

MGT 429

Case Study: Employee Ownership & Equity Compensation at ATA
Engineering

November 2, 2009



Innovative Solutions Through Test and Analysis-Driven Design

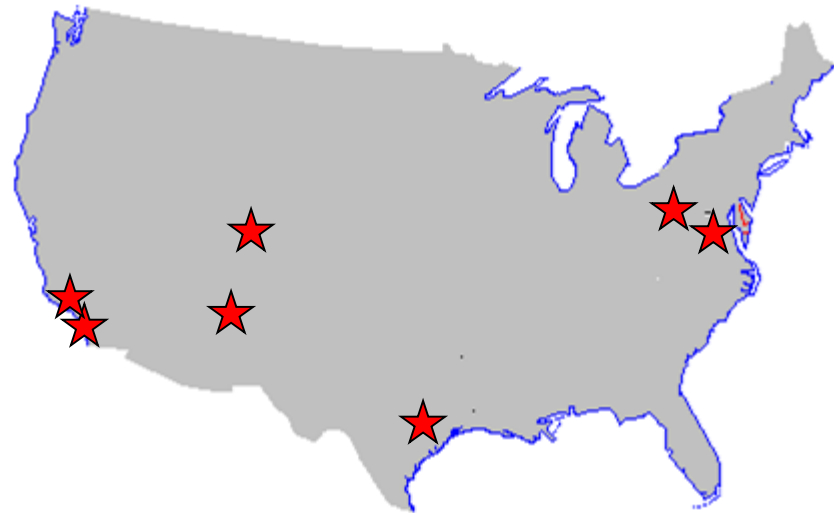
Who Is ATA Engineering, Inc.?

ATA Engineering, Inc. was formed as an employee-owned corporation on April 3, 2000 through the purchase of all assets of SDRC's Advanced Test & Analysis Group in San Diego

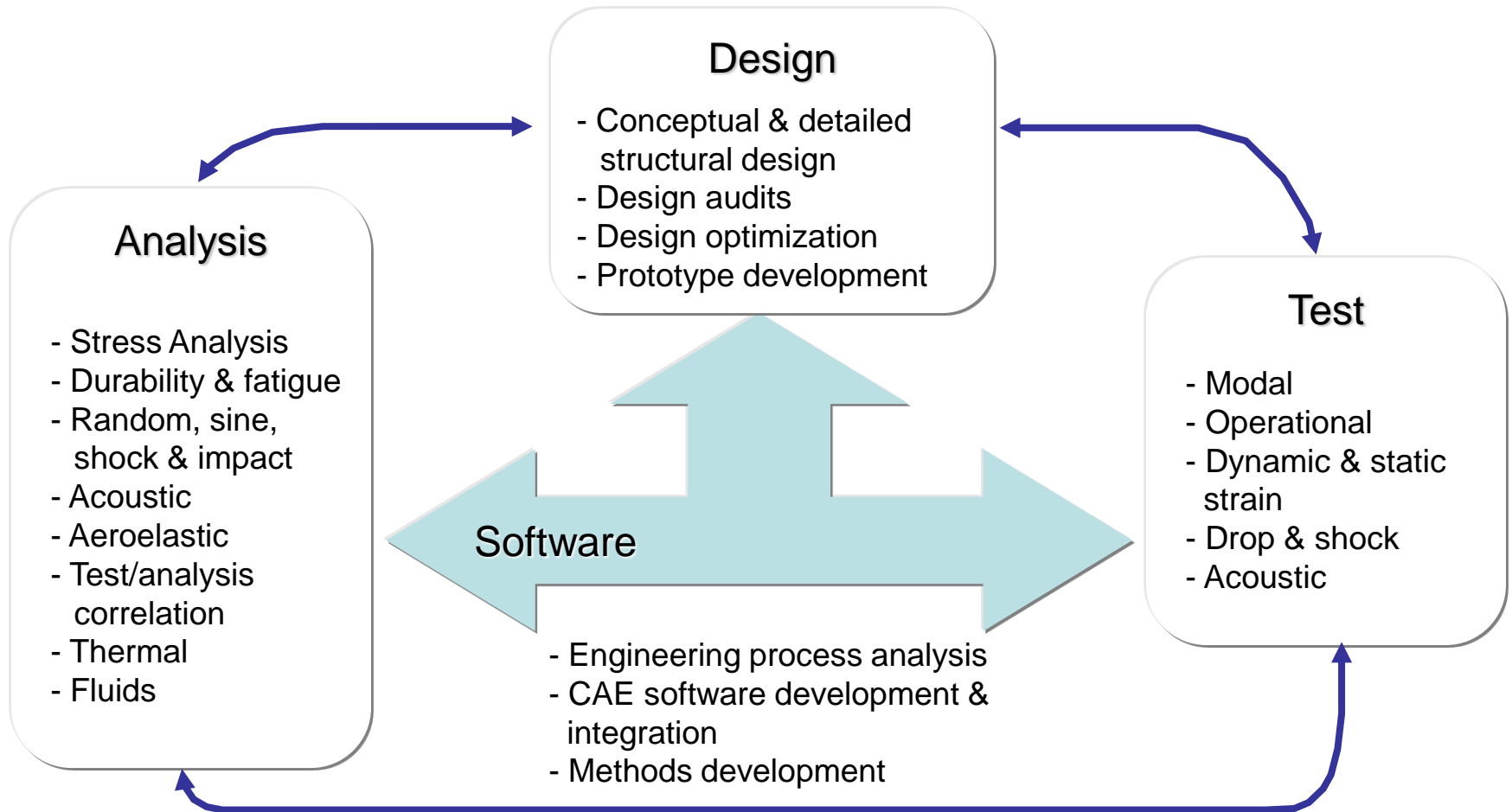
Mission Statement: To be the leading provider of solutions for analysis-driven and test-driven design of mechanical, electro-mechanical and aerospace products

We Have Highly Professional Engineering Staff in Seven U.S. Locations

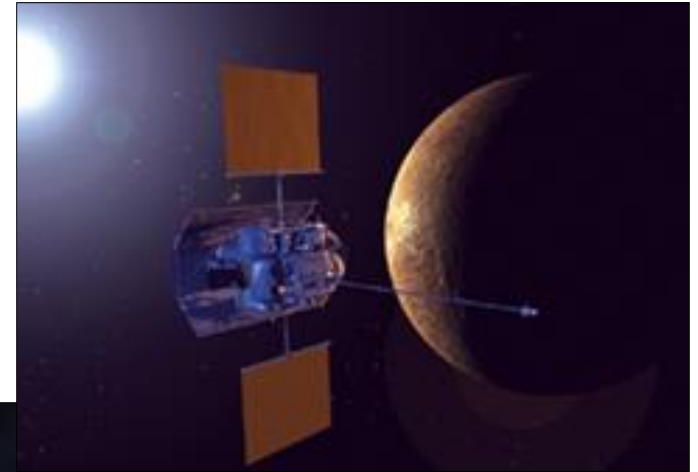
- ATA employees have over 600 cumulative years of relevant experience
- ATA has a full-time staff of 90 people, 77 of whom are degreed engineers
 - 11 B.S. degrees
 - 45 M.S. degrees
 - 21 Ph.D. degrees
 - 5 staff are registered Professional Engineers
 - 8 - 10 co-op and intern students
- Typically hire graduates of MIT, Stanford, Purdue, Cal Tech, UCSD, UCLA, Wisconsin, Texas and other great schools



We Use Advanced CAE Software to Design, Analyze, & Test Complex Aerospace & Mechanical Products



We Work on Lots of Exciting Spacecraft Programs...



...And Launch Vehicles ...



... And Aircraft ...



Image Credit: MQ-1B Predator | Tech. Sgt. Sabrina Johnson | Public Domain



Image Credit: NASA/Jim Ross



We Use Design, Analysis, & Test to Insure Against Aircraft Flutter

Ground Vibration Test and Structural Mode Interaction Assessment of an Aircraft



Image Courtesy of Tamarack Aerospace Group

And Other Cool Stuff



Active Aircraft Seat Cushion Development





ATA

ENGINEERING, INC.



Employee Ownership at ATA

ATA Founded in 2000 as Friendly Spin-off from Public Engineering Software Company

SDRC

High margin software business

Decisions driven by Wall Street owners to maximize revenue & profit

28 people (Mostly Engineers)

Advanced Test & Analysis Division



Goal to solve challenging engineering problems

100% Employee Ownership Was Goal from Day 1

- Respect for very strong staff hired & trained by management team
 - Consensus decision making
- Desire to promote team environment through shared ownership
 - Focus on team/company performance, not individuals
- Company where we loved to work
- Control our own destiny

No Clue Where to Start with EO

- Resisting offers to be acquired
- Lots of guidance from The Beyster Institute
- Engineers are skeptical, cynical, suspicious, questioning, logical, ...
 - Lots of:
 - EO education
 - Questions, meetings, memos, discussions, arguments
 - Spread Sheets
 - No Rah-Rah

Phase I of EO Journey: 2000-2004

100% EO from Stock and Stock Options:

- Only regular employees own stock or options
- **All** regular employees own stock or options
- Huge “overhang”: 90% of potential ownership in stock options, only 10% in stock (by design)
- Who is the buyer of ATA stock?

Phase II of EO Journey: 2004-2008

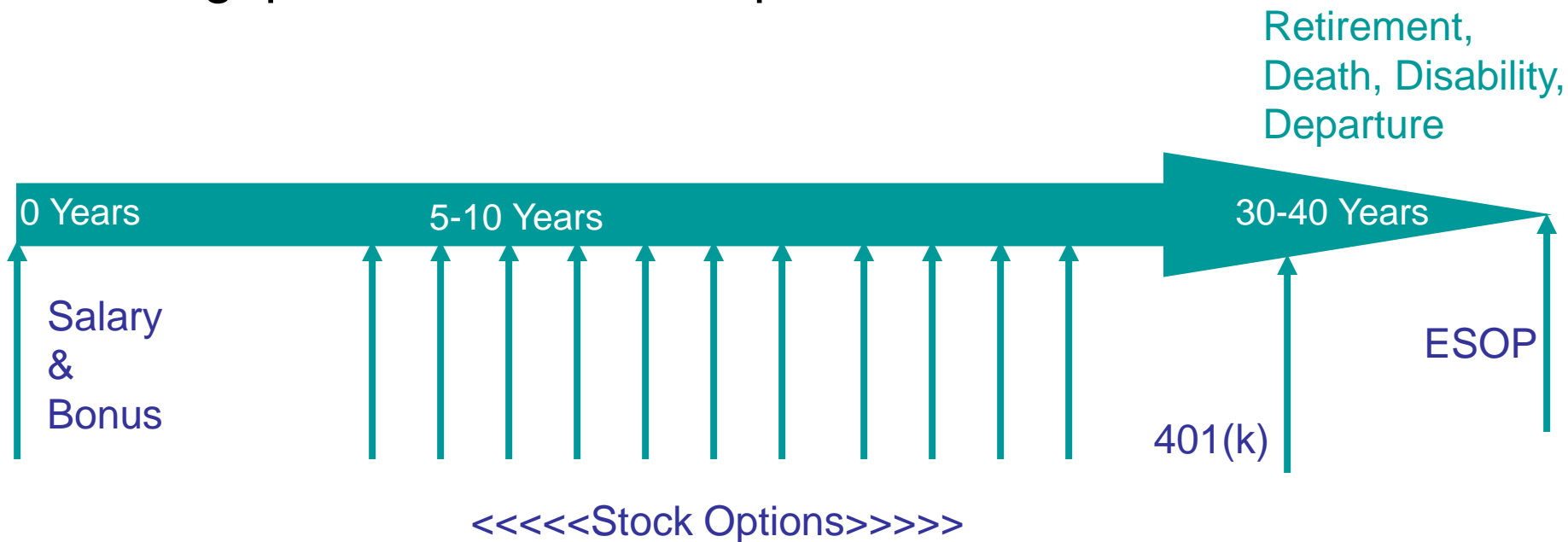
100% ESOP-Owned S Corporation:

- ATA repurchases all shares
- This was **not** a transfer of ownership from retiring founder
- Create ESOP & contribute shares
- Convert from C to S Corporation
- Now its clear: ATA is buyer of employee shares!
 - Implement a Stock Repurchase Savings Account

Phase III of EO Journey: 2008 and on ...

Employee owners must die, retire, or resign to access value of ATA stock ownership

Fill the “gap” with more stock options!



ATA's Operational Practices Reflect EO Values

Every company is different and some ATA practices may not work for you

- Recruiting, training, retention of outstanding employee-owners
- Granting both responsibility and authority to accomplish company goals
- Trusting in their honesty and integrity
- Soliciting feedback and ideas on company policy and direction

ATA's Recruiting Practices Are Key

- Only hire staff who are “Too Good To Pass Up” (TGTPU)
- Recruits should show interest in Employee Ownership
- Process is comprehensive and highly selective
 - We visualize new recruits having 40-year career at ATA
 - Contributing in new ways we don't know today
- Most candidate's accept our offers because of:
 - Employee Ownership
 - Exciting project and career opportunities
 - ATA people, culture, and values
 - Choice office locations
- We continue recruiting when business is slow!
- Our process requires discipline and confidence in our business

ATA Culture & Practices Focus on the Team

- Project teams “delight” our customers through outstanding engineering services
- Focus on overall ATA performance
- Less focus on individual achievement and rewards
- No “Executives” at ATA:
 - No Executive perks
 - No Executive Compensation System
 - Management staff paid on same scale as all engineering staff based on survey of competitive salaries for engineers
 - Performance
 - Years of Experience
 - Academic degree
 - Level of responsibility

The ATA Project Manager is Queen (or King)

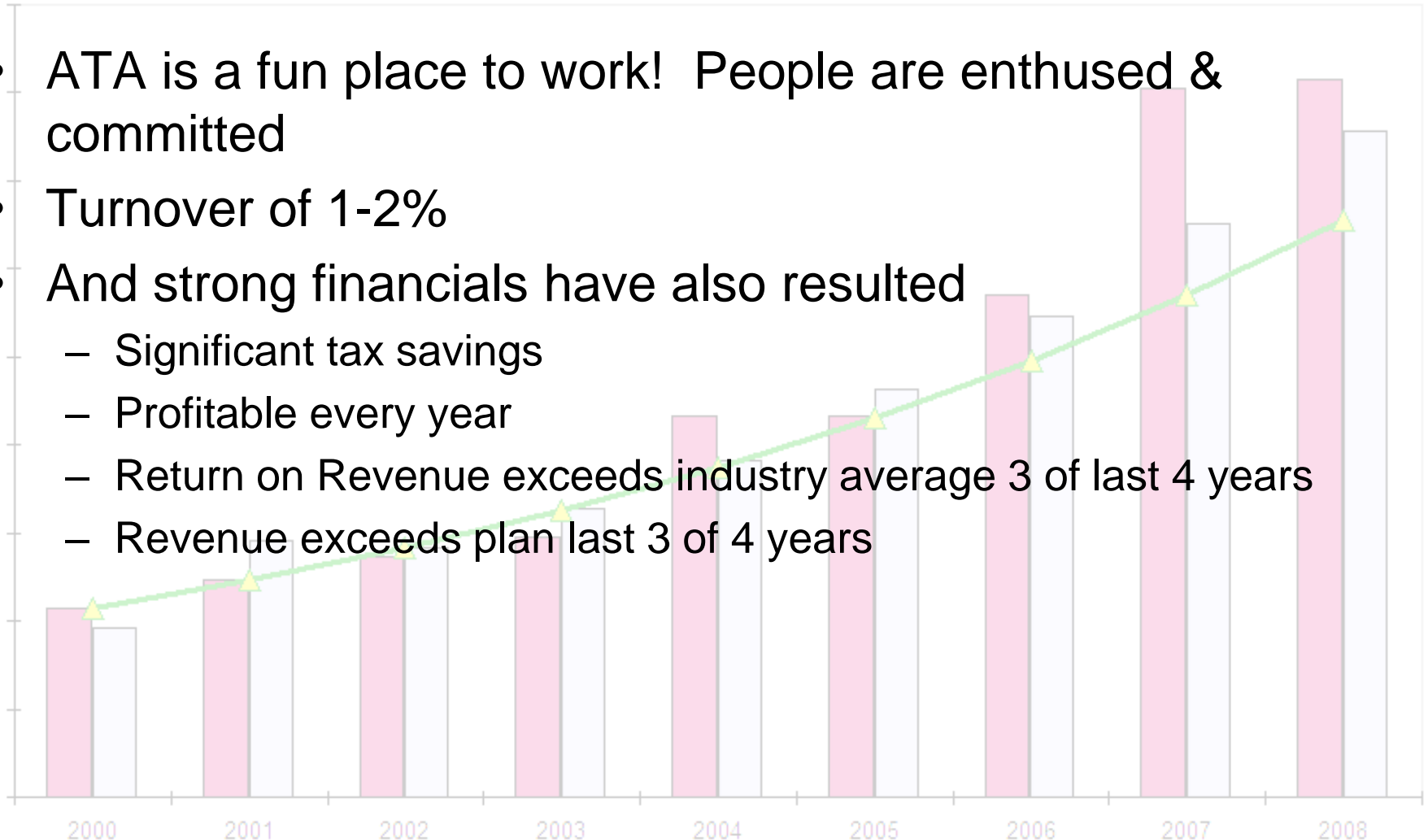
- Most ATA business is performed by small project teams supporting customer contracts
- Ad hoc Project Teams “trump” our more traditional Organization Chart
- The Project Manager has complete responsibility and authority for Quality, Schedule, and Budget
- For smaller projects, a junior engineer could be PM
 - Sometimes ATA’s president may report to a junior PM!
- Keep Responsibility and Authority in Line
- Trust employee-owners to treat company resources as their own

Consensus Decision Making is Challenging but Pays Off

- Post spin-off assumption of super-fast decision making
- Consensus decisions take more time than Top-Down
- Individual employee-owners empowered to participate
 - Lots of education and communication
 - How could this not be good?
- The investment pays off:
 - Employee-owners educated and positioned as future leaders
 - Employee-owners “buy-in” to the decision
 - Implementation is smoother and faster

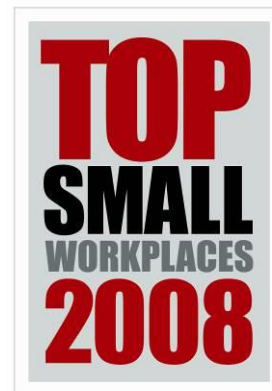
EO Has Yielded Many Benefits to ATA

- ATA is a fun place to work! People are enthused & committed
- Turnover of 1-2%
- And strong financials have also resulted
 - Significant tax savings
 - Profitable every year
 - Return on Revenue exceeds industry average 3 of last 4 years
 - Revenue exceeds plan last 3 of 4 years



ATA's Success Has Received Recognition

- NCEO/Beyster Institute 2008 Innovations in Employee Ownership
- Wall Street Journal 2008 Top Small Workplaces
- San Diego Business Journal San Diego's 100 Fastest-Growing Privately Held Companies (2008)



WINNER

As named by
The Wall Street Journal
and
Winning Workplaces



ATA

ENGINEERING, INC.

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*High-Value Test- and Analysis-Driven Mechanical Engineering
Design Solutions*