



# The ESOP Association

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## Phase One of Report on the Reasons Companies Terminate ESOP Plans Complete

In 2006, the Employee Ownership Foundation commissioned the National Center for Employee Ownership to produce a report on the reasons why companies terminate ESOP plans. Phase one of the report is now complete and available to members of The ESOP Association.

The report found that the most common reason for termination of the ESOP is acquisition, usually because the offer is too good to turn down. The second reason is the inability to handle repurchase obligation. It is important, however, to point out that interviews conducted for this report suggest that there are no simple explanations to explain ESOP termination.

In addition, it is important to note that a very small sample of companies were interviewed for this report as companies that have terminated ESOPs or were acquired are difficult to track. Contact information for 51 companies was collected and 30 were interviewed for the report.

Several topics were covered in the course of the interviews to determine a company's decision to terminate the ESOP including: repurchase obligation, acquisition offers, S corporation status, company size, percentage of ESOP ownership, and corporate performance.

Some of the findings include: Repurchase obligation was a major issue in the discussion to sell the company for eight of the eighteen acquired companies interviewed for the report. Two companies said it played a secondary role and another eight said that repurchase obligation had no impact on the decision.

Relative to acquired companies, a higher portion of companies that terminated the ESOP without a sale of the company said that repurchase obligation was an important factor. Of the six out of seven termination companies that gave a reason for termination, four of the companies said repurchase obligation was an important factor.

In terms of corporate performance, sixteen of eighteen acquired companies report performance was strong or very strong. Half of the termination companies reported being in financial crisis prior to the ESOP termination and only one of six described its performance as strong.

The survey was conducted by Loren Rogers at the National Center for Employee Ownership in Oakland, CA and was funded exclusively by the Employee Ownership Foundation. Thirty interviews were conducted for this report.

For an electronic copy of the report, please visit The ESOP Association's website at [www.esopassociation.org](http://www.esopassociation.org) to download a copy or send an email to [media@esopassociation.org](mailto:media@esopassociation.org) to have a copy sent by mail. Phase Two of this report will be released later this year.

For more information, please call The ESOP Association at 202/293-2971 or email [media@esopassociation.org](mailto:media@esopassociation.org).

Did you  
know...

- There are approximately 11,000 ESOPs in place in the U.S., covering 10 million employees (10% of the private sector workforce).
- Of the 11,000 employee-owned companies nationwide, fewer than 3% were financially distressed when they established their ESOP.
- An estimated 6,000 of the 11,000 companies have ESOPs that are large enough to be a major factor in the corporation's strategy and culture.

Source: *The ESOP Association*,  
[www.esopassociation.org](http://www.esopassociation.org)

On the  
calendar...

### September 27, 2007

9<sup>th</sup> Annual ESOP Repurchase  
Obligation Seminar  
Hyatt Regency McCormick Place  
Chicago, IL Contact: 866/366-3832 or  
email [meetings@esopassociation.org](mailto:meetings@esopassociation.org)

### October 2 & 3, 2007

Board of Directors Retreat  
Drake Hotel  
Chicago, IL  
Contact: 866/366-3832 or email  
[meetings@esopassociation.org](mailto:meetings@esopassociation.org)

### November 8 & 9, 2007

17<sup>th</sup> Annual Las Vegas  
Conference & Tradeshow  
The Venetian  
Las Vegas, NV  
Contact: 866/366-3832 or email  
[meetings@esopassociation.org](mailto:meetings@esopassociation.org)