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LEA GLOBAL IMPROVES MANUFACTURER'S PRE-IPO FINANCIAL CONTROLS

THE SITUATION

A small manufacturing company sought to go public and engaged an accounting firm to conduct an audit. However, the accounting firm quickly realized that the client did not have the infrastructure, internal controls and reporting practices in place in order for it to successfully conduct the audit.

To bring the manufacturer up to speed, the firm brought in professionals in a number of areas. It asked an LEA US firm for help with technical accounting and financial reporting issues, including tax provisions and foreign transfer pricing.

While the LEA US firm typically functions as the auditor in these instances, the firm has leveraged its skills in a consulting capacity to help its colleagues obtain the best results for the client.

THE LEA GLOBAL SOLUTION

Initially, the LEA US firm's involvement was to be limited, but once it started examining the company, it realized it could serve in a broader capacity. It functions as part of the management team to help the client understand and sort through technical accounting issues and then communicate those issues to the auditing firm and help resolve them.

To potentially position the company to file an initial public offering, the LEA US firm needed to bring in three other LEA Global firms, including one in Germany and one in Japan, as the client has major subsidiaries in these countries. These firms worked with the LEA US firm to provide local accounting, tax advice and information, as well as language





support, and they helped compare their countries' financial reporting rules with US Generally Accepted Accounting Principles reporting. The LEA US firm also worked with a fellow US LEA firm on transfer pricing.

On the accounting side, the LEA US firm worked closely with managers of the manufacturing company to identify a dozen technical accounting issues, joining forces with them to understand how they accounted for transactions, then developed white papers that outlined these processes. It also identified the necessary components for the

company's financial statements and created a collaborative process to discuss questions and concerns as they arose.

A key leader at the LEA US firm said that while there were some philosophical differences, this collaborative process helped the parties find middle ground, even if it sometimes took months. The process provided a classic learning experience for management as they experienced, for the first time, what it is like to go public.

On the tax side, the LEA US firm conducted tax provision work with respect to prior years on a US GAAP basis. The firm assisted management in preparing financial statements with local country

detail, allowing for differences in international jurisdictions, seamlessly integrating US and non-US reporting and helping management understand how to create and utilize these reports.

THE RESULT

After six months of working with the client, the LEA US firm's involvement has resulted in infrastructure improvements, including bettering the way management collects information and reports it, and improving revenue recognition and soft base compensation. Management now understands these issues and can effectively collect the data and make decisions regarding it.

The LEA US firm's involvement has also resulted in better internal controls. Even if the company doesn't decide to pursue an IPO, the LEA US firm has cleaned up the books, and the improvements will greatly benefit the company. The company's staff is now positioned with a good understanding of US GAAP and taxes, internal controls and financial reporting so when leadership decides to go public, or exit or sell the company, they will

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be better equipped to arrive at the end result. The experience has been informative for the company and has resulted in a tremendous amount of process improvement.

The LEA US firm is wrapping up final audited financial statements and will then begin interim statements. Once those are completed, the client company will be able to file S-1 registration with the US Securities and Exchange Commission to become a public company.

"Going public is a very taxing process, but when you layer international operations on it, it becomes highly challenging," says a partner at the LEA US firm and director of its International Taxation Services Group. "With our resources with LEA, we have the ability to shepherd clients through the entire process with the view toward achieving a very positive and lucrative public offering event."

To learn more about LEA Global, visit www.leadingedgealliance.com or email kkr@The-LEA.com. ■

THE SITUATION

A small manufacturing company sought to go public and brought in an accounting firm to help it conduct an audit. This firm realized that its client did not have the infrastructure, internal controls and reporting practices in place to conduct the audit and engaged an LEA US firm for help with technical accounting and financial reporting issues, including tax provisions and foreign transfer pricing.

THE LEADING EDGE SOLUTION

The LEA US firm engaged LEA Global firms in Germany and Japan, where the client has major subsidiaries, and a fellow US LEA is a firm for help with transfer pricing. This positioned the company to navigate the procedures and legalities to eventually execute an initial public offering.

THE RESULT

While the work is still under way, the client has already achieved internal results such as infrastructure and internal control improvements, and is well on its way to eventually go public.

