
International Employee Stock Ownership Plan

Frequently Asked Questions

What is an ESOP?

An Employee Stock Ownership Plan (ESOP) is a retirement benefit plan that allows employees to share directly in the growth and success of the company. In its simplest form, a company establishes an ESOP trust, to which the company makes an annual contribution of stock, or cash to purchase stock. Shares are then divided among employees' individual accounts. Employees make no cash contributions; the shares allocated to participant accounts are held in trust until they become eligible for a distribution. Shares are allocated based on a percentage of each employee's individual eligible salary.

What is the IESOP?

The International Employee Stock Ownership Plan is an extension of the benefit Chemonics offers to its U.S. based employees. It makes the benefits of employee ownership available to as many international staff as possible. In designing the international portion of the ESOP, eligible local staff have been added to the existing ESOP, with the same trustee and administrator, but with a different stream of funding as determined by Chemonics' Board of Directors. Wherever possible, the conditions of the plan for local employees mirror the conditions for U.S. participants.

Why are we doing this?

Since Chemonics became 100-percent ESOP-owned in 2011, the Board of Directors has been committed to adding international employees as soon as it was administratively and legally feasible. The International Ownership Expansion Committee was established in 2012 and examined the feasibility of establishing an international component of our ESOP. In 2017, the duties of the Expansion Committee were transferred to the Administrative Committee. Based on an assessment of the applicable laws and practices in each of the countries where Chemonics has active projects, the Board of Directors decided to add international staff in 18 active countries where the conditions are favorable for this benefit. Since then, they've expanded the International ESOP to the following 24 covered countries: Bangladesh, Bolivia, Bosnia and Herzegovina, Botswana, Côte d'Ivoire, Dominican Republic, Egypt, El Salvador, Ethiopia, Haiti, Honduras, Jordan, Mongolia, Nepal, Nigeria, Pakistan*, Peru, Rwanda, South Africa, Tajikistan*, Uganda, West Bank and Gaza, Zambia, and Zimbabwe*.

*Countries added as of January 1st, 2023.

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What are the financial benefits of an ESOP for employees?

There are three principal ways an employee benefits financially from having an ESOP account: 1) All contributions are made by the company, so employees do not have to contribute any of their own money; 2) Growth in the value of Chemonics' stock, coinciding with Chemonics' performance, will increase the participant's account value; and 3) Forfeitures, which are the non-vested account balances of employees who have left the company, are shared with remaining eligible participants.

What are some of the challenges of an International ESOP?

Due to the extensive legal, regulatory, and administrative complexities of implementing ESOPs outside the United States, very few companies have included their local national staff. Chemonics is among the pioneers in this area because our corporate culture is built on a strong commitment to our team members all over the world. Since the structure we have come up with is groundbreaking, we submitted to the International Revenue Service (IRS) a request for a Private Letter Ruling, in which the IRS determined that the plan as designed is acceptable from the IRS's point of view.

Will the IESOP be extended to other countries?

Increasing or decreasing the number of eligible countries will be determined by the Board of Directors and the Administrative Committee. There are many factors that will be considered, including: the local legal and regulatory environment, and the degree to which it has become more, or less, conducive to operating the ESOP in a particular country. The Board and the Company is committed to annually reviewing the local conditions in each country where the firm has active projects to determine if additional countries can be added, or if the conditions have changed such that this benefit is no longer viable.

Why is the ESOP important?

Becoming a 100-percent employee-owned company in 2011 was a major milestone, not only for our ESOP program but also for Chemonics. As employee owners, our staff benefit from the company's success. As the value of the company grows, the value of the ESOP shares held in trust for eligible employees will also grow.

Do ESOPs impact a company's performance?

Research supports the finding that ESOPs can impact positively a company's performance. There is a large body of empirical evidence showing that employee-owned firms tend to outperform non-employee owned firms. This is a result of the increased participatory environment and sense of ownership that ESOPs create in organizations. Those interested in learning more, can check out these sources:

- [The National Center for Employee Ownership](http://www.NCEO.org) – www.NCEO.org
- [Employee Ownership and Participation Efforts on Firm Outcome](#), Kramer, City University of New York
- [Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience](#) Freeman, University of Pennsylvania

PLAN RULES

What is the vesting schedule for the International ESOP?

International participants are 50 percent vested after two years of elapsed service with the company, 75 percent vested after being employed for three years, and 100 percent vested after being employed for four years. If you leave Chemonics before you complete four years of service, the portion of your account that is not vested will be forfeited. For example, if you leave Chemonics after being employed for three years, you will be vested for 75 percent of your account, meaning you would forfeit 25 percent. For vesting purposes, a year is measured from your hire date and each anniversary thereof and special rules apply for employees who leave employment and are later rehired.

Frequently Asked Questions

How long do I have to work before I'm eligible?

If you are an eligible employee in a country that is in the plan, you are immediately eligible to participate. Participants are eligible to receive allocations of shares if they are employed on December 31 of any plan year. In addition, if a participant leaves service after attaining age 59 ½ or leave due to death or retirement they are eligible to participate in the allocation for such year.

Are third-country national employees eligible to participate?

No. A TCN is an individual who is not a U.S. citizen or green card holder working in a country in which they are not a permanent resident or citizen. TCNs are not eligible for the International ESOP at this time due to the complexity of the legal compliance imposed under U.S. law. We will further examine inclusion of TCNs in the future.

Are consultants, contractors, or subcontractors eligible to participate?

No. Only Chemonics employees who are hired as Locally Hired Support (LHS) or Locally Hired Professional (LHP) employment agreements are eligible to participate in the IESOP.

Is it mandatory to participate in the International ESOP?

No. From 2014 onward participation in the International ESOP plan is not mandatory. You can opt out of participating in future years by filling out a form. If you decide to waive participation in the plan, in a future year you may decide to become a participant. Contributions already allocated to participant accounts cannot be reversed. If you do not elect to participate in the International ESOP plan, you will receive no compensation in lieu of plan participation.

What happens if USAID terminates my project early?

If your employment terminates for any reason before you are 100 percent vested, you will forfeit the non-vested portion of your account balances, and you may elect to receive a distribution of the vested portion in the following calendar year. If you are re-employed with Chemonics before you incur a five-year break-in-service, any forfeiture that came out of your accounts will be re-credited to you. If you do not return within five years, your ESOP account will be treated as if you are starting as a new employee. *For example: Samuel started working for Chemonics in Ethiopia on December 12, 2012, and his employment was terminated December 28, 2015. He was 75 percent vested at the point of termination, so 25 percent of his account was forfeited when he received a distribution of his vested balance in 2016. Samuel began working for Chemonics in Ethiopia again on April 20, 2017. Because he returned to service, the 25 percent forfeited was returned to his ESOP account. If he continues his employment through April 19, 2018, he will have another year of service and will be 100 percent vested at four years of service.*

THE ESOP AND ME

What determines how much stock I will get through the ESOP?

Allocations are based on your eligible salary. Tenure does not impact the number of shares that will be allocated to you. Tenure only impacts the percentage you are vested.

Am I allowed to individually purchase shares from Chemonics that will increase my ESOP account?

No, you may not purchase shares from Chemonics. Only the employer, Chemonics, contributes to the ESOP.

Can I elect not to participate and get cash in lieu of stock?

No. If you elect not to participate in the International ESOP plan, you will not receive compensation in lieu of plan participation.

Frequently Asked Questions

Will I be subject to any U.S. withholding tax?

Only U.S. source income is subject to U.S. tax withholdings. In most cases the contributions to your ESOP account are not U.S. source income, so they are not taxed by the U.S. Internal Revenue Service. Any earnings on the shares allocated to your account, however, are subject to a 30 percent tax withholding rate when you take a distribution payment. If you receive a distribution before age 59 ½, any U.S. source income will be subject to a 10 percent early withdrawal tax. Any taxes required by the U.S. government will be withheld by Chemonics from your distribution, thereby reducing the amount of your distribution.

Will this benefit raise my taxes?

We do not want the IESOP benefit to become a burden to employees, and we have purposefully selected countries with tax regulations that are favorable to the IESOP. In addition to the US withholding tax mentioned above, your country may assess additional taxes and you will be responsible for paying them. Where possible, Chemonics will provide information about local tax advisors, but cannot endorse any specific tax advisor. Any services you retain from local advisors will be at your own discretion and cost. If Chemonics is issuing payment to you from a local field office where local taxes apply, we will withhold and remit taxes whenever applicable. If Chemonics does not have an operating presence in your country at the time of payment, we may not be able to withhold taxes, and it will be your responsibility to do so, if applicable.

How long does it take to get my funds from the ESOP when I leave the company?

After you leave Chemonics, you will be eligible to receive some or all of your funds the following year. If you have a large balance, you will generally receive funds over a period not to exceed five years. However, if your vested balance is less than US \$5,000 you will receive a single lump sum payment. If you begin your distributions after reaching age 59 ½, or due to disability or death, the distribution period is not to exceed three years, beginning in the year after service with the company ends. These distribution options may be subject to change in the future.

What happens to my ESOP account if I leave Chemonics but then decide to come back?

If you leave Chemonics and then return, some of the vesting credit may roll over. Those thinking about leaving are encouraged to discuss the possible implications that may arise with the Benefits and Compensation team in Chemonics' Human Resources Division.

Can I designate a beneficiary within the ESOP?

Yes, you must designate a beneficiary. The form will be provided to you, and you are encouraged to contact the Benefits and Compensation team for any questions or changes. If you are married, to select someone other than your spouse as a primary beneficiary will require you to complete a spousal consent form, which must be notarized. This may be a sensitive issue, and could conflict with typical beneficiary arrangements where you are from – you may contact ESOPquestions@chemonics.com in confidence if you have any questions or concerns regarding your beneficiary selection.

Because I am an “employee owner” does that mean my job is guaranteed?

No. Employee ownership does not guarantee employment.

GOVERNANCE AND OVERSIGHT

Who oversees the ESOP?

The ESOP has an independent trustee, GreatBanc Trust Co., which represents the interests of the ESOP and its participants. GreatBanc is responsible for ensuring the ESOP is operated exclusively for the benefit of participants and their beneficiaries. The trustee has a fiduciary responsibility to make decisions in the best interests of the employee owners and would be held liable if it does not do so.

GreatBanc is also subject to significant legal oversight to ensure they are properly performing their role. Specifically, the Illinois Banking Authority (GreatBanc is based in Illinois) and other federal authorities including the US Department of Labor oversee their actions to ensure that they are exercising sound financial judgment and adhering to the law.

Who is our ESOP record keeper and what do they do?

The Principal Financial Group is our ESOP record keeper. Transactions happen frequently: employee accounts need to be tracked, forfeitures need to be reallocated, and statements need to be prepared annually. The administrator monitors and tracks all ESOP financial movements and prepares all required filing forms.

As an ESOP participant, do I have any decision-making power?

Yes, in terms of how you perform as a Chemonics professional in your everyday work and contribute to the growth of the company. You have, and have always had, the ability to influence the direction and management of the company through your chief of party, senior vice president, and through other corporate officers. Chemonics values an open-door policy to management, allowing each employee to continue to add value through direct contact and conversation. However, ESOP participants do not vote for the Board of Directors.

Who determines the value of our shares?

The share price is based on the company's annual valuation, which coincides with the company's annual corporate audit. An independent appraiser, selected by the ESOP trustee, values the company using best practices by looking at the overall market, our business, the industry, our portfolio of projects, competitor comparisons.

What disclosure requirements does the ESOP have to the employees?

ESOP participants will receive an annual statement that details the value of your shares and your vested amount. The statements are produced in the middle of the year and reflect account details as of the end of the previous year. You will also receive a Summary Plan Description and Summary Annual Report. You can request a copy of the full plan document and the unrestricted forms and schedules included with the IRS Form 5500 filing at any time.

This communication piece is a simplified summary of the ESOP plan provisions. In the event there is any conflict between this summary and the official plan document (as affected by applicable law and plan policies), or if there is any ambiguity or omission in this summary, the official plan document will always be followed in the actual determination of your benefits.