

## ESOP Feasibility Checklist

	<u>Yes</u>	<u>No</u>
1. Has an appraiser made a preliminary valuation of the corporation's stock (C or S), and are the owners willing to sell at either a minority or control <i>fair market value</i> price?	≠	≠
2. Is there a successor management team identified; if not, will the owners be willing to develop successor management before they leave the company?	≠	≠
3. Are the selling shareholders and the successor management team ready and willing to share ownership with the employees (e.g. will successor management demand additional company ownership options through incentive compensations plans)?	≠	≠
4. Is the company's payroll large enough in order for the company to be able to make contributions sufficient to properly fund the ESOP?	≠	≠
5. Is the business "mature" enough to where funding the ESOP will not conflict with growth plans (e.g. not suitable for start ups requiring growth capital)?	≠	≠
6. Is the operating cash flow sufficient enough to repay the ESOP debt out of contributions and/or dividends (i.e. the company has little or no existing interest bearing debt obligations)?	≠	≠
7. Based upon the company's particular ESOP participant demographics (age, years of service), will the company have the funds needed in the future to meet the repurchase obligation and diversification requirements?	≠	≠
8. Are the tax incentives for the selling shareholder(s) attractive (i.e. low basis stock relative to <i>fair market value</i> ) in order to take advantage of the "1042 Rollover" tax deferral in a C Corporation (not available for S Corporations)?	≠	≠
9. Is the company large enough to warrant an ESOP? <u>Rule of Thumb:</u> Top tax bracket, >20 employees, >\$250,000 payroll	≠	≠
10. Are the selling owners and management aware of and willing to accept the inherent internal and external administrative costs of an ESOP (plan administration, ERISA's legal, tax and audit requirements, annual appraisals)	≠	≠

### "Yes" Scoring

- 8 – 10      Good ESOP Candidate
- 5 – 7      Possible ESOP Candidate
- Under 5    Not a Good ESOP Candidate

Note: Questions #1, 2 & 3 should be answered "yes" in all cases!