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Ready, Set, Go Public—The 10 Things You Need to Do Now

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The IPO market is open for business. The IPO market window has slammed shut. Which is it? Unless your IPO is pricing in the next week or two, it doesn't matter. The reality is that IPO planning typically takes six to 12 months. If you hope to go public in the next year-and want to be ready when that elusive IPO window opens-here are 10 things you need to start addressing now:

• *Clean House*: No, not your personal residence, your corporate house. Think of it as "corporate housekeeping." This means getting your corporate affairs in order for the IPO process and subsequent public company life. Key tasks include reviewing your agreements, transactions, stock and option records, websites, and legal compliance to identify and fix issues before going public. Corporate housekeeping should also include candid assessments of intellectual property, human resources, tax, and other key business matters.

• *Tick and Tie*: IPO planning requires a lot of accounting work. You need to follow strict rules, make sure your auditors are independent, and pay attention to Sarbanes-Oxley. Accounting issues can add months to the IPO process, so it's best to root them out early. You'll also want to get a jump start on internal controls since their development consumes time and effort-the good news is that full implementation of Sarbanes Oxley's infamous Section 404 won't be required for at least one year after the IPO.

• *Find the Financials*: The Form S-1 registration statement for an IPO must contain audited financial statements prepared in accordance with SEC, GAAP (generally accepted accounting principles), and PCAOB requirements (the last acronym refers to the group that regulates the accounting profession.) The basic financial statement requirements are well known to every CFO. Less familiar are SEC rules that may require additional financial statements for recent acquisitions or dispositions-or even pending deals! To avoid unpleasant surprises, make sure all required financial statements are available, particularly if you've engaged in significant M&A transactions.

• *Be Quiet*: Once the formal IPO process begins, SEC rules create a "quiet period" during which you must avoid public communications that promote the company to prospective investors. Tweeting or blogging about your IPO plans are definite no-no's. Violations can have draconian consequences, including delay of the IPO. An external communications policy can help avoid quiet period violations. The policy should designate the company's authorized spokespersons; instruct employees to refer inquiries to those spokespersons; state that the company will not comment regarding rumors or inquiries concerning prospective corporate developments; and prohibit employees from discussing or disclosing internal company information outside the company.

• *Fill the Board Room*: SEC and stock exchange rules impose a number of requirements on public company boards and board committees. A majority of the company's directors must be independent; the audit committee must be composed of at least three directors who satisfy financial literacy tests and stringent independence standards; and the compensation and nominating/corporate governance committees must consist solely of independent directors. There are transition rules for new public companies, but you'll need a plan for timely compliance. Director recruitment-especially for the audit committee-can take substantial time. Note to VC-backed companies: it's unlikely that a director affiliated with a large investor (more than 20 percent stake) will qualify as independent for audit committee membership.

• *Prepare to Govern*: Every IPO company must develop a slew of corporate governance materials and practices required by SEC and stock exchange rules. You'll need charters for the board's audit, compensation, and nominating/corporate governance committees; corporate governance guidelines; a disclosure policy; a code of business conduct and ethics; an insider trading policy; a related person transaction policy; and disclosure controls and procedures. You should start now, because these topics reflect fundamental governance decisions and often require extensive board discussion.

• *Reload Stock Incentives*: Almost every public company uses equity incentives to retain and motivate employees. Prior to going public, most companies adopt a new stock incentive plan with enough shares for several years and other suitable features for a public company. An employee stock purchase plan (ESPP) can also be put in place. Since stockholder approval is much easier to obtain while the company is still private, new stock plans should be adopted prior to the IPO.

• *Remember the Tax Man*: The possibility of substantial appreciation in the value of pre-IPO stock creates estate planning opportunities. But don't dawdle: these arrangements are more valuable if put in place when the stock has less value, not the day before IPO closing. Also, you'll need to understand the tax consequences of stock option exercises and stock sales after the company is public.

• *Hire Good Help*: Yes, you can still get good help, at least for an IPO. Top-shelf management, lawyers, accountants, and investment bankers make a huge difference. Make sure to pick ones that have handled lots of companies and IPOs like yours. IPO apprentices need not apply.

• *Mind Your Business*: Above all else, don't take your eye off the business. Public investors are demanding and expect substantial revenues, strong growth, and profitability (or at least great potential, like a biotech company's pipeline of drug candidates). Make sure your business model is sustainable before committing to an IPO. Once you start the IPO process, keep a razor sharp focus on hitting your operating targets. And, since the timing of any IPO is uncertain, make sure you have enough cash to fund the journey.

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