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

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ESOP FEASIBILITY
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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