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2010 Repurchase Obligation Questionnaire

September 15, 2010

Your answers to this survey are anonymous and confidential. The raw data will not be released and the NCEO will publish only aggregate results.

People who complete this survey and provide a fax or email address will receive a summary of the results.

The questionnaire is designed to be easy: it has 35 questions, almost all of which are multiple choice. All questions are optional: we prefer to have your answers to most questions than to have none. You can add a comment at the end of the survey.

You may complete this questionnaire online (refer to your invitation email for the link or follow this link: <https://www.surveymonkey.com/s/FYV6HLS>) or by filling out this form and returning it to the NCEO (fax 510-272-9510; email LRodgers@nceo.org).

This questionnaire is for companies with employee stock ownership plans (ESOPs) only.

Part I: Background

1. When did you start your ESOP?

- In the last two years*
- Two to five years ago*
- Five to 10 years ago*
- More than 10 years ago*

2. What percentage of the company's outstanding shares is owned by the ESOP?

_____ % (include all shares, allocated and unallocated)

3. How many participants are there in the ESOP?

- 1,000 or more*
- 501-999*
- 101-500*
- 100 or fewer*

4. 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 has been partially repaid; less than 25% of ESOP shares are allocated.
- The ESOP has been partially repaid; 25% or more but less than 50% of ESOP shares are allocated.
- The ESOP has been partially repaid; 50% or more but less than 75% of ESOP shares are allocated.
- The ESOP has been partially repaid; 75% or more of ESOP shares are allocated.

5. If you have a partially repaid loan in question 4: When do you expect your ESOP loan to be fully repaid?

[Note: in this case, the “ESOP loan” means the loan being repaid by the ESOP itself, i.e., the loan that drives the release of shares from the suspense account.

Do not consider loans to the company used to finance the ESOP.]

- We expect to pay back our ESOP loan in 2010 or 2011.
- We expect to pay back our ESOP loan in 2012 to 2014.
- We expect to pay back our ESOP loan in 2015 to 2020.
- We expect to pay back our ESOP loan after 2020.

6. Over the next five years, do you expect the percentage owned by the ESOP increase or decrease?

- Increase by more than 10% (e.g., from 45% to 60%)
- Increase by less than 10% (e.g., from 35% to 40%)
- Stay about the same
- Decrease by less than 10% (e.g., from 50% to 40%)
- Decrease by more than 10% (e.g. from 60% to 45%)

7. Is your company an S corporation or a C corporation?

- S Corporation
- C Corporation

8. Which of the below best describes your industry?

- Manufacturing
- Retail
- Wholesale
- Finance, Insurance, and Real Estate
- Engineering, architecture, and related fields
- Banking
- Construction
- Consulting / Analysis
- Services other than those listed above
- Technology
- Other

9. What was the dollar value of your company's annual revenues in the most recently completed fiscal year?

- Up to \$10 million
- \$10 to 50 million
- \$50 to \$200 million
- Over \$200m

10. Which of the following best describes your pre-tax profits in the most recently completed fiscal year?

- Negative (we had a loss)
- 0% to 5% of revenue
- 5% to 10%
- Over 10%

11. What was the approximate average annual change in your stock value over the past five years?

- Negative (i.e., a share is worth less now than it was 5 years ago)
- 0%-10%
- 10%-19%
- 20% or more

Part 2: Distributions

12. For each of the following, how do you make distributions from your plan?

Death	<input type="checkbox"/> Small accounts lump sum; otherwise installments	<input type="checkbox"/> Lump sum only	<input type="checkbox"/> Installments only
Disability	<input type="checkbox"/> Small accounts lump sum; otherwise installments	<input type="checkbox"/> Lump sum only	<input type="checkbox"/> Installments only
Retirement	<input type="checkbox"/> Small accounts lump sum; otherwise installments	<input type="checkbox"/> Lump sum only	<input type="checkbox"/> Installments only
Other terminations	<input type="checkbox"/> Small accounts lump sum; otherwise installments	<input type="checkbox"/> Lump sum only	<input type="checkbox"/> Installments only

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

	<i>Within one year after the end of the plan year in which termination occurs</i>	<i>After one-year delay after the end of the plan year in which termination occurs</i>
Death	<input type="checkbox"/>	<input type="checkbox"/>
Disability	<input type="checkbox"/>	<input type="checkbox"/>
Retirement	<input type="checkbox"/>	<input type="checkbox"/>

14. For other terminations, when do most of your distributions (in terms of dollar value distributed) from your plan occur? Ignore required minimum distributions or distributions postponed because your ESOP debt has not yet been repaid.

- 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
- After five years after the end of the plan year in which termination occurs
- Other

15. 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

16. Does your company provide for in-service distributions or transfers to a 401(k) plan other than to meet diversification requirements?

- Yes, we provide in-service distributions
- Yes, we provide transfers to a 401(k) plan
- No

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

- 0%
- Up to 10%
- Over 10%; up to 25%
- Over 25%; up to 50%
- Over 50%; up to 75%
- Over 75%

18. Does your company use or plan to use the following?

	We use this and plan to continue using it.	We use this occasionally	We have used this but do not expect to continue.	We do not use this but will in the future.	We do not use this, but will consider it.	We do not use this and do not expect to.
A. Early diversification (prior to statutory requirements of 10 years of participation and age 55)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D. Account segregation (i.e., moving accounts of terminated participants out of company stock and into cash / other investments)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Clarification for 18B: (Participants other than those who terminate employment after the transaction for reasons other than death, disability, or reaching normal retirement age) (1) Floor prices are becoming far less common than they used to be because they lock in values that don't account for the non-ESOP factors that affect stock value such as a downturn in the economy, loss of a large customer, etc. A more common practice is providing for a "price protection" feature, which usually involves 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.

(2) Most price protection features apply to participants who have no, or little, control over the timing of their distributions. They include:

Participants who were retired, died, or became disabled prior to the transaction.

Participants who retire before the debt is repaid.

Participants who die or became disabled before the debt is repaid.

d Participants who were terminated at the time of the transaction and not yet eligible receive distributions.

The common thread is that these participants have no, or little, control over the circumstances. Participants who terminate employment after the transaction are not generally protected from the effects of the transaction-related debt because they usually chose to leave the company and, therefore, have control over their circumstances.

Part 3: Size and Funding of Repurchase Obligation

19. What percentage of your company's total outstanding 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.]

- 0%
- More than 0%; Up to 2%
- More than 2%; Up to 5%
- More than 5%; Up to 10%
- More than 10%

20. Which of the following describes what happens to repurchased ESOP shares? (Check all that apply.)

- Redemption: Shares are bought by the company and retired
- Recycled immediately: Shares are bought by the company and recontributed to the ESOP in the same plan year
- Delayed recycling: Shares are bought by the company with plans to retribute to the ESOP in a future plan year
- Internal recycling: Shares are bought by the ESOP
- External: Shares are bought by others

21. Of total ESOP distributions in the most recently completed fiscal year, approximately what percentage of the funding came from each of the following sources (total should add roughly to 100%)?

	%
A. Cash in the company from current operations (i.e., company redeems shares)	_____%
B. Cash in a corporate sinking fund (funded in prior years) (i.e., company redeems shares)	_____%
C. Cash already in the ESOP from a prior plan year (i.e., shares recycled through ESOP)	_____%
D. Cash already in the ESOP from current-year contributions (i.e., shares recycled through ESOP)	_____%
E. Corporate owned life insurance	_____%
F. New ESOP debt	_____%
G. Purchases by management	_____%
I. Other: _____	_____%

22. 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?

- 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.
- Not applicable

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

- No, we did not spend any money on repurchase obligations
- No, we spent money on current-year obligations but none to save for future-year obligations
- Yes, less than 10% of this year's repurchase obligation spending was to save for future years
- Yes, between 10% and 50% of this year's repurchase obligation spending was to save for future years
- Yes, more than 50% of this year's repurchase obligation spending was to save for future years.

24. If answer C, D or E: Approximately what percentage of that funding went to each of the following (total should add roughly to 100%)?

Approximate answers (to the nearest 10%, for example) are welcome.

	%
A. A corporate sinking fund	_____%
B. Cash in the ESOP	_____%
C. Life insurance for key employees	_____%
D. Corporate owned life insurance for key employees	_____%
E. Corporate owned life insurance on all or most employees	_____%

25. What percentage of the assets in your company's ESOP is in cash?

[NOTE: Consider all allocated and unallocated shares at the most recent valuation.

“Cash” includes all non-company-stock investments.]

- 0%
- More than 0%; Up to 5%
- More than 5%; Up to 20%
- More than 20%; Up to 50%
- More than 50%

Part 4: Looking Forward

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

	Confident	Concerned	Likely to be a problem	We have not examined this issue	Not applicable
Meeting short-term RO (Next two plan years)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Meeting longer-term RO (more than two years away)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Preventing a “have / have-not” situation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

27. Please indicate how much you agree or disagree with the following statements. (Circle one response for each statement.)

We intend our ESOP to be permanent.

Disagree Slightly disagree Neutral / mixed Slightly agree Agree

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.

Disagree Slightly disagree Neutral / mixed Slightly agree Agree

I'm confident that our appraiser is adequately considering repurchase obligation in determining our company's value.

Disagree Slightly disagree Neutral / mixed Slightly agree Agree

Some people terminate employment at our company earlier than they would otherwise in order to receive ESOP distributions.

Disagree Slightly disagree Neutral / mixed Slightly agree Agree

If we knew then what we know now about repurchase obligation, we would have drafted our ESOP document differently.

Disagree Slightly disagree Neutral / mixed Slightly agree Agree

28. Have you done a repurchase obligation study?

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

29. If you answered "yes" on question 28: 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

30. If you answered "yes" on question 28: Do you provide your appraiser with a copy of your repurchase obligation study?

- No, we haven't done a study
- No, our appraiser doesn't ask for it
- Yes, our appraiser asks for it
- Yes, our appraiser doesn't ask for it but we provide it anyway

31. 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.

32. How does your appraiser adjust the enterprise value of your company to reflect repurchase obligation? (Check all that apply.)

- No impact—our appraiser does not consider repurchase obligation.
- Reduced cash flow: we prepare a projected cash flow that includes estimates of repurchase.
- Discount: our appraiser estimates enterprise value excluding repurchase and then applies a discount.
- I don't know.
- I don't understand.

33. What best describes your position at the company (e.g., the person primarily responsible for completing this survey)?

- Human Resources*
- CFO*
- CEO*
- Board*
- Other:* _____

34. Any comments?

If you would like to receive a summary of the results of this survey project, provide your contact information below. This information will be used only to send the summary to you. It will not be connected with your results in any way and all the data you provide will be maintained with absolutely confidentiality and anonymity.

Name (optional): _____

Email or fax number: _____