

Employee Stock Ownership Plans In The U.S.: A Case Study

MAUI DIVERS OF HAWAII

“We strive to create wealth for our stakeholders by offering quality products and timeless designs.”

—From Maui Divers Jewelry Mission Statement

COMPANY HISTORY

Maui Divers of Hawaii was established in 1958 as an undersea touring and diving company in Lahaina, Maui. The company offered spectacular diving excursions to visitors who wanted to explore the underwater environment of the island. In 1958, Jack Ackerman and Larry Windley, two adventurous underwater divers and the founders of Maui Divers, discovered commercial black coral beds off the coast of Maui. The discovery was as unique as it was significant because it led to the establishment of a small cottage industry that produced coral jewelry on the island. In 1959 Maui Divers started manufacturing and marketing Hawaiian black coral jewelry.

In 1962, Cliff Slater joined the company and the manufacturing and wholesale operations were relocated to Honolulu. In 1982, the company started retail operations and expanded to become the largest jewelry manufacturer and retailer in Hawaii.

The discovery of pink coral near the northwestern end of the Hawaiian Archipelago within the U.S. economic zone (EEZ) expedited the growing of the jewelry industry in Hawaii.¹ Pink and gold coral are found at the depths of 400-1500m (1321-4921 feet.) Pink and gold coral sell at higher prices than black coral because they are rare and more difficult to harvest.

Since the Hawaiian jewelry industry depends significantly on the precious corals, Maui Divers started a long-term research program in cooperation with the University of Hawaii to develop a harvesting system in 1970.

In 1973, the company started incorporating a submersible for selective harvesting of pink and gold coral. The operation lasted 5 years and was terminated in 1978 because of the high operating costs. Nevertheless, until mid 1990s the jewelry industry utilized the pink and gold coral that was harvested during this period.

Professor Shirley J. Daniel, and graduate student Ozge Tekin, University of Hawaii at Manoa, developed this case for class discussion. The authors are deeply grateful to Bob Taylor and the Employee Ownership Foundation for their support in preparation of this case.

¹ Grigg, Richard W. 1993. “Precious Coral Fisheries of Hawaii and the U.S. Pacific Islands,” *Marine Fisheries Review*. v 55 (2): 57.

Bob Taylor, the current President and CEO of Maui Divers joined the company in 1972 as a controller. The company kept growing successfully over the following years. In 1977, Maui Divers was acquired by the Colgate Palmolive Company and became a part of Colgate Palmolive's beauty-fashion division (operating under Helena Rubenstein). In 1978, Maui Divers opened a large show room in New York. Helena Rubenstein introduced Maui Divers jewelry into Europe and opened offices in Germany and the UK. Thereafter, Rubenstein started performing poorly and the Colgate Palmolive board decided to sell Rubenstein's operations. Consequently, Maui Divers set up a leveraged buyout plan, came to agreement with the board and bought the company back from Colgate Palmolive in 1979. They also kept the show room in New York and set up subsidiaries in UK and Germany to run the business in Europe. During 1979 the "new" Maui Divers generated significant sales.

THE DECISION TO GO INTO RETAIL AND STRATEGIC MARKETING

The hostage crisis involving American captives in 1979, and the increasing oil prices following the Islamic revolution in Iran inevitably affected gold and silver prices. In the twelve turmoil-filled months leading up to January 1980, gold went from \$240 per ounce to \$850/ounce. Interest rates also skyrocketed during this period. Under the circumstance, Maui Divers decided to downsize the company. Subsequently, they closed the showroom in New York, and focused on the Hawaiian market. "The company really struggled during the early 80s," said Bob. "We decided to go into retailing in 1982. We were so successful that any store we took over, we doubled or tripled the sales," he concluded.

The company's decision to go into retail jewelry enabled Maui Divers to earn retail profit margins in addition to the wholesale profit margins they previously made. Thus, the company started to focus on wholesaling and retailing simultaneously. Initially, they were concerned about antagonizing their wholesale customers; therefore they decided to operate under different store titles such as Hudson and Co or Edward Thomas Jewelry.

Cliff Slater always had high expectations for Maui Divers as a jewelry company. He was the one who decided to go forward with the decision to become a wholesale and retail jewelry company. He also initiated the effort to establish a jewelry design center within the company. It was important for Maui Divers to become a global brand and the jewelry design center was opened in 1988 to serve that purpose.

To exploit Hawaii as a tourism and travel destination, Maui Divers developed a unique marketing strategy. They offer tourists a tour of their jewelry factory, which begins with an eight-minute video that explores the history and manufacturing process of coral jewelry. The video can be shown in Spanish, French, German, Japanese, Mandarin, Korean and English. The goal of the tour is for the visitors to develop an appreciation for coral jewelry artisanship.

Tour guides then direct visitors to the design center, where manufacturing employees work behind glass windows. Soon after the tour of the design center ends, visitors are directed to the main jewelry showroom. The results indicate that roughly one in four couples make a sizable purchase.

Maui Divers developed a westbound and an eastbound market by successfully utilizing the jewelry factory tours. They even opened a Korean restaurant and a gift shop to attract additional visitors from Korea. The business flourished and reached \$20 million/year in sales towards the mid 90s. Then, came the Asian Financial crisis in 1997 and the Asian visitor numbers to Hawaii dropped drastically. Inevitably, Maui Divers sales were affected negatively. As a result, the company decided to open retail stores in Waikiki and other resort areas. The decision led to a successful expansion. Before 1997, Maui Divers obtained its revenues from the jewelry design center showroom and two other stores outside of the jewelry factory building. In the following 12 years after 1997, the company underwent a tremendous expansion by opening over 60 retail locations in prime tourist locations throughout Hawaii. During this period, Maui Divers became very profitable, reaching \$77 million in sales.

DEVELOPING MARKETING CONCEPTS FOR TARGET CONSUMERS

Maui Divers employs four retail-marketing concepts with respect to target consumer populations. On the lower end, they utilize the *Pick A Pearl* concept, which became a business on its own. On the higher end there is *Maui Divers Jewelry Luxury Collection*. *Maui Divers Jewelry* and *Island Pearl* concepts attract customers from both ends. The *Island Pearl* stores have been praised for their stunning appearances and their merchandise includes unique Tahitian and South Sea pearls complemented by diamonds, and gold jewelry. See **Exhibits 1 & 2** for details on Maui Divers and retail concepts.

The type of retail stores that the company operates includes freestanding stores, concessions, and carts that are located throughout the Hawaiian islands. In addition to retail stores, Maui Divers operates an online jewelry business through a meticulously designed web site that supports Japanese and Chinese languages for international orders. In Maui Divers, the online sales are made through the E-commerce department, which is treated as a store. Bob Taylor refers to this store as “nicely profitable” as sales are over \$1 million and growing at approximately 20% per year.²

All Maui Divers stores employ highly trained sales associates. Maui Divers sales employees are trained in special programs designed specifically for jewelry sales. In fact, the company’s sales program is recognized as one of the best in the country.³

² Bob Taylor. Personal Communication. October 5, 2009.

³ Maui Divers Newsletter

MAUI DIVERS EMPLOYEE OWNERSHIP PLAN

By 1990, Maui Divers Jewelry investors wished to see the return on their investment. They were not paid dividends and they were persistent to see immediate imbursement for their investment. Therefore, the company executives began to search for parties who would be interested in purchasing the shares of the existing investors. In 1992, the company was solicited for sale. There were a few interested buyers from the mainland, however the parties could not reach an agreement. Then, the executives considered having a public offering option. However they later decided that the company was not a good candidate for a public offering. Maui Divers also looked closely at creating an ESOP in the company. In 1997, Congress passed a law allowing S corporations to set up ESOPs. In addition, special tax incentives were available for the S corporations that set up an employee ownership plan. These changes in the tax law supported the driving force for establishing an ownership plan within the Maui Divers, which was to provide liquidity for the investors who wanted to sell some of their shares and an incentive for employees.

As a result, Maui Divers established its employee ownership plan in 1997. The Employee ownership plan in Maui Divers was established through a leveraged ESOP in which the company utilized a bank loan to purchase the shares from the investors. At the end of the deal, the stockholders received approximately \$3.2 million.⁴ The loan was to be amortized in 5 years; however the trust paid back the loan in less than 5 years. “We looked at other options but establishing an ESOP was the only way to provide our employees with additional benefits and that’s what we went for” said Bob.

Currently, the ESOP owns 36% of the company. The employee ownership plan requires that the employees be employed for at least one year and work at least 500 hours in a year to become a participant in the ESOP. Covered compensation under the ESOP includes regular pay, over time pay, commissions, bonuses, vacation pay, holiday pay, and sick day. After employees become participants, the plan delineates that vesting starts with 0% and an additional 25% in each subsequent year. By the end of year five, the employee becomes fully invested in the ESOP.⁵

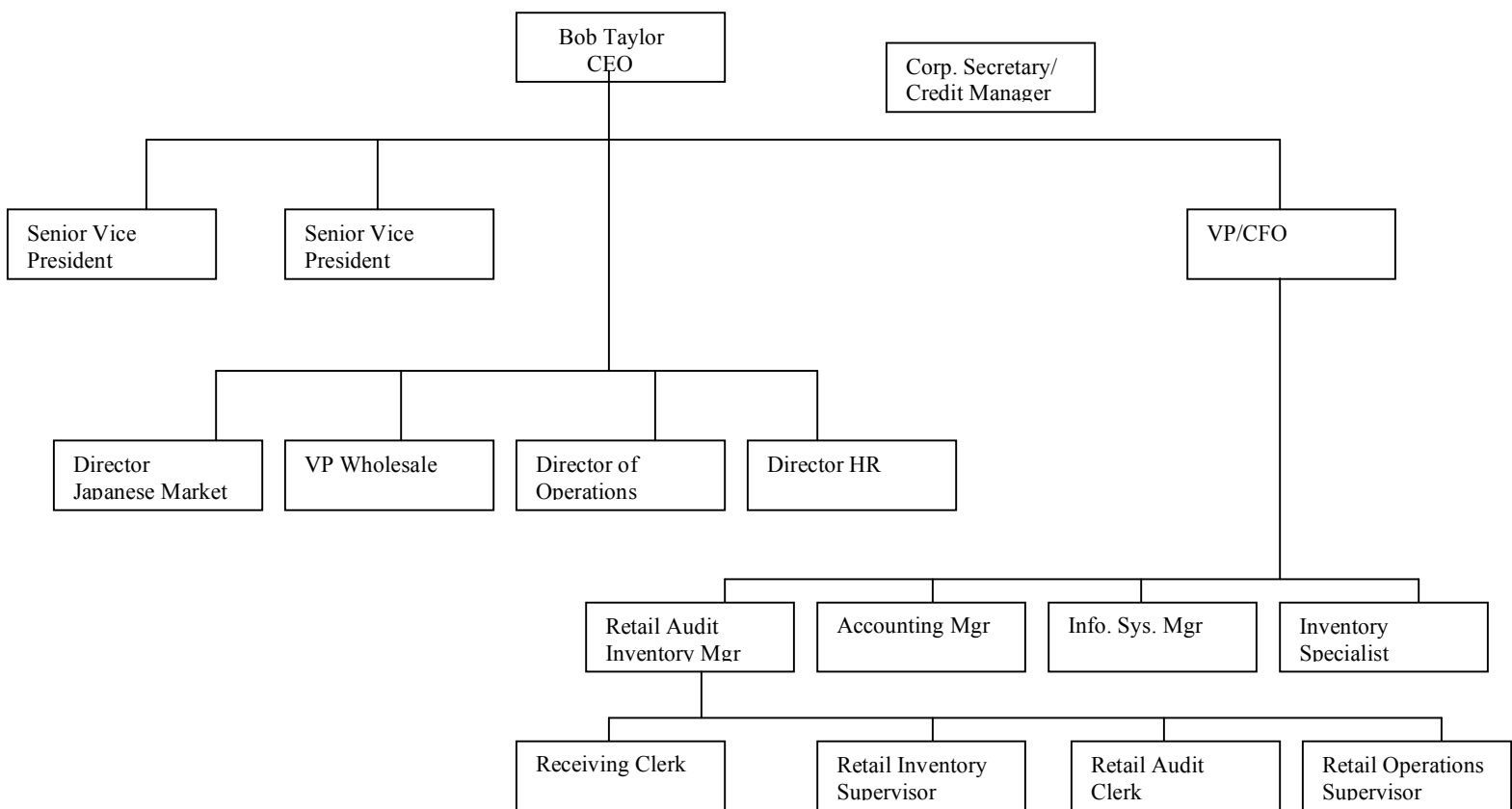
When employees retire or terminate employment, cash distributions commence within a year. The recipient receives his account balance in 5 annual installments. The amount of each installment is determined according to the prior year-end’s appraised value of the shares. Account balances of less than \$5,000 are paid in full within the year following termination.

⁴ Bob Taylor. Personal Communication. May 6, 2009.

⁵ Bob Taylor. Personal Communication. May 6, 2009.

Maui Divers employee owners can either choose to rollover their ESOP account balances into an IRA or a 401(k) plan or they can choose to receive cash payments. In the latter option, employees are to pay income taxes. The employee owners are subject to a 10% penalty if they terminate their ESOP accounts before they are 55 years old. The plan requires that the employee owner must choose one of the options and let the management know within 90 days following the termination of the ESOP account.

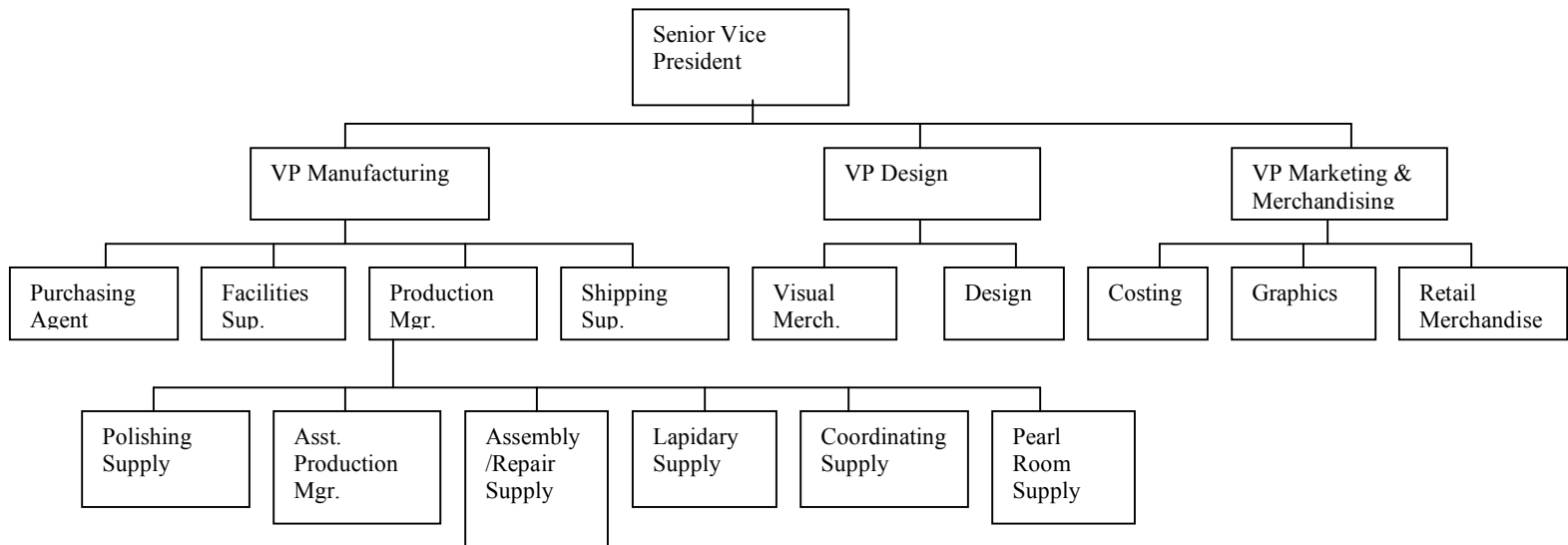
COMPANY STRUCTURE



Despite its employee ownership plan, Maui Divers is still a company that operates by traditional management rules. It appears that the company has succeeded in integrating the traditional command and control system with ESOP's open management system. Although the top management of Maui Divers makes and implements the decisions, employee owners are highly encouraged to make suggestions concerning issues related to responsible accounting. Maui Divers board of directors is composed of 5 members: the chairman, the CEO, and four other outside directors. "We have numbers oriented people on our board" says Bob and he continues: "even though this is a small company, we always try to operate like a publicly held company. Our financial statements are distributed within the first ten days of the month." The board of directors discusses the financial results during quarterly meetings and makes the final decisions on important matters.

The management team handles the routine operations and discusses the data that is collected from habitual intercommunications within the company during weekly management meetings. The ESOP does not significantly affect the way the company operates.

COMPANY STRUCTURE (continued)



“We are very comfortable with the way that the ESOP is set up” states Bob and he adds: “there is no plan to increase the percentage of the employee ownership at the present time.”⁶ He explains that ESOP never affected the way they managed the company and he links this result to the employees holding the minority portion of the company shares.

Cash flows from operations are healthy, allowing for an 80% dividend payout ratio. This has provided healthy returns on investment for non-ESOP shareholders as well as liquidity for the ESOP. Maui Divers financial records indicate that company employees have cumulated a significant amount of compensation benefits. As a result of the ESOP, between 2003 and 2008 the company has paid over \$10 million in dividends to Maui Divers employee owners.

Table 1 shows the total value of the ESOP account in Maui Divers as of May 31, 2009 in present day dollars.

TABLE 1

MAUI DIVERS STOCK	9,388,500	78.82%
COMMON STOCK	819,399	6.88%
U.S. GOVERNMENT BONDS	752,074	6.31%
CERTIFICATE OF DEPOSIT	400,000	3.36%
MONEY MARKET ACCOUNT	203,276	1.71%
CORPORATE BONDS	272,185	2.29%
MUTUAL FUNDS	72,886	0.61%
INTEREST BEARING CASH	3,421	0.03%
TOTAL	11,911,739	100%

⁶ Bob Taylor. Personal Communication. May 6, 2009.

OWNERSHIP CULTURE AND ITS EFFECTS ON EMPLOYEE ATTITUDE

Maui Divers employs a total of 504 employees in 5 different departments.⁷ Retail constitutes the biggest division by employing 311 employees. Next comes the tour/transportation department under which 64 employees work. The manufacturing department includes the design center and it is composed of 52 employees. The shipping department is responsible from finalizing the Internet sales and it employs 16 workers. Finally, 61 employees work for the office, helping the executives manage the business.

EMPLOYEE TURNOVER, PRODUCTIVITY and PERFORMANCE

Employee turnover rates are noticeably high (around 65%) at Maui Divers and Bob attributes this outcome to the nature of retail jewelry business. The other reason for high turnover rates results from the high expectations that the company anticipates from its employees. “We are very demanding because we continuously seek excellence in customer service, merchandise quality, and sales figures,” states Bob. “We hire for personality; people who are really outgoing and talkative are hired as employees and then we put them through our training programs. They go on the floor after a week and the training never stops” he concludes. Maui Divers utilizes an honesty test prior to hiring new employees. “We make no exceptions,” says Bob. “If they don’t pass the test, we do not hire them.”

Retail sales employees are required to meet the sales per hour goals that the company sets. If the employees fail to meet these goals, they are taken back to another intensive training program. “If they don’t increase their performance during the first 90 days after the second training program, we don’t keep them,” explains Bob.

Factory and office turnover, on the other hand, are very low in Maui Divers. Factory productivity is measured by annual employee reviews, process cost accounting with standard costs, daily variance analysis, and by goal based labor analyses. The manufacturing and costing departments set the standards for factory productivity measurements.

All Maui Divers employees who work in retail benefit from bonus and commission plans. Increase in employee productivity and performance is measured by sales per hour criteria. The sales staff is compensated by commissions, and the top sellers can out sell the less talented sales staff 3 to 1.

⁷ As of June 24, 2009.

OWNERSHIP CULTURE TAKING EFFECT

Maui Divers store managers/employee owners embrace the business as their own. Although the final decision belongs to the company management team, store managers excel in increasing sales and they continuously come up with business plans in order to make the business better. “When Hilo Hattie went in chapter 11 bankruptcy, they closed 3 stores on the mainland that we were doing business with,” remembers Bob. “I flew to the mainland to inform our employees that we would finalize our operations there but the store manager came up with a business plan and she tried to convince us to reopen another store in the same shopping center,” he continues. “However, none of the locations [we found] were quite right and we went forward with our previous decision and closed down the store,” he concludes.

“I don’t know what company out there where you can meet the president of the company and tell him ‘let’s try this business plan.’ That store manager was with the company for a long time, she had a large ESOP balance, and she wanted to continue to work with the Maui Divers. So for her to think like a business owner and suggest an alternate business plan to Bob to keep the store in business is definitely something attributable to ESOP,” explains Lori Okawa-Alvarez, the Director of Human Resources of Maui Divers.

As the result of pursuing the open-book business model, Maui Divers became increasingly transparent with respect to its financial reporting since the inception of the ESOP. The company management shares financial results with the employees during routinely held quarterly meetings.

While many jewelry businesses search their employees at the end of their daily shifts, Maui Divers on the other hand does not employ such policies. However, the company meticulously keeps track of inventory records. They operate a separate retail audit department to control the inventory. Depending on the location of the stores, the department takes physical inventory checks at the stores 2 to 3 times a year. If significant amount of merchandize is missing, professional inspectors come in and question employees by making use of lie detectors tests. “Our inventory shrinkage in our stores on annual bases is about 2/10ths of 1% of our sales,” states Bob and he concludes: “A pretty amazing [result] for a jewelry business.”

BUSINESS AWARDS AND EMPLOYEE ACTIVITIES

In 2009, Maui Divers celebrated its 50th anniversary. Below are the listed awards that the company collected over the years: (see **Exhibit 3**).

National Jeweler – Ranked #16 in the Top 50 North American Retail Jewelry Chains List (2008)

Honolulu Star Bulletin – Hawaii’s Best Jewelry Store (2008)

Better Business Bureau – Torch Award – Business Ethics (2008)
Hawaii Business Magazine – Best Places to Work, Large Company Category (2007-2010)
Pacific Business News – Best in Business, 100+ Employees Category (2006)
Shop America Alliance – Finalist in Retail (2005)
Retail Merchants of Hawaii – Retailer of the Year (2005)
National Jeweler – Ranked #24 in the Top 50 North American Retail Jewelry Chains List (2004)
Honolulu Star Bulletin – Hawaii’s Best Jewelry Store (2003)
Specialty Retail Report – Best Cart Design, Second place (2001)
Retail Merchants of Hawaii – Resort Retailer of the Year (2000)

Maui Divers employees organize a poster contest annually in which they express what ESOP means to them. **Exhibit 4** indicates the top 3 winners of 2009 poster contest in Maui Divers. The winning poster implies how responsible accounting; recycling paper, saving toner, and electricity can lead to something bigger, going green indeed than just to reduce the cost of daily operations. The posters that took 2nd and 3rd places draw attention to compensation benefits that come with the ESOP, implying that employees receive higher amounts in compensation when they retire.

In addition, Maui Divers employee owners put a quarterly newsletter together, in which winners of the poster contest are announced; employees who had babies or won awards, and those who participated in a community event are recognized. Also, Bob and other executives find the chance to share their thoughts on specific issues with the employees through this newsletter (see **Exhibit 5**).

Moreover, Maui Divers employee owners organize several committees such as the Green Committee, Volunteer Committee, Safety Committee, and the Retirement Committee. Committee members are allowed work on committee projects during regular work time. Volunteer Committee announces the immediate future community events and congregates volunteers from within the company who are willing to participate in those events. In some cases, depending on the approval, the committee is allocated with small amounts of funding to organize an event or participate in a community event. The Green Committee sends out routine e-mails to employees and informs them on environmental issues. The Safety Committee was founded in order to inform the employees on common injuries at work place. The committee also educates employees on how to prevent work place accidents. Bob stated that after the Safety Committee instigated its informatory activities, workers compensation costs dropped noticeably.

RESPONSE TO THE CURRENT ECONOMIC DOWNTURN

As a company that faced various economic crises over the years, Maui Divers developed automatic cautionary maneuvers in the event of an economic crisis. “We have formulas set up as far as our production control system,” states Bob and continues: “If we see a slow down in sales then we slow down our production automatically.” It is a system that is developed by relying on years of experience, it appears. “For instance, sales dropped down drastically because of the economy right now and we are in a big inventory reduction program,” explains Bob. The inventory reduction program includes reactive precautions ranging from reducing the factory hours to layoffs.

“We have reduced the factory hours to 27 hours a week and we had to let go some people in the factory,” states Bob and he describes the reactions of those employees as below: “It came as a shock at first for those employees who we had to let go. Some of them were with the company for 30 years almost. They were relieved however when they realized how much compensation they accumulated in their ESOP accounts.”

The ESOP account in Maui Divers is set up as an additional compensation benefit to the 401k balances. The company makes contribution to both accounts and the employee owners benefit the most. “The company doubled or tripled the amount of money probably in the ESOP that it ever put in the 401k,” says Bob, indicating how much the ESOP can advance the compensation benefits of an employee.

Setting up two different workers compensation accounts such as the 401k and the ESOP enables the employees to diversify their retirement funds. As previously indicated in **Table 1** the Maui Divers ESOP account is 80% invested in the company stocks. It appears that the ESOP companies learned lessons from the ENRON case, where Enron employees held a significant portion of their retirement portfolio in corporate stocks and when the company went bankrupt all equity was lost. Having two different retirement investment accounts enables the employees to be more conservative and safe when investing via utilizing their 401k funds.

Despite the economic downturn, the numbers indicate that Maui Divers ESOP offers favorable retirement benefits to its employees. The company continues to pursue its mission statement and continues to be Hawaii’s best Jewelry company. See **Exhibit 6** for Maui Divers mission statement.

WEALTH CREATION AND DISTRIBUTION OF RETIREMENT ACCOUNTS

In Maui Divers Jewelry, if employees leave the company and later decide to return in less than 5 years, they immediately become a participant in the ESOP. However, if the employee is gone for more than 5 years, he/she is treated as a new employee.

Bob Taylor adduces that the ESOP has paid over \$10 million to employees who left the company since the inception of the plan. It appears that the average ESOP balance for a 20-year employee is worth approximately 3 years salary.

Table 2 shows the value of Maui Divers ESOP stock prices since the inception of the employee ownership plan.

TABLE 2 MAUI DIVERS OF HAWAII, LTD ESOP VALUATIONS

Period	Post Split Value	Change %
December 31, 1997	\$1.15000	
December 31, 1998	\$0.82441	-28.3%
December 31, 1998	\$0.60798 (a)	
December 31, 1999	\$1.20100	45.7%
December 31, 2000	\$1.58600	32.1%
July 31, 2001	\$1.44100	-9.1%
December 31, 2001	\$1.20100	-16.7%
December 31, 2002	\$1.41200	17.6%
December 31, 2003	\$1.70000	20.4%
December 31, 2004	\$2.74900	61.7%
December 31, 2005	\$4.59123	67.0%
December 31, 2006	\$5.13000	11.7%
December 31, 2007	\$3.99000	-22.2%
December 31, 2008	\$2.75000	-31.1%
May 28, 2009	\$2.86000	4.0%
(a) value of stock without "Put option."		

Despite the famous ESOP company failures such as the ENRON, Polaroid, and the United Airlines, comparative pay and benefit research that Blasi et al conducted on non-ESOP and ESOP public companies indicates that ESOP company employees accumulate higher levels of compensation benefits than their counterparts in other public companies.⁸

⁸ Joseph Blasi, Michael Conte and Douglas Kruse. 1996. "Employee Stock Ownership and Corporate Performance among Public Companies," *Industrial and Labor Relations Review*, 50 (1): 60-79.

Furthermore, two empirical studies⁹ that have been conducted on the wealth effects of ESOPs show that ESOP firms “provide their employees significantly higher retirement wealth than similar non-ESOP firms, and wages in ESOP companies are higher than in similar non-ESOP firms.”¹⁰

ESOP advocates claim that ESOPs also contribute to individual owners’ wealth by providing tax benefits for the company. Maui Divers Jewelry’s ESOP experience indicates that the company has successfully made use of tax benefits that are provided by the law. Bob Taylor states “when the stockholders sold their stock to the ESOP in 1997, they were able to defer income taxes by reinvesting the proceeds in other domestic companies (section 1042 treatment.) The ESOP loan that was used to finance the purchase was paid off using contributions from the company to the ESOP. Effectively, this allowed the company to pay off the loan with pre-tax dollars,” he concludes.

Maui Divers of Hawaii employees own 36% of the company stocks, which is a minority of the outstanding shares. Therefore, the ESOP does not greatly affect the way that company operates. For instance, most cost saving initiatives have been suggested and implemented by the management, Bob Taylor states. The majority of such initiatives include reduced salaries, reduced hours, reductions in the number of employees, reductions in advertising expense, and in rent.

THE FUTURE FOR MAUI DIVERS

One of the more recent challenges faced by many companies in Hawaii is the economic downturn, which has severely reduced tourism and visitor counts. The impact of this has been reflected in the reduced share values of Maui Divers and the need to reduce the workforce, reduce working hours and close some retail outlets.

⁹ (a) Wealth And Income Consequences of Employee Ownership: A Comparative Study From Washington State,” Peter A. Kardas, Adria L. Scharf, Jim Keogh, 1998, *The Journal of Employee Ownership Law and Finance*, 10(4): 3-52

(b) Census of Massachusetts Companies with Employee Stock Ownership Plans,” Adria L. Scharf and Christopher Mackin, 2000, publication of the Commonwealth Corporation, Boston, MA.

¹⁰Christopher Mackin. 2004. “Wealth at Work: Employee Ownership and Responsible Accumulation,” *Real Utopias Conference University of Wisconsin June 25-27, 2004*, retrieved from http://www.havenscenter.org/real_utopias/2004documents/Mackin%20paper.pdf, pg. 4-5.

CASE QUESTIONS

- 1)** How can Maui Divers maintain employee morale and a sense of employee ownership in light of the economic downturn?
- 2)** How will Maui Divers deal with falling stock prices after achieving increases for so many years?



MAUI DIVERS
OF HAWAII

Exhibit 1:

ISLAND PEARLS

By Maui Divers Jewelry

The Island Pearls stores were opened at the end of 1999. We have locations at the Hilton Hawaiian Village in Waikiki; Whalers Village Shopping Center, in Kaanapali, Maui; Anchor Cove Shopping Center, in Lihue, Kauai; Waikiki Beachwalk; and Queens' MarketPlace, in Waikoloa, Big Island. These stores have been highly praised for their stunning visual impact.

The merchandise assortment emphasizes one-of-a-kind Tahitian black pearls and South Sea pearls complemented by diamonds, colored gemstones, and gold jewelry. All sales are backed by a full lifetime guarantee.

The company's sales training program is recognized as one of the best in the country. Highly qualified professional sales associates staff all stores.

1520 LIONA STREET, HONOLULU, HAWAII 96814 USA PHONE 808-946-7979 FAX 808-946-0406
www.mauidivers.com



Exhibit 2:

PICK-A-PEARL

By Maui Divers Jewelry

Pick-A-Pearl is a very successful jewelry concept that Maui Divers has utilized for over ten years.

Customers purchase an oyster and every one is guaranteed to have one or two pearls. The oysters are opened in such a manner as to create a great deal of excitement. A crowd often gathers in anticipation of finding out the size, color and number of pearls in the oyster.

The majority of the customers then purchase a mounting for the pearl. This is also a fun experience as they get to participate in the creation of their jewelry.

Pick-A-Pearl requires highly skilled salespeople. A Pick-A-Pearl cart occupies approximately 50 square feet and can generate sales in excess of \$10,000 per square foot. The average sales transaction is approximately \$150.



MAUI DIVERS
OF HAWAII

Exhibit 3:

**MAUI DIVERS
AWARDS/HONORS**

- National Jeweler – Top 50 North American Retail Jewelry Chains - #16 (2008)
- Honolulu Star-Bulletin – Hawaii's Best, Jewelry Store (2008)
- Better Business Bureau – Torch Award – Business Ethics (2008)
- Hawaii Business Magazine – Best Places to Work, Large Company Category (2008)
- Hawaii Business Magazine – Best Places to Work, Large Company Category (2007)
- Pacific Business News – Best in Business, 100+ Employees Category (2006)
- Shop America Alliance – Finalist in Retail (2005)
- Retail Merchants of Hawaii – Retailer of the Year (2005)
- National Jeweler – Top 50 North American Retail Jewelry Chains - #24 (2004)
- Honolulu Star-Bulletin – Hawaii's Best, Jewelry Store (2003)
- Specialty Retail Report – Best Cart Design, Second Place (2001)
- Retail Merchants of Hawaii – Resort Retailer of the Year (2000)

1520 LIONA STREET, HONOLULU, HAWAII 96814 USA, PHONE 808-946-7979 FAX 808-946-0406
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Exhibit 4:

Department Spotlight: Top Guns

continued from Page 3



Spencer Secretario

Spencer Secretario is the Assistant Production Manager who started his career in the Pre-finish-ing, Casting and Polishing departments in 1980. You will be surprised to know that he was also in charge of the Maintenance department for four years before his career took him on another path away from Maui Divers. But, like so many of our employees, Spencer found his way back to his Maui Divers Ohana once again in the Casting and Waxing departments as a Supervisor. He was promoted to Assistant Production Manager in 2007. One of his major responsibilities is research and development of all new equipment and techniques. Spencer is well known for helping anyone and everyone fixing whatever is broken. He enjoys cooking, golfing, kayaking, and just hanging out with his kids but his real passion is "wise-ing" (is there such a word?) – we don't mean complaining but that he is a wise connoisseur of sorts.



JD Wriston

JD Wriston, is the Production Manager. JD's experience in the jewelry business began in high school and carried on through college. He went to GIA (Gemological Institute of America) to study jewelry, manufacturing, gemology and business and received apprenticeships in Australia and Honolulu. In later years, he was also an instructor and trainer for GIA. For 13 years, JD started and operated *Jewelry by JD* in Hilo. He also worked for the Sultan Company and a couple of retail stores on the mainland before Maui Divers was fortunate to hire and relocate him to Hawaii. Originally, JD was hired in May 2005 as Director of Product Development, however, it was later determined that his skills and expertise were better suited for overseeing our manufacturing areas. Today, as Production Manager, you will find JD in Lapidary, Polishing, Coordinating, the Pearl Room, etc. making sure that his areas of responsibilities are running smoothly and efficiently. JD enjoys bodysurfing, canoe paddling, gardening, cooking but his real joy is spending time with his family.

ESOP Poster Contest

-Lori Alvarez, Director of Human Resources

A big MAHALO to the employees that submitted a poster for our annual ESOP poster contest. This year we had seven entries - Alicia Fernando, Human Resources, Jaala Goodman-Robinson, Mauna Loa Macadamia Nut, Sheila Manangan, Whalers Village - Maui Divers, Terri Kamalii, Royal Hawaiian PMP, Calvin Nguyen, Shipping, Kaina Hotta, Graphics, and Louis Garaica, Visual.

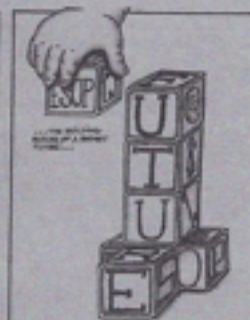
The purpose of the ESOP poster contest is to express what the Maui Divers ESOP means to our employees and the benefits of being an ESOP company. All of the entries were very creative and a lot of thought and effort was put into the theme of each poster. Unfortunately, there could only be three winners; therefore, after much deliberation the following were chosen:

- 1st Place - Kaina Hotta
- 2nd Place - Louis Garaica
- 3rd Place - Calvin Nguyen

All of the winners received a "gift of choice" gift card to enjoy!!

Kaina's winning poster will be submitted to the National ESOP poster contest for 2009 and the winner will be announced at the Awards Banquet to be held on May 5th in Washington, DC. Good Luck, Kaina!

4



Pictured clockwise:
#1 Kaina Hotta,
#2 Louis Garaica,
#3 Calvin Nguyen.

Exhibit 5:



Maui Divers Ohana

Company Newsletter 1st Quarter ~ January - March 2009

Can We Say "Three-Peat"?

-Ali Ban, VP of Retail Sales



For the third consecutive year, you are working for one of Hawaii's "Best Places to Work" - Maui Divers! This year again, we competed against other "Large" companies in Hawaii (150+ employees) and came in 6th place (18 companies made the list). A big "Mahalo" to all the employees who took the time to participate in the employee survey. Your enthusiastic comments and high-job satisfaction counted for 75% of our score. The other 25% is measured by things such as pay, employee benefits, policies and practices. Not only does winning this award bring greater recognition for our company in the community, but we can use it with business associates and customers for increased credibility. Our HR department also uses it as a great hiring tool to entice the best job applicants to come to Maui Divers! So, pat yourself and your co-workers on the back for helping to make Maui Divers an awesome place to work!

Pictured clockwise from top:
Jerry Tanaka, Bob Taylor, Ali Ban, John Monteiro, Doug Kreul, Jan Iwai, Sandie Arntzen, Ann Nagahiro, and Owen Masaki

New Luxury Store Receives Blessing

-Ali Ban, VP of Retail Sales

Our newest concept store, the Maui Divers Jewelry Luxury Collection at the historic Royal Hawaiian Hotel in Waikiki, opened on March 7th and was officially blessed on April 3rd. In addition to our company executives, board members, the architects, property management staff and the entire Maui Divers Jewelry Luxury Collection staff (consisting of Store Manager, Hironi Lipa, Curtis Uno, Aaron Navarro, and Chris Kialina) joined the ceremony. The kahuna also blessed the staff's hands with water so that they can show lots of high ticket pieces and make big sales! Refreshments were served as the guests browsed through the unique jewelry collections including local jade and diamond designer, L. Rafael; opal designs by Barbara Westwood and diamond designer, Gregg Ruth. Many one-of-a-kind Maui Divers designer pearl pieces, as well as large canary diamond rings, can also be found at this location. Some of these extraordinary pieces were modeled by our employees at the blessing. The next time you are in Waikiki, please visit our beautiful store at 'The Pink Palace' - you'll be so proud of it!

2009 Charity Walk Maui Divers 6th Annual

-Ann Nagahiro,
Corporate Secretary

31st ANNUAL
CHARITY WALK

McCOY PAVILLION -
ALA MOANA
BEACH PARK

SATURDAY,
MAY 16, 2009
AT 7:00 AM

FEE: \$35 ADULTS
\$25 ALL UNDER 18
(including infants)

Story continues on Page 2



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ESOP - Past, Present & Future

-Bob Taylor, President & CEO



During the last few weeks, our annual ESOP statements were distributed and numerous meetings with employees were held to discuss how the company and the ESOP performed in 2008. The price per share of Maui Divers stock at December 31, 2008, as determined by our ESOP appraiser, is

\$2.75. This represents a 31% decrease from the prior year. The decrease compares to the decreases in the Dow Jones, Standard and Poors and NASDAQ averages of 32%, 37% and 41%, respectively. During 2008, the ESOP received a contribution of \$315,000 and dividends of \$512,100 from the company. Since its inception, employees have received payments totaling \$9.3 million from the ESOP.

In prior years, distributions of 100% of account balances were paid out in the year following termination. Starting this year, distributions will be paid in five annual installments - the effect being that terminated employees will have a balance in their ESOP

accounts for five years that will fluctuate up or down, depending on the performance of the company and the investments of the ESOP. The vast majority of ESOP companies use similar distribution policies to conserve cash for distributions to employees leaving the company in future years. Stock prices for all companies fluctuate and this policy will result in distributions calculated over five years.

The ESOP will continue to be an exceptional benefit for our employees. As evidenced by our performance and the awards bestowed on us, we are one of the most successful companies in Hawaii and the ESOP allows our employees to share financially in the com-

pany's success.

We have made structural changes in the company that should allow us to operate profitably even if the economic problems persist for sometime. There are signs that the current situation may get better sooner than later. For instance, the stock markets have increased by 25% since early March. Oil prices remain at 65% below the high of last year and gold prices are down 15% from their high. Most importantly, hotel rates and air fares have dropped significantly. We should not get our hopes up too much but these positive indicators are definitely a welcome bright spot to all the gloom and doom that has been in the news for so long.

Safety Results For 2nd Quarter

We had a total of 5 injuries in the 4th quarter - 2 were near miss injuries with no time lost or medical attention required and 3 were reportable injuries that resulted in lost time from work.

The following locations/stores qualified for a FREE breakfast or lunch due to having no accidents during the 1st quarter:

Maui, Hawaii, Kauai, California and Guam Briefing & Atlantis CSR's Transportation DC-2, DC3 and Tour

Charity Walk

continued from Page 3

Remember the date, **Saturday, May 16th at 7:00 a.m.**, the Visitor Industry Charity Walk. Doesn't it seem like it was just a few months ago that we were all gathered together taking pictures for our company newsletter just before heading for the starting line?

For those who sign up by **Thursday, April 23rd**, you will receive a FREE shirt. In addition, the person who signs up the most walkers will receive a gift certificate that will entitle him/her to horseback riding and ATV tour for two at Kualoa Ranch. We will still accept applications until **Monday, May 11th** but you will not receive a shirt. Pick up an application from Tina at the reception desk in the King Center Building or Ann in the Corporate Office on the 4th Floor in Administration.

Due to today's economic conditions, the Charity Walk needs your support more than ever this year. It's during these difficult times that we must all come together in an effort to help those that depend upon us to make a difference. If you can't participate by walking, then I hope you will consider participating by making a donation - every little bit helps! I would like to take this opportunity to thank those who have supported the Charity Walk year after year. You truly know what it means to be a part of the Maui Divers Ohana.





MAUI DIVERS
OF HAWAII

Exhibit 6:

VISION STATEMENT:

TO CONTINUE TO BE HAWAII'S NUMBER 1 JEWELRY
COMPANY AND A GLOBAL LEADER IN TRAVEL RETAIL JEWELRY

MISSION STATEMENT:

STRIVE TO CREATE WEALTH FOR OUR STAKEHOLDERS BY
OFFERING QUALITY PRODUCTS AND TIMELESS DESIGN,
CONTINUOUSLY EXCEEDING OUR CUSTOMERS' EXPECTATIONS,
PURSUING EXPANSION AND NEW GROWTH OPPORTUNITIES,
WHILE ALWAYS ENSURING A HEALTHY AND POSITIVE WORK
ENVIRONMENT FOR OUR EMPLOYEES.

OUR CORE VALUES:

- INTEGRITY: FIRST AND FOREMOST
- EMPLOYEE WORK ETHIC: ABOVE AND BEYOND
EXPECTATIONS
- PRODUCT QUALITY: UNSURPASSED CRAFTSMANSHIP
- CUSTOMER SERVICE: UNPARALLELED AND WITH THE
"ALOHA SPIRIT"