

The Laitram Compensation System

Laitram's philosophy is to compensate employees based on (1) the value of a person's individual contribution to the Company, and (2) the success of the Company. Using commissions, production incentives, and quarterly and year-end profit incentives, our compensation system offers employees the potential to receive higher pay over time than is offered with standard compensation approaches. Although not perfect, we believe our system is far better than a traditional pay system and we have not seen an overall compensation system that fits our needs better than this one.

It is extremely important that you take the time to carefully read *and understand* this material. You should discuss any questions you have with your Supervisor or Human Resources.

Laitram's Compensation System

Our goal is to provide each employee a package of base pay, benefits and, in some areas, production incentives that is competitive with the market. In addition, each employee has the opportunity to earn outstanding total compensation by sharing in the Company's success through outstanding individual performance. Employees receive a "return on their investment" of time, energy, ideas, and hard work.

Base Pay
 Benefits
+Incentives (year-end, quarterly, production or commissions)
 Total Compensation

“Variable Pay”

One of the components that differentiates our pay system is the importance of variable pay in total compensation. With our production incentives, profit incentives, and commission plans, pay may vary from check to check (production plans), calendar quarter to calendar quarter (quarterly profit incentives, plastics production incentives, or commissions) or year to year (year-end profit incentives). Our goal in having variable pay as part of our compensation plan is to offer employees the opportunity to benefit from both improvements in individual performance and increases in Company profitability.

“Pay at Risk”

When we talk about “pay at risk,” we mean any difference (deficit) between your **base pay** and **market value**. This “pay at risk” is the actual pay that you are “risking” (you could earn it somewhere else) in order to participate in our various incentive plans.

Our philosophy is to have little or no pay at risk for entry-level positions. As you go higher in pay and responsibility, there would be more pay at risk, and therefore higher variable pay (incentives) when the Company increases profitability.

Example:

- Assume that the market value in the New Orleans area for an experienced widget maker is \$15 an hour.
- If the widget maker is paid \$14 an hour under our compensation system, then he has \$1 an hour “at risk.”
- If the widget maker earns \$2 an hour in production incentives, then his variable pay is \$2 per hour.

\$14	Base Pay	+	<u>1</u>	+ “Pay at Risk”
\$15	Market Value			

\$14	Base Pay	+	<u>2</u>	+ Incentives (Variable Pay)
\$16	Compensation (not including benefits)			

Base Pay

The focus of our compensation program is to make sure each employee has the opportunity for outstanding *total* compensation (base pay + benefits + incentives).

Base pay should be determined by the individual's market value and the individual's ongoing value to the Company. This ongoing value is determined by considering two factors:

1. **Consistent, sustained performance over time.** Any spikes in performance should be rewarded/recognized through variable pay (for example, incentives). Base pay should reflect proven and consistent performance.
2. **Market value.** Our pay must be competitive for us to retain key employees. Although our pay plan emphasizes total compensation over base pay, our base pay should be in the range with base pay for similar opportunities in the market.

Our system of determining base pay and the role base pay plays in total compensation depends on an individual's job function and department.

Standard Plan

For most positions at Laitram and its subsidiaries, base pay is set within the market value range, though typically below the median rate.

Commissioned Sales Employees

Employees paid a commission may also receive base pay below market value. Through our commission plans, these employees have a better than average opportunity to earn significant variable pay by increasing sales in their customer accounts.

Managers and Top Professionals

Many of our Managers, Supervisors, and top professionals earn significantly less than their market value in base pay. The theory here is that these individuals make decisions that can have a major impact on the Company's profitability, so more of their pay should vary based on our success. These employees will suffer more when profitability is down, but benefit more when profits are good.

Q&A on Base Pay

Q. How do we determine market value?

A. We use a number of sources in determining an employee's market value. The most important thing to remember is that determining market value is not an exact science. We try to determine a range of market value by using wage surveys, talking to other companies, evaluating the qualifications and pay of incoming applicants, evaluating turnover in certain positions, etc. We have found that as we look at higher priced jobs, the range of market value becomes wider.

Q. Is market value based on New Orleans salaries, or do we use national surveys?

A. This answer depends on the specific position we are evaluating. For most positions, we use New Orleans survey figures and obtain data from other local companies. We do this because, for most of our positions, we only recruit in the New Orleans area, so what Customer Service Representatives make in Chicago or Los Angeles is of little value. For some positions, however, we do widen our geographical area. For certain skilled or supervisory positions, we will recruit in other areas of the country. When we are competing with other cities for employees with specific skills, we may need to use regional or national surveys to be competitive.

Q. How do I get increases in my base pay?

A. Increases in your base pay should be directly related to increases in your market value and your long-term value to the Company. An employee who takes on significant additional responsibilities or learns skills that would increase that employee's value to the Company and in the marketplace should be rewarded by a raise in base pay.

Q. When does my Manager or Supervisor review my pay base?

A. From mid-February through early March of each year, Managers and Supervisors review the base pay of their employees. Normally, the Company will establish an annual salary adjustment, or standard increase, for those employees who have been properly paid since the last wage change and who have performed to the Company's expectations.

Q. What method does the Company use to determine the standard wage change each year?

A. Laitram uses the National Consumer Price Index (all U.S. cities) ("CPI") as a guideline for establishing a standard increase for employees. The change in the Consumer Price Index is used for the year-ending November of each year.

Q. Why do we use this measure for our wage increases? Wouldn't a local or regional measure work better?

A. We believe that the national CPI is the best measure of price increases on a national basis. On a long term basis, the regional or local figures should not differ materially from the national figures.

Discretionary Profit Incentive Plans

The Laitram Profit Incentive Plans were originally established for all of our companies in 1990. Since that time employees have received incentive distributions totaling over \$200 million. The Laitram Profit Incentive Plans are a foundation piece of the Laitram Business Philosophy. These Plans are discretionary bonus plans and not qualified (government approved) profit sharing plans. The Plans do not guarantee payments or the amount of payments and are not an employment contract.

For most eligible employees, our profit incentive plans have two major components: a quarterly incentive and a year-end incentive. The total of these two pools will normally be 31.5% of a division's profits after an established return on net assets (the standard "ROA" is currently 8.5%), and 10.5% of consolidated profits after an established ROA for employees of the Corporate group (including Machine Shop employees).

As noted, these profit incentive plans are discretionary. The Company can at any time opt (1) not to make payments, (2) to change the amount of the payments, (3) to modify the Plan, or (4) to terminate the Plan. Additionally, the Supervisors of each department can make the determination of the extent of participation (0% - 100%) in the incentives of each eligible employee based on the employee's overall work performance, effort, and compensation.

Q&A on the Laitram Profit Incentive Plan

Q. Why is the Corporate group's percentage different from the division's percentage?

A. The Corporate pool is based on the consolidated (total) profits of all of the divisions of the Company. The 10.5% was selected because we estimated that in a normal year an employee in Corporate would have approximately the same opportunity for exceeding their market value by the same percentage as an employee in any division.

Q. Why should I risk pay based on the Company's profitability?

A. Our system does have some pay at risk, particularly for Managers and highly paid employees; but the rewards from the incentive pool are potentially unlimited. Long-term, we believe this plan provides a much better opportunity, both in total compensation and stability, than a traditional pay plan. It's *every* employee's job to make us profitable.

Quarterly Incentives

Initially created in 1990, the Profit Incentive Plan provided for the possibility of discretionary profit-sharing incentives payable on an annual basis following the conclusion of the calendar year for many employees not covered under production bonus, commission, or departmental incentive plans. In April 1999, the Plan was changed to spread out the payouts of incentives: rather than a single year-end payout, a portion of incentives (if authorized) would be paid to eligible employees on a quarterly basis during the year, with a final year-end payout (if authorized) payable after the conclusion of the year. The quarterly payouts were added in part to help increase employees' interest in and awareness of the Company's profitability throughout the year, rather than solely at year-end. The intent of this change was not to pay employees a higher or lower amount of total incentives, but only to change the timing of the potential payouts.

Because of the seasonality of Laitram Machinery's business, Machinery employees do not participate in quarterly payments. Its entire incentive pool is distributed at year-end. Likewise, most employees outside the United States receive a year-end incentive payment only.

The **quarterly component of the Profit Incentive Plan** includes the following features:

- The quarterly pool for Corporate, Intralox, Laitram Machine Shop, and Lapeyre Stair will normally be based on a percentage of the incentive pool generated during the previous quarter using the formula described above.
- The Company will determine whether a quarterly incentive will be paid following the conclusion of each calendar quarter
- If a quarterly payment is made, employees will normally be eligible except:
 - Employees on any commission plan;
 - Employees on departmental productivity incentive plans (e.g. Lapeyre Stair Production, Intralox Assembly and Plastics, etc.);
 - Employees who are classified as independent contractors, leased employees, or temporary employees on the Company's books and records; or
 - Employees who leave the Company prior to the distribution of the quarterly incentive payment.
- The pool will be divided among all eligible employees using a method established by the Company, which is normally an objective percentage of base pay.
- A division must have a profit for the possibility of a payment to be considered. If there is a loss in a division, that loss will be carried over to the next quarter but will not be carried over to subsequent years.
- A certain percentage of the pool may be allocated for foreign operations before the quarterly pool is determined.

Q&A about Quarterly Incentives

Q. When are quarterly payouts made?

A. Quarterly payments are usually made at the end of the month following the end of each calendar quarter. For example, the first quarter ends on March 31; incentives payments for that quarter would normally be made no later than April 30. Because of the increased workload in reaching year-end figures, we may not be able to pay the fourth quarter incentive by January 31, but we try to do so by mid-February at the latest.

Q. The quarterly incentive is based on my eligible quarterly pay; what parts of my pay are included as "eligible" in the quarterly calculation?

A. Eligible pay includes base pay, holiday pay, and used PTO. Overtime pay, short-term or long-term disability pay, and any form of production incentive/bonus will not be included in the employee's eligible pay used in the calculation of quarterly incentives.

Q. Can you explain how the quarterly incentive percentage is calculated and what it means to me?

A. The quarterly incentive percentage represents the total quarterly incentive pool divided by the actual total quarterly pay described in the previous question. Each employee eligible to receive quarterly incentives is paid the same percentage of their actual quarterly pay; so your individual quarterly incentive equals the division's quarterly incentive percentage times your actual quarterly pay. An example of a quarterly incentive calculation is provided on page 12.

Year-end Incentives

At the end of each year the Company reviews the financial results of each division for the entire year and makes a decision as to whether a year-end incentive will be paid to eligible employees and, if so, what amount.

Determining the Size of the Year-end Incentive Pool

The amount of each division's incentive pool is calculated the same way. After the preset ROA is reached, 31.5% of each division's profit is placed in the incentive pool and 10.5% of consolidated profit is placed in the pool for Corporate and Machine Shop employees. Any amounts paid previously in quarterly incentives are deducted to determine the year-end incentive pools. The pools are calculated objectively based on the profitability of each division.

Individual Incentive Decisions for Year-end Incentives

Although the size of the incentive pool in each division is determined by a formula, individual allocations of incentives are determined subjectively. Each Supervisor makes recommendations based on an individual's productivity and contribution to the department over the past year. These recommendations are then reviewed by the Department Manager, the Division General Manager, the Chief Financial Officer, the Human Resources Director, and finally Jay Lapeyre, President of Laitram, L.L.C. Throughout this review process, specific numbers are challenged and Managers need to justify each incentive recommendation. Our goal is to do the best that we can to reward employees who have made exceptional efforts over the past year and who have contributed the most to the division's success.

Q&A About Year-end Incentives

Q. What factors should my Supervisor be considering when determining my year-end incentive?

A. We give the following guidelines to Supervisors so that they can effectively recommend incentive amounts for employees.

1. Does the employee's **total compensation** match his/her contribution level? This total compensation would include base pay (including overtime), as well as production bonuses, commissions, or quarterly incentives paid throughout the year.
2. How much did the employee contribute to the productivity of your department? Did the employee supply ideas that have made us more productive? Has the employee been a team player?

3. Are there any performance or example-setting issues such as poor attendance, extended absences due to illness or other reasons, repeated tardiness, or accidents due to unsafe acts that have hurt the productivity of the department?
4. Was the employee in the department long enough to make a significant contribution?
5. Was the employee paid for overtime worked? The Supervisor should look at total compensation when considering the amount of incentives for exempt employees (salaried) versus non-exempt employees (hourly). We do not intend to penalize employees for being paid overtime, but we do want to take into consideration any substantial overtime worked by exempt employees for which they were not paid.

Q. When are year-end incentives paid?

A. If it is determined that a year-end incentive will be paid, we intend to pay it by March 15, if at all possible. This payment covers the prior calendar year (January 1 through December 31).

Q. Why aren't all employees covered equally under the year-end incentive plan?

A. For an incentive plan to be successful in changing behaviors, the participants must see a relationship between individual efforts and the incentive received. In certain areas of the Company (production, sales, etc.), we believe other bonus incentive plans are more effective in rewarding excellent performance. All employees are eligible to participate in a production incentive plan, a commission plan, the quarterly and/or year-end profit incentive plan, or a combination of plans.

Production Incentive Plans

The production incentive programs that we have in certain departments (for instance, Intralox Assembly, Intralox Plastics, and Lapeyre Stair Production) have been a source of a lot of questions. When we talk about the Laitram Incentive Plan, we typically mean the discretionary profit-related plan. Employees who receive a production bonus check often think we are speaking of their specific production bonus plan. These are totally separate plans.

These plans are based on a preset formula of production goals. If a team, department, and an individual meet these goals, the monthly incentive or bonus is paid.

Q. These plans seem to cause confusion. Why do we have them?

A. Every bonus or incentive plan that we have is designed to increase productivity. The advantage of these plans is that employees should be able to see a direct correlation between increased productivity and earnings.

Q. The Company often talks about Market Value. Is my Market Value my base pay or my base pay plus my production incentive pay?

A. This actually varies depending on which department you are in. The key is that, in total compensation, our average performers should be making above their market value when you combine base pay plus monthly production incentives. Outstanding performers can earn well above their market value when we combine base pay and monthly production incentives.

Q. Why don't we calculate benefits on the total of my base pay and monthly production bonuses, instead of just my base pay?

A. Many of our benefits (such as our 401(k), long-term disability, unemployment insurance, and social security) are paid on *both* base pay and monthly incentives. PTO and holiday pay are calculated on base salary only. The issues are: (1) Is the total compensation of the employee on the monthly production incentive plan above market value after considering the lower PTO and holiday pay they are receiving; and (2) If not, is the difference great enough to justify the administrative costs of calculating PTO and holiday pay under a different formula? We've analyzed our programs and believe that employees who have the monthly production incentive plans generally earn more than their market value.

Sales Commissions Plans

The sales commission plans that we have in several departments throughout Laitram operate under a somewhat different theory of compensation. Commission plans are used by many industries in the sales function to create a direct connection between a salesperson's productivity and his/her compensation.

Q. How does the concept of market value relate to commissions?

A. Sales positions vary significantly in the ratio of guaranteed (base) pay and variable pay (commissions). Our intent is to provide a reasonable base pay for our sales force based on the individual's experience level. In addition to that, our commission structure allows our sales force to earn total compensation, not including year-end incentives, that is very competitive in the market.

Q. How are commissions calculated and paid?

A. The various commission plans at Laitram operate a little differently due to differences in the type of product, profit margins, etc. The department head of each department with a commission plan can provide that information if you are affected by that plan.

Benefits

Benefits are a significant part of your total compensation at Laitram. When individuals look at job opportunities, they often leave fringe benefits out of the decision. It is a mistake to assume that all companies offer similar benefits.

Q&A on Benefits

Q. Don't all companies have to offer the same benefits?

A. There are a few benefits that are required by government regulation. These include FICA (Social Security taxes), unemployment insurance, and workers' compensation insurance. There is no government requirement to offer paid holidays, PTO, disability pay, life insurance, or any type of retirement plan. These Laitram benefits are offered to attract and retain the highest caliber of employees possible, to help protect our employees against catastrophic losses, and to help provide a balanced lifestyle.

Q. The Company talks a lot about benefits. How much are my benefits worth?

A. The exact cost of your fringe benefits is not easy to calculate. To get an approximate number, we have developed a Total Compensation Calculator that can be found on the Laitram Intranet on the Human Resources page. This calculator is intended to give you an approximate value of your total *annual* compensation (base pay, overtime if applicable, benefits, and incentives).

Q. I think I'd rather skip the benefits and get the money.

A. Most of us think we will never need benefits like short-term disability, long-term disability, or life insurance. However, as a Company, we have decided to ensure that people have some level of protection against catastrophic illness or injury and long-term disability. We believe most responsible people would make similar selections on benefits, so it is more efficient and cost effective to provide this protection through Company benefits. If we did not provide these benefits, you would have to purchase the benefits you want with *after* tax dollars. In addition, individuals could pay a significantly higher cost for the same benefits because group rates/discounts would not apply.

Q. Where I can find a complete listing of my benefits?

A. Visit the Human Resources page on the Laitram Intranet to locate the "Employee Benefits Summary" or call Human Resources for a copy.

These benefits include the following:

- Medical/Dental Insurance
- Paid Holidays
- Paid Time Off
- On-site Health and Wellness Center (Harahan campus)
- On-site Fitness and Nutrition Center (Harahan Campus)
- 401(k) Plan – 4% Company match plus a 3% year-end Company contribution for employees of record as of December 31
- Life and AD&D Insurance
- Long-Term Care Insurance
- Short and Long-Term Disability
- Tuition Reimbursement

Example of Quarterly Calculation

Assume the following:

A Division has a net profit of \$375,000 for the 1st quarter of the year.

Mary Jones is eligible to receive a quarterly incentive under the Division's Pr

Mary's eligible quarterly pay for the 1st quarter totals \$8,000.

The total eligible wages for the entire Division for the 1st quarter is \$190,000.

Total net assets for the Division for the 1st quarter equal \$7,000,000.

The annual Return on net Assets (ROA) percentage is 8.5%. The quarterly ret

Steps Division Quarterly Incentive

- 1 Calculate the Division's
Return on Assets (ROA)

Average Division Assets	\$	7,000,000
multiplied by		
Quarterly ROA Percentage		2.125%
ROA	\$	148,750

- 2 Division's Net Quarterly Profits
Less

ROA for the quarter	\$	(148,750)
Profit after ROA	\$	226,250

- 3 Multiplied by Division's
Incentive Percentage

		32.0%
Total Incentive Pool	\$	72,400

- 4 Multiplied by percentage amount
for Quarterly Incentives

		35.0%
Quarterly Incentive Pool	\$	25,340

- 5 Quarterly Incentive Pool divided by
Total quarterly eligible wages

	\$	190,000
Quarterly Incentive Percentage		13.3%

- 6 Mary's quarterly eligible wages
multiplied by

Quarterly Incentive Percentage		13.3%
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- 7 **Amount of Mary's 1st quarter
incentive check (before taxes)**

	\$	1,070
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Glossary of Terms

Year-end Incentive	Discretionary year-end incentive awarded in addition to base pay and quarterly incentives. The determination of whether this incentive will be paid, and the amount, is made after the end of the calendar year. It is based both on Company performance and an individual employee's work performance.
Base Pay	Hourly wages or annualized salary paid on a fixed basis for the work an employee does.
Laitram	Laitram, LLC ("Corporate") includes its four operating divisions: Intralox, LLC, Lapeyre Stair, Inc., Laitram Machinery, Inc. and Laitram Machine Shop, LLC.
Market Value	What a person could make long-term working someplace else (in the approximate same geographical area), using the same skills that they use in their current position at Laitram.
Pay at Risk	Any difference (deficit) that exists between an individual's base pay and his/her market value. Under the Laitram Compensation System, there should be little or no pay at risk for entry level positions, but significant pay at risk for Supervisors, Managers, and highly paid employees.
Production Bonus or Incentive	Allows individuals to receive extra compensation by meeting individual, team, or department production goals. Our production bonus or production incentive is paid out differently based on the plan: biweekly, monthly, or quarterly.
Quarterly Incentives	Discretionary incentives paid quarterly on an objective basis (normally percentage of base pay) based on Company performance. The determination of whether this incentive will be paid, and the amount, is made after the conclusion of a quarter.
Replacement Value	The amount Laitram would have to pay long-term to replace the work that an employee does with the same skill and quality.
Variable Pay	The portion of total compensation that varies from check to check or year to year. Under the Laitram Compensation System, variable pay includes commissions, production bonuses/incentives, and the possibility of quarterly and year-end incentives.