

Taking Stock

Employees now own Mestel's legal staffing empire.

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For associates, equity partnership remains the gold ring that motivates many young lawyers to endure a years-long grind. Now, temporary attorneys who have been slogging away at document review in firm basements and off-site annexes are finally getting their chance at that prize, too.

In August, Mestel & Company, one of the largest legal staffing and lateral placement firms in the country, announced that it had been turned over to its employees under an employee stock ownership plan, or ESOP. The impact is potentially far-reaching: Mestel & Company manages a network of more than 50,000 temporary attorneys and legal staff from 22 offices across the country.

Founder and president Lynn Mestel says that any permanent or temporary employee is eligible to be vested in company stock after completing 1,000 hours of work in a calendar year—a benchmark that many of her temps, whom she calls "contractors," regularly surpass. While she won't say how many have already qualified for stock, she says that "thousands" filed W-2 forms with her company's temporary legal staffing unit, Hire Counsel, in 2011 alone, and roughly one in ten were eligible as of August 22, the date the ESOP plan came into effect.

On a recent afternoon, the 58-year-old Mestel, a onetime Benjamin N. Cardozo School of Law graduate, explained how the idea took shape in early 2010. One of her chief concerns was her legacy. "I was thinking about longevity. My goal was never to sell it, to dump it and leave," she says. Mestel founded the recruiting business a quarter-century ago, and the temp business a few years later. The conjoined businesses, which have tripled in size in the past five years, are now a national partner-placement and staffing behemoth.

As she was pondering the fate of her company, Mestel looked at studies that showed that companies with employee stock ownership plans generally perform better over time than non-ESOP companies (with some notable exceptions—Enron Corporation, WorldCom, Inc., and Adelphia Inc. all had ESOPs). Mestel felt that employees would be as inspired as she's been if given a stake in the business. "It's a tremendous motivator for the contractors to continue to deliver their best work," she says. In the end, financial considerations helped crystallize her decision. "My question was simple: Do I want to give 30 percent to the federal government or

to my employees?" Under federal law, businesses that are 100 percent employee-owned via an ESOP pay no federal taxes on earnings.

ESOP equity ownership differs from law firm partnership in one major respect: An ESOP is a passive stake in the success of the business. Unlike a partnership, an ESOP doesn't allow employees to participate in management decisions or strategies. It is run much like a 401(k) retirement account, via a trust.

And even if the company remains as profitable as its recent growth suggests, temps will have to wait several years to see profits accumulate in their ESOP accounts. That's because earnings initially go to pay down the bank and the private investors who lent the money to the ESOP trust that bought out the equity of its founder. Mestel says she remains a major investor. How much has she invested? She won't say.