



Transition Steps for an IPO

Each of the following steps is important to the transition process when a company with an employee equity compensation program and employee equity ownership is changing status from a private company to a publicly-owned entity. Accomplishing each step will provide a smoother path as you go through this complex process. *(These processes are not all-inclusive for the S-1 and IPO filing, but are identified to assist with the considerations for a company with employee stock option and award programs.)*

Shareholder and Option Holder data reconciliations before the S-1 filing

1. Capitalization Table: reconcile with Legal Counsel and audit for accuracy.
2. Legends: Verify legends on stock certificates; set up procedures for removal of legends; blanket removals.
3. Equity Benefit Plans and Reserves; verify the reserves, and each Plan for total grants, exercises, forfeitures/expirations, reserves, outstanding, equity-holder records. All documentation in order.

Vendor and Agent Selections – Transfer Agent, Stock Broker, Software, Administration

4. Select your Transfer Agent vendor.
5. Select an Authorized Stock Broker for employee and stock plan transactions. Typical selection includes only one broker for the employee activity and provides the executives one full-service stock broker to ensure SEC compliance.
6. Select Software for options and stock activity and reporting. Software must manage full employee stock plan administration, fair valuation, accounting and expense reports, public company SEC disclosures, EPS dilution reports, and various reporting for HR, payroll, legal, corp tax, accounting, finance, the auditors, and Board/Exec planning.
7. Select an experienced in-house person or expert vendor for Stock Plan Administration. There will be a considerable amount of work in the 6 months before the IPO and after the 180-day lock-up ends when employees may trade.

U. S. Securities and Exchange Commission (SEC) Compliance

8. Review and implement procedures to ensure Rule 144 compliance.
9. Rule 701 may be applicable to the pre-IPO stock issued under the employee benefit plans. Ensure restrictions under Rule 701 are verified.
10. Implement Insider Trading and Pre-clearance Policies to ensure compliance under Sec 16.
11. Initiate and communicate Black-out Windows and identify affected persons.
12. SEC Sections 16(a) and (b) compliance. Identify SEC 16 Reporting Persons.
13. File Forms 3 for all Sec 16 Reporting Persons on time.
14. Consider, define, communicate, and implement a 180-day Lock-up Period.

IPO Transition Checklist

15. Complete S-8 filing after the IPO date for all shares not registered and those available for future issuance.

Transfer Agent and Shareholder Recordkeeping

16. Set-up on-line access to your Transfer Agent Corp Account.
17. Reconcile Transfer Agent database, once loaded, to Cap Table.
18. Coordinate the conversion of Preferred Classes of Stock to Common.

Employee Equity Benefits and Plans

19. Equity Plan Documents: Review existing terms and conditions for your equity compensation programs. Consider terms and provisions from a public company perspective. Review all documentation for these Plans.
20. Equity Plans: Review existing and/or design new Equity Compensation Plans appropriate for a public company. Consider a Directors Plan. Consider an equity plan that allows all equity types: Options, Restricted Stock Awards and Units, Stock Appreciation Rights, Phantom Rights, and Compensatory Warrants.
21. Consider implementing an evergreen provision for equity plans reserve increases.
22. Consider the implementation of an Employee Stock Purchase Plan.
23. Ensure compliance under local laws and restrictions for the non-U.S. employees.
24. Consider all accounting, taxation, reporting, and compliance issues for the employees, the non-employees, and the company.

Set up Processes for Public Company

25. Coordinate the process for removal of stock certificate legends with legal counsel and transfer agent. Consider “blanket” letters for legend removal.
26. Set-up process for employee option exercise/same-day sales, cash exercises through broker account. Interactivity occurs with broker, transfer agent, and legal counsel.
27. Implement “routine” dates for granting options to avoid back-dating implications. Interactivity with HR and legal counsel.
28. Set-up processes for weekly, month-end and quarter-end reporting requirements.
29. Assign Investor Relations person to be responsible for outside shareholder calls/questions.

Employee Communication and Education

30. Prepare and conduct all communications to employees and to shareholders ahead of activity that will affect same.
31. Set-up an internal/intranet web site for Stock Plans and “how-to” instructions.

FRS History and Services

Founded in 2000 by Marianne Brannock-Hill, CEP, CTP, FRS Equity Strategies is the full-service provider of choice for the full array of equity compensation services, from outsourcing and on-site staffing, to expert consulting, and a suite of education and training courses. We take a team approach, applying just the right skills and expertise to deliver a solution tailored to meet your needs. This approach also adds an important level of internal accountability and auditing. Our goal is to provide services as seamlessly as though we were members of your internally staffed equity compensation team.

We provide the following services to both private and publicly-owned companies. We work with a wide range of organizations from start-up to Fortune 1000 companies. Our professional staff is comprised of individuals with advanced degrees and certifications in accounting, tax, law and business. We are SAS70 certified, ensuring that our processes meet the highest standards of security and confidentiality.

Out-Sourcing and Staffing

- We provide a full-service management and administration service customized to the needs of your organization and your current processes.
- Our services cover all aspects of employee equity plan management, addressing up to 50% more corporate responsibilities than those handled by brokers, law firms, or other third-party vendors.
- Our team is highly experienced with a variety of equity plan management software suites including EASi's EMS, eProsper's CapMx, E*Trade's Equity Edge, Transcitive and more.

Consulting

- We offer services on a project-basis to provide you with a variety of assistance with the management of your employee equity plans.
- FAS123(R) (now ASC Topic 718) valuation and expense allocation reporting.
- Database integration related to mergers and acquisitions.
- Software conversion, reconciliation, and implementation.
- Audits of historical data and ongoing processes for compliance.
- Other special projects as needed.

Training

- Employee education and corporate intranet and web site set-up.
- Remote or onsite training services to maintain the technical expertise of your staff.
- Seminars and "boot-camps" on regulations, accounting, tax and compliance issues.
- Courses in the use of software applications.
- CEP exam preparation sessions for levels 1, 2 & 3 of certification.

For further details on all our services, please visit our website: www.frsequitystrategies.com, email us: clientservices@equity-strategies.com, or call (408) 727-0227.