

Mergers & Acquisitions: Processing

The second in a three-part series on Merger & Acquisition Transactions ("M&A")

In the previous article, we talked about M&A due diligence, the questions to be asked, and many of the things you should be considering once your company has decided to acquire / or be acquired by another company. Read more from M&A Part 1 of 3: [Due Diligence for Mergers and Acquisitions](#). We continue our second in a series of three by addressing the common processes involved when it comes to updating the system of record with the participants and awards impacted by the terms of the merger/acquisition Transaction.

Challenge #1: Equity Data Integration

Probably one of the most challenging areas that you will face during the M&A process is that of integrating data between equity database systems/platforms. As we mentioned earlier, timing issues are key and you will be responsible for coming up with a plan during those integration meetings and status update calls. You can choose to 1) defer the consolidation and run parallel equity database systems/platforms for a period of time or 2) consolidate immediately following the closing of the Transaction. Both decisions require careful planning.

During those discussions, you will be looking at the following options:

- **Option 1:** If you run parallel systems, you will have some financial reporting challenges, because you now have two platforms, two different systems and two places to ensure imports are properly imported and necessary updates are made. On the positive side, there is little disruption from the employee perspective.
- **Option 2:** If, on the other hand, you do an immediate consolidation (a more common approach), then you will be asking management for and hoping for a trading blackout period. Some companies may be okay with a short blackout period due to the Transaction but if they are not, and trading is allowed for the entire close period then you will have reconciling items which are a challenge. The good news is that the financial reporting will be simpler and of better quality because all of the data is maintained in one place.

For either option, weigh the risks, and discuss the PROS and CONS with the integration team. Look at what other departments are doing and come up with the solution that best suits your company's goals. Of course, don't hesitate to contact SOS and our team of experts who have been through this numerous times and can offer suggestions/ideas that have worked on similar M&A Transactions.

Challenge #2: Practice, Practice, Practice

At this point, you probably feel that you have done a lot of due diligence by gathering information and getting to know the Transaction integration teams both internally, externally and your counterparts from the other company involved in the Transaction. The Transaction Closing Date is fast approaching. Do you know what needs to happen at the Closing Date? Have you worked out a detailed project plan with clearly defined tasks, deadlines and responsible parties? Have you ensured the auditors signed off on the Company's equity integration methodology? It's very easy to get distracted with all the work going on in addition to your daily duties, but if you have remained focused on the key objectives you're responsible for then you are ready for what's next... Closing Day!

Challenge #3: Closing Day & Beyond

Throughout this process, the Target and Acquiror, have likely been issuing press releases when key conditions prior to closing have been satisfied or waived. There will likely be one more press release that contains a statement that all of the key conditions to prior to closing have been met and an expected date for closing the Transaction has been determined. The closing activities are all about timing and execution. If you're with the Target, it's time to close out those existing equity plans and database systems/platforms, accelerate and/or convert awards, reconcile, reconcile, reconcile and assist in the consolidation process. If you're with the Acquiror, then chances are that you will be the one consolidating

data from the target company with your own data. Ask yourself these questions... How will you integrate all the data into your database system/platform? How will you give new employees access to their converted awards? How will you ensure that everything reconciles from the original source? What about once exchange ratio has been applied? Can you account for and document any differences? There is a lot to be certain of, so between the due diligence phase and the closing events, your best chance for success is to outline how you will address the following items:

1. **New employees/participant data** - Scrub the target company system for census related data (i.e. names, address completeness, employee ID sequences, employee tax rates, year-to-date taxes, leave of absence data, and special fields that you will want to retain for reporting purposes that easily identify these new employees, if any).
2. **Terms of the deal** - Once the deal closes, administrators need to start implementing the terms of the deal. Know who is responsible for what post-closing adjustments need to be made to the outstanding awards by what deadline. Other departments such as payroll may need to be included as awards are cashed out and taxes collected on the gain.
3. **Converting Data** - If no accelerations are involved and the company is converting only the outstanding grants and awards, then how do you convert and integrate those converted records into your database system/platform? What is the change (if any) to the remaining vesting period? To prepare, you will want to do a data review and audit. There are several items you'll want to identify before you begin:
 - a) What is the system of record from which the grants and awards are coming? Is it the same platform you currently use or something new? How do you convert the export from one system into an import the other system will accept? It's customary to perform a gap analysis to ensure that you can get what you need out of the target system and to determine how you will fill in those items you cannot extract (if any) when the time comes. In terms of accounting for these new grants and awards, what information will be required from current system to the new system? How will you obtain information for your final file if it isn't a part of the extract? In addition to the grant detail, don't overlook the new employee detail. If employee addresses lack completeness, how will you be filling those gaps? Will the new employees retain their existing employee ID or will you need a mapping table to load them into the system?
 - b) Will you be able to use the Target's system to apply the conversion ratio? Or import the unconverted data and perform a cancel / re-grant? If neither alternatives are possible, you will have to manage the conversion outside the system, so consider each step in the process carefully... what must happen before you extract the data (if anything), and how will you reconcile the conversion of the data.
 - c) Will the record extract include pertinent data: employee name and ID, grant ID, vesting schedule, vesting schedule adjustments, grant date, Plan ID, price, FMV and special fields that have been previously used for reporting purposes that you may want to import?
 - d) Grant IDs: Can you retain the old grant IDs? Or will this cause duplicates in the system? Have you considered the best approach from an employee perspective as well as from an accounting perspective? You can help your new employees by using part of the existing number and perhaps adding a prefix for accounting (if space allows). This gives you and your employees a way to quickly and easily identify the acquired/converted grants on every report and communication.
 - e) Plan details: Before you can load the Target's grants/awards you may also need to set up the acquired plan. This may involve several plans or a single one, depending on what is acquired and/or assumed by the Acquiror. Be careful of the naming conventions: Do you now have two plans with the same name? What are the terms of the plan?
 - f) Section 16 Officers and Directors: Confirm with Legal who these individuals are and understand what their roles will be following the closing of the transaction. Will they continue to be a Section 16 reporter or will they cease to be a Section 16 reporter altogether? Identify all special handling both in the system and outside the system.
4. **Post conversion communications** - How will you provide statements to your new participants, showing changes to their awards? Employees will be anxious to see these changes. Will you

provide pre and post conversion statements? Via email or paper? Will employees be required to accept and acknowledge the changes? SOS works regularly clients to build these statements that simplify communication and reduce confusion.

5. **What about the accounting?** Will you need to split grants to ease the accounting process? Vested shares at acquisition are accounted for as part of the purchase price of the Target, but if they are vested and outstanding do you have a way to identify those shares while expensing the unvested portion properly going forward (if applicable)? Depending on the systems involved you may need to prepare custom reports to get the information from the system as well as to properly account for it going forward. How does the conversion line up to the forecast?
6. **Reconciliation** - The next item of consideration will be the reconciliation process: what tools do you have in place to ensure that you can reconcile the data. Depending on the decisions made about the approach - reconciliation can be challenging.

In the third and final installment of this three-part M&A series, we'll talk about what happens "[After the Dust Settles](#)" and the deal is complete.

Questions or comments? Please email us at xtra@sos-team.com

About Stock & Option Solutions

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