



## The National Center for Employee Ownership

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# ESOP Essentials: Course Outline

For more information, visit <http://www.nceo.org/training/>

## Module 1: Introduction to ESOPS

### *Article I: ESOP History*

- Historical Perspective
- Major ESOP Legislation
- How ESOPs Work
- Philosophical Perspective
- The Future

### *Article II: ESOPs, What Are They?*

- An Overview of ESOPs
- The Uses of ESOPs
- Setting up the ESOP
- Step (1) Determine Whether Owners Are Amenable
- Step (2) Conduct a Feasibility Study
- Step (3) Conduct a Valuation
- Step (4) Hire an ESOP Attorney
- Step (5) Obtain Funding for the Plan
- Step (6) Establish a Process to Operate the Plan
- ESOP Applications
- Key Research on ESOP Performance
- Advantages/Disadvantages

### *Article III: Tax Incentives and Contribution Limits*

- Taxes and Benefits
- General Issues Under ERISA
- Employers' Limits, Section 404
- Individual Allocation, Section 415
- Special Incentives for ESOPs
- Special Incentives to the Seller
- Paying Dividends on ESOP Shares
- S Corporation Issues
- Employee Tax Benefits from ESOPs
- Research and Trends on Contributions

### *Article IV: Leveraged ESOPs & Lender Relationships*

- What is a Leveraged ESOP?
- The ESOP Trust
- The ESOP Loan
- The Suspense Account
- Tax Benefits for Companies
- Uses of Leveraged ESOPs
- Are Leveraged ESOPs Right for All Companies?

### *Article V: Valuation*

- How to Value
- Valuation Discounts in ESOPs
- S Corporation Valuation

## Module 2: ESOP Mechanics

### *Article I: Vesting and Distributions*

- Vesting
- Distributions When Employment Terminates
- Distributions During Employment
- Taxation of Distributions

### *Article II: Repurchase Obligation*

- Definition
- Rights of ESOP Participants
- Strategic Planning
- Funding the Repurchase Obligation
- Conducting a Repurchase Study

### *Article III: ESOP Diversification*

- Diversification Details
- Excess Diversification
- Advantages & Disadvantages
- Advantages
- Granting Options
- Taxes

## Module 3: ESOP Management

### *Article I: Open Book Management*

- Definition
- The Research
- Advantages
- General OBM Practice
- Critical Numbers
- Case Study at Albums, Inc.

### *Article II: Corporate Performance*

- Definition
- The 2002 Rutgers Study
- The 1987 NCEO Study
- The NY and WA State Studies
- The GAO Study
- Impact of ESOPs on Employee Compensation



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### *Article III: ESOP Administration*

- ESOP Administrative Committees
- Making Plan Decisions
- Plan Administration
- Corporate Perspective, Legal Terms
- Communicating the Plan
- Plans That Fail to Meet Legal Design Requirements

### *Article IV: Rights of ESOP Participants*

- Information Requirements
- Voting Rights
- The Role of the ESOP Trustee in Voting
- Legal Resources
- Filing a Claim

## **Module 4: ESOP Environment**

### *Article I: Participative Management*

- Theory
- Implementation
- When Management Should Exercise Caution
- Research
- Participative Management at Pool Covers, Inc.
- Participation at Stone Construction Equipment

### *Article II: Formal Structures for Employee Involvement*

- What is Involvement, Actually?
- Increasing Autonomy through a Strong Culture
- Feedback Mechanisms
- Problem-Solving Groups
- Employee Committees
- Team-Based Approaches
- Employee Involvement in Corporate Governance
- Labor Law Issues

### *Article III: ESOP Committee Membership*

- Committee Design and Formation
- Developing Mission Statements and Goals
- Committee Member Education
- Putting Plans into Action
- Committee Evaluation

### *Article IV: Business Literacy*

- Understanding Numbers
- Linking Critical Numbers to Financial Measurements
- Linking Rewards to Financial Goals

- Springfield ReManufacturing & Bimba Manufacturing
- Science Applications International (SAIC)
- Teaching Employees Business Literacy
- The Top Three Pitfalls to Watch For
- Conclusion

### *Article V: Communicating ESOPs*

- Communicating Strategies
- Orientation Strategies
- Newsletter
- Intranets

## **Module 5: ESOP Special Considerations**

### *Article I: ESOPs in S Corporations*

- Example
- Background
- Special S Corporation Rules
- Reasons for Being an S Corporation at less than 100%
- Converting to S Status
- S Corporation Abuses
- What Makes a Legitimate S Corporation ESOP

### *Article II: Acquisitions*

- Acquiring Targets
- Acquiring Capital
- Example

### *Article III: Freezing and Terminating ESOPs*

- Freezing an ESOP
- Partial ESOP Termination
- Terminating an ESOP
- Terminating a Leveraged ESOP
- The ESOP's Fate During a Sale
- Penalties
- Legal Issues

### *Article IV: Sale of an ESOP Company*

- The Role of the ESOP Trustee
- When Employees Do Not Direct the Trustee
- Sales When Employees Do Direct the Trustee
- Information Requirements
- Conflict between Board and Trustee
- The ESOP's Fate During a Sale