

Technology Company Simplifies FAS 123R Compliance

And Enjoys the Collaboration Benefits for Free

CUSTOMER CASE STUDY



KEY BENEFITS

- Provides Increased Internal Control and Better Collaboration
- Streamlines the Audit Process and Improves FAS 123R Compliance
- Saved 5 Days of CFO Time Related to Due Diligence and Employee Questions
- Lowered Annual Audit Costs by \$7,000 to \$10,000
- Reduced Legal Fees by \$600 Per New Employee Grant

The Challenge: Reduce the Risks Associated with Manual Stock Plan Administration

Iconix, Inc. is the leading provider of email identification solutions that combat identity theft, commonly called “phishing.” Its anti-phishing tools are distributed by companies such as PayPal and Trend Micro. Chief Financial Officer Robert Zager sought a solution that would assist the company in complying with the rigorous new stock option valuation, expensing and tracking requisites created by FAS 123R.

At the same time, the company’s audit firm, Macias Gini & O’Connell LLP, emphasized the need for Iconix to reduce the risks associated with manually updating complex stock option spreadsheets. The annual audit reconciliation had become an onerous process that claimed at least three days of CFO time and often involved exchanging numerous spreadsheets, tedious retyping, reconciliation errors, hours of phone calls between lawyers and accountants, and time wasted searching file cabinets for missing minutes and supporting records.

Macias Gini & O’Connell suggested Zager attend a webinar hosted by Two Step Software to learn how their stock plan management product, Equity Focus™, could meet their needs.

The Solution: A Shift to Fast, Efficient Electronic Stock Data Management

Zager consulted his lawyers, Morrison & Foerster LLP, on the feasibility of moving the company’s stock and option data from its current repository within the firm to Two Step’s Equity Focus. To his surprise, he discovered that his lawyers were already using Two Step’s law firm focused product, Corporate Focus™, to track Iconix’s capitalization and corporate governance information. Therefore, the stock data could be easily transferred to Equity Focus.

Assured of a painless data transfer, Zager purchased Equity Focus. The web-based product, hosted by Two Step Software, didn’t require any software installation or ongoing maintenance by Iconix. With only minimal online training needed, Zager and his staff were up-and-running with the program in a matter of days.

Upon implementation of Equity Focus, Zager was impressed with the precision and speed with which the program calculates FAS 123R valuations and amortization schedules and generates complex capitalization tables. “Creating capitalization tables can be a nightmare,” he said. “Equity Focus is a fantastic tool for performing complex calculations and generating capitalization tables as of any date.”

Zager also discovered Equity Focus’ value in maintaining good internal controls that insure timely data entry for stock and option transactions and the related corporate governance documentation. He created a formal checklist to track and record the corporate and legal data related to each employee option grant, exercise or stock issuance. This checklist generated a structured approach to data collection and review for both equity compensation and corporate governance tracking.

Complete stock plan administration, FAS 123R valuation and expensing, and capitalization table management for venture-backed and other privately held companies.

- One centralized location for all equity transactions
- Intuitive administration with easy-to-use tracking wizards
- Complete audit trail with supporting legal documentation
- Fully diluted capitalization tables for all types of securities
- World class hosting facility so you can get started right away

ABOUT ICONIX, INC.

ICONIX, Inc. is the leading provider of trusted email identification solutions. ICONIX provides the industry's first visual eMail ID solution for businesses and consumers. The Iconix® solution enables consumers to quickly identify messages from legitimate senders, which proactively combats widespread email-based identity theft techniques, such as phishing. The Iconix® Truemark® service is the only standards-based visual authentication solution that works across various email platforms. For more information, visit www.iconix.com.

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Call: (800) 223-8900
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Email: sales@twostep.com

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The ability to enter and track data electronically has simplified the process of granting stock and options to employees. Now, Iconix staff prepares the documents for each option grant or stock issuance and enters them into Equity Focus. The lawyers at Morrison & Foerster then access and review the documents, enter the new stock and option records, process exercises and then print the stock certificates for the company's signature. The signed certificates, along with copies of receipts, checks, and FAS 123R supporting documents, are then scanned and electronically attached to the original records. Their accountants at Macias Gini & O'Connell LLP even have direct access to the information.

"Whether the company is actively involved in the process of raising money or not, stakeholders expect precision and responsiveness from the accounting department," Zager said. "Being able to pull up a vesting schedule or capitalization table quickly is crucial."

The Results: Better Communication, Substantial Time Savings and Improved Compliance

Bob Zager and his company have discovered a host of benefits from using Equity Focus, both practical and financial:

- **Improved communication.** For instance, Zager's staff posts board minutes to Equity Focus and retrieves information through simple searches facilitated by its keyword look-up function. Readily accessible data, along with the program's robust document linking capabilities, enables Zager to produce a fully-integrated electronic paper trail for the company's lawyers and accountants. Zager feels that this has had a positive impact on communications with his constituents. He says, "As CFO, I can't stress how important it is to supply an accurate and prompt answer when asked a question about equity."
- **Significant time savings.** Most surprising to Zager is how much time Equity Focus has freed up. For example, when it comes to granting options to new employees, his assistant single-handedly performs tasks that previously took four different people to complete, saving Iconix about \$600 per new employee grant. Zager also spends less time researching answers to questions related to their multiple classes of stock and total ownership.

"I was answering several of these requests per quarter—each taking between 30 minutes and an hour of my time. Now, I am able to save at least 16 hours per year since I'm able to respond to these questions in a matter of minutes. Moreover, I have increased confidence in the accuracy of the answers."
- **Sound FAS 123R Compliance.** Iconix's auditors feel that Equity Focus provides a solid and complete solution for FAS 123R compliance. "Now, we're able to prepare for the next audit cycle and collaborate with our business partners more quickly," Zager observes. "Accurate equity compensation tracking and reporting has greatly increased shareholders' confidence. At the end of the day, that's what it's all about."

When asked about the impact of Equity Focus on the company's bottom line, Zager remarks, "Our auditors tell us we're saving between \$7,000 and \$10,000 on our annual audit—even more if you factor in the 4 to 5 days of my time and \$6,000 of paralegal time. When I think about our prior Excel-based approach, there's no doubt in my mind that we made the right decision to purchase Equity Focus."