# ESOP FEASIBILITY
# THE TOP TEN THINGS TO KNOW BEFORE DOING AN ESOP

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# ESOP FEASIBILITY
# THE TOP TEN THINGS TO KNOW BEFORE DOING AN ESOP

I. Be realistic – Understand Shareholder Objectives

a) Not a panacea -- compare alternatives
b) Ask questions – understand motivations
c) Prepare for lack of understanding by many

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II. Get good advice

a) Proper team – ask questions
b) Understand strengths and experience of team members
c) Understand expense of ESOP transaction

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III. Create business plan and financial projections

a) Understand assumptions
b) Prepare for due diligence request

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IV. Understand ESOP structuring alternatives

a) 1042 vs. non-1042 transactions
b) S Corp. vs. C Corp. status
c) Common stock vs. convertible preferred
d) Partial or 100% sale to the ESOP
e) Management Incentive Plan

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V. Financing alternatives

a) Availability of debt financing (i.e. senior, mezzanine, subordinated, etc.) or private equity financing
b) Willingness to provide seller financing
c) Ability to roll-over funds from other retirement plans

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VI. Understanding of company philosophy

a) How will sale be viewed
b) Importance of employee communications

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VII. Management succession planning

a) Future management team

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VIII. Impact on other benefit plans

a) Section 415 limitations
b) Changes in other plans for cost considerations

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IX. Repurchase liability planning

a) Composition of workforce

b) Importance of ESOP plan design

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X. Understand fiduciary responsibility

a) Inherent conflicts of interest
b) Internal vs. external trustee

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XI. Pick the right team

a) Talk with the ESOP Association
b) Get referrals
c) Speak with other ESOP companies
d) Need for feasibility consultant, trustee, valuation advisor, legal counsel, TPA