EMPLOYEE STOCK OWNERSHIP PLAN

YOUR
IT'S FOR
ESOP
ALL OF US!

A Simple Explanation

OF OUR ESOP

www.esopassociation.org

This brief brochure gives a general overview of what an Employee Stock Ownership Plan (ESOP) is, and what it means to you. This brochure is not a legal document, and contains generalized explanations. For a more detailed explanation of your ESOP, don't hesitate to read and refer to your Summary Plan Document.

But, while the precise legal and sometimes complicated, description of an ESOP is very important, the bottom line is the ESOP is for you, and your fellow employee owners.

After reading this brochure, you will know about your ESOP, and WHAT'S IN IT FOR YOU!

What is an ESOP?

ESOP

An ESOP is a tax qualified employee benefit program, or plan, governed and regulated by United States law. The ESOP gives the employees of a company sponsoring an ESOP beneficial ownership in the company. This fact is why employees of an ESOP company are referred to as "employee owners" and ESOPs are frequently referred to as "employee ownership" plans.

There are several unique features about employee ownership in an ESOP company.

First, the assets in an ESOP, which are primarily stock of the company, are held in a trust. So, as the company, your company, increases in value, the stock in the ESOP, including your share, increases in value. On the other hand, if the value of the company decreases, then the stock in the ESOP also falls in value.

With an ESOP, it is therefore clear that gains, such as productivity, profits, revenues, efficiencies, made by everyone increases the value of all accounts in the ESOP.

Second, unlike other employee benefit plans, an ESOP may borrow money. The ESOP that borrows may provide special benefits to a company, and, in turn, the employees have contributions establishing employee ownership through the ESOP. An ESOP involved with borrowing is referred to as a "leveraged" ESOP.

Whether leveraged or not leveraged, the ESOP is unique from other employee benefit plans in transferring ownership of company stock to employees. The ESOP creates a direct link between company interests and employee interests.

Therefore, the ESOP gives you, the employee owner, and your co-owners, an extra incentive to make the company prosper.

Ownership makes a difference and makes you — an employee owner!

How does an ESOP Work?

EMPLOYEE

The ESOP trust receives contributions, usually annually, from the company. The amount of the contribution depends on many factors, not the least of which is the company's profit. In most ESOPs, the employees do not put their own money in the ESOP. Some ESOP company contributions to the ESOP are a "match" for the employees contribution to a 401(k) plan. Employees pay no taxes on the contribution to the ESOP until the ESOP distributes to an employee his or her "vested" account balance. (Tax questions arising from the distribution from an ESOP or any employee benefit plan are complex. Precise tax consequences upon distribution from an ESOP are too varied to cover in this brief brochure. When the time comes for you to receive a distribution, seek guidance about the tax possibilities.)

Each ESOP participant has an account balance in the ESOP. Additions are made to the account from the company's contribution, and the precise amount is usually based on the employee's pay. For example, if an employee makes $40,000 annually, and the ESOP contribution is 10% of the payroll, then the employee's account increases by $4,000 (10% of $40,000 - $4,000).

Most ESOPs are "leveraged" meaning the company or ESOP borrowed money to acquire the ESOP's company stock. A leveraged ESOP operates, in general, just like an ESOP that does not use borrowed money to acquire the company stock, except all of the stock acquired with the borrowed money is put into the ESOP all at once. When the company makes a payment to the lender of the money used to acquire stock, a block of stock is then allocated to the accounts of the eligible participants, or employee owners. As the loan is repaid, all of the stock is allocated. Employees benefit from the increased value from the time of the stock acquisition, and share in the risk the value might decline after the stock acquisition.

STOCK

Length of Service Increases Value of an Employee's Account

For each year of eligible employment the company can make a contribution to an employee's ESOP account. As mentioned above, the amount contributed each year may vary. The non-forfeitable right to all or a portion of an ESOP account is subject to a process called vesting. Each subsequent year of service increases the percentage an employee is entitled to receive when he or she retires or otherwise leaves the company for a sufficient time to become 100% vested will be entitled to the entire balance in he or she's account. If the employee leaves prior to becoming 100% vested they will receive that portion of their account balance to which they are entitled under the vesting schedule. The details of the vesting schedule are explained in the Summary Plan Description, which the company provides to employees.

Company Growth Increases Value of the ESOP

Annual company contributions to the ESOP are not the only way an account can gain value. The performance of the company itself is also a factor in determining the value of the stock in an ESOP account. If the company continues to grow, the value of the ESOP can grow quite rapidly.

To illustrate how any ESOP account can really grow in value, let's use a hypothetical example.

Assume in year one that an individual ESOP account receives a company contribution of 10 shares of stock. Assume furthermore that each share of stock is worth $100. That means the contribution has a value of $1,000.

In year two an additional 10 shares is contributed to the ESOP account. Does that mean the account is now worth $2,000? Not necessarily!

If the company was successful and earned a healthy profit, there is a good chance the value of the stock increased. Using the same example, let's assume the value of the stock increased by 5%. That means the 10 shares of stock contributed in year one now have a value of $1,050 which, coupled with the year two contribution, brings the value of the employee's account to $2,205.

If the value of the stock continued to increase at 5% per year and the employee continued to receive 10 shares of stock per year, after five years the value of your ESOP account would actually be worth $6,381. That extra $1,381 represents the benefits that can be realized through appreciation of the stock's value.

Determining the Worth of Stock

The value of a particular company's stock is generally determined by its trading value, defined as the price at which the stock is sold on the stock exchange. ESOP shares in publicly traded companies are thus determined by the market price.

Most ESOP companies, however, are privately owned, which means that the stock is not traded on a stock exchange. In that case, the per share value of the company stock is determined by an appraisal performed by an independent valuation firm. The stock valuation is updated annually and each ESOP participant will be informed of the stock value in his or her account.

When an ESOP participant retires or otherwise leaves the company, the value of the total ESOP benefits will be determined by the most recent valuation.

How can You Benefit as an Employee Owner?

An ESOP in a company can provide participants with a means of accumulating significant equity holdings. An employee owner has a greater stake in the company and a greater opportunity to reap the rewards of capital ownership. Being a beneficial owner of the company will give an employee greater input into their own financial benefits because the efforts of everyone working together to make the company a success will go a long way towards determining each one's personal rewards.

With an ESOP, an employee can share in the pride of ownership. An owner employee can gain an increased sense of satisfaction in knowing that their efforts can bring them benefits beyond what they receive from their regular wages.

The pride of ownership can be reflected in a number of ways. Company performance can be improved by good work habits, efficiency and conservation. As everyone works smarter and improves productivity, the ability to compete more effectively in the market will also improve. That kind of cooperation to ensure quality work can be a big advantage in promoting company growth and productivity. As employee owners, everyone benefits from the efforts of each individual employee.

The opportunity exists for ESOP participant accounts to be very significant compared to other types of employee benefit plans. The value of the account depends on a number of factors including compensation, company growth, profits and annual company contribution. But if an individual assumes normal rates of increases, he or she will see a hefty accumulation of wealth by the time he or she leaves the company. With an ESOP, employee owners could have more to look forward to than he or she ever thought possible.

How does our Company Benefit from the ESOP?

PLAN

As previously mentioned, one of the reasons we made the decision to install an ESOP is that we believe shared ownership through an ESOP will give everyone a reason to take a proprietary interest in our company. We think the ESOP will make our company more competitive because each employee knows that he or she will benefit as the company prospers.

But there are additional benefits for the company, thanks to special tax incentives granted to ESOPs by the U.S. Congress. First of all, all company contributions to an ESOP are tax-deductible to the company. That allows the company to provide significant benefits to employees without putting a severe strain on cash flow requirements.

In addition, a number of specific tax incentives are provided to leveraged ESOPs, which can result in reduced costs for borrowing money.

These special benefits vary depending on whether the employer is an S corporation or C corporation.

Government Oversight

As a qualified employee benefit plan, ESOPs are regulated by the Department of Labor and the IRS according to the guidelines of the Federal Employee Retirement Income Security Act (ERISA). We regularly submit reports to the government to insure that the ESOP is meeting all of the regulatory requirements.

Frequently asked Questions about ESOPs

ESOP

1. ***Who is eligible and what are the criteria for qualifications?***

   Generally, all full-time employees with one year of service are included in the ESOP, although there are some exceptions.

2. ***What determines an annual ESOP contribution?***

   Employees receive a contribution in company stock or cash, usually based on the employee's earnings as a percentage of total covered payroll. The amount contributed may vary from year to year and is determined by the Board of Directors.

3. ***Why does the ESOP have a vesting schedule?***

   Vesting is a means whereby employees gain an increasing non-forfeitable right to the stock in their account which increases as they develop seniority. It is a means to insure that those employees with a long term commitment to the company will gain the most benefit from stock ownership.

4. ***When will an individual employee receive benefits from the ESOP?***

   An employee is eligible to receive vested benefits from the ESOP at retirement, death, disability or termination from employment in accord with the terms of the company's plan. The precise date he or she receive their benefits depends on provisions of the ESOP Plan Document. Consult the Plan, or Summary Plan Document to obtain the exact date of distributions.

5. ***How does an employee know the value of their ESOP account?***

   Each year employees will receive a statement showing the amount of stock and/or cash in their ESOP account, its current value and the percentage they are entitled to according to the vesting schedule.

6. ***Does an employee have to give up anything in exchange for the ESOP shares?***

   In most ESOP companies, ESOP participants give nothing in return for their ESOP shares except the services as an employee. In a few cases, employees' wage concessions, either through cash compensation reductions or freezes, are used to acquire the ESOP stock. Finally in some companies, the company's contribution to an ESOP depends on an employee's voluntary contribution to a 401(k) plan. Check with the company to learn if the ESOP is linked with a 401(k) plan.

7. ***Will an employee lose their benefits if the plan is terminated?***

   In the unlikely event that the ESOP is terminated, employees will receive their entire vested benefits and vesting will be accelerated to 100% unless the ESOP is replaced with a comparable plan.

8. ***Does an employee have any legal protection for their benefits?***

   Yes, ERISA provides extensive protections that are detailed in the Summary Plan Description. The ESOP must be operated at all times for the "exclusive benefit" of the employees and their beneficiaries.

9. ***Does the ESOP guarantee his or her benefit?***

   No, an ESOP is an ownership plan, and all ownership carries the risk that the asset owned might decline in value. But, there are thousands of ESOPs in America, and where employees work together, in common bond and in a productive manner, an ESOP account will bring significant financial reward to someone like you - an employee owner.

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