
BVR's PRACTICE GUIDE TO VALUATIONS FOR IRC 409A COMPLIANCE

2009 EDITION

NEIL BEATON, CPA/ABV, CFA, ASA

Published by



Business Valuation Resources, LLC
1000 SW Broadway, Suite 1200
Portland, OR 97205

(503) 291-7963 Fax • (503) 291-7955 • www.BVRResources.com

Table of Contents

Section 1: Neil Beaton's Practice Guide

About the Author	1-1
Neil Beaton, CPA/ABV, CFA, ASA	
Chapter 1: Introduction.	1-3
Chapter 2: Initial Work	1-5
Characteristics of Early Stage Companies	1-5
Chapter 3: Security Characteristics	1-11
Economic Rights	1-11
Preferred Dividends.	1-11
Liquidation Preferences.	1-12
Mandatory Redemption Rights	1-12
Conversion Rights	1-12
Anti-dilution Rights	1-13
Registration Rights	1-14
Control Rights.	1-14
Voting Rights	1-15
Protective Provisions and Veto Rights	1-15
Board Composition Rights	1-15
Drag-Along Rights	1-15
Participation Rights	1-15
First Refusal and Co-Sale Rights	1-16
Management and Information Rights	1-16
Conclusion	1-16
Chapter 4: Brief Overview of IRC §409A Regulations	1-17
Penalties for Violation.	1-17
Valuation Component	1-17
Standard of Value and Purpose.	1-18
Some Final Observations	1-19
Chapter 5: Brief Overview of the AICPA's Original Practice Aid.	1-21
CVM.	1-22
OPM and PWERM	1-22
Chapter 6: Application of Methods	1-25
Application of the Current Value Method	1-25
Application of the Option Pricing Method	1-25
Future Dilution and Per Share Value.	1-25
Option Method	1-27
PWERM	1-27
Other.	1-28
Discounts and Adjustments to Value	1-28

Case Studies	1-31
Early Stage Valuation	1-31
Cost Approach	1-31
Market Approach	1-32
Mid-to-Late Stage Valuation: Option Pricing Method	1-32
OPM – Critical Assumptions	1-32
OPM Steps in Application	1-32
OPM Example - Facts	1-33
Late Stage Valuation: Probability-Weighted Expected Return Method	1-37
PWERM Critical Assumptions	1-37
PWERM Example – Facts	1-38
Selection of Methodology	1-40
Status Quo Scenario	1-40
Income Approach: Discounted Cash Flow Method	1-40
Status Quo Scenario	1-40
Market Approach: Guideline Public Company Method	1-40
Status Quo Scenario	1-41
Market Approach: Guideline Transaction Method	1-41
Reconciliation of Status Quo Scenario Indications of Value	1-41
Status Quo Scenario Allocation	1-41
IPO Scenario – Future Value Proceeds	1-41
Future Value Allocation of Proceeds	1-42
Present Value Allocation of Proceeds	1-42
Probability of Future Event Scenarios	1-42
Issues to Consider	1-43

Section 2: Additional Resources

Be Careful When Pricing Employee Stock Options	2-1
<i>By Joel F. Johnson</i>	
OPM vs. PWERM--Market Trends and Potential Pitfalls	2-5
<i>By Thomas Miller</i>	
Three valuation approaches	2-5
The current trend	2-6
Pitfalls	2-6
Reconciling OPM and the PWERM	2-8
Teleconference Transcript and Presentation	2-9
409A Compliance - Issues, Approaches and Mistakes Not to Make May 2, 2007	
Table of Contents	2-9
Teleconference Panelist Biographies	2-10
Transcript	2-13
Slide Presentation	2-49