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For More Information:
Amy Gwiazdowski
202/293-2971
amy@esopassociation.org

Employee Ownership Foundation Releases Report on Reasons for ESOP Terminations

December 14, 2007 (Washington, DC) – The Employee Ownership Foundation today released a final report on the reasons why companies terminate ESOP plans. The report was completed in two phases and found that the most common reason for termination of an ESOP is acquisition of the ESOP company by new owners. The report was commissioned and funded by the Employee Ownership Foundation and conducted by the National Center for Employee Ownership in Oakland, CA.

Phase I of the report found that while the most common reason for termination may be acquisition, there is no one reason to explain ESOP termination. Thirty executives of former ESOP companies, who were well-known in the ESOP community, were interviewed in depth for Phase I and were asked about repurchase obligation (Repurchase obligation is a closely held company's obligation to repurchase its stock from former ESOP participants and their beneficiaries.), acquisition offers, S corporation status, company size, percentage of ESOP ownership, and corporate performance to determine the reason for their companies' ESOP termination. It is important to note that a very small sample of executives from ESOP companies were interviewed for Phase I of the survey as companies that have terminated ESOPs and/or were acquired are difficult to track. This small number of companies brings into question the validity of the Phase I statistics; in any event, Phase I finding are:

- 17% of acquired companies said that repurchase obligation was one of the primary reasons the ESOP was terminated; another 28% said it was a important reason; 6% said it contributed to the decision; 6% said it played a minor role; and 44% said it played no role
- For 17% of companies that terminated the ESOP, repurchase obligation was the sole reason; another 17% said it was the primary reason; 33% said it was an important reason; 17% said it had a minor impact; and 17% said it played no role

Phase II of the report was conclusive that an attractive acquisition offer was the primary reason for ESOP termination. Phase II of the report surveyed service providers to ESOP companies at ESOP advisory firms and large plan administrators. From the files of these service providers, data from 455 ESOP plan terminations was analyzed and revealed:

- 51.2% of the companies could handle repurchase obligation but received an attractive

acquisition offer that was too good to turn down
- 15.6% were dissatisfied with the ESOP for reasons other than repurchase obligation
- 13.2% of companies were doing well financially but could not manage their repurchase obligation or did not expect to do so in the future

While repurchase obligation is an ongoing issue for ESOP companies, according to Phase I of this report, about 85% of the terminations were in response to an offer "too good to refuse" as the price offered for shares was very lucrative. Clearly, employee participants in these cases received significant money for their retirement security.

Phase I and II of this report can be found on The ESOP Association's website at www.esopassociation.org, or can be requested by sending an email to media@esopassociation.org.

Immediate Past Chair of The ESOP Association Steve Voigt, CEO of the King Arthur Flour Company in Norwich, VT, a 100% S corporation ESOP, commented on the survey's findings saying, "The research is a great jumping off point. I encourage the two ESOP Association Directors and Trustees Retreats in 2008 to explore the key drivers of ESOP sustainability including: Board understanding of and commitment to ESOPs, their success in developing 2nd generation ESOP management, and repurchase obligation. If the ESOP community continues to explore key drivers of ESOP sustainability our country stands to gain many benefits, not least of which is long-term wealth creation for employee owners."

The Employee Ownership Foundation (www.employeeownershipfoundation.org) is The ESOP Association's affiliated 501 (c)(3) organization dedicated to promoting employee ownership.

Founded in 1978, The ESOP Association (www.esopassociation.org) represents over 1,400 ESOP companies who believe that employee ownership will improve American competitiveness, increase productivity through greater employee participation and strengthen our free enterprise economy.

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