**Good ESOP Candidates and ESOP Myths**

**By Kyle Seymour and Lee Eisenstaedt**

**Good ESOP Candidates**

ESOPs are not for everyone and every company. The best candidates have a track record of stable, predictable profits and cash flow. Other characteristics of good candidates include:

* C or S taxed corporations
* Owners needing an exit or desire some liquidity
* Founders and owners who want to preserve their legacy
* An ownership group that doesn’t want to sell to private equity
* Non minority-status businesses (because the ESOP is counted as a non-minority shareholder which limits the ESOP to owning 49% of the company’s stock)
* Companies with W-2 employees, not 1099-contractors as with many real estate and insurance agencies
* Succession management team is or will be in place
* Companies that are large enough to justify installation and maintenance expenses – typically, at least 30 employees with annual sales of at least $5 million

**ESOP Myths**

There are some misconceptions about the rules and regulations under which ESOPs operate. Common myths include:

* *By selling your company to an ESOP, all of the employees will have access to your financial records, details of your compensation package, etc. and will even have the right to tell you how to run things.* **FACT** – the ESOP is a passive investor. While some companies choose to have open books, it’s neither required nor a standard practice. The required disclosure of financial information is limited to share values in participants’ accounts, which is determined by a third party valuation firm each year.
* *With an ESOP, the employees can vote you out of the company you founded or built.* **FACT** – again, the ESOP is a passive investor whose shares are voted by the ESOP trustee who is selected by the Board of Directors.
* *If you form an ESOP, you cannot take care of management and key employees.* **FACT** – ESOPs are allowed to offer other forms of deferred compensation including 401(k), phantom stock, incentive stock options (ISOs) and stock appreciation rights (SARs).
* *You can make more money selling to a third party.* **FACT** -- Many times the net proceeds to an ESOP will actually be higher when you factor in the transaction costs and the seller's tax treatment.
* *Employees won’t understand or appreciate the ESOP.* **FACT** -- Because the majority of the plan’s assets are company stock, it may actually be easier to understand an ESOP than other retirement plans. Employees can see their account balance change over time and many ESOPs have communication and education plans for their participants.

***About the Authors***

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