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KRB MACHINERY CO.

REBAR EQUIPMENT — CONTROLS — SOFTWARE — CONVEYOR SYSTEMS

AUGUST 15, 1996

Pension and Welfare Benefit Administration
U.S. Department of Labor
Room N-5644 200 Constitution Avenue N.W.
Washington, DC 20210

SEP 11 11 08 AM '96

Gentlemen:

This letter is to inform you that KRB Machinery Co., Inc., R.R. # 2 Box 64R, Wrightsville, PA 17368, with the employer identification number of 23-2397053, maintains a Top Hat Plan primarily for the purpose of providing deferred compensation to a select group of management.

The purpose of this letter is to inform you of the addition of a second plan. The Company currently has two Top Hat Plans in effect.

Plan I - Was implemented for the plan year ending September 30, 1994. This plan was submitted to the U.S. Department of Labor on January 31, 1995; Case No. 525263082 was assigned to that plan.

Plan II - (Enclosed) Was implemented for the plan year ending September 30, 1996.

Should you need other information pertaining to these plans, please do not hesitate to contact our offices.

Sincerely,

KRB MACHINERY CO., INC.

Kenneth A. Kauffman 242-7414
Kenneth A. Kauffman,
President

SALES OFFICE TOLL FREE 1-800-FOR-KRBS



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KRB MACHINERY CO.

REBAR EQUIPMENT — CONTROLS — SOFTWARE — CONVEYOR SYSTEMS

Executive Phantom Stock Plan II of
KRB Machinery Company, Inc. and
Kauffman Electrical Controls & Contracting, Inc.

1. Purposes. The purposes of this Plan are: (a) to provide additional incentive for senior management, officers and employees of the Company to increase the earnings of the Company on a long term basis; (b) to attract and retain in the employ of the Company persons of outstanding competence; and (c) to further the identity of interests of the senior management, officers and employees with those of the Company's shareholders.

Plan II is in addition to the original Executive Phantom Stock Plan adopted December 14, 1994. Key executives may participate in either, or both, plans, at the discretion of the President.

2. Administration of Plan. This Plan shall be administered by the Company's Board of Directors. The Board is authorized to interpret the Plan as it may deem appropriate. Decisions of the Board shall be final, conclusive, and binding upon all parties including the Company, the shareholders, and the participants.

For the purposes of this Executive Phantom Stock Plan, the "Company" shall consist of KRB Machinery Co., Inc. and Kauffman Controls, Inc., both separate corporate entities. As such, provisions of this plan shall be applied consistently across all entities.

Additional ventures which are separate legal entities shall not be made part of this agreement unless such agreement is expressly modified to include such entities.

3. Participants and Basis of Participation. The President of the Company will designate, in writing, from time to time, key executives of the Company (including officers and

directors of the Company) engaged in activities which further the Company's objectives, who will be eligible to participate in the Plan. In selecting the persons who will participate, the President will consider the position and responsibilities of such persons, the value of their services to the Company, and such other factors as the President deems pertinent. Participants in the Plan shall be designated in writing by the President at any time during the Company's current fiscal year (now, September 30) or within 75 days after the end of any such year and will be effective for the entire year so designated. Participation in the Plan will continue for each succeeding year until the participant is notified to the contrary, in writing, by the President. All participants in the Plan must be employed by the Company on the last day of its fiscal year in order to be eligible for an award from the pool for that fiscal year.

Participants eligible for awards under this plan, and their respective pool percentages, are detailed on Schedule "B" of this agreement. Schedule "B" may be modified and added to from time to time but in no event will a participant's percentage share of the excess earnings decrease due to the inclusion of additional participants in the plan.

Participants of the original Plan, who subsequently become members of Plan II, may elect to convert their dollar valued account into phantom shares at the per share value at the end of the fiscal year preceding their entry into Plan II.

4. Terms and Conditions of Awards (See Schedule A for computation)
 - a. Each award under this Plan shall be based upon the Excess Earnings (E) of the Company (as hereinafter defined) for this fiscal year. Excess Earnings shall be determined by subtracting from the Company's Adjusted Net Earnings (A) (as defined in 4b.), the product of Adjusted Stockholder's Equity at the beginning of the year (C) (as defined in 4c.) multiplied by the Consumer Price Index (all urban) plus 5% as of the date of the year end for which the award is being calculated. The pool from which employee awards shall be allocated will be created by adding to the pool x% of the first \$100,000 of Excess Earnings, y% of the next \$150,000 of Excess Earnings, and z% of all amounts of Excess Earnings above \$250,000, where x%, y% and z% are the sums of the individual participant's percentages from Schedule B.

Awards shall be allocated among the total participants based upon their respective pro-rata share of the entire pool.

- b. Adjusted Net Earnings shall be Net Earnings as it appears on the independently prepared financial statement, adjusted as follows:
- i. Inventory shall be adjusted to the FIFO basis.
 - ii. Current year deductions, if any, for amounts computed under this Executive Phantom Stock Plan shall be added back.
 - iii. In the event the Company elects to be treated as a Sub-chapter S corporation, the net income as it appears on the independently prepared financial statement of the Company, shall be reduced by the appropriate federal, state and local income taxes which have to be paid by an entity other than the Company.
 - iv. At the sole discretion of the President of the Company, extraordinary items including, but not limited to, significant gains or losses on the sale of assets, or any effect to income caused by changes in accounting methods or tax deferral strategies shall also be adjustments hereunder.
 - v. Deductions for President/Shareholder compensation in excess of a base salary, as described below, shall be added back to earnings. Deductions that are less than said base shall be deducted from net earnings.

Base salary (for the purposes of this plan only) for the President/Shareholder shall be two times the base salary of the Company's Controller, which is further defined as the federal taxable wages of the Controller, before deduction for any retirement plan contributions, for the current fiscal year of the corporation. (i.e. if the Controller's base salary is \$60,000 for the year ended 9/30/XX, then the base salary for the President/Shareholder is deemed to be \$120,000.

- vi. Amounts paid as rents to related parties shall be adjusted to fair market values based upon a survey of like properties in the York metropolitan area.
- c. Adjusted Stockholder's Equity at the end of the year [B] shall be stockholder's equity at the end of the current year as it appears on the independently prepared financial statement adjusted as follows:
- i. Inventory shall be adjusted to the FIFO basis.
 - ii. At the sole discretion of the President of the Company, extraordinary items, including but not

limited to, significant gains and losses on the of assets or any effect to equity caused by changes in accounting method shall also be adjustments hereunder.

iii. The cumulative effect of the other adjustments described in section 4c, above, for the years which this plan was in effect.

d. For the purposes of computing Adjusted Stockholder's Equity at the beginning [C] of the year (in section 4a); such beginning equity will be the ending adjusted equity for the prior fiscal year as determined under section 4c, above.

5. Allocation of awards. After the calculation of the amount of the Company's Phantom Stock Plan award pool, the pool balance shall be converted to phantom shares.

The value of a phantom share shall be the Adjusted Stockholders' Equity at the end of the current year [B] divided by the actual common shares issued at the end of the period [G]. Such value per share [H] shall be the value used to compute the number of additional phantom shares issued for the current year's award pool. Such phantom shares shall be allocated to the participants based upon their respective share of the current year's pool. In essence, the award pool dollars, once computed, are used to "buy" phantom shares of the Company's stock at the adjusted book value of the Company as of the close of the current year.

The cost basis of the phantom shares is considered to be additional compensation for financial reporting purposes, and the Company will recognize a corresponding liability for such compensation.

The amounts determined by the Board to be awarded with respect to each year shall be final, conclusive, and binding upon all parties, including the Company and the participants.

6. Notification of Awards. As soon as practicable after the determination of the allocated award for each year, notification to each participant shall be provided by the Company at the direction of the Board.

7. Following are the conditions under which awards will be earned and paid from the Plan:
- a. A participant shall become vested in their allocated phantom share balance equally over the first 6 years of participation at the rate of 16.67% per year.
 - b. At normal retirement age (as defined in the Company's qualified retirement Plan) 100% of the vested balance in the participant's phantom share account as of the year immediately preceding the date of retirement, shall become due and payable in 5 equal annual installments on October 15 of each of the years following the date of retirement. Interest, at the Company's Bank's prime rate, shall be payable annually on the unpaid balance.
 - c. In the event of the death of a participant, 100% of the balance in the participant's phantom share account as of the year immediately preceding the date of death, shall be payable to his or her estate or his or her designated beneficiary in 5 equal annual installments on October 15 of each year following the date of death. Interest, at the Company's Bank's prime rate, shall be payable annually on the unpaid balance.
 - d. In the event of the sale of the business to an unrelated third party, each participant shall be 100% vested in their allocated phantom share balance and shall be paid the balance of his or her account as of year immediately preceding the date of sale. Such immediate vesting shall occur provided that the participant is employed by the Company at the date of the onset of negotiations to effect such sale, and further provided that if the employee initiates a termination subsequent to the onset of the negotiations, that such vested balance shall be unconditionally forfeited. Payment shall be due and payable at the final settlement consummating the sale.
 - e. In the event that any participant in the Plan is either terminated for cause, terminates his employment and subsequently accepts employment with a competitor of the Company, or goes into competition with the Company, either directly or indirectly, then any accrued balances allocated to such participant's phantom share account in the Plan will become void and such participant will be deemed to have waived any rights to receive any benefits provided for under the terms of this Plan. Such voided balance will be forfeited back

to the Company, and shall not be allocated to the remaining participants.

- f. In the event of a termination of employment for any reason other than those indicated above, any payment and the terms thereof to a participant shall be at the sole discretion of the Board of Directors, except that if the termination is

without cause and is initiated by the Company, then the vested phantom share balance shall be payable to the employee.

Any such payout of the vested phantom share balance shall be made over a period not to exceed ten years. Interest, at the Company's Bank's prime rate, shall payable annually on the unpaid balance.

- g. Without prejudice to any of the foregoing paragraphs, the Board of Directors shall have discretion to allow the payout of any portion of the participants phantom stock plan for the purpose of the purchase of actual shares of the company. Any such purchase of actual shares shall be separately negotiated and consummated without regard to any of the provisions set forth in this agreement.

- h. The dollar value of the phantom shares shall be the number shares held in the participant's phantom share account times the Adjusted Ending Equity per Share [G], as computed at the last annual valuation date.

8. The Board of the Company may at any time terminate, modify or suspend any or all of the provisions of this Plan, except that no modification of this Plan may, without the consent of every participant, alter or impair any award previously granted under the Plan.

Accepted for KRB Machinery Co., Inc.

Kenneth Kauffman, President

Date _____

**EXECUTIVE PHANTOM STOCK PLAN II OF
KRB MACHINERY CO., INC. AND KAUFFMAN CONTROLS, INC.
SEPTEMBER 30,**

SCHEDULE A

**CALCULATION OF ADJUSTED STOCKHOLDER'S
EQUITY AND AWARD POOL DOLLARS:**

	<u>199X</u>	<u>199X + 1</u>	<u>199X + 2</u>	<u>199X + 3</u>
NET EARNINGS (after taxes)	\$200,000	\$10,000	(\$100,000)	\$100,000
<u>Adjustments (See section 4b)</u>				
Compensation in excess of base salary of President (\$210,000-\$120,000, \$0, \$0, \$170,000-\$120,000)	90,000	0	0	50,000
Rents below market value	(5,000)	(5,000)	(5,000)	(5,000)
TOTAL ADJUSTMENTS	85,000	(5,000)	(5,000)	45,000
ADJUSTED NET EARNINGS	[A] \$285,000	\$5,000	(\$105,000)	\$145,000
ENDING STOCKHOLDER'S EQUITY (before current award)	\$733,302	\$715,510	\$615,510	\$715,510
Current year's earnings adjustments (above)	85,000	(5,000)	(5,000)	45,000
Cumulative adjustments - prior	0	85,000	80,000	75,000
TOTAL ADJUSTMENTS	85,000	80,000	75,000	120,000
ADJUSTED ENDING STOCKHOLDER'S EQUITY	[B] 818,302	795,510	690,510	835,510
ADJUSTED BEGINNING STOCKHOLDER'S EQUITY	[C] 533,302	818,302	795,510	690,510
CPI (all Urban) INCREASE + 5%	8.00%	9.00%	9.50%	9.50%
MINIMUM RETURN ON EQUITY REQUIRED	[D] \$42,664	\$73,647	\$75,573	\$65,598
EXCESS EARNINGS [A-D]	[E] \$242,336	(\$68,647)	(\$180,573)	\$79,402
AWARD POOL ([E] times %, see schedule B for %'s)	[F] \$27,792	\$0	\$0	\$7,940

CALCULATION OF CURRENT YEAR PHANTOM SHARES:

NUMBER OF "REAL" SHARES ISSUED (end of year)	[G] 2,000	2,000	2,000	2,000
ADJUSTED ENDING EQUITY PER SHARE [B/G]	[H] \$409.15	\$397.76	\$345.26	\$417.76
PHANTOM SHARES ISSUED - CURRENT YEAR [F/H]	68	0	0	19

Note: Each corporate entity would be computed separately in the manner illustrated above.

SCHEDULE B
EXECUTIVE PHANTOM STOCK PLAN II
ELIGIBLE PLAN PARTICIPANTS

Participants of the KRB/Kauffman Controls Executive Phantom Stock Plan II as of September 30, 1996, and their respective pool percentages are as follows:

<u>Employee</u>	<u>x%</u>	<u>y%</u>	<u>z%</u>
Timothy Bricker	<u>10%</u>	<u>12.5%</u>	<u>15%</u>
TOTAL POOL	10% ===	12.5% =====	15% ===

The above participants and percentages shall remain in effect until a new Schedule B supersedes this schedule.