 - (1) How owners will provide their input into the businesses while still allowing management to run the businesses.
 - (2) How the owners will speak with one voice; we do not want owners lobbying for their individual interests.
 - (3) How trustees and beneficiaries are involved in ownership because both groups have an interest in the businesses (the trustees as “legal” owners and the beneficiaries as “beneficial owners), yet each group has different legal responsibilities.
 - (4) How managers and directors who own stock are involved in ownership work.
 - (5) How family owners will not kill the “golden goose” by taking out too much in distributions.
 - (b) What owners do and what management does as it relate to the Board and ownership.
 - (i) We have not had to think about the differences between ownership and management before; John was the bridge between ownership and management.
 - (ii) When one person (John) no longer speaks for ownership and management, it is necessary to identify the different roles and responsibilities of these two groups.
 - (c) What decisions owners make, how owners will make decisions, and how differences within ownership will be resolved.
 - (i) John has historically spoken for the ownership group so there have not been any differences to resolve.

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- (ii) Going forward, Jane, Julie, Jeff and Jodie need to identify how differences within ownership will be resolved without relying on John.

- (d) How differences between management and ownership will be resolved if they arise.
 - (i) John does this now.
 - (ii) He is the one that makes sure ownership and management are aligned.
 - (iii) We need another way for this to happen when John is not here.
 - (iv) We see the Board being important here.

- (e) How the Board will work with the ownership group.
- (f) How the Board will work with management.
- (g) How spouses are involved with the businesses.
- (h) How John's voting shares should be held when he dies or becomes incapacitated.

ABC Companies—Ownership

1. We want family owners to be prepared for how to be responsible owners when John is not involved. We want them to be able to work together on ownership. We do not want any family owner to be in a position of holding another hostage.
2. We want to:
 - (a) Be patient investors; nurture the Companies, allow them to grow
 - (b) Be self-sufficient financially (not dependent on the Companies' profits) so we can be in a better position to be patient with the businesses, accept risks, and allow mistakes to be made.
 - (c) Keep our lifestyles within the funds available without looking to the value of the Companies or annual distributions.
 - (d) Know the people in charge (on the Board and senior management) and know that we are keeping good leadership and getting rid of bad leadership.
3. We want to review and update the family employment policy and present it to the Board and management to receive their input.
4. We want to be able to promote ABC as owners.
 - (a) We believe that being a family-owned business is an advantage for our business because we are committed to our cause, employees, and customers for the long term
 - (b) We would like to leverage this more than we do now
 - (c) We would like G3 owners to:
 - i. Get invitations to company events like Christmas parties and quarterly, company-wide meetings at all ABC locations

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- ii. Be able to attend all meetings of the board
 - iii. This does not mean that attendance is mandatory but we would to be invited
 - iv. We know this will require that we understand our roles as owners and we perform whatever owner function is appropriate given the event
5. We would like to receive the following information:
- (a) On a monthly basis—updates on the financial health of the Companies
 - (b) On a regular basis—updates on the financial health of the Companies, employment of key people, management plans, board plans, progress on management’s plans and our Owner Plan
 - (c) As needed—updates on the industry, opportunities the businesses are pursuing, how the businesses maintain what we have already developed
6. We need to develop an educational-type of program that offers family owners who do not work in the business the opportunity to increase their knowledge through participating in some way that is not disruptive or does not interfere with management

ABC Companies—Board

1. We want the Board to take on more responsibility. We specifically want the board to:
- a. Evaluate senior management, currently that would be John ABC, Pete and Phil (We would rather not have John ABC evaluate Pete and Phil because he wants to transition from this type of leadership)
 - b. Require that senior management do the business plans we are asking for
 - c. Push management out of its comfort zone for continued growth and not “comfortableness” so that our businesses keep moving in a positive direction
 - d. Evaluate the business plans so they are well thought out and agreeable to the board and management and that the business plans align with our Owner Plan
 - e. Work with senior management until the business plans are acceptable to the board
 - f. Require management to regularly report to the board on where the business is at, where we are going, and how we are doing according to plan
 - g. Own the process of integrating the business plans and Owner Plan, and, if differences exist between these plans, we want the board to either:
 - i. Direct management to consider changing the business plans
 - ii. Direct ownership to consider changing its Owner Plan
 - iii. Direct both groups to consider changing their respective plan
 - h. Ensure that management and ownership understand the other side.

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- i. Help both groups come up with the best solution, not necessarily by compromising but through making the best decision
2. We do not want the Board to manage the businesses or make ownership decisions.
 - a. We want management to make management decisions, solve management problems, and own the results of their problems solving. We want management to do Business Plans that explain how the Companies are going to move forward to achieve the interests of the owners and the businesses. We want management to be held accountable by the Board to fulfill their management responsibilities.
 - b. We want ownership to make owner decisions, solve ownership problems, and own the results of their problem solving. We want owners to speak to the Board with once voice, using an Owner Plan to identify vision, values, needs and goals for the Companies. We want ownership to be held accountable by the Board to fulfill their ownership responsibilities.
3. We want the Board to remain independent of ownership and management and to act objectively and fairly in how it directs management and ownership.

ABC Companies—Financial Return

2. We do not want the owners or trust beneficiaries to have to personally guarantee any debt of the Companies
3. We do not need money from the Companies except:
 - (a) We need enough to pay my income taxes on business income payable by us.
 - (b) John would like to continue receiving his base salary and bonus, but he is open to change this if the dollars are either used for R&D or special projects he support sand/or shared with a broader group of executives pursuant to an executive bonus plan
4. We would like, if possible, the Companies to distribute annually 60% of profit each year to the owners.
 - (a) 50% would be ear marked for income taxes
 - (b) 10% would be seen as a cash return to owners
5. We do not want to have to contribute any of our personal funds to the Companies. We may be willing to do so, but we would rather not be put in the positon of having to decide this