

Award of Excellence

Robert M. Thompson

Taking care of people starts with giving employees \$128 million



CELEBRATION After the sale of Thompson-McCully Co. last year for \$422 million, Thompson decided to spread the wealth.

Some people never have enough. They use their wealth as a means of keeping score on their success. But Robert M. Thompson, founder and president of Michigan's largest asphalt paving contractor, Thompson-McCully Co., decided a better way to live and work was to set a gold standard for giving to improve people's lives and recognize his employees' contributions to his success.

When he sold his Belleville, Mich.-based company last year to an international construction conglomerate for \$422 million, Thompson gave 550 company employees and retirees a "special bonus" of \$128 million. Not stopping there, he used another \$100 million to set up the charitable Thompson-McCully Foundation and plans to spend another \$200 million on educational activities. Thompson

PHOTO COURTESY OF THOMPSON-MCCULLY



LONG HAUL
Three of the original 11-man company that started out in 1959 stayed with Thompson more than 30 years until their retirements. In both photos they are: 1 Bob Thompson 2 Bob Helsel 3 Al Payne 4 Pete Mott. "Thompson was determined," says Mott. "And he had the right people, who cared about more than just a paycheck."

already has established 1,000 annual scholarships for inner city kids in Detroit to allow them to go to private schools, hundreds of junior college scholarships and over a hundred at the university level for construction students. And there is much more to come.

For these reasons, the editors of *Engineering News-Record* give humanitarian Robert M. Thompson ENR's Award of Excellence for 2000.

Thompson's outlook on life, business and what really is important was largely shaped by growing up on a farm in Jonesville, Mich., where he says his family had "everything they needed except money." And there were the random acts of kindness by people along the business road that helped keep him moving toward becoming a successful hard-money, low-bid contractor in an industry littered with stalls and wrecks. In the end, Thompson was able to turn black gold into real gold, but he never forgot the people that helped make it happen.

Like many contractors, Thompson-McCully got off to a fitful start. In 1959, Thompson and his uncle, Wilford McCully, joined forces. McCully was about 55 and had worked in utility construction. Thompson was 27, fresh from three years in the Air Force piloting F-86 jet fighters after a very brief stint teaching industrial arts in a Detroit junior high school. While getting his teaching degree at Ohio's Bowling Green University, he had worked summers for a contractor that applied surface treatment to roads—prime and chip. That was the business that Thompson-McCully Co. decided to enter.

Thompson's end of the enterprise was funded by his wife Ellen, whom he had met at Bowling Green. She had saved \$3,500 working as a teacher while he was in the stratosphere. "That was not pocket change, but a Ford-car-and-a-half," he says. With that money, Thompson-McCully bought a sprayer and roller, built a spreader from an old Scoopmobile, and was ready for action.

But persuading people to give them some action was not so



easy. The first job was in Battle Creek. "The chief engineer was an older man and he took a chance," Thompson says. Things went smoothly until disaster struck the next summer when Thompson-McCully lost \$60,000 while trying some underground work. "The real reason was that we didn't know what we were doing," says Thompson. This was too much risk for the older McCully, and the two split the debt and parted amicably.

Thompson decided to keep going and his stars happened to be in alignment with federal interests as the Interstate program ramped up. "The minute I jumped in the business, the [Interstate] was rolling," recalls Thompson. Equally important, McCully left good people behind. Three of the original 10 employees stayed with Thompson over 30 years to retirement. "The one thing he taught me that I never forgot is the value of good people," says Thompson.

"We went through hell and high water," says Pete Mott, 69, who retired as superintendent in 1991 after starting as a labor-

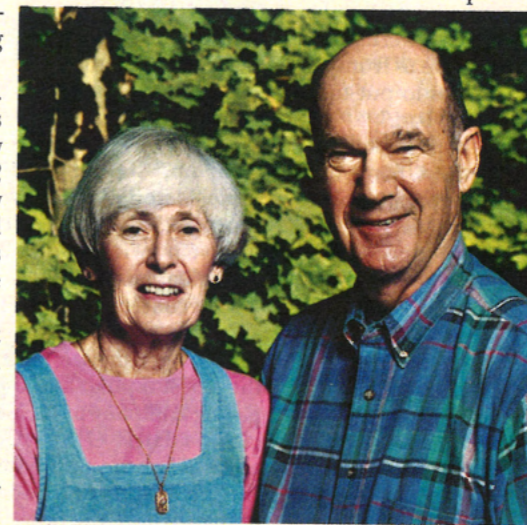
EVOLUTION
Thompson-McCully used a shop-built spreader on its first surface treatment job in Battle Creek, Mich. Today, each paving crew "owns" their paver and is actively involved in selecting the equipment, having proper training and making sure the paver is up and running during the season.



er and machine operator. Thompson "would bid work in the morning and we'd be on it by noon," he says.

Other challenges soon appeared. At the time, federal specifications called for chip and seal on highway shoulders, but they changed in 1962 and nearly put Thompson-McCully out of business. (He never changed the name because McCully was his mother's maiden name and his uncle "was a really great guy," he says.)

"I didn't like it at the time," but the specification change propelled the firm into hot-mix asphalt, Thompson says. He agreed to pay \$180,000 for an asphalt plant and paver in Cedar Rapids with \$25,000 down and \$1 payment per ton of asphalt produced. "They were a bunch of crap shooters [because]



PARTNERS Ellen Thompson supported the cause.

they let us work our way out," says Thompson. "I truly didn't know anything about hot mix."

Ellen says she would have stopped at the first asphalt plant or even the chip-seal operation. "I'm a zero or negative one as a risk taker," she says. But Bob showed a flair for it. "Here and there, a deal came along" for expansion as contractors retired or got into trouble, he says. The company made a big jump in 1966 when it acquired four asphalt plants, two transit-mix plants and lots of rolling stock belonging to Ann Arbor Construction Co., a firm founded in the 1920s that was six times bigger than Thompson-McCully.

The key to that deal was kindness. The principal owner's father had started the business and she wanted out because her husband had health problems. Virginia Ratliffe had planned to let several Ann Arbor managers

buy the firm piecemeal with their annual bonuses if they would provide her husband with an office and send him to an annual convention. The managers reneged and she approached Thompson about a sale. "We took care of her husband....It was nothing," says Thompson.

Ann Arbor had gravel properties, but Thompson was not quick to catch on that aggregates are "the golden nuggets. I didn't get into it until late," he says. Thompson now believes aggregates are "the absolute driver [in the paving business]. You have to control your own destiny."

Others also helped Thompson along the way. "We had a banker who used to lend us money when he probably should not have," says Thompson. His bank at the time had



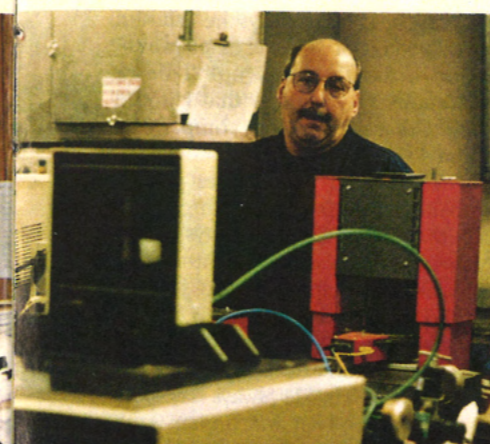
ED ARMATIS, Operator-mechanic
"Equipment will go for the year" because he is willing to spend on winter maintenance.



GREGG CAMPBELL, CFO
"Every engineer here is a business manager and every business manager is an engineer."



MARLENE VAN PATTEN, Office mgr.
"He has no hobbies except reading. He doesn't hunt, fish or boat. Six days a week he was here."



DEAN AGOZINO, Div. mgr. oil
"We test, times four...That's our creed. We don't ship any off-spec material."



JIM MCINNIS, Div. mgr. asphalt
"The company is so big on measuring because we want to allow people to improve."



DENNIS RICKARD, President
"The company does well not because it has great equipment, but...great people."

banker, Floyd Karol, approved the loan for the full amount and told Thompson and Ellen to sign promissory notes, along with their two and four-year-old sons. "They can't write," Thompson told the banker. "Have them sign it anyway," he replied. "When he believed in you, he would go all the way," says Thompson. "If not, he wouldn't lend you a dime."

Ellen perhaps contributed most of all by mortgaging their house four or five times and cashing in her teacher's pension for the cause. "I took her pension, her house and her savings," says Thompson.

The Ann Arbor purchase was a turning point and Thompson says he grew along with the firm. "That forced me to be a manager" because we were about 40 miles apart, says Thompson. He says that he had to learn how to motivate people from afar. "I did not know whether I would make it or not," he says.

That nervousness led Thompson to develop accounting systems that continue today. "I was so nervous when I started that I had two legal pads—one cost, one income" that were tallied every day, he says. "Daily financial reports separate us from our competitors.... Every foreman and manager has to put them together and they learn what jobs are good and bad."

Once he bought Ann Arbor, Thompson kept looking for opportunities, eventually buying eight competitors. Some have retained their names, colors and identities as separate operating units. "That was important to selling owners," says Thompson. "We learned each time how to get along with people and how to get them on the financial reporting system."

Not everything Thompson tried worked out well, especially as he moved away from the company's core competencies. Ready-mix concrete, concrete paving and dirt moving were some activities tried and abandoned. The concrete paving business "was a disaster," says Ellen. "We didn't do well," says Thompson. "We all have certain talents and we have to know what we don't do well. The narrower the focus, the better. We narrowed the focus to finding rock, crushing it, transporting it, making asphalt and either selling it or laying it."

At the time of the sale to The Oldcastle Materials Group last

July, Thompson-McCully Co. was pushing past its 1998 annual revenue of \$254 million and profit of \$45 million from a largely self-sufficient, vertically integrated operation serving lower Michigan. Its nine asphalt plants produce 6 million tons of bituminous concrete a year using rock and gravel from its own quarries and liquid asphalt from its blending facility. By the time 1999 was finished, revenue was \$280 million and profit was \$53 million.

The decision to sell the firm came as a result of a heart problem that Thompson experienced in 1997 when he was 65. It was corrected in early 1998 with a pacemaker. Meanwhile, the Dow Jones Industrial Average was just hitting 9000. "The timing was absolutely perfect," Thompson says.

Oldcastle Materials, a subsidiary of Ireland's CRH PLC, has built an aggregates, asphalt and paving company based on purchasing first-class family-owned businesses, says CEO Tom Hill, based in Washington, D.C. "We team up with good companies and then try not to mess them up," he says. Oldcastle Materials will have about \$2.5 billion in sales this year, with about 25 individual businesses.

Oldcastle talked to Thompson for about five years before the sale. "He has the finest asphalt and asphalt paving company in the world," claims Hill. Oldcastle was attracted to the firm because of the quality product, financial controls and the way that oil, stone, asphalt plant and paving

operations are combined. In a hard money, low-bid contracting environment, cost-effectiveness is key. Thompson's asphalt plants average 700,000 to 800,000 tons a year each, while the industry average is about 100,000 tons, says Hill. Thompson's equipment is the same, "just bigger and more efficient," he explains. "Bob has a dozen simple measurements and that is how he drives that business."

Thompson, now age 67, says he looked at all of the options once he decided to sell. "There are a lot of buyers out there. We wanted a deal with someone who could run the company." Thompson worked with FMI Corp. in exploring various options and valuing the company "One roll-up came around with \$650 million. But it was a lot of stock and you would be selling every one of those employees down the drain," says Thompson. "We have a lot of people that retire here. We don't lose a lot of people."

Valuing the company was tricky because Thompson's vision of vertical integration that he had been working on for at least six years came together at the time of the passage of the Transportation Equity Act for the 21st Century and an increase in the Michigan fuel tax that doubled the state's roadbuilding program, says George Reddin, FMI's director of mergers and acquisitions in Raleigh, N.C.

"It was a home run.... The whole vision worked" and the firm increased in size dramatically, he says. "We think [the sale] is the largest contractor transaction in the industry."

"In the sale, the continuity of the company was most important...and then we went for as much money as we could get," Thompson says. Prior to the sale, he had named a lot of company people in his will with various amounts, but he says he "was never comfortable about that." And he didn't really know what he was worth. "When I sold, I was kind of shocked. My God, that is a lot of money," he says.

There is a kind of inherent brutality in asphalt paving because of the huge amounts of material and work that must be done almost around the clock during the 140-day paving season in Michigan. Thompson told a very small circle of managers that "we need to share this money."

Thompson struggled two or three months trying to work out a formula. In the end, about 550 people received the bonus. All hourly employees received \$2,000 for every year of service. For salaried employees, "we wanted to give them at least \$1 million," partly because there was no retirement plan. Some got \$2 million. Some retirees and widows of retirees "that really made some money" for the company also received \$1 million.

But Thompson was concerned about the corrupting influence of giving a lot of cash to younger people, and he didn't want people to leave the firm. So he set up annuities of at least \$1 million for 62 people. Those in the field will be able to tap the money when they reached age 55, and office staff at 62. "That's about when they play out," says Thompson. If key employees were older and still working, they got a check.

Thompson made 90 people millionaires, 20 of them instantly. And some hourly staff received the equivalent of a couple of years' wages. But Thompson didn't stop there. He also wanted to pay the taxes on the bonuses. "It takes \$1,528,000 to give someone \$1 million," he says.

"It was unbelievable. It is hard to tell you how I felt," says Frank Azzopardi, quarry manager in Newport, Mich., who received an annuity that kicks in at 55. He says he now has a "secure feeling" because retirement funding "was always a big

THOMPSON-McCULLY CO.
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• Whitmore Lake (313) 440-2013	• Kalamazoo (616) 343-6699
• Oakton (548) 425-5871	• Grand Rapids (616) 459-9545
• Ironwood (517) 460-1717	• Lansing (517) 482-9011

July 17, 1999

Dear _____,

I am now entering a new chapter in my life. I feel confident that this chapter will be as rewarding and exciting as all the other chapters.

As you know, on Thursday, July 8, 1999, the Thompson-McCully Companies were sold.

Forty years ago Ellen and I started Thompson-McCully Co. with \$3,500 that we had saved from her teaching and my service pay. We have been exceedingly fortunate and successful for a lot of reasons. But one, if not the most important, is that Thompson-McCully has had great employees. The hard work of the employees has enabled Ellen and I to accomplish things we never dreamed possible.

I have always wanted to be a winner. So to stay a winner, I have done the responsible and professional thing and prepared Thompson-McCully for the next century.

For several years I have been looking for a company that had the same drive for excellence, one that would allow our management to continue in a similar manner, and one that shares our culture of managing by information. I think Oldcastle is the right company.

Please be aware that I am staying on after the sale to run Thompson-McCully for three reasons. One, to make sure that the transition goes smoothly. Two, to continue to counsel and train existing team members to take my place. Third, because I enjoy my job and I want to stay.

I need your hard work and dedication to show the new owners that they bought a great company. Your help would be appreciated.

An Equal Opportunity Employer

My desire also has been to share proceeds from the sale of the company with the employees. This has been my desire for many years. You have been part of the success of the company and it's appropriate that we do this. It has been a good run and you for being a big part in it.

Because of your commitment and loyalty to Thompson-McCully and the positions you have made, we are sharing _____ with you. See the enclosed form. The dollar amount that you receive is confidential and we hope that it would remain that way.

Monday morning and into the future I will need you to come and join the new owners what a successful company you for the time and energy you have put forth in the past. I hope that you will continue to work hard, and busy take the next step into the future. This is an exciting time and we are looking forward to the weeks and years ahead.

Very truly yours,
THOMPSON-McCULLY CO.
Tom M. Thompson

NO PINK SLIP
Some Thompson-McCully employees thought they might be laid off after the sale of the company to The Oldcastle Materials Group. Instead of a pink slip, 550 people got a green slip recognizing their contribution to the company.

A Practical Solution Helps Protect Workers

BOB THOMPSON'S DESIRE TO TAKE CARE of people goes beyond his company. A past chairman of the National Asphalt Pavement Association, he helped asphalt paving companies, paver manufacturers and government regulators come up with a voluntary solution that today protects thousands of workers from asphalt fumes.

The solution "moves 80% of fumes from the roadway and puts it out above the operators' heads" and was achieved with "blinding speed" in terms of government action, says Bryan D. Hardin, deputy director of the National Institute of Occupational Safety and Health. Discussions about fumes started in 1995 between NIOSH, the Occupational Safety and Health Administration, the U.S. Environmental Protection Agency, NAPA and other groups. By 1997, all new highway-class pavers had engineering controls on them. A blower by the screed sucks up the fumes and pushes them out a stack.

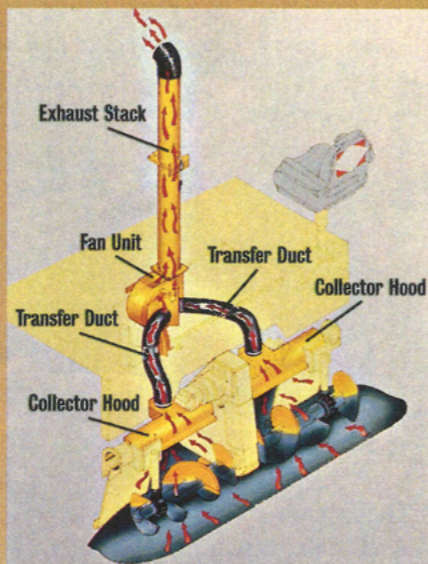
The situation looked like it was headed for a long fight. The main issue was the long-term health effects on workers regularly exposed to asphalt fumes. Both sides agreed fumes were at least an irritant.

Thompson broke the logjam. "This sounds like your [lab] rats against our rats," he recalls telling the regulators. "If we can get fumes away from workers, we can change lives."

"Bob has been integral to the leadership of NAPA for over a decade [and] it was largely his idea to come up with the engineering controls solution to fumes,"



PHOTOS COURTESY OF BLAW-KNOX/INGERSOLL RAND



says NAPA's current chairman, Michael D. Mangum, president of the Mangum Group Inc., Raleigh, N.C. "He was visionary and involved. We now see NIOSH and EPA as key partners with us."

"It was the first time everyone came together," says NAPA President Mike Acott, who helped clinch the deal.

All parties in that effort want to keep the "partnership" alive for other issues. That includes mitigation of asphalt odors from plants, trucks and pavers. Thompson has some ideas there, too. "We have plants in sensitive areas [and] were looking for something to mask the asphalt odor. But we found something that eliminates it," says Thompson. "With some asphalts, you can pave down the center of a room and you would not know it is asphalt... We will be going back to NIOSH and OSHA on this issue."

The odor reduction agent is a "flavoring from the chewing gum industry [that] has no effect on Superpave binder properties," says consultant Charles H. Vandusen, Northville, Mich. "We found cherry to be better than pine, and you can get wintergreen." The trick is to get the proper ratio. "You have to sort of tinker with the dilution rate," he adds. It takes about one gallon per 13,000 gallons of liquid asphalt, and that works out to be 2¢ to 3¢ per ton of mix, says Vandusen.

A Thompson-McCully plant operator, A.J. Ronyak, developed the product with Thompson's support. "We thought it was a joke, but mixed up one batch and the difference was night and day," says Jim McInnis, a Thompson-McCully division manager. "There is no such thing as a stupid question or idea" at the firm, notes quarry manager Frank Azzopardi.

worry." Azzopardi says he "started on the end of a shovel as a laborer" and worked his way up. "I never thought 14 years ago that I would be a manager in this company or that I would share in the proceeds."

Thompson "challenges people to achieve more by giving them more responsibility," says office manager Marlene Van Patten, an annuity recipient who joined Thompson-McCully when it purchased Spartan Asphalt in 1985. "He is a demanding person, but extremely fair. He always has wanted to be the best and he has wanted his people to be the best."

Van Patten helped arrange the bonuses and kept the secret. After the sale of the company to Oldcastle on July 8, 1999, a letter was sent to employees advising them to be at the office on Saturday July 17 and again on Sunday morning. One manager told Van Patten he had a golf date. "It might be a good idea to show," she told him.

"We had seven sites where people picked up checks," says Van Patten. "If they had been here at least two weeks, they got something.... People he started with, he remembered. Nobody in the world would have done this."

Van Patten passed out checks in the Lansing office, where she had worked since college before moving to the main office in 1994. "There were tears and hugs. It was an incredible experience to be part of," she says. "I never realized the magnitude of his intent."

"No one knew what they were coming in for," says Chief Financial Officer Gregg Campbell, who also helped pass out the checks. "They came in, read the letter with the amount, and left by the back door," he says. "We had the full range of good emotions."

"It was a huge surprise, no question about it," says Jim McInnis, a division manager who runs the asphalt plant in Rawsonville. "We knew there was going to be a transition," but not like this, he says.

"The greatest thing he gave me was opportunity," says Dean Agozino, division manager for the oil-blending facility in Monroe. "I plan on staying and making this place successful."

Probably more than a few people thought they were going to be laid off that day. "It is one of those

days that is burned into the brain," says Natalie Hill, wife of gravel manager Rick Hill. She says he was worried.

When Rick returned from the office that weekend, he remained alone in the garage of their house, where she had company. "Oh-oh, he really lost his job," she concluded. When he showed her the letter, she says she "thought it was a typo," and they both stayed in the garage until the company came looking for them. "The unreality of it endures," she says. "I didn't expect a tough old construction guy to do this."

For Campbell, the money is even more special, in that it will help his handicapped daughter. "This special money will go to my kids and especially Emily, to take care of her for the rest of her life," he says. "Being able to pass out checks was the second-best thing."

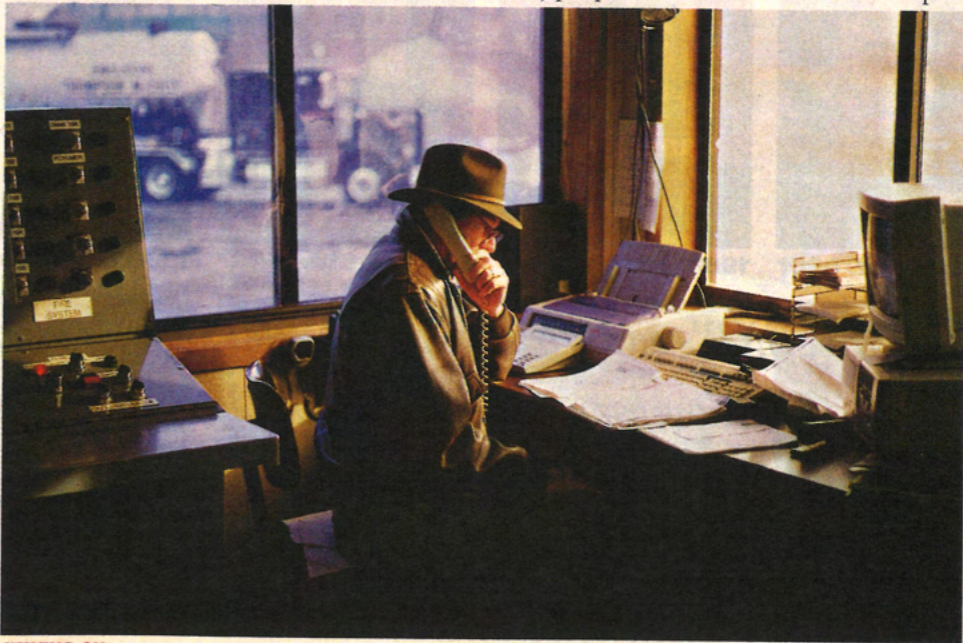
"It was a surprise," agrees Ed Armatis, an operator and mechanic at the oil blending facility who has worked for Thompson half of his 32 years. "He is a fair guy, but very demanding. You don't see him around much if you do your job." Armatis says he had resisted five years of urging by his wife that he quit and work for a bigger company.

Part of the shock was due to the cost-driven culture and image at the firm. "We are the Wal-Mart of the paving industry," says Campbell. In the past, Thompson wanted all company cars to be asphalt black and "he thought whitewalls were too flashy," says Campbell. If they came with whitewalls, "he would have them turned inside out," says Van Patten. He even had some brand-new dark-blue cars repainted black in the 1980s.

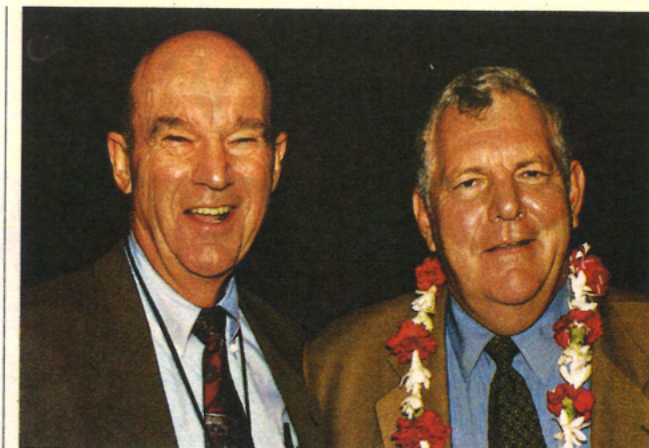
Even today, Thompson's office is in an old, double-wide trailer in back of the main office. One slight tip of prosperity is the black Lincoln that he started driving only a few years ago when his hip acted up. "The secret was out," says Thompson.

"It is amazing that he did it, but not surprising," says Dennis Rickard, who is assuming the role of president from Thompson, moving up from his old job of managing all of the asphalt plants. He notes that the bonuses will make it a lot easier for him to manage the company because "people come to work not because they have to but because they enjoy it."

"Bob's strongest asset is the loyalty he inspires in people. They will work endless hours for him," says Ellen. "That's why I was happy about the bonus, especially for the hourly people."



STAYING ON Thompson is turning over many duties but plans to "help work it out."



LIFELINE Bennett (r) thinks inner-city kids will benefit most.

Flag person Rachel Lewis adds: "He didn't have to think about us. That came right from his heart."

The special bonuses were just the start. Thompson's scholarship program is in full swing. The Thompson-McCully Foundation was set up last August with \$100 million. It was used immediately to set up 1,000 scholarships for inner city kids in Detroit to go to private schools in the city, and 500 scholarships at Schoolcraft Junior College, Livonia, and seven graduate scholarships at Michigan State University.

The less formal charity pool also is bubbling. A \$3.57-million gift to Michigan Tech in Houghton was kicked off in February. Thompson's gift will fund 100 undergraduate and six graduate scholarships as well as equip The Thompson Scholars Pavement Design, Construction and Materials Program.

The program will allow students to form engineering enterprises of about 30 students from multiple disciplines and "gain experience by taking on real problems that the industry has been grappling with," says University President Curtis Thompkins. "We believe this will be a role model nationally."

The first Thompson enterprise starts this fall and will not be limited to the scholarship students, says Thompkins, who is on the board of the school and often hires grads.

The inner city scholarships in particular will really change lives, notes William J. Bennett, former U.S. Secretary of Education. "They are giving a lifeline to students that may otherwise face oblivion," he says.

Thompson, his mother and wife all were teachers. Education now is the Thompsons' main mission. "Our intent is to get rid of [the money] during our lifetime," says Thompson. "If we spend it on education, it will compound much more than if we put it in the bank or stock market. Ellen and I have a chance to make a difference and I am willing to spend it all... Every year, people are slipping off the edge of the table and you can't bring them back." □

By William G. Krizan

PHOTOS BY WILLIAM G. KRIZAN FOR ENR