7 Things to Do When Your Company Goes Public

Being a part of a company that goes public brings with it myriad changes and new tasks to address. The following action items are often overlooked by executives and employees when preparing their company for a public listing.

1

Understand your vesting schedule, holding period, etc. for your non-quals and ISOs.

Have a thorough understanding of the parameters you are operating in regarding your non-qualified stock options and incentive stock options (ISOs). With a stock option, you are given the ability to buy a certain amount of stock at a certain price before expiration. This is dictated by a vesting schedule.

2

Design a plan for exercising your options and maximizing your tax efficiency (capital gains, ordinary income, AMT).

Proper tax planning is critical before, during and after you contemplate exercising any options. The spread between the market price and exercise price for any stock grant is taxable income. It is important to be conscious of the tax liability you are incurring. Familiarize yourself with the different types of tax liabilities and different treatments under the IRS code.

3

Know your Section 16 insider considerations, such as short swing profit rules, trading windows, 10b5-1 trading plans and company trading policy.

These rules are important for all insiders to know as there are strict regulations governing trading actions. These may impact your liquidity, the timing of your transactions and your overall financial planning.

4

Know your rights as a shareholder, and obtain copies of your shareholder rights agreement and right of first refusal.

These documents aren't always the easiest to track down, but if you need them, you don’t want to have to scramble to locate them.

5

Evaluate your 83(b) elections.

An 83(b) election is a way to pre-pay tax on the fair market value of an option within 30 days of your grant. As this is an irrevocable decision, it must be strategically thought out, considering all pros and cons.

6

Design a comprehensive plan for liquidating your options.

When selling options, an effective strategy includes a plan to pay for the exercise itself and tax implications of the exercise. You will also need to address any lock-up periods.

7

Assess your concentration risk and risk tolerance, and diversify over time.

An equity award may lead you to an overconcentrated position in one company. This can be risky. It likely makes sense to create a plan to diversify out of a concentrated stock position slowly over time.

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