

## FREQUENTLY ASKED QUESTIONS (FAQ'S)

**Q.** What are items that affect the value of Hallam-ICS stock?

**A.** *Profits, past performance, future outlook and reputation all affect the value of the Hallam stock. Each employee is, to some degree, responsible through their dedication, performance and ability to provide outstanding service to our clients.*

**Q.** What is the percent of Hallam-ICS' stock that is owned by the ESOP?

**A.** *47.3% of the Hallam stock is currently owned by the ESOP*

**Q.** How is the value of Hallam-ICS stock determined?

**A.** *After the end of each fiscal year, Hallam-ICS retains a professional appraiser who has experience with ESOP companies to establish the new value of the company. This valuation typically occurs in the April timeframe, after the audited financial statements for the previous fiscal year are complete.*

*The appraiser examines the financial statements of Hallam-ICS and gathers information from managers regarding business conditions, existing contracts, our reputation in our substantive fields and the anticipated future financial performance. The appraiser will use multiple valuation methods of valuing the firm and will compare the results with publicly-traded companies similar to Hallam-ICS prior to finalizing on a value.*

*The individual share value is determined by dividing the appraised value of the Company by the total number of shares issued.*

**Q.** What frequency is Hallam-ICS stock valued and who performs the valuation?

**A.** *Hallam-ICS goes through a valuation at the beginning of each year to determine the value of the stock. Currently a company by the name of ValueMetrics provides this service to Hallam.*

**Q.** Is there a difference in sales growth between ESOP and non-ESOP firms?

**A.** *Yes! Sources reportedly show that estimated average sales growth by an ESOP firm is 2.4% higher than in a non-ESOP firm.*

**Q.** Is there a productivity difference between ESOP and non-ESOP firms?

**A.** *Yes! Estimates reportedly show on the average there a 6.2% productivity difference between ESOP and non-ESOP firms.*

**Q.** What does it cost to be an ESOP owner and what are the annual contributions of an ESOP?

**A.** *There is absolutely no cost to the ESOP employee owners and is fully funded by Hallam as an employee benefit provided by the company.*

**Q.** What is the minimum contribution by Company on an annual basis?

**A.** *The minimum contribution by Hallam to the ESOP on an annual basis is 5%.*

**Q.** What is the number of years of service before an employee can become fully vested?

**A.** *You will be fully vested after four years of service. You will however be always 100% vested upon reaching your normal retirement age as defined by the Hallam plan as well as the result of death or disability.*

**Q.** Who is the Chittenden Trust Company?

**A.** *The Chittenden Trust Company is Hallam-ICS' ESOP Trustee.*

**Q.** How many hours would an employee have to work in a year to qualify for a year's service and to share in the plan year's contribution?

**A.** *1000 hours during a plan year. An individual must also be 18 years old to participate in the plan.*

**Q.** As I reach retirement age is Diversification allowed?

**A.** *When you reach the age of 55 and have 10 years of plan service, the ESOP allows diversification. More information on this can be found in the detailed plan summary.*

**Q.** What are circumstances that require and do not require a vote by the Trustee?

**A.** *Certain issues such as mergers, recapitalization, liquidation, dissolution or sale of assets would require a vote by the board of trustees and would involve the ESOP trustee. Issues such as Dress code, travel policy, internet policy and other daily operating decisions would not require a vote. Issues such as these would be up to management.*

**Q.** Now that Hallam-ICS is part of an ESOP do employees vote on policy?

**A.** *Being part of an ESOP does not mean Hallam-ICS will have employees vote on every policy/operational decision. The Board of Directors will continue to be the people establishing Corporate Strategies.*

*The Chief Executive Officer and the management team of Hallam-ICS will make policy & operational decisions in accordance with the Hallam Strategic Plan and culture.*

*The Trustee (Chittenden Trust) votes the shares of the plan and will vote all Employer Stock held by it as part of the Plan assets.*

**Q.** How does the authority structure on the Board function? Do the board members vote equally to complete company business? What is the procedure in voting on general business, budget, corporate strategy, and adding eliminating divisions/sections?

**A.** *Only the election of the Chairman of the Board and the Secretary are required to be voted on by the Board members. In the Hallam-ICS by-laws, the default voting procedure is by majority vote, though to date that has never been required. Decisions are made by those personnel that have the responsibility to manage the "day-to-day" operations of the business. The corporate strategic plan is determined by the Board, but the operating plan to meet the strategy is determined by the CEO and management. The budget and addition/elimination of divisions is determined by the CEO, who makes recommendations to the Board for approval.*

**Q.** Does Dave Hallam, though no longer the majority shareholder, have to own a major part of the company stock to make him Chairman of the Board? If yes, is the majority shareholder always Chairman in any corporate structure?

**A.** *Dave is a still a major shareholder (10.76%), though does not hold the most stock (16.13%), which is owned by John Butterfield. He was elected by the Board of Directors to be Chairman based on past experience, ability to lead, and understanding of the Hallam culture. This is consistent with industry practices in the US marketplace: The Board of Directors elects the best person for the job of Chairman.*

# ESOP

## THE HALLAM-ICS OVERVIEW OF EMPLOYEE OWNERSHIP

*An ESOP is a tax-deferred  
& federally qualified retirement plan*

# Hallam ICS

Our plan is designed in accordance with Internal Revenue Service (IRS) regulations for the formation and administration of ESOP plans.

Our plan has been filed with the IRS and is subject to its regulation and review.

Our plan is funded each year, with tax-deductible, employer contributions invested in Hallam-ICS stock.

Note: Employees do not make a *financial* contribution to this account. See Part 7 "How To Participate & Eligibility" to understand how each employee's actions can affect the value of the account.

## INTRODUCTION

This guide does not cover all of the plan's financial and legal details. These items are covered in the Hallam-ICS ESOP *Summary Plan Description*.

## COMPANY PHILOSOPHY

Hallam-ICS was created with a philosophy that would promote shared responsibility and reward; inclusive atmosphere and consensus-building decision making. As the company has grown from 1 employee in 1981 to over 70 in 2003, ownership has been spread throughout the company.

## COMPANY HISTORY

Hallam-ICS is an engineering and control systems integration firm providing facilities design engineering and control systems integration services to the industrial, university and the health care sectors. Hallam-ICS consists of two teams; Engineering and Control Systems Integration. Our industrial market sectors include advanced technology, biotechnology, pharmaceutical, pulp & paper and mineral process segments. We provide services to clients in the eastern United States, the United Kingdom and Far East.

Hallam-ICS was founded in 1981 by David M. Hallam, P.E. as Hallam Engineering as a sole-proprietorship providing electrical engineering services to local architectural and industrial clients. In 1983, David merged with Bill Corcoran, an electrical engineer in Middlebury to form Corcoran-Hallam Associates, based in Vergennes, Vermont. In 1985, David decided to relocate to Burlington, Vermont with 5 employees providing mechanical and electrical engineering services.

In 1989, William A. Fyfe, P.E. and John R. Butterfield, P.E. became shareholders, each acquiring 25% ownership. In December of 1991, Hallam-ICS started the control systems integration division, Integrated Control Systems (ICS) under the leadership of Bernard "Tink" Pelkey. In July of 1995 Hallam acquired Applied Logic Systems to increase its capabilities to provide software solutions to the industrial market, and in 2002 dissolved this venture. Also in 1995, Keith P. Flaherty, P.E. and Tink Pelkey became shareholders, each acquiring 10% ownership. Today, Hallam provides mechanical, electrical, process control design engineering services in addition to turnkey control systems integration services.

In 1996, Hallam-ICS decided to open a branch office in Virginia to further expand its presence in the Mid-Atlantic States. The Virginia office provides control systems integration services through its ICS division.

In 2000 the existing shareholders decided to create an Employee Stock Ownership Plan, selling 44% of the company to the employees. Also in 2000, Hallam-ICS opened a branch office in Taunton, Massachusetts with the ICS Division. In 2002 Hallam Engineering joined this group. Our objective is to further penetrate the New England area and capture more Advanced Technology, Biotechnical and Pharmaceutical work.

In June 2001, Keith Flaherty became the Chief Executive Officer and runs the day-to-day operations of the company, and Dave Hallam became the Chairman of the Board.

## HOW DOES THE ESOP WORK?

### Initial Purchase

Hallam-ICS set up a *trust* called the Employee Stock Ownership Trust (ESOT). This is the legal entity that holds the employees' stock in trust, by law. The trust is legally entitled to borrow money. On behalf of the ESOP, the Company borrowed enough money from the Chittenden Bank to purchase 44% of the outstanding shares of company stock from the shareholders. In return Hallam-ICS gave the bank a promissory note to re-pay the loan. Hallam-ICS loaned the money to the ESOT and in turn received a promissory note to re-pay the loan. The ESOT bought the shares of company stock from the shareholders and placed the shares in the Employee Stock Ownership Trust Account.

### Contributions to the Plan

As a participant, you may be eligible to share in Employer basic and discretionary contributions. Each year, your Employer's contribution will be placed into a trust fund for the benefit of Plan participants. The Administrator of your Plan will then establish and maintain a separate account for you and all other participants that reflect your share of any employer contributions.

Each year, your Employer will determine the amount to contribute to your Plan. There are two contribution formulas. A basic contribution of 5% of compensation will be paid each year, without regard to profits. In addition, the Employer may make an additional contribution to the Plan. This additional contribution will vary each year at the discretion of the Employer. This is called the discretionary contribution.

To participate in this program you must be at least 18 years old, actively employed on the last day of the Plan Year and have completed at least 1,000 Hours of Service during the Plan Year in order to share in this contribution. If the reason you are not actively employed on the last day of the Plan Year is due to your Retirement (Early, Normal or Late), Total and Permanent Disability or death, then you will be eligible to share in the contribution for the year without regard to how many hours you worked during the Plan Year.

### Growth

The purpose of this Plan is to reward eligible employees for long and loyal service by providing them with an opportunity to participate in the value of the company and the tax advantages of a qualified retirement plan.

Contributions to the Plan will be invested primarily in Employer Stock. Your efforts added to the efforts of all other employees contribute to the profitability and growth of the Employer and thus can increase the value of Employer Stock and your benefits in the Plan. When you retire, you will be entitled to receive the value of the stock that has accumulated in your account.

### How To Participate & Eligibility

You will automatically be eligible to participate in the plan on the date of your employment, if you are at least 18 years of age at that time, are a full time employee and meet all the criteria outlined in the Hallam ESOP plan. To receive a share of the employer's basic or discretionary contribution for the year, you must be actively employed through the end of the Plan year and have worked at least 1,000 hours of service during the Plan Year.

### Vesting in Your Plan

Your "vested percentage" in your account is determined under the following schedule and is based on vesting Years of Service since implementation of plan in 2000. You will always, however, be 100% vested upon your Normal Retirement Age.

### Vesting Schedule

Years of Service Since Year 2000	Percentage
Less than 4	0%
4 or more	100%

## WHAT ARE THE BENEFITS?

As a member of the Hallam-ICS ESOP you are an employee-owner and will share in the risks and rewards of being a business owner. Some of the advantages include:

- You receive shares of the company without any out-of-pocket expense. All contributions are made by the company.
- You contribute to and share in the success of the company.
- You enjoy tax advantages including:
  - ✓ *Tax deferred contributions.* The Company's contribution to your account is not considered regular income and is therefore not taxable in the year it is made.
  - ✓ *Tax deferred growth.* Increased value of the stock and cash in your account is not taxed until you withdraw the funds.
  - ✓ *Tax deferred rollover at retirement.* When you leave the company, you can transfer the cash to another retirement account, within a time limit, with no tax consequence.
  - ✓ *No FICA withholding.* This is not an "income event"; therefore, the IRS does not require FICA withholding.

#### For more information please contact:

ESOP Advisory Committee (ESOPQuestions@Hallam-ICS.com) or  
Brenda Matthews, CFO (bmatthews@Hallam-ICS.com)