

## The What

The title “cap table audit” doesn’t quite capture the depth of the service. The point of the audit is to verify that each securities issuance listed in your company’s cap table and securities ledgers (stock, warrants, convertible promissory notes, option and other equity compensation awards/plans, and SAFE transactions) is...

- Properly authorized by the board of directors.
- Has received shareholder consent, when appropriate.
- Consistent between...
  - what is approved by the board
  - what is documented in the transaction documentation
  - what appears in the company's cap table and ledgers and/or tracking database
- Supported by the company's authorized capital as stated in its charter documents
- Compliant with IRC 409A grant date FMV award pricing

We document any discrepancies so that your company can easily fill in the gaps, before the gaps become critical to complete a corporate transaction. If the cap table audit is done in conjunction with a data migration, then we also verify whether equity compensation awards are Rule 701 compliant and ISO \$100k limit compliant.

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## The Why

A cap table audit is a critical step at multiple points in a private company's growth and is always a smart investment for a company's bottom line. This is an essential step if your company is going through a corporate transaction such as VC financing, merger/acquisition, IPO, or a financial audit.

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## The When

Most commonly, a cap table audit is performed before the corporate transactions above. A common mistake is waiting until the last minute when a rushed review means that there is not adequate time to resolve discrepancies that are uncovered, which may lead to awkward and costly delays. Ideally, a cap table audit would be performed at the time of a company’s first issuance of preferred stock and then updated prior to each subsequent round or annually.

The next best time to do the initial audit is when your company moves from one tracking system to another in conjunction with a data migration. A cap table audit at this time will ensure that the data going into the new system is clean and there won’t be any historic cleanup work to do later (complicated...dozens of other related items).

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## The Who

A cap table audit is never a linear process. Even when all of the documents are readily available and comprehensive, it is still like assembling a jigsaw puzzle. The one assembling the puzzle needs to have a solid understanding of corporate governance documents, securities transaction documents, and the laws and regulations that affect securities and equity compensation issuances. It is a unique skillset not even often found in Certified Equity Professionals.

An important sideline to that is confidentiality. Some companies have secrets that they may not want their own employees to know, even simple things like who their powerful and famous investors are or who has how much ownership in a company. SOS consultants, work with data. Period. And we don't have opinions one way or the other about that data. And we don't talk to anyone about it. Double-period.