SES | ESOP STRATEGIES
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Debunking ESOP Myths

Don't let common misconceptions stop your company from realizing the benefits of a properly structured ESOP.

The benefits of an employee stock ownership plan (ESOP) are numerous, but some companies may not be taking advantage of those benefits due to certain misconceptions surrounding these plans. In addition to employees sharing in the company's growth, ESOP-based companies show increased employee productivity and loyalty and often outperform non-ESOP companies in their industries, according to studies cited by the National Center for Employee Ownership. Despite these advantages and many others, myths surrounding ESOPs persist.

Myth: I must disclose financial information to my employees.

Reality: There is no requirement that an ESOP company must disclose detailed, or even summary, financial information to its employees. In fact, the only "financial" information that must be disclosed to ESOP participants is an annual statement showing the value and number of shares in their accounts. The value of shares is determined by the ESOP trustee, who must obtain an annual appraisal by an independent appraiser. This appraisal is not required to be disclosed to employees. The appraiser and trustee, of course, must have access to the company's financial information to determine value, but this information is kept confidential and is not disclosed in any other way.

Myth: I will no longer control my company.

Reality: If an owner retains majority ownership of the company, that owner retains majority voting control and thus the power to control the company. A minority ESOP owner is no different than a non-ESOP minority owner. An ESOP does not change the rule of corporate governance. Even if an ESOP ends up owning a majority of the company, the board and management remain in control of operations.

Myth: My employees will be able to vote on all of my decisions.

Reality: The ESOP trustee, who is appointed by the company's board of directors, is the legal shareholder of the ESOP's shares and votes the shares for the benefit of all ESOP participants. In fact, voting rights are only passed through to ESOP participants for a relatively short list of items related to the company: sale of all or substantially all assets, a merger or consolidation, a recapitalization, a reclassification, a dissolution, or a liquidation. Not included in this list are sales of stock, which means that ESOP participants are not even entitled to vote if you later wish to sell the remainder of your stock to a third party.

Myth: ESOPs are too complex and expensive.

Reality: Selling shares to an ESOP is typically no more expensive than selling shares to an outside party or family member. Even in sales to a family member, outside lawyers and consultants are hired, valuations are completed, and the transaction is documented for tax purposes. Maintaining an ESOP does entail annual costs of administration and appraisal, but these costs are typically outweighed by the tax advantages Congress established for ESOPs.

WHO WE ARE

SES ESOP Strategies is a national ESOP firm that combines the expertise of ESOP consulting, financial and legal professionals to assist companies in creating and maintaining successful, sustainable employee ownership results throughout the entire ESOP lifecycle.

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