

FINANCE/CFO BEST PRACTICES SURVIVAL GUIDE for DFJ PORTFOLIO COMPANIES

Produced for DFJ by



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ABOUT THE BRENNER GROUP, INC.:

The Brenner Group, Inc., based in Silicon Valley, is a leading provider of interim financial management, restructuring, valuation, and financial advisory services. Since 1987, TBG has worked with more than 1,500 emerging growth and strategically-stalled businesses. TBG provides senior executive, CFO and controller-level expertise on an interim or project basis depending upon client needs. Staff assignments focus on the most prevalent challenges confronting a company, including; implementing operational infrastructure and controls, achieving financial stability, developing sound business plans, building efficient and effective organizations, and connecting to essential service providers.

TBG also supports clients in complex financing transactions such as mergers and acquisitions, joint ventures, divestitures and IPOs, and provides expert securities valuation services essential for administering stock-based compensation plans.

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Formation	
0-20 employees; Pre-revenue; Min 1 Board member	
Typical office staff:	Office mgr or bookkeeper Part-time Controller and CFO (both outsourced)

1. Get started as a corporate entity:

Typical venture backed companies incorporate in Delaware and register as a foreign corporation with the CA Secretary of State in order to have an office and do business here.

Obtain a Federal Tax ID by filing **IRS Form SS-4** and obtain a State Employer Number by filing **FTB form DE-1** for California (or equivalent for other states).

- a. Establish a full-service business banking relationship:
 - Open a checking account for commercial transactions and a money management account to invest non-operating cash balances.
 - Establish authorized check signers and a disbursement approval policy.
- b. Contract with a payroll service to administer payroll and provide tax reporting, automatic deposit of tax withholdings and other specialized administration.
- c. Select benefits broker to establish employee group health and insurance benefits plan.
- d. Establish basic recruiting and hiring practices and paperwork including “at-will” employment offer letters, confidentiality agreements, invention agreements, form I-9, Employee Handbook, personnel files, and emergency processes.
- e. Establish a simple process for retaining contract workers including a contractor agreement that addresses confidentiality and ownership of IP and clearly outlined scope of work and consideration.
- f. Contact business insurance benefits brokers to secure appropriate workman’s compensation, business, property, and D&O insurance. Timing of workman’s comp should coincide with first non-officer hire and D&O should coincide with significant funding event.

2. Install essential accounting and finance infrastructure:

- a. Establish basic policies and procedures:
 - Investment Policy Guideline
 - PO Guidelines, and signature levels
 - Check signing authorities and basic segregation of duties policy.
 - Travel authorization and expense reimbursement policy.
 - Engagement of independent contractors detailing company and contractor reporting requirements.

- b. Staff or out-source the accountant and controller/CFO functions, based upon the needs of the Company at various stages. Typical staff guidelines are noted above, but must be determined based upon individual company needs and considerations over time.
- g. Set up the basic accounting and finance infrastructure on appropriate web-enabled or PC-based accounting software solution including:
 - General Ledger with a chart of accounts tailored to electronics industry.
 - Accounts Payable function with vendor information
 - Bank and payroll reconciliation
 - Ability to support basic financial reporting, including P&L, balance sheets and analysis of cash flow.
 - Ensure that all financial statements are prepared consistent with US GAAP.
- h. Solicit and appoint a licensed independent public accounting firm that will produce certified audited financial statements and reviews of internal controls.
- i. Establish physical control of all equipment and office furniture;
 - Establish capitalization cost level for tools, equipment and furniture.
 - Affix pre-numbered tags
 - Maintain a record of issuance by tag # and person responsible for all assets as they are placed in service.
- j. Establish and administer an incentive stock option plan
 - Compile a detailed list of shareholders and a consolidated capitalization schedule by class.
 - Create and maintain an incentive stock option plan and an active participant data base (consult legal counsel and HR professionals)
 - Engage legal counsel to draft an appropriate Plan that will govern approval, vesting provisions, issuance and termination of incentive stock option grants (ISOs).
 - Obtain approval of the Board of Directors for the adoption of the Plan and an available pool of shares reserved for option grants.
 - Engage an independent valuation firm to obtain a detailed valuation of common stock and a recommended fair market value of common shares. Such 409A valuation reports should be updated periodically and as events occur that may impact the Company's overall valuation
 - Establish guidelines as to number of shares to be granted in connection with the recruitment and staffing of new positions to insure that individual grants are determined on a consistent basis relative to grantee's role and responsibility within the organization and that the overall pool of shares is allocated prudently.
 - Establish a process for computation of annual stock-based compensation expense in accordance with guidelines of ASC 718, formerly FAS 123R.

3. Implement Company-wide financial planning and control discipline:

- a. Develop a Summary 5-year Plan with P&L, balance sheet, and cash flow projections.
 - Monthly for the first year, quarterly for years 2 and 3, then annual for years 4 and 5.
- b. Develop an Annual Operating Plan (AOP) with an integrated methodology linking top-level 5-yr goals to annual milestones.
 - Gather market intelligence; situation analysis & define multiple scenarios
 - Corporate objectives and strategy; define & build consensus at all levels;
 - Functional objectives; staff and equipment requirements
 - Financial projections and detailed budgets (seek experts).
- c. Establish financial reporting policy, including report formats and metrics (P&L, balance sheets, analysis of cash flow, product margins, etc.) with budget/plan comparisons and analyses;
 - Reporting frequency and time deadlines,
 - Control and distribution of confidential data,
 - Maintain backup support and detail reconciliation integrity of core financial data.
- d. Develop a Private Placement Memorandum (PPM), Executive Summary and 20-slide PowerPoint presentation to solicit investor interest for the Series A round.
- e. Implement facilities and business expansion. Determine space requirements and locate facilities suitable to support operations for at least 24 months.
- f. Negotiate and complete the lease arrangements for new office space. If applicable, establish sources of financing for tenant improvements.
- g. Establish secure files and responsible personnel as custodian of financial reports, material agreements, minute books, licenses, etc.
- k. Implement data protection measures including backup and remote storage of corporate data and computer programs/source code.

Series A	
5-50 employees; Rev up to \$10M; 3+ person board	
Typical staff:	Office mgr/accountant Controller Part-time CFO (outsourced)

Continue all processes from Formation stage –

PLUS:

- a. Review, expand upon, update and formalize the signature authorization policy approved by the Board of Directors setting approval guidelines and limits for purchasing, staff additions, compensation, travel and other contract commitments;
 - Communicate in writing to key personnel
 - Identify each person in authority matrix based on existing staff
 - Update at regular intervals
 - Compile a Segregation of Duties Matrix
- b. Review, update and formalize the reporting policy.
- c. Establish revenue recognition policy.
- d. Establish pricing policy and controls for products and services.
- e. Establish customer credit policies and related internal controls governing order processing, ship authorization, credit limit authorization and collections administration.
- f. Establish balance sheet reserves for critical accounts.
- g. Solicit and negotiate an asset-based loan facility with a financial institution to fund working capital requirements and/or provide equipment leasing arrangements as required.
- h. Establish inventory management and control policy and physical control measures;
 - Tracking and control must be tied to purchasing authorization, cost accounting and credit/ship authorization policies.
 - Build and staff a secure warehouse, as appropriate.
 - Sales demo, engineering and or prototype materials must be segregated and tracked.
- i. Formulate state sales tax reporting and control policy and procedure in connection with product shipments and internally consumed materials.
- j. Establish Master scheduling and repetitive inventory purchasing controls (MRP)
- k. Establish customer return policy (RMA)
- l. Establish appropriate product warranty policy

- m. Establish appropriate inventory turns guidelines.
- n. Establish ROI methodology and capital project acceptance rules.

Series B+	
50-100 employees; Rev up to \$30M; 5 person board	
Typical staff:	1-5 accounting and clerical staff Controller CFO

Continue all processes from Series A stage -

PLUS:

- a. Establish Corporate Governance policy; Appoint audit and compensation committees of the Board of Directors comprised of 100% outside directors, if possible.
 - Define roles and responsibilities,
 - Est. linkage with internal executive officers and other key personnel.
 - Est. linkage with outside counsel and audit firm.
- b. Establish comprehensive department and/or functional profit centers.
- c. Establish regular planning, budgeting and forecasting policy and organizational accountabilities.
- d. Develop and implement budget and control templates tailored to each fiscal accountability segment, and integrate with financial management systems to consolidate.
- e. Establish company-wide employee performance appraisal system and standards linked to compensation policy.
- f. Review and document the Company's system of internal control over financial statements and IT consistent with S-Ox 404.