



Bauer Welding & Metal Fabricators, Inc. ESOP Frequently Asked Questions (FAQ)

Q. What is an ESOP?

A. An Employee Stock Ownership Plan (ESOP) is a qualified benefit plan that invests primarily in employer stock. The stock is held outside the company in a separate trust. The trustee acts on behalf of, and in the best interest of, all the employee participants. Within the trust, separate accounts are maintained for the individual stockholders.

Q. Because I'm an "employee owner," does that mean my job is guaranteed?

A. No. The ESOP is a benefit. It does not guarantee you a job or alter the fact that your employment is at will and may be terminated at any time, with or without cause or reason.

Q. How long do I have to wait after my hire date to get into the ESOP plan?

A. You will become a Participant on the first January 1 or July 1 after completing one full year of service and have reached or surpassed the age of 21.

Q. When did the ESOP at Bauer begin?

A. Bauer started the ESOP in 1994.

Q. I've heard we're looking at becoming a Subchapter-S Corp. What does that mean?

A. The biggest thing is that we would not pay federal income tax directly. Since an ESOP is a tax-exempt retirement trust, it has no tax liability.

Q. What does the ESOP mean to me other than the stock?

A. It means you have a direct impact on the value of the stock.

Q. Can I personally purchase shares of stock?

A. No one is able to personally purchase stock.

Q. What is repurchase liability and why is it important?

A. Repurchase liability refers generally to the obligation by a non-public company that sponsors an ESOP to provide the cash to fund distributions from the plan. An ESOP company's repurchase obligation is triggered when distributions are made to participants with vested accounts who have retired, died, become disabled, or terminated employment. Repurchase liability is important due to the cash requirements it imposes on the company that sponsors an ESOP.

Q. What does "ownership" mean?

A. Equity makes a big difference. Consider the difference between renting and owning a home. Unlike a person who rents, the homeowner has equity in his or her investment and therefore will have an incentive to increase the value of the investment. After all, how many renters do you know that paint the outside of their residence? Just like a homeowner, an employee-owner has a greater incentive to drive the value of stock in his or her company. This could result in reducing scrap, generating creative ideas on how to improve a process, and producing better quality products. An Employee Stock Ownership Plan provides employees with an ownership stake.

Q. As an ESOP shareholder am I personally liable for the company's debts?

A. No, your personal property is not at risk. Like regular stockholders, ESOP participants are not personally liable for the debts of the corporation.

Q. What is a valuation?

A. It is the act or process of determining the value of a business, business ownership interest, security, or intangible asset. Each year, an independent appraiser/valuation company researches our business, our industry, and our competition, and determines the value of the stock.

Q. How can I help the stock value increase? Do I make a difference?

A. The success of the company depends on the teamwork and positive attitudes of all Employee Owners. At every level of job responsibility, the efforts and devotion of many individuals have created the success thus far achieved and will help guarantee that the company remains successful. There are many ways in which you can help. Just a few examples are:

- Reduce waste and inefficiencies to the barest minimum.
- Make suggestions to your supervisor as to how the company can do a better job.
- Take an active interest in solving problems of the company.
- Communicate with your fellow employee owners.
- Get involved – it's your company!

Q. What is vesting?

A. Vesting refers to the percentage of your ESOP account that is yours and cannot be forfeited. Our vesting schedule is as follows:

<u>When you have completed these Years of Service</u>	<u>The vested portion of your account will be</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6	100%

Q. Are there other ways I can become fully vested?

A. Your account becomes fully vested once you reach the normal retirement date (age 65), or if your employment ends due to disability or death.

Q. What if my employment ends before I am fully vested?

A. If you separate from service with Bauer and you are not fully vested, the nonvested portion of your account will be subject to forfeiture.

Q. What does a trustee do? Who are the trustees of our plan?

A. The trustees are the people who are appointed by the Board of Directors to look after the welfare of the trust, vote the stock of the trust, and are directed how to vote shares by ESOP participants. Our trustees are Doug Bauer, John Purves, and Stan Nymeyer.

Q. Where can I go to get more information on this concept of Employee Ownership?

A. The ESOP Association www.esopassociation.org
Minnesota/Dakotas Chapter www.mndak-esop.org
National Center for Employee Ownership www.nceo.org
Ownership Associates www.ownershipassociates.com