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Armanino Equity Management Roundtable Recap

August 13, 2015
Panel Discussion

At a Glance
Moderator:
- Bill Reichert, Garage Technology Ventures

Panelists:
- Jim Petraglia, Rimini Street
- Ron Beeson, Risk IQ
- John Niedermaier, Inventergy

Event Overview

Armanino brought together Silicon Valley technology firm finance leaders for an open and animated discussion about the benefits, challenges and important considerations of equity management and administration. The panel was led by Bill Reichert, Managing Director, of Garage Technology Ventures. Armanino's Valuations Practice Leader Scott Schwartz and Tax Partner Tom Bondi welcomed the audience and added their thoughts throughout the event. Below is a summary of our panelist comments.

Equity Compensation – Key Considerations

1. *What does equity compensation mean to you?*

   Equity has found its way into every company transaction. Stock options are given to every employee so they have a stake in the company. From an accounting perspective, it's a love-hate relationship. You don't have to have a traditional equity program. You can be creative, but if you don't document it well, equity reporting will be the highest cost you have in your first audit.

2. *What have been the biggest challenges you've faced in managing equity programs?*

   It's highly likely that your CEO and law firm won't be experts at equity administration. Your HR department will know a little more, but this is where the Finance department has to take the lead. The lesson is not to file for IPO to get your equity house in order. Rather, put processes in place and make sure your stock options are granted in an accurate and timely manner.

3. *How are you addressing those challenges today?*

   Working from a spreadsheet to manage equity is not sustainable. Even at the startup stage, companies can save double on their audits than what they invest in an automated equity management system. Certent is the recommended solution by the panel. Converting to a system is also necessary to give the Board of Directors the information they need to make decisions.

4. *What are the things that Board members miss regarding stock compensation?*

   Board members often ignore the warrant coverage in a debt deal. However, warrants can have derivative liability that can be a trap for an organization. Also, boards approve options for grants that are not issued (e.g. when someone terminates before a board meeting) which can cause compliance issues.

5. *What trends are you seeing in the marketplace regarding stock options?*

   It's amazing how educated the workforce is on the value of stock options. HR routinely brings the CFO into the recruiting process for senior executives to explain the intricacies of Black-Scholes option pricing. Recruits with less experience care a lot more about the number of shares they are granted than the value of those shares. It's a badge of honor in Silicon Valley to talk about how much of the company an employee owns through stock options. The best advice for entrepreneurs is to put together a budget and stock option bracket which takes into account the number of employees anticipated to join the organization, and have a plan for how you are allocating the option pool in the future.

6. *How are you managing 409A valuations?*

   Panelists pointed out that a 409A valuation is a valuation that is specifically used to price stock options at the concluded value of common, and this is what to focus on, not the price of preferred stock. If the Company has significant revenues and is planning on going public soon, it can be advisable to look at the company's history to create the projection for a 409A valuation. In certain circumstances this can provide a realistic picture of supportable growth for the company.

   What are the risks of getting a bad 409A valuation?

   Panelists stated that a company can get into trouble when it gets its first audited financial statement if it has been getting a cheap, poorly done 409A valuation. This can also come back to haunt a company when the company is being acquired. Public company acquirers don't want to buy a 409A problem. They recommended getting a well done valuation from a reputable CPA firm or larger valuation firm.

About Armanino

Armanino LLP (www.amllp.com) is the largest independent accounting and business consulting firm based in California and one of the largest firms in the United States. Armanino provides an integrated set of audit, tax, consulting and technology solutions to companies in the U.S. and globally. The firm helps clients adapt and change in every stage of their organization from start-up through rapid growth to the sale of a company. Armanino emphasizes smart technology; leading a cloud revolution of financial, operational, sales and compliance tools that are transforming the way companies do business. Armanino extends its global services to more than 100 countries through its membership in Moore Stephens International Limited – one of the world's major accounting and consulting membership organizations. In addition to its core consulting and accounting practices, Armanino operates two other divisions – AMF Media Group (www.amfmediagroup.com) and Intersect Capital (http://www.intersectcapitalllc.com/).

Why Armanino?
We take the time to really learn about our clients, and we're honored to help them achieve their goals through equity compensation. Whether you're putting in long days—and nights—laying the groundwork for your IPO or just need an ASC 718 spreadsheet calculation, we're ready to serve you. Our experts streamline your equity management process and provide technical accounting along with hands-on software expertise. We offer customized equity consulting and employee stock option administration services for year-end, quarter-end, and monthly reporting, as well as transactions such as financings, IPOs, mergers, and modifications.