

**“Pre-IPO Through IPO:
Compensation Strategies for a Smooth Transition”**

Wednesday, March 18, 2026

Course Materials

“Pre-IPO Through IPO: Compensation Strategies for a Smooth Transition”

Wednesday, March 18, 2026

2 to 3:30 p.m. Eastern [archive and transcript to follow]

SEC Chairman Paul Atkins has emphasized his goal of revitalizing the IPO market, but regulatory reform doesn't change the reality that an IPO is one of the most consequential moments in a company's life — and one that can dramatically reshape executives' day to day experience. As companies prepare to go public, executive compensation arrangements often need significant redesign to ensure leaders are motivated, retained, and aligned throughout the transition, while countless related decisions and processes must be carefully coordinated. In this webcast, a panel of experienced advisors will walk through key compensation considerations from the pre-IPO phase through the offering and into the first chapter of public company life, with a focus on practical strategies for designing, implementing, and communicating compensation programs and governance frameworks that support a smooth transition. Plus, they'll answer your burning questions.

Join our panelists:

- **Timothy Durbin**, Counsel, Morgan Lewis
- **Lauren Mullen**, Managing Director, Alpine Rewards
- **Ali Murata**, Partner, Cooley
- **Aalap Shah**, Managing Director, Pearl Meyer
- **Maj Vaseghi**, Partner, Latham

Topics include:

1. Assessing Existing Arrangements and IPO Impact
2. Designing and Communicating Special IPO Awards
3. Managing “Cheap Stock” Issues; 409A Valuations

4. Designing and Adopting New Equity Plans and ESPPs; Share Pool Strategy
5. Negotiating New Employment Agreements; Change in Control and Severance Terms
6. Navigating Lockups, Blackout Periods and Post IPO Selling Mechanics
7. Establishing the Post IPO Executive Compensation Program
8. Building Compensation-Related Policies, Governance and Controls
9. Communicating with Executives and Employees Through the Transition
10. Transitioning Director Compensation (time permitting)
11. Q&A: Answering Questions Submitted in Advance (15 minutes)

“Pre-IPO Through IPO: Compensation Strategies for a Smooth Transition”

Course Outline

1. Assessing Existing Arrangements and IPO Impact

- A Morgan Lewis ML BeneBits Blog from October 2024, “Executive Compensation Considerations if IPO Markets Pick Back Up in 2025,” says:

In the lead-up to an IPO, a company should consider the impacts that the IPO will have on existing executive arrangements generally and equity compensation considerations specifically. For example, it is common for an IPO not to be treated as a “change in control,” “change of control,” or “liquidity event” under its equity plan and the individual award agreements that govern private company equity awards. Many companies do not have other bonuses or arrangements with key executives that will become automatically payable in connection with an IPO.

It is advisable to review all outstanding equity awards and other executive compensation arrangements to ensure that executives have sufficient incentives to get to the IPO. If no arrangements will be automatically triggered, consider structuring bonuses or other arrangements to reward the executive team for getting the company through a successful IPO. It is not uncommon for members of the executive team to retain their own legal advisors to negotiate these arrangements and advise on market practices from the executives’ perspective. This review tends to be coupled with the proposals and considerations below to ensure that key employees and service providers will be incentivized for post-IPO success.

- Current arrangements to inventory and assess include:
 - Outstanding equity awards (options, RSUs, PSUs, profits interests, phantom/other), including vesting mechanics,

settlement timing, tax withholding, and any liquidity/secondary market features

- Cash incentive plans (annual/short-term) and any ad hoc discretionary programs
- Employment agreements, offer letters, severance plans, change in control arrangements, change in role protections, and post-termination restrictive covenants

2. Designing and Communicating Special IPO Awards

- Clarify the purpose of these awards before designing:
 - Are they rewarding achievement, retentive awards or bridging to a new public-company approach to long-term incentive compensation?
- Avoid the “oversized, front-loaded” trap
 - A Pearl Meyer Alert from April 2025, “The 2025 IPO Market and Compensation Considerations,” says:

The IPO surge of 2021 offers important lessons for today’s companies preparing to go public. Many firms issued oversized, front-loaded equity grants (often in the form of stock options and/or performance-based equity tied to stock price or profit hurdles) to executives, aiming to replicate pre-IPO gains and signal alignment with shareholders. However, these grants proved risky — highly dilutive and often underwater — leading to unrealistic future expectations. A more measured approach — aligning grant size with a consideration for the unvested value of pre-IPO equity at IPO — combined with a long-term equity philosophy and in line with peer norms (*e.g.*, 50th –75th percentile share usage), offers greater sustainability and internal consistency.

- Calibrate award sizing and vehicles using market data and considering the holding power of existing equity
 - A ClearBridge Insight from January 2025, “Preparing for an IPO: Equity Compensation Insights,” noted that one-time special IPO grants to CEOs typically ranged “from ~0.5% to 2.5% of market cap at grant, with an inverse relationship between market cap and grant value as a percent of market cap (*i.e.*, grant values as a percent of market cap are generally higher at companies with lower market caps and vice versa)”
 - Most of those grants included options or PSUs (typically earned based on stock price/total shareholder return), usually in combination with RSUs
- On vehicle mix, the April 2025 IPO market Pearl Meyer Alert says:

Traditional stock options often lose retention power in volatile markets. Introducing performance-based equity — even with shorter performance periods than the typical three-year period — can balance accountability and flexibility, aligning with investor expectations while recognizing the forecasting challenges of a newly public company. However, to the extent that performance-based equity is contemplated, consider balancing the equity portfolio with time-vested restricted stock, to provide for a hedge against any initial volatility in the first few years as a public company and provide for executive retention/holding power.

3. Managing “Cheap Stock” Issues; 409A Valuations

- The Morgan Lewis blog says:

During the period prior to an IPO, private companies often seek to incentivize employees through the grant of stock and stock-based equity awards. While this practice is frequently a successful means of incentivizing key employees and service providers, without sufficient preparation and consideration, the

practice can raise the issue of whether pre-IPO awards represent “cheap stock.”

The granting of cheap stock awards can trigger a myriad of accounting, tax, and disclosure issues and tends to raise concerns with, and increased scrutiny from, the US Securities Exchange Commission (SEC) during the registration process. With equity being a popular form of compensation for many pre-IPO companies, the following are key considerations companies should take prior to the IPO:

- i. Work with outside advisors well in advance of the IPO process (especially in the 12-month period prior to the IPO) to understand the potential accounting, tax, and disclosure implications of cheap stock grants.
 - ii. Obtain frequent independent valuations with respect to the value of shares underlying all equity awards made during the pre-IPO period (with the valuations made contemporaneous to, or close in time to, the grant date of the equity awards).
 - iii. Ensure that there is a good corporate record of all grants of equity awards, including formal approvals by the company’s board and its consideration of outside independent valuation.
- See Section 9520 of the SEC’s Financial Reporting Manual, “Share-based Compensation in IPOs” and Internal Revenue Code Section 409A

4. Designing and Adopting New Equity Plans and ESPPs; Share Pool Strategy

- Pre-IPO companies typically adopt a public-company-style omnibus equity plan and approve new award agreements, and many pre-IPO companies also adopt an Employee Stock Purchase Plan (“ESPP”)

- An ESPP allows employees to purchase shares at periodic rates through payroll deductions. This is typically offered to a broader group of employees than those who receive LTI awards under the equity incentive plan, so the Morgan Lewis blog notes that these are considered in connection with an IPO “to ensure that all employees are incentivized for success”
- Plan terms and share pools for both plans are carefully considered
- The ClearBridge Insight noted that:
 - The “median initial share pool is 10% of basic common shares outstanding (‘CSO’)” and
 - The “majority of companies include an evergreen provision upon going public (~4% to 5% of basic CSO annually), recognizing they are almost always removed when shareholder approval is next requested”
- The Morgan Lewis blog notes that a liberal share recycling provision is also commonly included at IPO (providing that shares of awards that are forfeited or used to satisfy exercise price or tax withholding are added back to the share pool)
- These plans are filed as exhibits to the IPO registration statement on Form S-1 per Item 601(b)(10)(iii)(A) of Regulation S-K and the material features are described in the IPO prospectus

5. Negotiating New Employment Agreements; Change in Control and Severance Terms

- It’s common to enter into new employment agreements with the company’s executive officers to be effective upon IPO
- These will standardize arrangements to public company style agreements, with the focus on severance and change in control protections, plus restrictive covenants

- These employment agreements (or forms thereof) are filed as exhibits to the IPO registration statement on Form S-1 per Item 601(b)(10)(iii)(A) of Regulation S-K
- In the IPO prospectus, any material factors necessary to an understanding of the information disclosed in the Summary Compensation Table and Grants of Plan-Based Awards Table (Items 402(c) and (d) of Regulation S-K) must be disclosed in an accompanying narrative, including the material terms of the named executive officers' employment agreements or compensation arrangements (whether written or unwritten) per Item 402(e)(1)(i)

6. Navigating Lockups, Blackout Periods and Post IPO Selling Mechanics

- Lockup periods are getting shorter, and early release mechanisms are more common and even a possible tool to help with public float
 - For example:
 - Early release based on stock price performance,
 - Accommodating a release if the lockup is set to expire during a quarterly blackout period, or
 - Both
- Securities Act Rule 144
 - Latham's US IPO Guide 2025 Edition explains Rule 144 resales:

After a company's IPO, certain public sales of the company's shares will be subject to restrictions. Pursuant to Securities Act Rule 144, persons who acquired their securities prior to the IPO and persons who are deemed "affiliates" of the company must comply with the following provisions in order to sell freely their shares to the public without registration. Affiliates must comply with Rule 144 even if their securities were purchased after the public offering in the open market.

7. Establishing the Post-IPO Executive Compensation Program

- This begins with ensuring the company has a well-defined go-forward compensation philosophy
- It also includes developing a peer group to assess pay levels
 - The April 2025 Pearl Meyer Alert, “Executive Compensation Checklist for Pre-IPO Companies,” suggests developing two distinct peer groups:

The first, the pre-IPO peer group, should consist of companies that recently went public, are of similar size in terms of valuation, and in similar industry sectors. This will provide insights into IPO-specific compensation practices such as equity incentive plan provisions (*e.g.*, initial share pool, evergreen refresh, other key legal terms and conditions), employee stock purchase plan provisions, equity ownership levels, and equity grant practices at or around the time of the IPO.

The second, the industry peer group, should be composed of established public companies in similar industries and of similar scale. This will inform total compensation benchmarking, market norms on incentive (short- and long-term) design, expected annual share usage, and stock-based compensation expense.

8. Building Compensation-Related Policies, Governance and Controls

- There are myriad compensation-governance-related steps companies and their boards need to take during the lead-up to an IPO
- For example:
 - Establish or formalize an independent compensation committee, charter, and calendar (*see* Nasdaq Rule 5605(d) and NYSE Listed Company Manual Section 303A.05)

- Adopt an insider trading policy, related party transactions policy, and clawback policy (see Exchange Act Rule 10D-1, Nasdaq Rule 5608 and NYSE Listed Company Manual Section 303A.14)
- Consider equity grant policies (authority, delegations, timing, communications)
- Engage a transfer agent and a tool for stock plan administration

9. Communicating with Executives and Employees Through the Transition

- It's critical to clearly communicate to executives and key employees throughout the IPO process regarding:
 - The impact of the IPO under existing compensation arrangements
 - The treatment of existing equity awards upon IPO
 - Why special, one-time IPO awards are being awarded, what behaviors are being rewarded, and how the IPO award fits into the post-IPO annual program
 - The post-IPO compensation programs and arrangements
 - Lockup terms, post-IPO policies and post-IPO selling mechanics

10. Transitioning Director Compensation

- The April 2025 Pearl Meyer Checklist says:

A large task when transitioning to a public company is creating a structured compensation plan for board members. This should be guided by practices among the industry peer group. Such a plan typically includes cash retainers and fees for board and committee service, as well as equity grants — both initial and annual — and may include stock ownership guidelines and/or retention requirements. Legal counsel should help codify the

policy, and summary materials should be prepared for use in recruiting new board members.

- Director pay programs largely follow the same design at most public companies
 - A recent Harvard Law School blog post by The Conference Board reviews 2025 board director compensation practices at U.S. public companies and found that, in the Russell 3000 and S&P 500:
 - Director pay has largely leveled off, rising just 2% in the Russell 3000 and remaining flat in the S&P 500, reflecting a mature and disciplined compensation model with medians clustered near \$250,000.
 - Shareholder-approved limits have become a core governance safeguard, now adopted by roughly three-quarters of companies in both indexes, with a typical \$750,000 cap that signals tighter oversight and growing investor scrutiny.
 - Director core pay elements have largely settled into a stable pattern, with cash retainers flat at \$75,000 (Russell 3000) and \$105,000 (S&P 500), stock awards holding at \$150,000 and \$190,000, and only minor variation in option values.
 - Companies have converged on a streamlined retainer-only structure, used by about 90% of firms as meeting fees continue to decline in prevalence and value, reinforcing a shift toward simpler and more predictable pay designs even as director responsibilities expand.
 - Director perquisites remain modest and highly concentrated, with travel reimbursement still the only widespread benefit (above 50% in both indexes) and most other perks — such as education support or

charitable-match programs — concentrated among larger S&P 500 companies.

- Director pay programs must be described in the IPO prospectus pursuant to Item 402(k) of Regulation S-K