

ESOP Repurchase Obligation Survey 2017

Thank you for participating in the NCEO's 2017 ESOP Repurchase Obligation Survey. It pertains to privately-held ESOP companies only and asks for:

- Information about your company's ESOP distribution policies;
- Information about how your company manages and projects its ESOP repurchase obligation;
- And a few demographics to help in making comparisons with the data.

Your progress will be automatically saved if you close your browser while completing the questionnaire. You may stop and resume taking the survey whenever you wish without losing your progress.

If you wish to receive a discount on your purchase of the full report as a thank-you for participating, provide your contact information at the end of the questionnaire. We will delete your email address and any other identifying information from the data before we begin our analysis.

Contact Research Director Nancy Wiefek (nwiefek@nceo.org or 510--208--1312) with any questions.

Before we begin, does your company have an ESOP in place currently?

- Yes
- No

Is your company's stock publicly traded?

- Yes
- No

When did your company establish its ESOP? Please answer with a 4-digit year.

Year: ____

What percentage of the company's shares are owned by the ESOP?(Include allocated and unallocated shares.)

Percentage between 0 and 100: ____

Is your company an S or C corporation?

- S corporation
- C corporation

Background

What was your company contribution to the ESOP in the most recent plan year as a percentage of covered compensation? (For example, if you contributed \$100,000 to the ESOP for the most recent plan year and covered compensation for all ESOP participants is \$1,000,000, your contribution is 10% of covered compensation.)

Percentage between 0 and 100: ____

What is the ratio of the value of the stock held by the ESOP (allocated and unallocated) to the total eligible compensation of the participants? (For example, if the value of the stock is \$30 million and eligible compensation is \$10 million, the ratio is 3:1.)

Ratio as #:#: ____

Loan repayment and unallocated shares: Which of the following best describes your company?

- We never had an ESOP loan, so all ESOP shares are allocated.
- We had an ESOP loan but we do not have one now, so all ESOP shares are allocated.
- The ESOP loan has been partially repaid; 75% or more of ESOP shares are allocated.
- The ESOP loan has been partially repaid; 50% or more, but less than 75%, of ESOP shares are allocated.
- The ESOP loan has been partially repaid; 25% or more, but less than 50%, of ESOP shares are allocated.
- The ESOP loan has been partially repaid; less than 25% of ESOP shares are allocated.

(If you have an ESOP loan): When do you expect to fully repay your ESOP loan?

- We expect to pay back our ESOP loan in 2017 or 2018.
- We expect to pay back our ESOP loan in 2019 to 2021.
- We expect to pay back our ESOP loan in 2021 to 2026.
- We expect to pay back our ESOP loan after 2026.

Over the next five years, do you expect the percentage of shares owned by the ESOP to increase or decrease?

- Increase by more than 20 percentage points (e.g., from 45% to 70%)
- Increase by less than 20 percentage points (e.g., from 35% to 40%)
- Stay about the same
- Decrease by less than 20 percentage points (e.g., from 50% to 35%)
- Decrease by more than 20 percentage points (e.g., from 60% to 30%)

For distribution amounts above those that are legally required to be a lump sum, how do you make distributions from your plan?

	A combination of lump sums and installments	Lump sums only	Installments only
Death	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retirement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other terminations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you allow lump sum payments for small accounts, what is the maximum amount that can receive a lump sum payment?

- Death: _____
- Disability: _____
- Retirement: _____
- Other terminations: _____

Not counting small distributions (under \$5,000 or so, depending on your company), what form of distribution do you use?

- Cash for all distributions
- Stock for all distributions
- A combination of the two
- Other _____

For death, disability and retirement, when do distributions from your plan occur (or, in the case of installments, when do they begin)?

	In the plan year in which termination occurs	Within one year after the end of the plan year in which termination occurs
Death	<input type="radio"/>	<input type="radio"/>
Disability	<input type="radio"/>	<input type="radio"/>
Retirement	<input type="radio"/>	<input type="radio"/>

For other terminations, when do most of your distributions from your plan occur (i.e., when do former participants receive cash)? Ignore required minimum distributions or distributions postponed because your ESOP debt has not yet been repaid.

- In the plan year in which termination occurs
- Within one year after the end of the plan year in which termination occurs
- Between one and two years after the end of the plan year in which termination occurs
- Between two and four years after the end of the plan year in which termination occurs
- Five years after the end of the plan year in which termination occurs

For other terminations, will you delay distributions until an ESOP loan has been repaid?

- Yes
- Our plan gives us the ability to do this but we have not
- No, our plan does not allow us to do this
- No, we do not have an outstanding ESOP loan

How does your company satisfy the statutory diversification requirements? (Select all that apply)

- We provide transfers to a 401(k) plan
- We provide for diversification within the ESOP
- We provide in-service distributions

If your plan has been in effect more than 10 years and has participants who are eligible for diversification, approximately what percentage of the participants eligible for diversification have actually exercised their diversification rights?

Does your company use or plan to use the following?

	We use this.	We do not use this, but plan to in the future.	We do not use this and do not expect to.
A. Provide diversification options beyond the statutory requirement (e.g. early or excess diversification)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
B. Adopt a price protection feature for participants who are adversely affected by a drop in value due to debt used to finance an ESOP transaction – See below for clarification	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
C. Rebalancing participant accounts (the mandatory transfer of employer stock into and out of accounts, usually on an annual basis, resulting in all accounts having the same proportion of stock and cash)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

NOTE: "Price protection" features usually involve valuing the company with and without the transaction-related debt. Participants in the protected class are subject to the volatility of the stock from normal economic/financial factors, but they don't suffer from the negative impact of the transaction-related debt. The price protection feature usually goes away when the transaction-related debt is repaid.

Please feel free to share any comments you have to explain the reasoning behind your choices in the above question.

Does your company have a written distribution policy separate from the plan documents?

- Yes
- No

Size and Funding of Repurchase Obligation

What percentage of allocated ESOP shares was repurchased in the most recent fiscal year?(Note: "Repurchased" means that the company or the ESOP exchanged these shares for cash. Do not count shares eligible for repurchase that were not repurchased.)

Percentage between 0 and 100: ____

Does your company use a combination of recycling and redeeming ESOP shares to achieve a targeted benefit level?

- Yes
- No

Please indicate how often you use each of the following options for handling repurchased ESOP shares. NOTE: You may use more than one option regularly.

	Regularly	Occasionally	Never
A. Redemption: Shares are bought by the company and retired	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
B. Recycled: Company contributes cash to ESOP, ESOP distributes cash to participants, participants' shares are allocated to remaining participants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
C. External: Shares are bought by others	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
D. Releveraged: Redeemed and some or all of the shares are sold back to the plan with an exempt loan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Any additional comments about how your company handles repurchased ESOP shares?

Out of the total ESOP distributions in the most recently completed fiscal year, approximately what percentage of the funding came from each of the following sources? Approximate answers are welcome, such as to the nearest 10%. The total of all answers should add roughly to 100%.

- Cash in the company from current operations (i.e., company redeems shares): ____
- Cash in a corporate sinking fund (funded in prior years) (i.e., company redeems shares): ____
- Cash already in the ESOP from a prior plan year (i.e., shares recycled through ESOP): ____
- Cash already in the ESOP from current-year contribution (i.e., shares recycled through ESOP): ____
- Corporate-owned life insurance: ____
- New ESOP debt: ____
- Purchases by management: ____
- Other: ____

Some ESOP distributions come from assets already inside the ESOP and others come from assets in the company. If the company provided funding for ESOP distributions in the most recently completed fiscal year, what was the form of that funding? (Check all that apply.)

- S corporation distributions to the ESOP; ESOP buys shares
- C corporation dividends to the ESOP; ESOP buys shares
- Cash contributions to the ESOP; ESOP buys shares
- Redemption of shares; company buys shares
- New ESOP loan
- Not applicable

In the most recently completed fiscal year, did the company provide funding for future repurchase obligations (e.g. by making excess contributions, paying S corp distributions / C corp dividends, setting up a sinking fund inside the company, or buying insurance)?

- No
- Yes

How did you calculate the amount of pre-funding to provide? _____

Approximately what percentage of that funding went to each of the following? Approximate answers are welcome, such as to the nearest 10%. The total of all answers should add roughly to 100%.

- A corporate sinking fund: ____
- Cash in the ESOP: ____
- Corporate-owned life insurance: ____

Approximately what percentage of the assets in your company's ESOP is in cash (in other words, non-company stock investments)? For purposes of determining total assets, consider all allocated and unallocated shares at the most recent valuation.

Percentage: ____

Looking Forward

What best describes your level of confidence about your company's ability to do each of the following?

	Confident	Somewhat concerned	Likely to be a problem	We have not examined this issue	Not applicable
Meeting short-term repurchase obligation (the next two plan years)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting longer-term repurchase obligation (more than two years away)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Preventing a "have / have-not" situation (see below for clarification)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

A "have / have not" situation is one where the stock in the ESOP has been allocated and ongoing allocations are small (generally forfeited shares, shares purchased from terminated employees, etc.). Long-term participants have large accounts (the "haves"), and new participants have much smaller accounts (the "have nots").

Please indicate how much you agree or disagree with each of the following statements.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
We intend our ESOP to be permanent.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It's more than 50% likely that we'll have to sell our company in the next five years to deal with the repurchase obligation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I'm confident that our appraiser is adequately considering repurchase obligation in determining our company's value.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Some people terminate employment at our company earlier than they would otherwise in order to receive ESOP distributions.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Who at your company is responsible for monitoring the repurchase obligation? _____

Have you done a repurchase obligation study?

- No
- Yes, within the last 12 months
- Yes, within the last 12 to 24 months
- Yes, within the last 2 to 4 years
- Yes, but more than 4 years ago

Who performed the study?

- In-house (a company employee)
- In-house, using third-party software
- Third party administrator
- Accountant
- Appraiser
- Insurance or investment broker
- Independent consultant
- Other

Do you provide your appraiser with a copy of your repurchase obligation study?

- No, our appraiser does not ask for it
- Yes, our appraiser asks for it
- Yes, our appraiser does not ask for it but we provide it anyway

Do you have a formal repurchase obligation plan that describes the form, timing, and sources of your ESOP distributions?

- Yes, our repurchase plan specifies form, timing, and source
- Our repurchase plan specifies some but not all
- We do not have a repurchase plan

Does your appraiser adjust the enterprise value of your company to reflect repurchase obligation?

- No impact--the appraiser determines enterprise value based on earnings exclusive of ESOP funding requirements
- Some impact--the appraiser reduces enterprise value by including an estimated expense for normal retirement plan expenses in determining enterprise value, regardless of our actual ESOP contributions in a given year
- Full impact--the appraiser reduces enterprise value by including the actual ESOP contributions in a given year
- Discount--the appraiser estimates enterprise value excluding our repurchase obligation and applies a percentage discount
- Not sure

Insights

How did the experience of managing the repurchase obligation compare with your expectations?

- Much better than expected
- Moderately better than expected
- About as expected
- Moderately worse than expected
- Much worse than expected
- Not applicable

If you knew then what you know now about repurchase obligation, would you have done anything differently from the start?

- Yes, please explain _____
- No

From your experience, what piece of advice would you offer newer ESOPs about planning for repurchase obligation? _____

How else could the NCEO be most helpful to companies on repurchase obligation issues?

Demographics

Which of the below best describes your industry?

- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- Finance, insurance, real estate
- Professional, scientific and technical services
- Health care and social assistance
- Information, technology (computers, biotechnology, software)
- Other (please specify) _____

How many full- and part-time employees does your company have?

Where is your company's headquarters?

State: ____

Postal Code: _____

What was the company's average annual change in stock price over the past five years? (If your company has had an ESOP for fewer than five years, answer for the number of years the plan has been in place.)

- Negative (we had a loss)
- 0-10%
- 11-20%
- 21% or higher

Which of the following best describes your pre-tax profits as a percent of revenue in the most recently completed fiscal year?

- Negative (we had a loss)
- 0-10%
- 11-20%
- 21% or higher

Please choose a category below for the dollar value of your company's revenues in the most recently completed fiscal year.

- Less than \$10 million
- \$10 million to \$50 million
- \$51 million to \$100 million
- \$101 million to \$200 million
- \$201 million to \$500 million
- \$501 million or more

If you would like to receive a discount on the purchase of the full report, please provide your contact information below. All identifying information will be removed from the database and your answers will not be associated with your company in any way.

Name: _____

Company: _____

Email address: _____

Thank you for your participation! If you have any final comments, additions or clarifications, please enter them here.