

Minnesota Manufacturers' Summit

Douglas Machine Inc.

October 28, 2010

Agenda

- Background and Profile
- Recruiting
- Flexible Workforce
- Retention

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- **Background and Profile**
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Douglas Machine Inc

- Established in 1964
- Design, manufacture, and service packaging equipment
- Customer base is mainly fortune 100 food and beverage companies
- Exports represent 10% of revenue, 95% outside of Minnesota
- Douglas Scientific: new biosciences business venture started in 2004 provides laboratory equipment to enable high throughput genetic screening

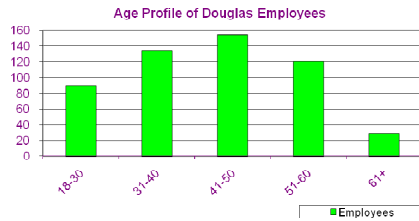


Employee Demographics – 12/31/09

- Total Employees: 529
- Gender
 - Male: 475 (90%)
 - Female: 54 (10%)
- Job Classifications
 - Engineering: 102 (19%)
 - Assembly: 130 (25%)
 - Fabrication: 103 (19%)
 - Field Tech: 64 (12%)
 - Office: 130 (25%)

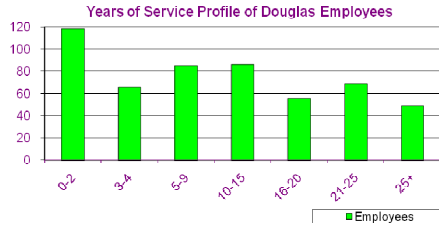


Employee Demographics – 12/31/09



- Average Employee Age: 43 years

Employee Demographics – 12/31/09



- Average Employee Tenure: 11.6 years

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Recruiting

- Challenges
 - Specific skills such as programming, genetics
 - Rural MN – not near large population base
- Advantages
 - Lakes area attractive
 - Largest private employer in region
 - Excellent technical college in Alexandria

Recruiting

- Strategies
 - Life stage
 - Young Family
 - Nearing Retirement
 - Interests
 - From the area
 - Hunting, Fishing, Outdoors
 - Company
 - Six straight record years for revenue
 - Significant investment in research and development (2X industry avg.)
 - New business ventures like Douglas Scientific
 - Employee Ownership
- Results
 - Unique skill requirements (Scientific) have been met
 - General economy has helped

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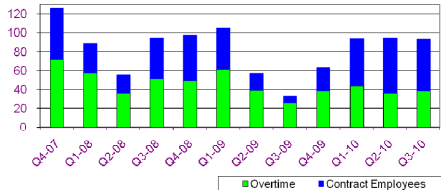
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Workload

- Workload Variation
 - 70% of Douglas revenue comes from machine shipments
 - Machine orders can be seasonal and come in bunches creating significant swings in workload
 - Priority to limiting impact on permanent skilled employees by using flexible workforce
 - Outsourcing
 - Overtime
 - Temporary employees

Flexible Workforce

Flexible Workforce Equivalent Headcount



- Flexible workforce variation from 33 to 126 during this three year period

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Employee Retention

- Employee Turnover
 - 6.0% in 2009
 - 4.5% annualized for 2010 YTD
- Safety
 - Experience Mod: 0.81
 - 2004-09 average annual work comp claims: \$94,000
 - 2004-09 average annual payroll: \$26M
- Ownership
 - Douglas is 100% owned by an Employee Stock Option Plan (ESOP)
 - Employees are eligible to participate after 6 months of employment
 - Employees receive stock via 401(k) match and annual contributions
 - Quarterly meetings to share financial results with all employees

Employee Engagement

- Employee Engagement "the extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a result of that commitment"
 - Engaged employees – work with passion and feel a profound connection with their company. They drive innovation and move the organization forward.
 - Not engaged employees – essentially check out. They're sleepwalking through their work day, putting time – not energy or passion – into their work.
 - Actively disengaged employees – aren't just unhappy at work: they are acting out their unhappiness. Every day, these workers undermine what their engaged co-workers accomplish.

- Biannual Engagement Survey
 - Gallup 12 plus 1
 - Would you recommend Douglas as an employer to others?

Employee Retention

- Keys to Employee Retention
 - Safe, stable working environment
 - Employee ownership creates disincentive to leave because of significance of the future benefit (golden handcuffs)
 - Communicate with employees and get their feedback

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