

Rapid Acquisition for 100% ESOP Organizations

Congressionally Approved. Enhanced Competition. Shared Success

One Time Sole Source Follow-On Contract for 100% ESOP Organizations

The consolidation of the Defense Industrial Base (DIB) is raising red flags across the Department of Defense (DoD), GAO, and Congress—leading to fewer choices, rising costs, and stifled innovation. But there's a solution gaining traction: 100% Employee Stock Ownership Plan (ESOP) companies.

These employee-owned businesses are proving to be **game-changers** in the defense sector. They are less likely to be absorbed by massive OEMs, profit-motivated private equity groups, and global defense contractor behemoths. ESOP companies stick around and keep the Defense Industrial Base dynamic, innovative, and competitive. More importantly, employee-owners are more engaged, innovative, and loyal, creating a high-performance culture that best serves our warfighters and our nation.

Recognizing the strategic power and reliability of ESOPs, Congress has taken action. The FY22 NDAA Section 874 launched a pilot program authorizing sole source follow-on contracts to 100% ESOPs. After eight successful sole source awards, the authority was expanded in the FY24 NDAA Section 872 to allow use once per contract, extend eligibility to GSA contracts, and keep the pilot open through December 2029, so that the Defense Pricing, Contracting, and Acquisition Policy (DPC) office may gather evidence to support making this authority permanent. In November 2024, the DoD formalized this authority by amending the Defense Federal Acquisition Supplement (DFARS) to include Subpart 270.1. This update codifies the contracting officer's authority to make a one-time sole source award for follow-on contracts to 100% ESOP-owned businesses, provided they have completed the initial contract with a "satisfactory" or higher rating.

Advantages of 100% ESOP-owned businesses align with the DoD's objectives: Increased Competition, Accelerated Procurement, Enhanced Performance, Workforce Stability, Innovation and Efficiency, and Economic Resilience.

Now is the time for forward-thinking defense acquisition professionals to harness the ESOP advantage for their team and our warfighters.

DFARS Subpart 270.1: Incentivizing Contracting with Employee-Owned Businesses

In 2024, the DoD issues a memo with the final rule amending DFARS to include Subpart 270.1, which implements Sec. 874/Sec. 872. For specific policy language, see the following:



[DFARS Subpart 270.1](#)



[DFARS Subpart 270.1 Procedures, Guidance, and Information \(PGI\) 270.104](#)



[Policy Memo on DFARS Subpart 270.1](#)

How Do I Use the Authority?

If interested in using the authority, DoD customers can express interest to their point of contact at the 100% ESOP business or directly to DPC at: osd.pentagon.ousd-a-smbx.dpc-cp@mail.mil.

ESOPs Outperform and Outlast

Low Risk. Uninterrupted Support. Proven Acquisition Method.

ESOP Companies Provide Long-Term Stability and Higher Performance Competition

Statistical analysis of Contractor Performance Assessment Rating System (CPARS) scores reveals that companies wholly owned by ESOPs consistently receive higher ratings from federal officials than other firms. Notably, ESOP firms are more likely to achieve "Excellent" or "Very Good" ratings compared to their counterparts. Furthermore, an analysis of survival rates for 100% ESOP firms indicates that these companies are more resistant to consolidation or buyouts. These findings suggest that federal contracting officials can confidently build long-term business relationships with fully-owned firms. The table below demonstrates that 100% ESOPs more frequently achieve ratings in CPARS of Excellent or Very Good than other firms.

Percentage of CPARS scores Rated Excellent or Very Good for 100% ESOP Companies



Hasik, James M. Outperform and Outlast: 100% Employee-Owned Contractors Top the Charts. 14 May 2024.

Agencies Thriving with 100% ESOP Sole Source Awards

Since the Pilot Program was established, several DoD agencies have turned to ESOP-owned sole sourced follow-on contracts as a rapid acquisition solution to speed delivery to the warfighter, enhance supplier stability, and promote long-term business relationships. These one-time sole source follow-on contracts are simplifying federal contracting.

Notable sole source awardees include 100% ESOP-owned firms that consistently demonstrate superior performance, resilience, and an ability to meet long-term defense and aerospace needs. These companies often retain greater control over their decision-making and operate with minimal influence from external investors. As a result, they have higher employee retention rates and a lower likelihood of mergers and acquisitions compared to their non-ESOP counterparts – ultimately resulting in reduced risk and increased competition for the Government.

DoD entities and 100% ESOP firms that have already taken advantage of DFARS Subpart 270.1 include:

[American Systems](#)
[Applied Research Associates, Inc.](#)
[Modern Technology Solutions, Inc.](#)
[Torch Technologies](#)
[Tecolote Research, Inc.](#)

