HOW TO DEPOSIT PRE-IPO SHARES INTO YOUR BROKERAGE ACCOUNT

A Step-by-Step Guide

Most people assume that when a company goes public – or when they buy shares of a public company via a private offering (usually using Regulation A+) – the shares they own magically appear in the investor's brokerage account.

As convenient as that would be, this isn't the case; You – the investor – are responsible for depositing their shares and paying all associated fees!

Which, if you're not aware of what are, could wind up costing you hundreds – if not thousands – in administrative and legal fees.

In this guide, we'll walk you through the entire process – step-by-step – to make sure you know exactly what to do.

The Lifecycle of a Pre-IPO Security

Before you buy any Pre-IPO investment, it's important to understand exactly how the buying and selling process works, from end-to-end.

For example purposes, we will assume you've already created your free account on the Equifund Crowdfunding Portal... have already identified a Pre-IPO investment opportunity, and you are ready to purchase your shares.

[note: the process is fundamentally the same, regardless of what portal or broker dealer you purchase shares from. However, we can only speak specifically to how it works within our ecosystem]

STEP 1) Subscription Agreement Signed

The investor signs (and submits) all required documentation, which includes ***Personal Identification Information (PII)*** required for all ***"Know Your Customer" (KYC)*** and ***"Anti-Money Laundering" (AML)*** compliance protocols.

If the information provided doesn't match the information on file in the KYC/AML database, you will be contacted by customer service who will ask you for additional documentation.

For the purposes of this verification process, a non-refundable $24 transaction fee is charged to you to cover the baseline costs associated with KYC/AML.

We understand this $24 fee might be inconvenient for smaller-dollar investors to pay versus a percentage-based fee. However, a percentage-based fee unfairly penalizes larger investors.

We refuse to turn our compliance fees into profit centers, and instead choose to be transparent about the true cost of compliance we bear and ask the investor for their understanding in the matter.

STEP 2) Funds Remitted & Cleared

Once you've signed your subscription agreement, now you need to send payment for your shares via ACH, Credit/Debit Card, Wire, or by mail via check/money order.

Please be advised that different payment methods take different amounts of time to be remitted and cleared.

- **Wires** — 24 hours (one business day) following receipt of funds;
- **Checks** — 10 days following deposit of funds to the Escrow Account;
- **ACH** — 10 days following receipt of funds;
- **Credit and Debit Cards** – 24 hours (one business day) following receipt of funds..

Equifund does not assume custody of your funds at any point in time, nor do we assume custody of the shares. Instead, your funds will be held in escrow once they have been received and cleared.

However, the transaction cannot be complete until your funds have been cleared.

***Please be advised that your payment method could have an impact on when your Subscription Agreement can be executed and your shares issued**.

STEP 3) Subscription Agreement is Executed

Once the funds have cleared escrow, now the company raising money (the ***"Issuer"***) has to close on the investment to finalize it.

When an Issuer wants to receive funds in escrow while an offering is still open (vs waiting until the offering is closed) this is called a "Roll Close. To get the funds, they have to countersign and execute their portion of the

Subscription Agreement you signed earlier.A "roll close" means the Issuer doesn't have to wait until the end of the campaign to close the offering and receive funds.

Instead, they can have the money held in escrow transferred to them while the campaign is still live.

To get the funds, they have to countersign and execute their portion of the Subscription Agreement you signed earlier.

Once this happens...

STEP 4) Settlement

Once the Issuer has signed the Subscription Agreement, three things now happen…

- The Issuer receives the money in escrow.
- The investor will receive the **Executed Subscription Agreement** via the email specified in the original Subscription Agreement.
- The Transfer Agent records your shares in "Book Entry."

A **Transfer Agent** works for the Issuer to record changes of ownership, maintain the issuer's security holder records, cancel and issue certificates, and distribute dividends.

Transfer Agents are required to be registered with the SEC, or if the transfer agent is a bank, with a bank regulatory agency.

Book Entry is a method of tracking ownership of securities where no physically engraved certificate is given to investors.

Securities are tracked electronically, rather than in paper form, allowing investors to trade or transfer securities without having to present a paper certificate as proof of ownership.

When an investor purchases a security, the Transfer Agent receives a receipt and the information is stored electronically.

WARNING: ***Once your transaction has been settled, it is final and can not be refunded for any reason!***

Please make sure to keep your digital records of the **Executed Subscription Agreement**. You will need this document later to deposit your shares.

STEP 5) The Lock Up Period Begins (if applicable)

This step is going to differ on a deal by deal basis.

Securities purchased in a Regulation Crowdfunding (Reg-CF) transaction generally cannot be resold for a period of one year, unless the securities are transferred:

- to the issuer of the securities;
- to an "accredited investor";
- as part of an offering registered with the Commission ***(i.e. when they file an S-1 to go public);***
- or to a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

Conversely, in a Reg-A offering shares have no mandatory minimum and can be free-trading immediately (unless the company stipulates otherwise). Regardless of offering type, the company may issue additional restrictions which will determine when (or if) shares can be sold or transferred. **It is very important you understand what these restrictions are before purchasing shares** (as sometimes they can be a deal killer).

STEP 6) RESTRICTION REMOVAL

Once the lock up period ends, the investor must now get the ***"Legend"*** removed before the shares can be deposited and traded.

A **Legend** is a label or statement on a stock certificate that explains any restrictions on the sale or transfer of the stock

Only a transfer agent can remove a restrictive legend. However, the transfer agent won't remove the legend unless the issuer consents – usually in the form of an ***"Opinion Letter"*** from the Issuer's counsel to the transfer agent

At Equifund, we ask that all Issuer's provide the transfer agent with what's called a ***"Blanket Opinion Letter"*** to be held on file. By doing this, the investor won't have to deal with any potential delays (or fees) by requesting one from the Issuer's counsel.

To get the Legend removed, you will now have to submit the required paperwork to the Transfer Agent and pay a nominal fee.

*[Note: As a general consideration, **Equifund will provide you with step-by-step instructions – along with templated emails – to complete this step** with regards to opportunities we host.]*

WARNING: In circumstances where the Issuer has not provided a "Blanket Opinion Letter," you – the investor – must assume the legal fees required to obtain the Opinion Letter.

According to the Securities and Exchange Commission (SEC), *"If a dispute arises about whether a restrictive Legend can be removed, the SEC will not normally intervene. The removal of a Legend is a matter solely in the discretion of the issuer. State law, not federal law, covers disputes about the removal of Legends."*

STEP 7) INITIATE DIRECT REGISTRATION SYSTEM (DRS) TRANSACTION REQUEST

There are two types of shareholders: registered and beneficial.

The *Transfer Agents* maintain a record of ownership, including contact information, of an issuer's ***Registered Shareholders.***

Brokers maintain the records of ***Beneficial Shareholders.***

- **Registered Shareholders**, also known as "shareholders of record," are people, groups or entities that hold shares directly in their own name on the company register.

When you purchase a Pre-IPO investment directly from the Issuer, you will be a Registered Shareholder.

The Issuer, or its Transfer Agent, then keeps the records of ownership for the shareholder and provides services such as transferring shares, paying dividends, coordinating shareholder communications.

- **Beneficial Shareholders** have their stock held in the name of an intermediary such as a broker. The broker then is able to facilitate trading shares and other services for the shareholders.

In order to deposit your shares into your brokerage account, you must first reassign ownership to your broker, who then holds the shares "for the benefit of" you, the investor.

When shares are kept in this manner, it is often referred to as keeping the shares in "street name." The majority of U.S investors own their securities this way.

The **DRS Transaction Request** initiates this change, and you will become a Beneficial Shareholder once the transaction is complete.

Every broker is different in terms of the exact step-by-step process. However, they should all have documentation on how to do this.

STEP 8) SHARES CLEARED AND DEPOSITED

There isn't a standard time frame with regards to how long it takes to fully clear and deposit shares.

Please contact your broker for more information about what to expect.

You may also be subject to additional fees or conditions at the discretion of the broker you're using.

Once they have been deposited into your account, you can now do whatever you'd like with the shares

PROBLEMS WITH DEPOSITING SHARES

If the company goes public on the NASDAQ or NYSE, you're probably not going to have any issues depositing shares. But if the company lists over-the-counter (OTC), you could run into some problems.

According to the OTC Markets blog…

> As the market operator where thousands of small and micro-cap securities trade, we occasionally hear from issuers and their investors who are frustrated when brokers won't deposit their stock.
>
> While this is generally perceived to be an OTC issue, the reality is that this affects privately issued shares on all public markets, including national exchanges.
>
> ***The problems with the deposit of shares often center around broker-dealers' gatekeeper responsibility to understand "how" the company's shares were obtained and know "who" the investor looking to complete the transaction is, so as to protect public markets from illegal distributions of securities.***

Most investors don't realize this, but the "markets" aren't a non-profit organization run by benevolent people. These are for-profit businesses who have a fiduciary responsibility to their shareholders.

As regulated entities, they also bear the burden of responsibility if there's any funny business related to the shares in question.

With this in mind, they have to protect themselves from unnecessary risk by accepting shares that are questionable… or if they do, to charge a sum of money that would cover their risk at the expense of the depositor (i.e. you).

Generally speaking, whenever you are attempting to deposit shares with a broker, the broker will make their decision based on risk factors, like…

- **Are the shares in Physical Certificate form?**

A share certificate is a written document signed on behalf of a corporation that serves as legal proof of ownership of the number of shares indicated.

A share certificate is also referred to as a stock certificate.

Historically, share certificates were required for proof of entitlement to dividends. Each time a physical certificate was presented, the receipt for the payment of dividends was endorsed on the back. This way, all records of dividend payments were attached to the document.

In modern days, less than 1% of all shares exist in physical form; Instead, they are owned via electronic registration.

In the United States, the Central Securities Depository (CSD) is responsible for electronically holding shares so that ownership can be easily transferred through something called “book entry” rather than the transfer of physical certificates.

To facilitate this electronic transfer, the issuer must register their stock to be DTC eligible.

- **Are the shares Legended?**

A Legend is a statement on a stock certificate noting restrictions on the transfer of the stock. This often occurs due to Securities and Exchange Commission (SEC) requirements for unregistered securities.

You will need to have this legend removed from your shares before they can be deposited.

- Is the investor an affiliate of the issuer?

Affiliates of the company include officers, directors and shareholders with large positions.

For these affiliates, because of the percentage of shares they hold – and their access to insider information or other special privileges – this could pose a risk.

Generally speaking, affiliates will need to submit additional information and documentation to deposit shares.

- How were the shares acquired? Was it done through a private transaction (or chain of transactions) with an issuer or affiliate? At a material discount to market prices?

There are two important parts to this risk factor.

The first is proving legal custody of the shares; does the depositor, in fact, own the shares?

Was it acquired through a private placement? A registration statement? A consultant agreement? A debt conversion? Acquired out of bankruptcy? A merger or reorganization?

Each option requires different levels of disclosure and documentation to prove ownership.

The second has to do with something called "Death Spiral Financing"... which is the result of a poorly structured convertible financing that is often the result of an issuer entering into a bad deal with a stock promoter or lender.

According to Wikipedia:

> Some small companies rely on selling convertible debt to large private investors (like private investment in public equity, or "PIPEs") to fund their operations and growth.
>
> This convertible debt, often convertible preferred stock or convertible debentures, can be converted to the common stock of the issuing company at a discount to the market value of the common stock at the time of each conversion.
>
> ***Under a "death spiral" scenario, the holder of the convertible debt might short the issuer's common stock at which time the debt holder converts some of the convertible debt to common shares with which he then covers the debt holder's short position.***
>
> The debt holder continues to sell short and cover with converted stock, which, along with selling by other shareholders alarmed by the falling price, continually weakens the share price, making the shares unattractive to new investors and possibly severely limiting the company's ability to obtain new financing if necessary.

Regulations are starting to change in order to prevent some of these types of predatory sources of capital.

How? By making the brokers assume liability!

- What is the company's share structure and share issuance history? Has the company done a number of issuances/private placements? How many shares does the company have outstanding?

In the same way an investor would perform due diligence on an issuer by investigating their track record, the broker is going to do the same before agreeing to accept shares.

If they think there is any funny business going on, that could mean additional risk for accepting the shares.

- Does the holder have an existing account with the brokerage firm? If so, for how long, and what is the total value of the account?

This might be the most overlooked – and most important – part of getting your shares deposited into a brokerage account.

Remember, broker-dealers run a for-profit business. They typically make money through some combination of administrative fees and transaction fees.

If you are some random person who wants to open up an account and only dump your shares… well, that sounds like a lot of risk for not a whole lot of revenue and they have little incentive to work with you.

With this in mind, while you're waiting for your lockup period to expire, be proactive about contacting your broker and letting them know you have shares you'd like to deposit sometime in the future.

Additionally, it might make sense to move more assets over to that specific broker to give them confidence that you could be a good customer for their business.

In some cases, the broker will require a minimum funding amount before they'll accept shares.

But what happens if your broker doesn't accept deposits for OTC shares?

BROKERS TO CONSIDER IF YOURS WON'T DEPOSIT OTC SHARES

Some of the popular trading apps – like Robinhood and WeBull – typically do not accept deposits for OTC shares. However, there are dozens of OTC approved brokers who you can contact to ask about depositing your shares.

Here is a short list of brokers that we know have accepted OTC shares for other investors in the past. ***[Note: This is not a recommendation or endorsement of any Broker. Please do your own independent research and due diligence before entering into a business relationship]***

- Alpine Securities Corporation
- CANACCORD GENUITY LLC.
- Citadel Securities
- Glendale Securities
- Interactive Brokers LLC
- Maxim Group LLC
- Wilson-Davis & Co., Inc.

For a complete list of OTC Markets Broker-Dealer Directory, go here: https://www.otcmarkets.com/otc-link/broker-dealer-directory

For more information on private investing and vetted opportunities, please visit: **https://equifund.com/**

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