ESOP Report

 $\textbf{December 2025} \mid \textbf{The Voice of The ESOP Association} \mid \textbf{\textit{Serving the Entire ESOP Community}}$





ESOP Report



The Voice of The ESOP Association

The ESOP Report is published on a monthly basis by The ESOP Association, the national non-profit association of employee-owned companies and ESOP practitioners, located at:

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Inside this issue:

The ESOP Association Transfers to a Calendar Year Membership	<u>3</u>
Update Your TEA Membership Information	<u>3</u>
Employee Owned 2025: A Transformative ESOP Experience	
Congratulations to the 2025 AACE Award Winners!	<u>7</u>
TEA's Professionals' Forum: Book Your Spot in Charleston Today!	<u>11</u>
Transforming ESOP Education: A Vision for 2026 and Beyond	<u>13</u>
Expanding the Celebration of Employee Ownership Month	<u>18</u>
An Existential Danger to ESOPs	<u>20</u>
Cash for College! A Scholarship for Employee Owners or Their Dependents	<u>22</u>
Welcome Krista Candela to The ESOP Association's Team!	<u>24</u>
Accelerating Ownership: A Year of Growth and Impact in 2025	<u>25</u>
TEA Chapter & Regional Events	<u>26</u>
Professional Development: Rethinking Your ESOP's Provisions	<u>28</u>
Professional Development: Leasing Depreciable Property to an ESOP-Owned S Corporation? You Probably Recognized Too Much Depreciation	<u>30</u>

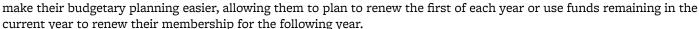


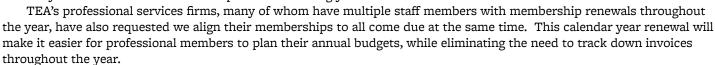
The ESOP Association Transfers to a Calendar Year Membership

The ESOP Association, at the direction of the Board of Directors, has been undergoing a change to update the Association's membership term from an anniversary renewal to a uniform calendar renewal in 2025.

Historically, each member has renewed their membership on the anniversary of their original join date. However, in response to strong interest among our members, the Association has been transitioning all membership renewals to end on December 31, 2025. All members will then begin a calendar year membership in 2026.

We've heard from many of our ESOP members that aligning their renewal to a January - December term would





Beginning in October 2025, all TEA members have begun receiving their 2026 calendar year (January - December) membership renewal invoices. If you have any questions regarding your invoice, please reach out to membership@ esopassociation.org



The ESOP Association's membership team kindly reminds our valued members to please take a moment to review your ESOP's information on file with us and ensure it is up to date.

Keeping your information current ensures you and your employee owners receive timely communications, personalized updates, and full access to The ESOP Association's comprehensive membership benefits.

To review your information, please log in to your membership portal and verify:

- Company details
- Verification on who should receive your membership renewal
- Membership roster:
 - o Please be sure you have your C-Suite employee owners, your ESOP Committee members, and anyone else you would like to receive membership benefits including discounted meetings, access to chapter notifications, and access to the HUB, etc.
 - o To add individuals, click "Add". If you need to remove any individuals, all you have to do is send a list of names to membership@esopassociation.org

Thank you for your help. If you have any questions, please email membership@esopassociation.org or call 202-293-2971.



EMPLOYEE OWNED 25

Employee Owned 2025: A Transformative ESOP Experience

The ESOP Association's Employee Owned 2025 was nothing short of extraordinary. To our attendees, speakers, and sponsors, thank you for helping make EO25 one of the most impactful events in TEA's history. Our new home at the ARIA in Las Vegas delivered a bigger, bolder, and truly transformative experience.

A Celebration to Remember

EO25 kicked off Sunday evening, November 2nd, with a combined celebration of Employee Ownership and the Annual Awards for Communications Excellence (AACE Awards). The energy was high from the start, thanks to actor and comedian Kevin Pollak, whose sharp humor, celebrity impressions, and behind-the-scenes stories kept the room roaring. (See page 7 for a full AACE Awards recap!)

A Knockout Opening Keynote

On Monday morning, EO25 officially began with a dazzling keynote address by American legend Sugar Ray Leonard. Sugar Ray wowed the crowd with his tales of perseverance, resilience, and relentless pursuit of excellence that made him one of the most beloved sports figures of all time. His positive message and infectious attitude captivated the audience and launched this year's conference on an inspiring high note.











More Content That Matters to You

Our expanded conference footprint at the ARIA enabled something new: concurrent general sessions. With two dynamic options running side by side, attendees could tailor their EO25 experience like never before.

Monday's lunch featured a standout Women in ESOPs panel on elevating women's leadership and visibility, while the simultaneous session offered an in-depth look at macroeconomic trends shaping ESOP companies. On Tuesday morning, attendees chose between keynote speaker Stefanie Couch's powerful "How to Win at Anything" presentation or a high-level cybersecurity panel. That afternoon, participants dove into either a compelling session on how brands earn trust with Stephanie Crockett or an expert discussion on ESOP mergers and acquisitions.

A Strategic Look Ahead

On Wednesday, TEA President and CEO Jim Bonham delivered a forward-looking keynote outlining the Association's upcoming education initiatives and providing an important update on rising private-equity interest in ESOPs. For those who missed it, Jim's full remarks are available on our YouTube page.



ESOP Education Gets an Upgrade

Beyond more than 100 sessions, roundtables, and executive discussions, EO25 delivered two immersive workshops focused on HR/Communications and Finance—each built for how adults learn best. These hands-on, application-driven workshops moved beyond traditional lectures to ensure maximum knowledge retention. More workshops are coming in 2026—be sure to read Jim Bonham's column on page 13 for what's next.

New Special Events Make Their Mark

EO25 delivered an elevated, upscaled experience, from the stunning new conference space and guest rooms at the ARIA, to our educational offerings, and our revamped networking and social events! Attendees especially loved the Around the World Sponsor Showcase, which featured food and fun from across the globe. Our sponsors truly embraced the event's spirit, delighting guests with authentic cuisine, refreshing drinks, and engaging games inspired by their respective countries.

To wrap up Employee Owned 2025, TEA would like to thank our many sponsors for your generosity and support. We couldn't do it without you!

As we head into December, the team at TEA wishes everyone a happy and healthy holiday season, and we look forward to seeing you at one of our many national and chapter events in 2026!





THANK YOU TO OUR SPONSORS











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Video

ESOPs under 250 employees:

Runner Up:

Gemini Industries, Inc.

Texas/Oklahoma Chapter

Winner:

Parman Holdings

Southeast Chapter



ESOPs with 250 or more employees:

Runner Up:

Guttman Energy

Pennsylvania/Delaware Chapter

Winner:

Perry Pro Tech

Ohio/Kentucky Chapter



Print Materials

ESOPs under 250 employees:

Runner Up:

Roloff Construction

Iowa/Nebraska Chapter

Winner:

Mountain Hardware & Sports

California/Nevada Chapter



ESOPs with 250 or more employees:

Runner Up:

Team Kline

Iowa/Nebraska Chapter

Winner:

Pavement Recycling

California/Nevada



Intranets

ESOPs under 250 employees:

Runner Up:

Moore Engineering

Northwest Chapter

Winner:

Williams Company

Florida Chapter



ESOPs with 250 or more employees:

Runner Up:

AVION Solutions

Southeast Chapter

Winner:

Creative Financial Staffing

New England Chapter



Community Engagement

ESOPs under 250 employees:

Runner Up:

Erickson Hall Construction

California/Nevada Chapter

Winner:

Freedom Industries

Mid-Atlantic & Carolinas Chapter



ESOPs with 250 or more employees:

Runner Up:

KE&G Construction

Rocky Mountain Chapter

Winner:

Team Kline

Iowa/Nebraska Chapter



Single Event

ESOPs under 250 employees:

Runner Up:

Nobis Group

New England

Winner:

Wiley|Wilson

Mid-Atlantic & Carolinas



ESOPs with 250 or more employees:

Runner Up:

Control Air

California/Nevada

Winner:

Lochmueller Group

Indiana Chapter



Series of Events

ESOPs under 250 employees:

Runner Up:

Mountain Hardware & Sports

California/Nevada Chapter

Winner:

Pile Dynamics

Ohio/Kentucky Chapter



ESOPs with 250 or more employees:

Runner Up:

KE&G

Rocky Mountain Chapter

Winner:

Folience

Iowa/Nebraska



Total Communications

ESOPs under 250 employees:

Runner Up:

Mountain Hardware & Sports

California/Nevada Chapter

Winner:

Roloff Construction

Iowa/Nebraska Chapter



ESOPs with 250 or more employees:

Runner Up:

KE&G Construction

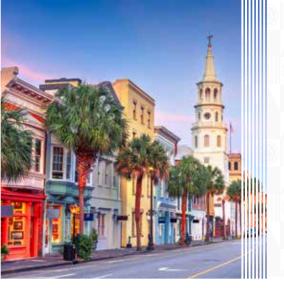
Rocky Mountain Chapter

Winner:

Folience

Iowa/Nebraska





The ESOP Association

PR@FESSIONALS' FORUM'26 February 4-6 Charleston, SC

TEA's Professionals' Forum: Book Your **Spot in Charleston Today!**

After the overwhelmingly positive feedback we received at the 2025s event, we are returning to Charleston, South Carolina in 2026!

We are thrilled to welcome you back to The Charleston Place, an iconic hotel in the heart of the city's historic downtown. The Professionals' Forum will be here before you know it, so book your spot soon!

At the Forum, professionals come together for an immersive, peer-driven learning experience. And because the Forum is a meeting of professionals for professionals, you can maximize your participation in the event's programming without the pressure of servicing or attending to client needs at our larger, national events.

Breakout Session Topics Announced!

In addition to general sessions on Thursday and Friday, breakout discussions will be offered in three time slots on Thursday afternoon and Friday morning. All nine topics will be repeated to allow professionals to attend up to three different sessions.

- Trends in Repurchase Obligation & Sustainability
- Solutions for Proposed Long-Term Internal ESOP Loan Lengths
- Contributory ESOPs: Moving Forward and any Input from Regulators
- New ESOP Formations, Industry Concentrations & Finance Alternatives/Impacts
- ESOPs and Mergers & Acquisitions
- ESOP Plan Design Innovations
- AI and Data Analytics in Valuation, Administration, and Governance
- ESOP Terminations: How to Handle it Properly
- "The Perpetual ESOP": Strategies for Limiting ESOP Termination Through Acquisition

The chairs of The ESOP Association's professional advisory committees design the Forum. These leaders rank among the foremost experts in their fields. Join your peers to share insights, explore emerging trends, network, and develop or refine best practices.

Back Again for 2026: ESOP-Talks for Young Professionals

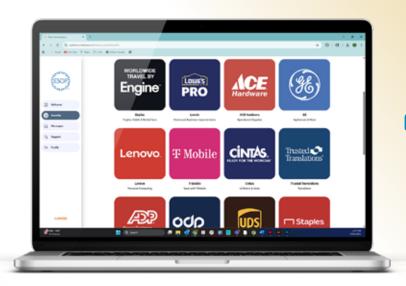
Are you interested in building a career as an ESOP Professional? Join us for programming specifically tailored to our younger ESOP professionals (40 and under). The program is structured as a combination of learning and collaboration designed to benefit the ongoing growth of our professional community. You'll learn from experienced ESOP professionals on topics such as addressing the life cycle of an ESOP and transaction issues. This event is designed to help you build those critical relationships while understanding the ESOP career path and opportunities. Additional fee applies.

Venue: The Charleston Place Hotel

Located in the vibrant heart of historic downtown Charleston, The Charleston Place is just steps from some of the city's best independent shops, the City Market, antique stores, museums, historic sites, and art galleries.

To make the most of your stay, TEA has secured a special rate at The Charleston Place of \$350 per night, plus applicable fees and taxes. Our room block is available until **Tuesday, January 13**, but please be aware that the hotel may reach capacity earlier. Book your accommodations through our secure portal.

REMINDER: This event sells out every year. Book soon and join your peers in Charleston! €





ESOP Rewards Providing Employee Owners, ESOP Companies With Big Savings

Exclusively for TEA members, ESOP Rewards gives ESOP companies, employee owners, and professionals exclusive discounts from trusted brands on purchases and experiences you use every day, including:

- · Flights, hotels, and rental cars
- Office equipment, shipping, and supplies
- Concerts, movies, and live events
- · Home improvement projects, mobile plans—and more!

The best part: ESOP Rewards is included in your TEA membership! It's part of our commitment to supporting your success at work and enriching your life outside of it. With ESOP Rewards, you'll save money, enjoy memorable experiences, and strengthen your ESOP culture.



You must be logged in as a member to gain access to benefits.

Just a small sample of benefits available to employee owners:

- Save up to 26% on hotels, flights, and rental cars through Engine.
- Enjoy up to 15% discounts at Lowe's.
- Get up to 60% off concert tickets and sporting events, plus exclusive discounts at movie theaters, theme parks, and shows on Broadway and in Vegas.
- · Save up to 12% on T-Mobile plans.
- Up to 50% savings on Lenovo products.
- Make your next appliance purchase easier, with up to 25% savings with GE.

Here's a small sample of big savings for ESOP companies and professionals:

- 50% off Domestic Next Day shipping with UPS, plus 30% on Ground, with discounts for International & Freight shipping, too!
- Up to **75% on essentials from Office Depot**, and at least **12% off at Staples**.
- Up to 50% savings on Lenovo products.
- Cintas provides exclusive discounts to TEA members on all work apparel, facility services, first aid and safety and fire protection needs.

In fact, by taking advantage of just one or two of these discounts, your membership in The ESOP Association could pay for itself!

For questions, please contact Jennifer Edwards, VP of Member Services, at jedwards@esopassociation.org or 202-293-2971.

Transforming ESOP Education: A Vision for 2026 and Beyond

By: Jim Bonham, President and CEO, The ESOP Association



Education has long been the cornerstone of The ESOP Association's service. In our member surveys and conversations with ESOP leaders, one theme clearly emerges: the opportunity to learn and master the complex landscape of employee ownership is among the top reasons our corporate and professional members join and remain engaged.

Over the years, we've significantly enhanced how we deliver ESOP education. But now, we are on the cusp of a more transformational shift. Beginning in 2026, The ESOP Association is launching an entirely new certification framework, built around peer-reviewed content, a professionally designed curriculum, and modern researchbased adult learning methodologies.

Why Change Is Overdue

For decades, ESOP education has followed a familiar model: in-person conferences, books and articles, panels of expert practitioners, and occasional webinars or roundtables. These all remain at the core of our offerings, and our chapter meetings and national conferences are

industry-leading in both expertise and engagement.

Yet, we must ask ourselves: how effectively are these formats building lasting knowledge? Traditional lecturebased presentations don't always offer feedback on retention, nor guarantee that content is up-to-date. They also do little to assess whether your employee owners are internalizing key concepts, or whether we're reinforcing a consistent, shared vocabulary across your company.

Most crucially, from a leadership perspective: how can you know that your investment in professional development is producing real value for the organization? How can you ensure the training aligns with the latest thinking, especially in today's age of AI, where misinformation can easily spread?

Building a Stronger, More Measurable Learning Experience

To address these gaps, we are evolving in four key directions:

1. Certifications with Real Rigor

Starting in 2026, we're launching our ESOP certification programs. These will not be mere badges, but robust credentials. Courses and curriculums will be scaffolded reaching various levels of expertise or commitment—and directly tied to ESOP disciplines, leveraging peer-reviewed content developed by our team in concert with experts on our advisory committees.

2. Micro-credentials for Real Progression

Our certification program will also feature stackable microcredentials that can be combined towards full certifications if desired. Members may complete modules in sequence, building deeper mastery over time. This structure gives companies and leaders clear visibility into knowledge

> progression while demonstrating individual competency in ESOP

3. Interactive, Engaging **Learning Formats**

We're moving away from passive lectures towards active learning. Through our Employee Owner Accelerator, for instance,

participants engage in business simulations and reallife case studies. At conferences, we're replacing some traditional sessions with hands-on, three-hour workshops. This shift mirrors the educational approach we've begun rolling out in our Executive Education certification in partnership with the Darden School of Business at the University of Virginia, the #1 public business school in the world.

"Over the years, we've significantly enhanced how we deliver ESOP education. But now, we are on the cusp of a more transformational shift."

4. Personalized, Company-Branded Digital Learning

Members will soon have access to an online portal filled with curated ESOP educational content. Administrators can build a company-branded hub, selecting modules from our library or adding their own. We envision this portal becoming a home for onboarding, ongoing development, and ESOP immersion.

Executive-Level Programs Already Delivering

Some of this change has already begun. In partnership with UVA's Darden School of Business, in 2025 we launched a modernized Leading in an Ownership Setting $^{\text{TM}}$, an executive education program grounded in the case-study method of learning pioneered at Darden. The feedback has been overwhelmingly positive.

Our first cohort of CEOs and CFOs have now graduated, and their journey is creating ripple effects: some of their lessons, challenges, and case studies are being molded into real-world teaching materials. Even more exciting, these ESOP-specific case studies will be introduced to MBA students at Darden beginning next spring. We're

not just educating ESOP leaders—we're helping shape the next generation of business leaders.

What's Coming in 2026

Here's a preview of the education roadmap you can expect in the year ahead:

- Certification Launch: Our new certification pathways will go live in early 2026. Courses will combine online modules, in-person conference-style learning, and be completed with online assessments.
- Onboarding for New Employee-Owners: We're
 rolling out a suite of onboarding units of study to help
 non-executive team members understand ESOP basics,
 governance, and their role as owners.
- Lifelong Learning with Darden: Through our partnership, members will gain access to Darden's Executive Education and Lifelong Learning programs—bringing that world-class MBA rigor into your ESOP world.
- AI-Assisted Content Creation: We will be utilizing an AI tool that can help members create avatar-based, companyspecific educational content—trusted, accurate, and tailored to your needs.

Why This Matters

"These changes are more

than incremental. They reflect

a fundamental rethinking of

how ESOP education should

work in today's world."

These changes are more than incremental. They reflect a fundamental rethinking of how ESOP education should work in today's world. Rather than relying entirely on traditional formats, we are embracing a more agile, measurable, and scalable approach.

- **Knowledge that sticks:** Our new formats reinforce learning through experience and application. In the classroom, instructors lead active sessions that focus on helping participants retain knowledge.
- A common language: Certification ensures that individuals from different ESOP companies share a consistent foundation of knowledge—benefiting culture, governance, and alignment.
- **Demonstrable ROI:** Leaders will see real evidence of employee development. Certifications, micro-credentials,

and onboarding completion create measurable proof that your investments in training employee owners are working.

 Future-proofing: As AI and technology evolve, our content will remain rigorous, accurate, and peer reviewed, protecting against misinformation and maximizing value.

A Vision for Tomorrow's ESOP Leaders

At its core, this initiative aligns with our mission: to empower employee-owners, executives, and professionals with the tools they need to excel. By elevating ESOP education, we are strengthening the entire ecosystem, from the newest employee-owner to the CEO, from today's companies to tomorrow's MBA graduates.

We know this transformation won't happen overnight. We are laying a foundation right now, and will continue building steadily through 2026 and beyond. We are entering a bold new era of ESOP education, where learning is not just shared, but demonstrated, certified, and sustained.

Thank you for being part of this journey, and we are looking forward to helping build a smarter, stronger employee ownership movement for the years ahead.





A unique opportunity for ESOP leaders to gain valuable insights alongside fellow CEOs who are tackling similar challenges. With expert-led roundtable discussions and carefully

selected keynote speakers, the Summit is geared toward providing CEOs with actionable strategies to address the most pressing economic, business, and ESOP-specific challenges.



Registration Open

esopassociation.org/ceo-summit-2026





Registration Open



LEADING IN AN OWNERSHIP SETTING™

EMPLOYEE OWNERSHIP FOUNDATION IN PARTNERSHIP WITH THE UNIVERSITY OF VIRGINIA DARDEN EXECUTIVE EDUCATION AND LIFELONG LEARNING

LEARN MORE ABOUT THIS PROGRAM SCANNING THE QR CODE OR VISITING: ESOPLeadership.org





ESOP LEADERSHIP IS DIFFERENT

Executives who run ESOP companies face unique and complex challenges in comparison to running a regular business. It takes special training and understanding of the different requirements, scenarios, and demands of leading in this setting. Leading in an Ownership Setting™ is the only Executive Education program in the nation, run by faculty of one of the top business schools in the world and specifically designed to help the top leaders of ESOP companies learn about the details and unique aspects of leading an employee-owned company.

BOTH CEOS AND CFOS

In addition to cohorts for CEOs, we now offer a CFO-specific curriculum for senior ESOP financial leaders. Enhance your skills and build your ESOP CFO peer group, join the waitlist to receive notice of registration opening in advance of the general public.

In addition, the Foundation now has flexibility to add other ESOP executives, like CHROs, in future classes.



WORLD RENOWNED LEARNING

In partnership with the world-renowned Darden Executive Education and Lifelong Learning at the University of Virginia, you will spend two weeks on a deep dive into all of the most important topics you need as an ESOP CEO or as an ESOP CFO to do your job well. In addition to sessions taught by leading ESOP-specific experts, courses will be taught by Darden faculty who represent some of the brightest and most innovative minds in business today. The program will continue to provide exceptional leadership and culture training; however it will now also include an expanded curriculum that provides attendees with more substance in areas like M&A. Finance, Repurchase Obligations, Marketing, and Management that is essential for today's ESOP Executive.

ABOUT THE DARDEN SCHOOL OF BUSINESS

The Darden School of Business at the University of Virginia is one of the premier business schools in the U.S. Darden was recently named the #5 full-time MBA program and #1 public university program by Bloomberg Businessweek, and the #1 public business school in the world by the Financial Times. Darden routinely receives top rankings in Management, Finance, Consulting, and other aspects of its curriculum. Darden's top-ranked faculty, renowned for teaching excellence, inspires and shapes modern business leadership worldwide through research, thought leadership, and business publishing. Importantly, Darden incorporates the case study method to learning, which works very well in studying the ESOP model and provides a richer educational experience than a lecture-based curriculum.



ESOPATHON 2025 marked a major milestone as the fifth year of celebrating Employee Ownership Month through this signature, community-driven fundraising campaign. The anniversary theme focused on expansion—expanding awareness, participation, and integrating ESOPATHON organically into activities that already make Employee Ownership Month meaningful for member companies.

The campaign emphasized augmentation rather than replacement of existing traditions. Companies and chapters received encouragement to incorporate ESOPATHON into their established celebrations, enabling broader adoption without adding extra workload. Communications delivered a clear message: ESOPATHON fits seamlessly into any event—from long-standing employee engagement programs to chapter-level gatherings—serving as a unifying way to celebrate shared ownership while supporting the community.

This strategy, combined with an expanded awareness campaign and the highly successful Postcard Challenge, drove record-breaking participation. ESOPATHON 2025 attracted **176 participants**, a **58.5% increase** over 2024's 111. Team participation more than doubled, rising from 31 teams in 2024 to **62 teams** in 2025—a **100% increase**. These results reflect the strongest engagement levels to date and confirm that amplifying existing celebrations resonates deeply across the ESOP community.

ESOPATHON raised \$543,619 for the Foundation in 2025, our second-highest fundraising total ever! This breadth of participation and donor diversification demonstrates ESOPATHON's growing roots within the association.

At the chapter level, **New England** led with \$105,963.20, followed by **Mid-Atlantic** & Carolinas at \$51,671.30, and **Ohio** & **Kentucky** at \$44,327.41. **California/Nevada** contributed \$43,695.70, and **Iowa** & **Nebraska** added \$27,130.66, rounding out the top five.

Top-performing companies showed exceptional commitment. Carris Reels led with \$37,433, followed by Blue Ridge Associates at \$31,090, CTL Engineering at \$24,288, Recology at \$16,421, and Freedom Industries at \$11,372.

Individual fundraisers also delivered outstanding results. **David Fitz-Gerald** topped the leaderboard with \$37,432.80, followed by **Ali Jamshidi** at \$24,288, **Janet Edmunson** at \$19,750, **Derrick Vick** at \$11,117, and **Peter Ney** at \$7,218.30.

ESOPATHON 2025 demonstrated that shared ownership thrives when built on existing connections. By expanding rather than replacing traditions, the ESOP community achieved its most engaged Employee Ownership Month yet—setting the stage for even greater momentum in the years ahead.



62 Participating

Teams



176 Donors



All **19** Chapters



Contributing more than \$543,600!





Invitation to Participate: 2025 National ESOP Employee Survey

The ESOP Association and the Rutgers Institute for the Study of Employee Ownership and Profit Sharing encourage your company to participate in the 2025 ESOP Employee Survey, a major new research initiative to identify the critical success factors that help ESOPs deliver value to both companies and employees. Participating companies will distribute a short (15-20 minute) anonymous online survey to their employees. In addition, the CEO or another company executive familiar with the ESOP will participate in an interview with researchers, the interview will take between 30-60 minutes. In return, companies will receive a customized report comparing their results to those of peer ESOPs and national benchmarks. Participating companies will also have the option to include tailored questions in their survey.

Your company's insights will contribute to cutting-edge research on ESOPs that aims to strengthen the field. If you are potentially interested, please fill out the information in the form to register your company. Questions? Contact: AJ Clomax ac2082@smlr.rutgers.edu and Douglas Kruse dkruse@smlr.rutgers.edu.

> Scan the QR Code below or visit esopassociation.org/2025-esop-survey



Private Equity's Plans - An Existential Danger to ESOPs

In fact, any plan to provide

and exemption from core

costly private equity tax breaks

ERISA worker protections is an

existential danger to ESOPs,

and one TEA must oppose.

The high profile attempt of private equity firms to redefine ESOPs has caused substantial debate in the ESOP community, and for good reason. In November, for the first time, The ESOP Association produced a special edition of the ESOP Report with an in-depth examination of the proposal to redefine ESOPs, along with the concerns and dangers. This piece is one of many from that special edition, which also includes the views of TEA's Board of Directors, TEA's President/CEO, as well as ESOP corporate leadership, academics, and ESOP finance professionals. The special edition can be found on TEA's website at esopassociation.org.



People and organizations nationwide and policymakers from both political parties admire ESOPs for their distinct identity and positive impact. They are built on longevity, transparency, and ownership. While an ESOP company can certainly go out of business or transition to a traditional ownership structure, the ultimate goal of an ESOP company

is for employees to carry on the culture, success, and legacy of the business in its community. As the company's stock price grows and the number of employees increases, the benefits of the ESOP grow along with it, rewarding the workers and promoting retirement savings. Congress has consistently supported ESOPs because of these societal benefits. Therefore, no one

should be allowed to co-opt ESOPs with a new plan that offers neither permanence nor long-term benefits nor actual ownership.

To emphasize TEA's stance on the efforts by private equity (PE) firms to promote their equity-sharing programs: the Association does not oppose private equity firms granting or sharing equity with their employees. Their ongoing effort to share the upside of a transaction with their employees is laudable. However, this proposed new structure is absolutely not an ESOP and should not be labelled as such. In fact, any plan to provide costly private equity tax breaks and exemption from core ERISA worker protections is an existential danger to ESOPs, and one TEA must oppose.

Why? There are several reasons.

1. Redefines ESOPs

The Expanding ESOPs plan (STEPs) proposes a new, special, protected qualified retirement plan labelled an ESOP. But this new plan carries none of the hallmarks of ESOPs – ownership, transparency, longevity, or protections

for workers. It is inferior for workers and mostly benefits investors. Calling an apple an orange doesn't make it so.

2. Crowds out ESOPs

Business owners face the choice of selling to their employees and inviting DOL oversight, or selling to private equity, possibly for a premium, without government

involvement. If Congress grants private equity huge tax incentives and "safe harbor" immunity from regulations designed to protect employees, why would any future business owner sell to an ESOP? Every PE firm would use this generously subsidized and legally protected model. Over time, this model would subsume the ESOP market, ironically, in the name of "ESOPs."

3. PE Failures Jeopardize ESOPs

Not all private equity investments end with successful, profitable businesses anchored in their communities. A large percentage of PE-backed companies cut jobs or even declare bankruptcy. The ESOP community should not allow Congress and the public to conflate the failures, layoffs, and closures of a separate and distinct model with ESOPs, which successfully protect workers and keep jobs in communities.

4. ESOPs Blamed When PE Promises Don't Pan Out

Expanding ESOPs is selling a model to Congress and workers as an "ESOP" with "ownership." Neither term is accurate. An ESOP's promises are contractual, real, and irrevocable - not so for STEPs. When workers get laid off or depart, when profits don't hit their target, or when the numbers just don't pencil out, workers will be shortchanged and likely resentful. The current positive reputation of ESOPs and pride in being an owner will evaporate.

5. Current ESOP Tax Treatment Joined to **Private Equity**

Allowing the new STEP proposal to be called ESOPs joins the two of them together for future tax policy debates. It's understandable why PE wants to connect to ESOPs, but should the ESOP community connect its future to PE? If current ESOP tax provisions are lumped in with those of Expanding ESOPs, then Congress will "score" them together, making ESOPs very "expensive" in the eyes of policymakers. There's a saying that, "Pigs get fat, while hogs get slaughtered." Expanding ESOPs proposals will place a distinct target on ESOPs' backs in future tax legislation. ESOPs face little danger from Congress in this regard today, so inviting controversy is a mistake.

6. Jeopardizes the Bipartisan Political **Support for ESOPs**

For decades, ESOPs have built bipartisan support, cherished by the ESOP community, and which has been positive for employee ownership. Yet PE has been a lightning rod for several reasons. ESOP Champions on both sides of the political aisle will shift positions when private equity deals are rebranded as "ESOPs".

7. Expanding ESOPs Jeopardizes Other **ESOP Issues**

ESOPs have seen extraordinary public policy gains over the past year. The ESOP community is on the precipice of landmark changes designed to spark growth for ESOPs. Key personnel in the President's Cabinet and sub-Cabinet positions are clear supporters of ESOPs, and they reached those positions with bipartisan support. The tax and regulatory proposal by Expanding ESOPs jeopardizes those gains, whether it passes or not. When legislators see a divided community supporting multiple proposals, they typically respond by doing nothing. A unified community with a unified voice is the most effective strategy. This debate, which could last several years, jeopardizes:

- The American Ownership Resiliency Act (AORA), which incentivizes private capital to finance ESOPs, will become more difficult to pass.
- The Employee Ownership Fairness Act, addressing section 404 and 415 limits for employee owners, could be viewed as too costly when combined with PE tax breaks.
- Litigation reform, critical to growing ESOPs, would be complicated by the pursuit of narrow "safe harbors" for a preferred investor class called "ESOPs."

Expanding ESOPs' public support is largely based on a high-priced public relations campaign, coupled with a stealth lobbying campaign, all resting on just 120 words of carefully crafted principles. The ESOP Association's members have generated real momentum for removing the existing regulatory roadblocks to ESOP formation, including bipartisan and bicameral support for legislation to bring private capital to the table to support ESOP growth. This is what support for creating more ESOPs should look like.

ESOPs have always been about properly balancing capitalism with values, as evidenced through the widespread treatment of employee owners. Removing the "values" side of this equation leaves it unbalanced. No one should be able to buy or force a redefinition of what makes ESOPs special.

Here's the inescapable conclusion about Expanding ESOPs plans:

They don't create, protect, or benefit employee owners like ESOPs.

They lack decades of independent research proving their multiple benefits like ESOPs.

They are not retirement plans like ESOPs.

They are not a finance mechanism, as Kelso and Senator Long designed, like ESOPs.

They do not preserve a founder's legacy or provide long-term succession, like ESOPs.

Simply put, STEPs should not be called or call themselves ESOPs. Therefore -

They should not trade on research or decades of bipartisan goodwill built up by ESOPs.

They should not receive massive taxpayer incentives in the name of ESOPs.

And they should not pursue special legal immunity (aka a "safe harbor") as ESOPs.

STEPs are not ESOPs.





Application Open: December 1, 2025 - February 13, 2026

An initiative of the Employee Ownership Foundation, a 501(c)3 non-profit organization founded in 1991 and dedicated to promoting and expanding employee ownership through research, grants, events, and public awareness. For more information, please go to employeeownershipfoundation.org





Employee Ownership Foundation – Trustee Scholars

- ★ Scholarship Application Period: December 1, 2025 - February 13, 2026
- ★ Scholarships are \$5,000 per year for undergraduate study or vocational-technical school training only
- ★ Two scholarships are awarded annually and are renewable for up to three years (four years max). That's up to \$20,000 for a fouryear degree!
- ★ Scholarship winners will be notified in April 2026 and funds will be provided for the beginning of the fall 2026 school year

Eligibility

- ★ Applicants must be an employee or dependent of an employee
- ★ Employee must be employed by a corporate member company of The ESOP Association in good standing
- ★ Applicants must be 22 years old or younger
- ★ Currently enrolled or planning on enrolling in undergraduate study at an accredited two- or four-year college, university, or vocationaltechnical school



Learn more: EmployeeOwnershipFoundation.org/trustee-scholars

Eligibility

Applicants to the Employee Ownership Foundation Trustee Scholars Program must:

- ★ Be age 22 and under, on the application deadline, February 13, 2026.
- ★ An employee or dependent of an employee of a corporate member company of The ESOP Association (TEA).
 - Employee is defined as any part-time of full-time employee at a corporate member company, regardless of their vesting status in the company's ESOP plan.
 - Dependents are defined as natural and legally adopted children or stepchildren living in the employee's household or primarily supported by the employee.
- ★ Companies must be a corporate member in good standing of The ESOP Association prior to the application deadline date.
 - · Good standing is defined as being an active, dues paying corporate member.
- ★ Be a high school senior or high school graduate, current undergraduate student, or enrolled in a vocational/technical school.
- ★ Plan to enroll in full-time undergraduate study at an accredited two- or four-year college, university, or vocational-technical school for the entire upcoming academic year.
 - Full-time is a student who is enrolled for the number of hours or courses that the school or institution considers to be filltime attendance.
 - · An undergraduate student is defined as seeking one of two higher education degrees—an associate degree or a bachelor's degree.
 - · Accredited.
 - Two-year colleges are also known as community colleges and can also be part of a transfer program to a four-year institution.
 - Four-year college is defined as a college, university, or specialized institution.
 - · A vocational -technical school is a term for either trade or technical schools.
 - The institution must be accredited by a "nationally recognized accrediting agency". The U.S. Department of Education recognized accrediting agencies.
 - · Certification programs must be through an accredited institution and must run on a standard academic semester calendar. Certification programs must be a minimum of one semester/term in length and applicants must be enrolled at the time awards are disbursed in August.

Requirements

As part of your application, you must upload the following:

- ★ Transcript: A current, complete transcript of grades.
 - Transcripts must display the student's name, school name, grades and credit hours for each course and term in which each course was taken.
 - Grade reports (also known as report cards) are not accepted.
 - If you are uploading a high school transcript and providing SAT or ACT test scores, if those scores are not listed on your high school transcript, you will need to upload a copy of your test score report(s) separately.
 - · If you are uploading a college transcript, SAT and ACT test scores are not required.
- ★ IRS Form 1040: Copy of the first two pages of the most recently filed IRS Form 1040 used for the Financial Information section of the application.

- Please black out all social security numbers and bank account information.
- ★ Video Essay: Submit a two-minute video answering the following question: "What does employee ownership mean to you, your loved ones, and/or your community?"
 - The video should be recorded by the beneficiary of the scholarship, from their perspective as an employee at an ESOP company or as a dependent of an employee at an ESOP
 - Only the finalist committee will review videos they will not be shared publicly without explicit permission from the video creator.

Awards

- ★ Up to two (2) scholarships will be awarded to separate individuals.
- ★ If selected as a recipient, the student will receive a \$5,000 per year award.
- ★ Awards are renewable up to three years (4 years total) or until a bachelor's degree is earned, whichever occurs first, on the basis of satisfactory academic performance, maintaining a cumulative grade point average of 2.5 on a 4.0 scale, and fulltime enrollment.
- ★ Awards are for undergraduate study at accredited institutions only, including:
 - Two-year/community colleges, including those that transfer into a four-year college.
 - Four-year colleges, a university, college, or specialized institution.
 - · A vocational -technical school
- * Awards are NOT for:
 - · Graduate students seeking advanced education such as Masters or PhD programs
 - · Unaccredited training schools or colleges

Application Period

- ★ Applications can be submitted via the online portal on the Scholarship America website December 1, 2025
 - February 13, 2026
- ★ The application deadline is 11:59 PM Eastern Standard Time, Friday, February 13, 2026

Notification

★ All applicants will be notified in April, prior to College Decision Day (May 1)

Payment of Scholarships

- ★ Scholarship America processes scholarship payments on behalf of the Employee Ownership Foundation.
- ★ Payment will be made directly to the school in early August.

Selection of Recipients

- ★ Scholarship recipients are selected on the basis of:
- ★ Academic record
- ★ Demonstrated leadership and participation in school and community activities
- ★ Work experience
- ★ A statement of educational and career goals and objectives
- ★ Unusual personal or family circumstances
- ★ Financial need considered, but not determinative

Selection of finalists is made by Scholarship America. The Employee Ownership Foundation finalist committee will select scholarship recipients. Not all applicants to the program will be selected as recipients. Students may reapply to the program each year they meet eligibility requirements. All applicants agree to accept the decision as final.



Welcome Krista Candela to The ESOP Association's Team!



Krista Candela *Director, Executive Operations*

Krista brings eight years of experience supporting executives as both Executive Assistant and Chief of Staff and is known for bringing structure to vision and humanity to operations.

After spending 15 years raising humans full-time, she entered the workforce and quickly became the calm in the storm, building systems that make things work and cultures that make people stay. From startup chaos to mission-driven growth, Krista has led operations, strategy, and culture with both heart and precision. She thrives in the messy middle streamlining what's broken, organizing what's scattered, and ensuring people feel seen through it all.

In addition to her role with The ESOP Association, Krista is the founder of Elevate & Empower, a reimagined community for job seekers and career rebuilders rooted in purpose, skill-building, and belonging. She is also pursuing a business degree with a concentration in Industrial and Organizational Psychology, deepening her understanding of how people, systems, and strategy work together to create thriving organizations.

When she's not solving businesses' toughest challenges, you can find Krista meditating in nature, traveling to new places, or lifting a really heavy barbell. She lives in the Maryland suburbs of DC with her daughters and her adorable cat, Olive.

What is ESOP PAC?

ESOP PAC is the voluntary, non-partisan Political Action Committee (PAC) of the ESOP Association. ESOP PAC is the oldest political entity specifically charged with supporting pro-employee ownership elected officials.

Formed in 1988, ESOP PAC allows our members and the larger employee ownership community to pool small personal contributions from thousands of donors into larger donations. These donations help elect and re-elect federal candidates to Congress who promote the employee ownership agenda.





For more information, please contact:
Greg Facchiano at

gfacchiano@esopassociation.org

Accelerating Ownership: A Year of Growth and Impact in 2025

2025 has been a big year for the Accelerator series. We more than doubled the number of classes held, welcomed our 500th attendee, and set the stage for continued expansion in 2026.

So what does this all mean for the ESOP Employee Accelerator program going forward?

Growth - The Accelerator grew from 6 events in 2024 to 13 in 2025, all between June and December. And thank you to the 13 generous member companies who opened their doors and hosted Accelerator classes, inspiring attendees with their impressive ownership cultures and helping us to keep events as affordable and accessible for attendees as possible.

A Larger Team - This year, three more trainers began to teach and support the Accelerator course. This adds to our capacity to build our schedule and reach members in every chapter throughout the country.

Scale - Building our outreach, event structure and support, coordination and scheduling-everything we need to grow the program and bring it to more members. We also continue improving the program by implementing ideas and feedback given by attendees to optimize all aspects of the course, from lesson planning and materials to logistics to outreach.

What's Coming Next Year?

First and foremost, look for more events! Everything we have done this year sets the stage for us to expand in 2026, reaching more employee owners, and helping more companies develop stronger ownership cultures.

Expect additional case studies featuring our attendees and hosts, whose stories impress and inspire. Our community has an abundance of employee owners and groups that give back to those around them. It's a pleasure to tell their stories and share the ways in which employee ownership is making a difference firsthand in people's lives.

You'll notice more content on our websites, emails, and LinkedIn pages highlighting the benefits of ownership culture, like how it drives company performance, employee owners' work experience, and their retirement account balances. The Employee Ownership Foundation's fascinating research gives us a strong basis for understanding the



value of ESOPs and ownership culture and the lifechanging potential it has for workers, households, and companies in the United States.

The Accelerator program is poised to take another great leap in 2026, and we look forward to working with you, our valued members, to take that exciting leap together!

If you would like to see an Accelerator class in a city or town near you, email Aaron Moberger at amoberger@ esopassociation.org

What Employee Owners Are Saying About the Accelerator Program

"With very limited prior ESOP knowledge, this Accelerator gave me a breadth of information and answered a lot of the questions I had going into it. I would highly recommend for anyone new to an organization that's an ESOP or an aspiring leader that is striving to improve and positively impact the company culture of an ESOP."

- Adam Carlsen, Controller at Steel-Pro Inc.

"The Accelerator was an engaging and illuminating workshop. The focused look at certain business fundamentals strengthened the foundation for my ESOP knowledge!"

— Ben Guan-Kennedy, Video Content Producer at Imtra

"The Accelerator program provided a strong baseline understanding of the ESOP structure as well as real world examples we can apply to our own business."

— Kim Davis, VP Commercial at Performance Validation

TEA Chapter & Regional Events

CALIFORNIA/ NEVADA

California & Nevada

Annual Conference September 16-18, 2026

Hyatt Regency Sacramento Sacramento, CA

FLORIDA

Florida

Winter Conference February 11-12, 2026

Hotel Alba



HAWAII

Hawaii

Events Coming Soon!



HEART OF AMERICA

Kansas & Missouri

Spring Conference March 4-5, 2026

The Fontaine Hotel Kansas City, MO

ILLINOIS

Illinois

Spring Conference March 17, 2026

Double Tree Hotel & Conference Center Chicago Downers Grove, IL



Spring Conference

502 East Event Centre Carmel, IN



Iowa & Nebraska

Winter Conference February 25-26, 2026

The Hotel at Kirkwood Center Cedar Rapids, IA



Michiaan

Virtual Roundtable

January 21, 2026

Virtual

Spring Conference March 17, 2026

East Lansing Marriott at University Place East Lansing, MI

MID-ATLANTIC & **CAROLINAS**

Maryland, North Carolina, South Carolina, Virginia, Washington, DC, & West Virginia

Spring Conference

March 30-31, 2026

Hotel Madison & Shenandoah Valley Conference Center Harrisonburg, VA

Fall Conference

September 15-16, 2026

Hilton Raleigh North Hills Raleigh, NC



Indiana

March 10, 2026



Minnesota, North Dakota & South Dakota

Events Coming Soon!



NEW ENGLAND

Connecticut, Maine. Massachusetts, New Hampshire, Rhode Island, & Vermont



Board of Directors/Trustee Conference

March 10-11, 2026

Sheraton Nashua Nashua, NH

Spring Conference March 11-12, 2026

Sheraton Nashua

Nashua, NH

Newport, RI

CEO Conference

April 9-10, 2026 Castle Hill Inn

NEW YORK/ NEW JERSEY New York & New Jersey

Events Coming Soon!





NORTHWEST

Alaska, Idaho, Montana, Oregon, & Washington



Spring Conference March 12-13, 2026

The Riverside Hotel Boise, ID

Let's Talk ESOPs - Washington June 22, 2026

Seattle Gymnastics Academy Seattle, WA

OHIO/KENTUCKY

Ohio & Kentucky





Renaissance Columbus Westerville - Polaris Hotel Westerville, OH



Pennsylvania & Delaware

Spring Conference March 23-24, 2026

Sheraton Valley Forge King of Prussia King of Prussia, PA

ROCKY MOUNTAIN

Arizona, Colorado, New Mexico, Utah, & Wyoming

Spring Conference April 1-2, 2026

Hilton Tucson East Tuscon, AZ

SOUTHEAST

Alabama, Arkansas, Georgia, Louisiana, Mississippi, & Tennessee

Events Coming Soon!



Texas & Oklahoma

Let's Talk ESOPs - HR Edition

February 18, 2026

BVA Group Plano, TX

Spring Conference

March 25-26, 2026

Austin Marriott South Austin, TX

Let's Talk ESOPs - Dallas

August 4, 2026

Cisco-Eagle Coppell, TX

Fall Conference

September 30-October 1, 2026

Austin Marriott South Austin, TX

WISCONSIN

Wisconsin

Virtual Roundtable

January 21, 2026

Virtual

Advocacy Day

March 3, 2026

Spring Conference

March 4, 2026

Monona Terrace Convention Center

Madison, WI



MIDWEST REGIONAL **CONFERENCE**

Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, & Wisconsin

September 22-24, 2026

Iowa Events Center



GREAT LAKES REGIONAL CONFERENCE

Indiana, Kentucky, Michigan, & Ohio

September 29 - October 1, 2026

Sheraton Indianapolis Hotel At **Keystone Crossing** Indianapolis, IN

ESOP EMPLOYEE ACCELERATOR

Atlanta

January 21, 2026 Web Industries

Suwanee, GA

Londonderry January 30, 2026

Admix

Londonderry, NH

Rocky Mount

February 17, 2026

Freedom Industries Rocky Mount, NC

Orange County

June 12, 2026 **HdL** Companies

Brea, CA

Honolulu

June 16, 2026

Bowers + Kubota Waipahu, HI



Watch TEA's Chapter Event Site, esopassociation.org/events/ chapters, for more info.

We hope to see you there!





Rethinking Your ESOP's Provisions

By: Pete Shuler, Blue Ridge Associates

**Note: This is part one of a two-part series. Part two will be published in next month's ESOP Report.

The plan design features that govern the most important aspects of an ESOP — from entry and allocation eligibility to vesting, distributions, and diversification — are decided upon during the busyness of the initial ESOP transaction, yet require careful consideration. While these discussions are often more thoughtful and comprehensive now than they were in the past, they still may not always yield the ideal results. The seller and the company's management team may not fully realize the long-term impact of important plan design decisions, with a focus on the initial ESOP transaction being a high priority.

Whether a company's ESOP transaction happened recently or many years ago, the organization should review and, if necessary, reconsider the rules that govern the plan to ensure they are contributing to your current goals. There are important questions that decision-makers can ask to assess the current state of the ESOP, including:

- Does the ESOP design mesh with the organization's culture or the one it's trying to create?
- Do some of the plan provisions contradict the message the company is attempting to communicate with its employees?
- How can the organization better align plan design with company culture?
- It's important to keep all company goals in mind when

evaluating changes to an ESOP and the implications of those changes. For instance, if a change meets a cultural goal but incurs a significantly greater cost, that change may not be feasible, or a more viable alternative may exist. Similarly, companies must carefully consider changes that could lead to increased work for the human resources department or other groups.

When considering changes to a qualified retirement plan such as an ESOP, regulatory requirements must be considered. Some changes are easy and can be made at any time. Others can only be made prospectively — that is, for the next plan year. Still others should be changed only with extra care to avoid unintentional consequences and to ensure accrued benefits are not taken away from existing



participants. A company's ESOP legal counsel and third-party administrator can help to navigate these significant matters.

Entry/Participation

Whether a company's ESOP

organization should review

and, if necessary, reconsider

the rules that govern the plan...

or many years ago, the

transaction happened recently

The longest waiting period allowed by law to join an ESOP is composed of (1) a 12-month period during which the employee must work 1,000 hours, (2) attaining age 21, and (3) entering on January 1 or July 1 (assuming the plan has a December 31 year-end) following completion of the 12-month period and attaining age 21. (There is a two-year entry wait that is possible under the law. However, since this longer wait must be paired with immediate 100% vesting, it is almost never used by ESOP companies.)

For many years, there was a knee-jerk reaction to use

the longest waiting period (oneyear wait/age 21/semiannual entry dates) and, because of this, it is still the most prevalent entry provision among ESOPs. Although many reasons are given for using the oneyear waiting period, in many cases there is no solid justification for using that rule.

The biggest reason for not using the one-year wait and semiannual

entry dates is that it results in an extended wait time for participants. For example, if a person is hired on July 15, 2024, their waiting period ends on July 14, 2025. Assuming they worked at least 1,000 hours during that period and are at least 21 years old, they would enter the ESOP on January 1, 2026. The participant statements for the 2026 plan year would be finalized around spring/summer 2027, close to

three full years after the person is hired.

This can present communication and cultural problems, especially if the company is growing quickly and/ or attempting to use the ESOP as a recruiting tool. If the company is growing quickly, there will be a large group of employees who hear great things about the ESOP but need to wait a significant amount of time before earning a stake in it. There is a risk of employees becoming frustrated by an extended waiting period for a statement, after being

attracted to the company for its ESOP benefits.

There are other options when it comes to entry provisions beyond the one-year wait/age 21/semiannual entry dates. Many companies like keeping the one-year wait but having the person enter the ESOP in the year they complete

the 12 months. This reduces the wait for statements from three years to two years for the person described above.

There are many other possibilities:

- Enter immediately on date of hire
- Enter the first of the month or quarter after hire
- Enter when XX days or months are completed or on the first day of the month or quarter after XX days or months are completed
- Enter as soon as 1,000 hours are completed

The only limit is that the waiting period cannot be greater than 12 months within which 1,000 hours are worked. The age provision can be reduced to anything below 21 or removed entirely. Anyone old enough to work can participate in the ESOP.

Another concern that some companies have is that employees who leave the organization within the first year or two of their employment will receive benefits in the ESOP. Fortunately, annual allocation requirements and vesting often prevent this from happening. Most ESOPs require that employees be employed on the last day of the year and work 1,000 hours during that plan year to receive an allocation for that year. These requirements are often waived if the person leaves due to death, disability,

> or retirement. Letting a person enter the ESOP sooner does not necessarily mean they will receive an allocation.

Even if they do receive an allocation, employees must vest in that allocation before it is "theirs." Most ESOPs use a six-year graded vesting schedule. This means that employees

are 0% vested until they have two years of vesting service (generally plan years in which they work at least 1,000 hours). They are 20% vested when they have earned two years of service, 40% with three years, 60% with four, 80% with five, and 100% when they have earned six years of service. Even if a short-term employee enters the ESOP and receives an allocation, they are o% vested until they have at least two years of service.

With easier entry, a small percentage of short-term employees may earn a small, partially vested balance that they would not have received with longer entry periods. It may benefit the organization to allow employees, who may become long term, into the ESOP faster and decrease the potential frustration caused by long waiting periods.

ESOP Report **YOUR AD HERE**

There is a risk of employees

extended waiting period for a

statement, after being attracted to

the company for its ESOP benefits.

becoming frustrated by an

Advertise your company in the ESOP Report. A publication that reaches more than 15,000 employee owners every month.

> Learn more at: esopassociation.org/esop-report-ad

Leasing Depreciable Property to an ESOP-Owned S Corporation? You Probably Recognized Too Much Depreciation...

By: Ted Margarit, Managing Partner, and Nate Dykes, Vice President, Paralign Capital Partners

Over the past 10+ years it has become common practice amongst ESOP practitioners that ESOP-owned S corporations lease, rather than acquire, property, plant, and equipment ("PP&E") assets. This is particularly true for 100% ESOP-owned S corporations, whom are effectively federally income tax exempt and thus minimize the value realized from depreciation deductions. An increasing number of transactions are structured where PP&E property is held by the ESOP-owned S corporation through the ESOP transaction, only to be sold in a sale leaseback on a post-closing basis in order to unlock liquidity for sellers and avoid income in the form of depreciation recapture from being recognized by the sellers. However, unless properly structured, the lessors in such cases - including former owners who continue to lease PP&E assets to the now ESOP-owned enterprise - may not be entitled to the same accelerated bonus depreciation treatment to which they have grown accustomed.

The General Rule of Tax Depreciation

Section 168 of the Internal Revenue Code ("IRC") governs the allocation of accelerated cost recovery –

commonly known as accelerated depreciation – for taxpayers that own tangible property in determining their taxable income. Unless accelerated through IRC § 168(k), Special Allowance for Certain Property (commonly referred to as the "Bonus Depreciation"), IRC § 168(a) provides that the depreciation deduction available under IRC § 167(a) shall be

determined using: (1) the applicable depreciation method, (2) the applicable recovery period, and (3) the applicable convention. This generally results in (A) the 200 percent declining balance method, until (B) switching to the straight-line method for the first taxable year in which doing so yields a larger allowance, except for certain assets with useful lives exceeding 15 years and residential or nonresidential real property (collectively the "General Rule" under IRC § 168(a)). Under the General Rule, nonresidential real property is to be depreciated on a straight-line basis



over 39 years. However, most property owners conduct cost segregation studies to segregate the various sub-elements (plumbing fixtures, carpeting, etc.) of their property into its constituent parts. This allows the property owner to depreciate those sub-elements over more favorable 5-15 year periods.

In summary, with the exception of property with useful

lives exceeding 15 years, residential and nonresidential real property, and other specific exclusions, under the General Rule, most tangible property is eligible for depreciation under accelerated schedules more favorable than straight line depreciation (and particularly so for assets eligible for Bonus Depreciation).

...most tangible property is eligible for depreciation under accelerated schedules more favorable than straight line depreciation...

Tax Depreciation for Assets Leased to ESOP-Owned Companies under IRC § 168(g)

In an effort to avoid having tax-exempt entities "double dip" in relation to both being tax exempt and allocating bonus depreciation deductions on assets they use pursuant to a lease but are owned by others to such lessors, IRC § 168(g) requires any "tax-exempt use property" to be depreciated under the Alternative Depreciation System ("ADS") in contrast to the General Rule, and such tax-exempt use property is not eligible for Bonus Depreciation.

Under IRC § 168(h)(1)(A), "tax-exempt use property" is defined as "that portion of any tangible property (other than nonresidential real property [the requirements of which are explored further below]) leased to a tax-exempt entity." Under IRC § 168(h)(2), a "tax-exempt entity" means "an organization (other than a cooperative described in section 521) which is exempt from tax imposed by this chapter," which includes an ESOP.

Even though the ESOP is not the direct lessee of tax-exempt use property, these limitations apply to the pass-through entity held by the ESOP. IRC § 168(h)(5)(A) states "In the case of any property which is leased to a partnership, the determination of whether any portion of such property is tax-exempt use property shall be made by treating each tax-exempt entity partner's proportionate share (determined under paragraph (6)(C)) of such property as being leased to such partner." IRC § 168(h)(5)(B) further expands upon this, stating "Rules similar to the rules of subparagraph (A) shall also apply in the case of any passthru entity [emphasis added] other than a partnership and in the case of tiered partnerships and other entities."

Further under IRC § 168(h)(1)(B), "nonresidential real property" is included as tax-exempt use property if, among other characteristics, it is subject to a lease to a tax-exempt entity that:

- Contains a fixed or determinable purchase option in favor of the tax-exempt entity (and/or affiliates thereof);
- Exceeds 20 years in duration; or
- Occurs after a sale of the property by, or a lease of the property from, the tax-exempt entity (and/or affiliates thereof) and such property was used, prior to such sale or lease, by the tax-exempt entity.

...with some narrow exceptions, property leased to a pass-through entity that is wholly or partially owned by an ESOP is considered tax-exempt use property that must be depreciated pursuant to ADS...

It is worth noting that in an effort to avoid further accelerated depreciation as it relates to nonresidential real property, IRC § 168(h)(1)(B)(iv) negates the use of cost segregation studies to avail lessors of a means of accelerating depreciation recognition for nonresidential real property treated as tax-exempt use property by stating: "For purposes of this subparagraph, improvements to a property (other than land) shall not be treated as a separate property."

Thus, with some narrow exceptions, property leased to a pass-through entity that is wholly or partially owned by an ESOP is considered tax-exempt use property that must be depreciated pursuant to ADS and is not eligible, in whole or

in part, for accelerated depreciation treatment pursuant to the General Rule nor Bonus Depreciation.

So, what depreciation can a lessor to an ESOP realize? Under IRC § 168(g)(2), the ADS system for such tax-exempt use property is prescribed as:

- The straight-line method (without regard to salvage
- The applicable convention determined under subsection (d); and
- A recovery period determined under the following table:

In the case of:	The recovery period shall be:
(i) Property not described in clause (ii) or (iii)	The class life
(ii) Personal property with no class life	12 years
(iii) Residential rental property	30 years
(iv) Nonresidential real property	40 years
(v) Any railroad grading or tunnel bore or water utility property	50 years

The class life of particular listed asset classes (e.g., different types of equipment) is defined in IRS Publication 946.

Additionally, IRC § 168(g)(3) imposes a further limitation on tax-exempt use property subject to lease, stating "In the case of any tax-exempt use property subject to a lease, the recovery period used for purposes of paragraph (2) shall (notwithstanding any other subparagraph of this paragraph) in no event be less than 125 percent of the lease term."

However, there are a few narrow exceptions to the depreciation treatment mandated by IRC § 168(g):

- Under IRC § 168(h)(1)(C), tangible assets leased to tax-exempt entities are not treated as tax-exempt use property if such lease has a duration of less than (1) 3 years, and (2) the greater of 1 year or 30% of the property's class life.
- Under IRC § 168(h)(3), "Qualified Technological Equipment," defined as computers or peripheral equipment (excluding calculators, typewriters, copiers, and similar equipment) and "high technology medical equipment," is not subject to ADS depreciation treatment under IRC § 168(g) if such Qualified Technological Equipment is subject to a lease no longer than 5 years in duration (with an option to renew no longer than 24 months).
- Various other more unique circumstances, including assets used outside of the United States or used in commerce across international borders, communications satellites, etc. As always, dial your friendly local tax attorney for more details...

Therefore, with the aforementioned summarized narrow exceptions, tangible property leased to an ESOPowned - in whole or in part - S corporation (or LLC electing to be taxed as a S corporation) must, subject to the extent of the ESOP's ownership of the pass-through entity, be depreciated on a straight line basis over the applicable recovery period determined by the longer of either (1) the property's class life, or (2) 125% of the term of the lease.

Takeaways and Common Applicable Situations in the ESOP Marketplace

Applications of IRC § 168(g) in the ESOP marketplace are plentiful and, we fear, underappreciated.

As stated above, since ESOP-owned entities enjoy an effective income tax exemption, practitioners often advise clients to forgo direct asset ownership in order to leverage their tax-exempt status - a scenario specifically addressed by the rules pertaining to "tax-exempt use property" in IRC § 168(g). While such planning is valid, lessors must plan on having depreciation deductions limited to what is allowable for assets leased to tax-exempt entities, namely straight-line depreciation treatment over 125% of the lease term or the asset's class life, whichever is longer.

Common scenarios where the depreciation limitations of IRC § 168(g) applies include (but are certainly not limited to):

- Selling shareholders retaining PP&E assets in a transaction or acquire PP&E assets post-transaction and lease them to the ESOP-owned entity;
- ESOP-focused banks, finance companies, and lessors provide financing to ESOP-owned companies structured as a lease rather than as debt; and
- ESOP-owned businesses executing sale-leasebacks of real estate, rolling stock, and/or other PP&E assets to access lower-cost capital.

Lessors to ESOP-owned businesses should be aware of this nuanced - but significant - limitation on depreciation deductions and are strongly encouraged to consult with tax counsel prior to executing a lease with an ESOP-owned pass-through company.



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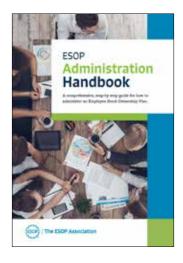
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The ESOP Association Administration Handbook, an essential resource for anyone responsible for administering an ESOP, will take you from the beginning steps of setting up an ESOP through crucial aspects of compliance, all the way to government regulations and reporting.

TEA's past Advisory Committee Chair, Lori Stuart, says, "This book is absolutely essential for all ESOP Admins to own. No matter your experience or at what stage your company's ESOP – this book provides every administrator with the resources needed to do their job effectively and efficiently."

Lynn Archer, Sr. Vice President, GreatBanc Trust Company, and former Chair of the Advisory Committee on Administration says "I'm really proud of the work our committee has done by giving thoughtful, detailed and comprehensive instruction on ESOP Administration. Whether the reader is a novice or a skilled professional – this Handbook is an essential resource."

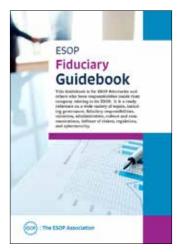
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ESOP Fiduciary Guidebook

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