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ESOP Repurchase Obligation: Stress-Test Seller Payout Cash

> Laurent Capital is an independent M&A advisory firm headquartered in San Jose, California. It advises owners of founder-owned, family-owned and sponsor-backed B2B companies on sales, acquisitions and recapitalizations.

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Executive Summary

An owner who sells to an employee stock ownership plan (ESOP) faces two cash clocks that run on the same company balance sheet. The first clock is the owner's payout: cash at close, a subordinated seller note, and the bank debt that funds part of the price. The second clock is the plan's: employee distributions, diversification and the company's obligation to buy back distributed shares, called the repurchase obligation. The Internal Revenue Service (IRS) defines an ESOP as a qualified defined contribution plan (www.irs.gov), and the Internal Revenue Code attaches put option payment rules to distributed stock that is not readily tradable, including payment within 30 days of exercise for installment distributions (www.law.cornell.edu). For a total distribution paid in installments, the Code requires that payments begin within 30 days of exercise, run no more than five years, and carry adequate security and reasonable interest on the unpaid amounts.

The central finding of this report is structural. A transaction can clear the owner's payout test in years one to five and still be fragile, because the plan's cash needs are back-loaded and the seller note sits behind the bank. The handbook of the National Center for Employee Ownership (NCEO) calls the put option a call on corporate cash flow (www.nceo.org), and Foley reported in April 2026 that plans approaching the eight-to-ten-year mark often find the obligation becomes a major factor (www.foley.com).

The 2026 policy backdrop is unsettled. NCEO's September 12, 2026 announcement describes a trustee task force on valuation and the repurchase obligation. Its report states that there is no single agreed approach to how the obligation should affect valuation (www.nceo.org). Federal legislation on adequate consideration for closely held stock was signed on October 15, 2026, after that report (www.whitehouse.gov), so the valuation backdrop is still moving. Owners should treat this as a reason to request explicit assumptions, not as a formula for subtracting a liability from price.

The worked example uses invented numbers. A company starting with $1.0M of cash, generating $2.4M of operating cash and paying $0.8M of maintenance capital expenditure, $1.0M of bank service, $0.6M of seller-note service and $0.7M of incremental participant funding ends the year with $0.3M, which is $0.2M below an assumed $0.5M operating floor. A five-year downturn variant leaves cumulative cash negative by year three. These figures are teaching assumptions, not market ratios.

The practical output is an evidence request. Owners should ask the feasibility team for a de-identified employee cohort summary, the actual proposed distribution policy, a single reconciliation of trust cash and company cash, lender covenant terms, and a downturn case that preserves maintenance capital spending and a minimum cash buffer. The ESOP Association recommends engaging a qualified consultant to assess feasibility (www.esopassociation.org). This report does not recommend a sale to an ESOP and is not valuation, legal, tax or accounting advice.

Introduction and Background

This report is written for owners and chief financial officers of founder-owned and family-owned business-to-business companies, roughly $5M to $150M in revenue, who are weighing an ESOP sale (full or partial) before commissioning transaction design. It asks a narrow question: which pre-transaction assumptions could make the original succession plan fragile? It is not guidance on running the repurchase process of an established ESOP, and it does not repeat the general advantages of ESOPs, which are covered in the exit-options guide on this site.

Laurent Capital is an independent mergers and acquisitions (M&A) advisory firm. It is not a trustee, lender, law firm, accounting firm or valuation firm, and nothing here is an opinion under the Employee Retirement Income Security Act (ERISA), a valuation or tax advice. A real ESOP transaction needs independent ESOP counsel, an independent trustee, a valuation specialist, a lender and a tax adviser. Where this report cites a rule, it is explaining what a source says, so that owners can ask better questions of those professionals.

Why this question is timely

Public coverage of the repurchase obligation often takes the form of webinars and podcasts. Kreischer Miller offers a webinar page on tools, techniques and processes for managing repurchase obligations (www.kmco.com), and a Chartwell webinar page lists planning for the obligation and the steps in forecasting it (chartwellfa.com). An Ohio Employee Ownership Center podcast frames the obligation as something often seen as a burden (www.oeockent.org). This report instead offers a text-and-table scenario an owner can read before choosing a route, with every assumption visible. It does not claim that other material lacks such calculations, because the recordings were not reviewed.

A 2025 conceptual paper by Tej Gonza, "Sustainability of employee ownership: the role of capital structure in ESOP plan terminations" (Journal of Participation and Employee Ownership, volume 8, issues 1-2, DOI 10.1108/JPEO-07-2024-0014), studies the relationship between central features of capital structure and terminations of ESOP plans in the US (www.emerald.com). It rests mainly on a literature review (www.emerald.com). It is one reference, not a new survey of prospective sellers.

Key Changes in 2026: What Moved and What Did Not

The NCEO task-force report on valuation and the repurchase obligation

NCEO's announcement is dated September 12, 2026 and says it convened a task force of trustees to issue a report (www.nceo.org). The 19-page report is a discussion document, not a law or a mandated appraisal method. Its stated goal was not to develop a specific approach to handling the repurchase obligation and

valuation (www.nceo.org), and it states that there is no single agreed approach to how the obligation should affect valuation (www.nceo.org).

Two points in the report matter to a seller. First, the group distinguished cash that stays in the company from cash contributed to the ESOP trust: there was unanimous agreement that funding repurchases by contributing cash largely resolves the valuation question, because the cash is no longer a corporate asset (www.nceo.org). Second, it notes that a forecast can show whether funding the obligation requires a pullback in growth or capital expenditures (www.nceo.org). That second point is the bridge between the valuation debate and a cash model.

The report also recommends that trustees require an explicit discussion of the repurchase obligation in valuation reports (www.nceo.org). For an owner, the implication is practical: ask how the trustee's appraiser will treat the obligation, and do not assume a mechanical deduction from price. The paper does not establish one universally accepted adjustment, and this report does not propose one.

Federal rulemaking and legislation on adequate consideration

The report states that the Department of Labor (DOL) has indicated proposed regulations will be issued in late 2026 (www.nceo.org) and that the issue can be definitively resolved only by regulatory guidance (www.nceo.org). A DOL fact sheet from January 2025 notes that an earlier adequate-consideration proposal dating from 1988 was never finalized or withdrawn (www.dol.gov).

The picture changed after the NCEO announcement. A White House page records that on Thursday, October 15, 2026, the President signed into law a list of bills (www.whitehouse.gov), including S. 2403, described as a bill to provide a definition of adequate consideration for certain closely held stock (www.whitehouse.gov). The enrolled bill text refers to the principles and methodologies of Revenue Ruling 59-60 (www.govinfo.gov) and contains language about the Secretary of Labor's authority to promulgate rules (www.govinfo.gov).

Because the legislation post-dates the task-force paper, the combined effect on how a trustee treats the repurchase obligation was not established by the sources reviewed here. The enrolled text is short: it allows an ESOP fiduciary to rely in good faith on a valuation from an independent valuation expert or business appraiser that has relied on the principles and methodologies of Revenue Ruling 59-60, and its amendments apply to determinations made on or after the date of enactment. On its face it concerns fiduciary reliance on an appraisal; whether and how it affects the treatment of the repurchase obligation is a question for ERISA counsel, and this report does not interpret it further. Owners should ask ERISA counsel whether the enacted language, any later DOL rule and the trustee's own process change the valuation assumptions in the feasibility study, and should treat any detailed rule attributed to an unopened agreement or secondary summary as unverified.

What did not change: the cash mechanics

The statutory cash mechanics discussed below are long-standing and are drawn from Internal Revenue Code text and IRS materials. The 2026 developments change the valuation conversation, not the fact that distributed shares in a non-traded company carry a put option funded from company or plan cash. The 2026 Section 415(c) annual additions limit is $72,000 (www.irs.gov) and the Section 401(a)(17) compensation limit is $360,000 (www.irs.gov), so per-participant contribution capacity is bounded and payroll scale matters.

Two Cash Clocks: Definitions and Where Each Dollar Sits

Clock one: owner payout and acquisition debt

The first clock begins at closing. In a leveraged ESOP, the company borrows from a bank, a seller note or both, and re-lends to the ESOP (www.nceo.org). That page explains that the company makes tax-deductible contributions to the ESOP so the ESOP can pay the loan. This matters for modeling: the internal loan is a round trip in which company cash goes to the trust and returns to the company as loan service, and it must be mapped once. Stated rules for an exempt loan require that it be primarily for the benefit of participants (www.law.cornell.edu) and without recourse against the plan (www.govinfo.gov), which is why the lender and seller look to company cash flow.

A senior bank does not usually fund the whole price. BDO states that in a 100% sale to an ESOP it is typically not practical for a senior bank to fund the entire purchase price (www.bdo.com), and the same source says the seller note is typically subordinated to senior debt (www.bdo.com). A lender-side article in ABF Journal says excess debt capacity is generally determined by earnings before interest, taxes, depreciation and amortization (EBITDA), market debt multiples and collateral (www.abfjournal.com). NCEO offers a rule of thumb that a safe seller-note rate is about 4% above senior debt (www.nceo.org); it is a general guide, not a quote for any company.

For the owner, subordination is the key term. The seller is paid after senior debt service, and a 2006 law-firm lender presentation lists seller financing via subordinated notes as one way ESOP deals are financed (www.morganlewis.com). That document is dated, so it is cited only for the basic structure. The practical question for the owner is how much of their consideration is cash at close and how much depends on later cash flow that the plan's distributions also draw on.

Clock two: participants, diversification and the put option

The second clock is set by plan design and by who leaves. NCEO's handbook says the obligation is triggered by any event that requires turning stock into cash (www.nceo.org). It also lists the amortization period of the internal loan as one of the drivers (www.nceo.org), because shares released from the loan are the ones that eventually reach participant accounts. The handbook excerpt is a 2011 edition, so its principles are used and its figures are not.

Several statutory timing rules shape the clock. Each is a source statement for orientation, and plan-specific terms control:

- **Put option window:** for a non-traded stock, the put option runs for at least 60 days after distribution, with a further 60 days in the following plan year (www.law.cornell.edu).
- **Installments with security:** installments of a total distribution are limited in length, with adequate security and reasonable interest on the unpaid amount (www.law.cornell.edu). IRS model plan language gives a period not exceeding five years with adequate security (www.irs.gov).
- **Company note is not security:** an IRS examination chapter says a company's own promissory note, secured by its full faith and credit, is not adequate security (www.irs.gov). That chapter is undated and refers to older law, so counsel should confirm current treatment.

- **Start of payments:** distributions for retirement, disability and death must begin not later than one year after the close of the plan year in which the event occurs (www.law.cornell.edu).
- **Loan shares:** shares acquired with a loan can be held back until the plan year in which that loan is repaid in full (www.law.cornell.edu). A longer internal loan therefore pushes loan-acquired shares later, while a shorter one brings them forward.
- **Large balances:** IRS Notice 2025-67 raises a dollar amount used in the Section 409(o) payout rules for 2026 from $1,415,000 to $1,455,000 (www.irs.gov), a reminder that large balances have their own timing rules.
- **Diversification:** a qualified participant is an employee who has completed at least 10 years of participation (www.law.cornell.edu) and has reached age 55, and may direct diversification of at least 25 percent of the account (www.law.cornell.edu).

Because the diversification test counts years of participation, a newly formed ESOP generally has no diversification-eligible participants in its first years unless legacy accounts exist, so a five-year model can understate the later cash demand.

Table 1: a cash-item map to avoid double counting

Table 1 below sets out the cash items an owner's model must distinguish. The purpose is to count each dollar once: the incremental company cash needed for participant payments belongs in the company model, while trust-level cash and distributions belong in a separate reconciliation.

Cash item	Where it sits	Clock	Treatment in the company cash table
Unrestricted company cash	Company balance sheet	Both	Opening and ending balance; compare with a stated operating floor
External bank debt service	Company to lender	One	Count in full; check covenants and amortization schedule
Seller-note service	Company to selling owner, usually behind senior debt	One	Count in full; also test whether senior terms could block payment in a downturn
Internal ESOP loan payments	Company contributions to trust, then back to company as loan service	One (release of shares drives Two)	Net round trip is typically mapped by a specialist; do not add it on top of external debt service
Employer contributions to the trust	Company to trust	Both	Count only the portion that is not already shown as loan service
Trust cash and trust-funded distributions	ESOP trust	Two	Show in a separate reconciliation; do not subtract from company cash
Incremental company funding of participant payments	Company cash used to redeem shares or fund the trust	Two	Count once, as one line

The map shows why a single column of "ESOP costs" is not enough. The internal loan, employer contributions and external debt service can describe the same cash movement from different angles. A specialist should reconcile them, and the owner should ask to see that reconciliation before accepting a total.

Implementation Considerations and Process Changes

Step 1: Commission feasibility and a repurchase study before design

The ESOP Association's formation guide says the trustee engages an independent appraiser before shares are put into the ESOP (www.esopassociation.org), and IRS model language requires that valuations of employer stock be made by an independent appraiser (www.irs.gov). A practitioner presentation on feasibility describes using financial models to understand and manage cash flow (www.smlr.rutgers.edu). The point for an owner is timing: the repurchase work should inform the structure, not follow it.

A feasibility study is evidence for a decision, not proof that a transaction is affordable, and the decision stays with the owner.

Step 2: Gather a privacy-preserving employee cohort summary

The study needs data, and owners should insist that data is shared in de-identified form. Kreischer Miller lists inputs including payroll information with hire and termination dates, wages and hours (www.kmco.com) and an assumed distribution funding method of redeem, recycle or re-leverage (www.kmco.com). In a 2018 paper, PKF O'Connor Davies recommends including the inactive population, meaning former employees with unpaid balances (www.pkfod.com) and developing assumptions from ongoing monitoring of death, disability, retirement, diversification and turnover (www.pkfod.com).

Table 2 shows a cohort input table in the form the owner should request. It is a **hypothetical example** for a company with 120 employees and contains no personal identifiers. The bands and counts are invented to show the structure; the vesting and eligibility treatments come from the actual plan document and the specialist's assumptions.

Cohort band (hypothetical)	Headcount	Service profile	Eligibility status to confirm	Cash question for the model
A: new hires	18	Under 2 years	Plan entry date; vesting at departure	Forfeitures versus any vested balance
B: early tenure	34	2 to 5 years	Partial or full vesting under the plan schedule	Payout timing if they leave
C: established	40	6 to 9 years	Typically vested	Distribution timing after separation, and installment policy
D: long service, under 55	16	10 or more years	Participation years versus age 55 test	When they become diversification-eligible
E: diversification-eligible	12	10 or more years of participation and age 55 or older	Election period and percentage	Size and timing of diversification requests
Total	120			

The table is only the front end of the request. Each band needs a projected account balance range under stated share-price paths, the plan's vesting schedule, the proposed distribution policy (immediate, delayed or installments), and whether any legacy accounts or prior plan balances exist. An owner should not read the band sizes as a forecast. Retirement does not equal an immediate full cash payment: the timing rules above, the plan's installment policy, the loan-share rule and whether the trust or the company honors the put option all alter when cash leaves.

The data request to the feasibility team should name each of these items:

- **Census summary:** headcount by tenure, age and vesting band, with no names or identifiers.
- **Plan terms:** vesting schedule, entry rules, distribution timing, installment policy and diversification provisions.
- **Account balances:** projected ranges under at least three share-price paths, plus any legacy balances.
- **Funding method:** whether the trust or the company honors the put option, and whether shares are recycled or redeemed.
- **Inactive population:** former employees with unpaid balances and when they are due.
- **Assumption log:** the source and date of each turnover, retirement and share-value assumption.

Step 3: Calibrate turnover with external context, not as a forecast

Turnover is the most uncertain assumption and the one most likely to be assumed away. The Bureau of Labor Statistics (BLS) reports that median tenure of US wage and salary workers was 4.1 years in January 2026, up from 3.9 years in January 2024 (www.bls.gov). Its Job Openings and Labor Turnover Survey (JOLTS) shows that the average total separations rate for 2025 was 3.3 percent and unchanged from 2024 (www.bls.gov), with quits accounting for 60.6 percent of total separations (www.bls.gov). These are economy-wide numbers, not ESOP data, and the JOLTS rate is a monthly measure. They show only that departures are frequent and mostly voluntary, which matters because a departing vested participant starts a payout clock the company did not choose.

Gonza's paper makes the same structural point: stochastic departures of workers from ESOP plans trigger the repurchase obligation (www.emerald.com). Milliman advises using the plan's average diversification rate rather than a worst-case scenario (www.milliman.com), which is reasonable for a base case but is exactly why the stress case below must deliberately deviate from it.

Step 4: Put both cash clocks on one timeline

The combined model should have one row per year and one column per cash item from Table 1. It should extend beyond five years when the professional forecast calls for it, because Foley reports that plans approaching the eight-to-ten-year mark often find the obligation becomes a major factor (www.foley.com). A five-year table is a minimum for the owner's payout clock; the participant clock may need ten.

Contribution capacity as a ceiling. The Internal Revenue Code limits the deduction for contributions used to repay ESOP loan principal to 25 percent of the compensation otherwise paid or accrued (www.law.cornell.edu). In a **hypothetical example**, covered payroll of $10.0M implies a principal-repayment deduction ceiling of $2.5M per year. That is a tax deduction limit, not a cash availability test, and a tax adviser

must confirm how it applies to the entity type and structure. The point is that annual service of a large internal loan has an upper bound tied to payroll, which can force the term of the loan, and therefore the pace of share release, to be longer than the seller would prefer.

A one-year stress, step by step (Hypothetical Example)

The one-year stress uses invented teaching assumptions. They are not observed company data or market ratios.

- **Beginning unrestricted cash:** $1.0M
- **Add operating cash after tax and working-capital movement:** +$2.4M, giving $3.4M
- **Subtract maintenance capital expenditure:** $0.8M, leaving $2.6M
- **Subtract external bank debt service:** $1.0M, leaving $1.6M
- **Subtract seller-note service:** $0.6M, leaving $1.0M
- **Subtract incremental repurchase funding:** $0.7M, leaving $0.3M of ending cash
- **Compare with an assumed operating floor of $0.5M:** a gap of $0.2M

Nothing in the year is unusual: operating cash covers all of the debt service, and the plan draws only $0.7M. Yet the company ends below its floor. The example shows that the gap emerges from the sum of ordinary items, which is why separate sign-offs from the lender, the trustee and the owner may each look acceptable while the combined year does not.

Table 3: five-year downturn case (Hypothetical Example)

Table 3 extends the stress over five years. It is a **fully hypothetical** downturn case in millions of dollars. Year one equals the one-year stress, but with $0.2M of participant funding because a new plan has small balances. In year two, operating cash falls to $2.2M (softer earnings plus a working-capital build) while participant funding rises to $0.6M, reflecting a higher-balance legacy cohort and a distribution policy that pays out promptly. Maintenance capital expenditure is held at $0.8M in every year, and bank and seller-note service are held at $1.0M and $0.6M. Negative ending cash means an unfunded gap that would need a revolver, a deferral or an amendment, and is carried forward without any such fix so the effect is visible.

Year	Beginning unrestricted cash	Operating cash after tax and working capital	Maintenance capital expenditure (capex)	Bank debt service	Seller-note service	Incremental participant funding	Ending unrestricted cash	Required minimum cash	Shortfall
1	$1.0M	$2.4M	$0.8M	$1.0M	$0.6M	$0.2M	$0.8M	$0.5M	$0.0M
2	$0.8M	$2.2M	$0.8M	$1.0M	$0.6M	$0.6M	$0.0M	$0.5M	$0.5M
3	$0.0M	$2.4M	$0.8M	$1.0M	$0.6M	$0.6M	($0.6M)	$0.5M	$1.1M
4	($0.6M)	$2.8M	$0.8M	$1.0M	$0.6M	$0.6M	($0.8M)	$0.5M	$1.3M

Year	Beginning unrestricted cash	Operating cash after tax and working capital	Maintenance capital expenditure (capex)	Bank debt service	Seller-note service	Incremental participant funding	Ending unrestricted cash	Required minimum cash	Shortfall
5	($0.8M)	$3.0M	$0.8M	$1.0M	$0.6M	$0.6M	($0.8M)	$0.5M	$1.3M

In the same invented company, a base case with operating cash rising from $2.4M to $3.2M and participant funding rising from $0.2M to $0.6M leaves ending cash of $0.8M, $0.7M, $0.7M, $0.8M and $1.0M, above the $0.5M floor in every year. The difference between the two cases is therefore a two-year earnings dip combined with earlier and larger distributions, not a failure of the base plan. Because the recurring items are fixed, the dip does not heal when earnings recover: operating cash returns to $3.0M by year five and cash is still negative. The seller note's $0.6M annual service competes directly with the participant line, and in a real structure the senior lender's covenants would decide which goes first. The exercise exposes that intersection and does not predict it.

The table counts only incremental company funding of participant payments. Trust-level cash, such as contributions already in the trust or dividends it receives, belongs in a separate reconciliation that shows trust opening cash, trust inflows, trust-funded distributions and trust ending cash. The two schedules should tie out so that no cash movement appears twice. NCEO's report treats cash contributed to the trust differently from company reserves, which is another reason the company and trust views must be kept apart.

Step 5: Test levers in order

Levers reduce the shortfall but each has a cost, and the owner should see them ranked rather than assumed. Foley lists extending distribution timing to the maximum permitted periods as a lever (www.foley.com). A Financier Worldwide article notes that funding a sinking fund for future repurchase obligations gives the company more financial flexibility (financierworldwide.com), though a sinking fund competes with debt service for the same dollars. Boulay warns that borrowing to fund the obligation may make additional bank debt hard to secure (boulaygroup.com).

- **Distribution policy:** installments and delays smooth cash, but they also lengthen participant waits and require adequate security for installments.
- **Funding method:** recycling shares through trust contributions versus company redemption changes the tax treatment and the ESOP's ownership percentage.
- **Seller-note terms:** a longer term or a standstill during a downturn eases the company but pushes risk to the owner.
- **Capital spending:** deferring growth capital is a lever; deferring maintenance capital is not a lever, it is a deferred cost.
- **Additional debt:** possible only if lender covenants and the lender's view of the obligation allow it.

ABF Journal's lender-side article states that lenders need to understand the ESOP's accounting impacts and set financial covenants accordingly (www.abfjournal.com). In practice, this means the covenant package and the repurchase study should be negotiated with each other in view, not in sequence.

Partial Versus Full Ownership Transfer as Scenarios

An ESOP is not all or nothing, and the cash clocks differ by route. The following are scenarios for the professional team to model, not recommendations.

Route A: 100% ESOP

A full transfer concentrates both clocks in one company. BDO states that a senior bank typically cannot fund the entire price in a 100% ESOP sale (www.bdo.com), so a seller note is likely to carry part of it. NCEO's report notes that most 100% ESOP-owned companies prefer to buy shares back at the company level (www.nceo.org), which puts the cash on the company's side of the ledger.

Route B: a partial first-stage ESOP

A partial sale reduces acquisition debt and the owner keeps shares. It also leaves the owner with a minority or majority interest whose value depends on the company's cash position, and a later second-stage transaction may be needed. Forvis Mazars states that a second-stage transaction can be more complex and more time-consuming than the original ESOP transaction (www.forvismazars.us) and that there is typically a significant post-transaction drop in stock value (www.forvismazars.us). The owner should ask whether a later stage is part of the original plan, and if so, whether the first-stage model includes the second stage's debt.

Route C: staged sales over years

A presentation from a practitioner notes that an owner can spread the sale of shares over years (www.smlr.rutgers.edu). A staged route lets the owner observe cash behavior before selling more, but it also keeps the owner exposed to the company longer.

Tax-linked thresholds that affect structure

Some routes are driven by tax qualification rather than cash. Section 1042 deferral applies to qualified securities issued by a domestic C corporation (www.law.cornell.edu) and requires a holding period of at least three years (www.law.cornell.edu). Eligibility, S corporation interaction and the value of any deferral are questions for a tax adviser, and no route should be chosen for a tax benefit before it is tested against the cash model.

ESOP versus a sale to a third party

NCEO, an organization that advocates for employee ownership, states that third-party buyers almost invariably want to buy the entire company, all at once (www.esop.org), and that an outside appraisal is required for an ESOP except for public company ESOPs (www.esop.org). The owner-relevant comparison for cash is that an ESOP price is set by an independent appraisal at fair market value and paid partly from the company's future cash flow, whereas a third-party price is negotiated and may carry its own deferred components such as escrows, earn-outs or rollover equity. Neither route is better in the abstract: owners should ask for the cash profile of each route on the same basis, and keep not selling as a scenario.

Data Analysis and Evidence

What the public data show about ESOP scale

The DOL's Private Pension Plan Bulletin for plan year 2022 reports its own counts in Table D10 (www.dol.gov), with 6,465 ESOPs. These population counts are context. They do not give an owner a failure rate, and the two sources cover different years and use different methods.

The 2023 NCEO survey and its limits

NCEO's public esop.org summary of a 2023 survey reports 248 valid responses (www.esop.org) and says most responding companies were in manufacturing, professional services or construction (www.esop.org). NCEO's results post reports that the largest category of respondents was 100% ESOP-owned S corporations, at 89 percent (www.nceo.org). The public summary gives a median of 5 percent of outstanding shares repurchased in the most recent fiscal year (www.esop.org).

These numbers come from a voluntary, self-selected sample dominated by a particular structure, and the full paid report was not obtained. They should not be read as a probability that any specific company's ESOP will encounter difficulty, and this report deliberately omits survey benchmarks from the worked example so that no reader treats a survey median as a target.

Academic use of the survey

Gonza's paper draws on the survey for a substantive argument. It reports that 32 percent of ESOP firms were somewhat concerned with the ability to cover the repurchase obligation (www.emerald.com) and that the share of firms preparing a repurchase obligation report increased to 63 percent in 2023 (www.emerald.com). Those are the paper's citations of the survey, not independent measurements, and the paper is conceptual.

What each class of evidence can and cannot support

A feasibility team's work should say, line by line, which class of evidence each assumption comes from:

- **NCEO task-force report (2026):** supports asking for explicit valuation assumptions; does not support a single formula or a price deduction.
- **Statute and IRS materials:** support the timing, put option, diversification and loan rules; do not show that any transaction is affordable.
- **The 2023 survey (248 responses):** shows practice among self-selected ESOP companies; does not give a failure probability for a prospective seller.
- **BLS tenure and JOLTS data:** give economy-wide context on job changes; do not forecast one company's turnover.
- **Hypothetical tables in this report:** show how two cash clocks combine; do not supply observed ratios or market norms.

Implications and Future Directions

A request list for the professional team

The questions-and-evidence sheet below is organized by the party who should answer. It reflects sources as of November 2026, and any later report, rule or law may supersede this report's summary of the NCEO task-force paper.

- **Feasibility consultant:** the combined cash table with participant funding shown once, a downturn case that holds maintenance capex and a stated minimum cash, a longer horizon than five years if the forecast shows later peaks, and a sensitivity to share-price paths.
- **Trustee:** how the independent appraiser will treat the repurchase obligation (the NCEO report recommends an explicit discussion), the fiduciary process for price, and who honors the put option.
- **Valuation specialist:** the assumptions that link debt, projected cash flow and the repurchase obligation, with any adjustment shown rather than embedded.
- **Lender:** covenant definitions, treatment of participant funding in fixed-charge tests, intercreditor terms for the seller note and what a payment block would do to the owner's note.
- **ESOP and ERISA counsel:** the plan document's vesting, distribution, installment and diversification terms, and how the 2026 legislation and any DOL rule affect valuation assumptions.
- **Tax adviser:** entity type, contribution deductions and any deferral eligibility.
- **Owner and CFO:** what cash at close the owner needs versus what can be deferred, and what downside to the seller note the owner can accept.

Frequently Asked Questions (FAQs)

What is the ESOP repurchase obligation?

It is the company's need to fund the purchase of distributed shares when participants exercise a put option or when other distributions convert stock to cash. Distributions, diversification and other events that turn stock into cash start it, as discussed above.

How is the seller payout different from the repurchase obligation?

The seller payout is the consideration the owner receives at close and over any seller-note term. The repurchase obligation is the plan's later cash demand. They draw on the same company cash, and the seller note is typically behind senior debt, so a plan-driven cash squeeze can reach the owner's deferred proceeds.

How do I model the obligation?

Build a multiyear table with beginning cash, operating cash, maintenance capex, bank service, seller-note service, incremental participant funding, ending cash, a required minimum and the shortfall, as in Table 3. Show trust cash in a separate reconciliation and have a specialist map internal loan payments and employer contributions so no cash is counted twice. A repurchase study should use census data and plan terms, and Kreischer Miller suggests asking what happens if key employees with large balances retire early (www.kmco.com).

Is an ESOP right for my company?

That depends on profitability, cash flow, size, owner objectives and alternatives, and this report cannot answer it. Third-party buyers almost invariably want the entire company at once (www.esop.org), so an owner who wants to sell in stages or keep a stake may weigh the routes differently. Cost and size thresholds quoted publicly are rules of thumb. A feasibility study is the appropriate next step if the owner wants to explore it.

When should I commission a feasibility study?

Before choosing a route and before negotiating financing. The ESOP Association recommends engaging a qualified consultant to assess feasibility (www.esopassociation.org).

Conclusion

The central distinction of this report is that an owner's payout capacity and an ESOP's long-run sustainability are separate questions that meet in the same cash balance. A transaction can service the bank and the seller note in the early years and still be fragile if later distributions, a downturn and fixed debt service overlap. The hypothetical $0.2M one-year gap and the five-year downturn table show the mechanism with invented numbers, not a forecast.

The 2026 developments increase the importance of explicit assumptions. NCEO's task-force report did not prescribe a method, and federal legislation on adequate consideration was signed on October 15, 2026, after that report was published. Owners should therefore ask their trustee, appraiser, lender and counsel to show their work, rather than relying on a single headline figure.

Three actions follow. Request a de-identified cohort summary and the proposed distribution policy. Require a combined cash table with trust cash reconciled separately and a downturn case that preserves maintenance capital spending and a minimum cash buffer. And keep alternatives open, including a third-party sale and not selling, until the combined model is available. Laurent Capital is an independent M&A advisor, not a trustee, lender, law firm or accounting firm, so each of these steps needs the relevant independent professional.

Source links

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