

Equity Compensation Valuation

IRC 409A, ASC 718 and IFRS 2

COMPLEXITY REQUIRES EXPERIENCE

Equity, option, and derivative valuations depend on a number of variables. *How was the price of the underlying enterprise determined? How will pricing and value be determined going forward?* These analyses often require complex formulas and key data/assumptions which unfortunately can lead to controversy or dispute.

Other questions to ask include:

- Is your board or tax advisor concerned that the IRS would interpret the data differently and derive a different value for the options?
- Did an independent third-party expert determine the fair value (as required by FASB ASC 718 and IFRS 2) and fair market value (as required by IRC 409A) of the common equity or was a “market price” or “recent” transaction price used?
- Was the value determined using a Black Scholes option pricing model or a binomial lattice model? How were the inputs derived for the model?
- When valuing common equity, have you properly considered the rights and restrictions of the securities senior to the common, such as the preferred equity tranches and debt?
- How can your company benefit from an analysis performed for compliance purposes?

One must keep in mind that the IRS has increased the penalty for reliance on a faulty valuation analysis. The person and firm that provides an analysis that plays a material role in a tax filing, personal or corporate, is considered an unsigned tax preparer. If the IRS determines the work relied upon by the filer was not performed properly, the person and firm can be cited and charged. Remember, the IRS has hindsight on its side if it decides to audit your reports.

MANAGING A SHARE-BASED COMPENSATION STRATEGY

FASB ASC 718 and IFS 2 establish standards for the accounting of share-based compensation and transaction strategies. Whether you are starting to develop and integrate a share-based strategy into your company’s plan or have an existing strategy, a defensible, well-contemplated valuation is essential for the proper outcome and execution.

Founded in 1932, Marshall & Stevens has great experience with the valuation of enterprises, debt and equity, intangible assets, real estate, and equipment for compliance with financial reporting requirements including, but not limited to:

- **Purchase Price Allocations in accordance with FASB ASC 805 - Business Combinations (IFRS 2),**
- **Impairment Analyses in accordance with FASB ASC 350 and 360, and**
- **Fresh Start Accounting valuations in accordance with FASB ASC 852: Reorganizations.**

Our professionals pride themselves in taking the time to understand the uniqueness of each case. We work in conjunction with your auditors and other trusted advisors to ensure that you are meeting your valuation reporting requirements.

MARSHALL & STEVENS

Public and privately-held companies rely on Marshall & Stevens to assist them with the planning and reporting of mergers, acquisitions, divestitures, financings, corporate tax restructuring, wealth transfer, estate tax reporting, dispute resolution and litigation support.



Darleen Armour, ASA
Managing Director
Financial Valuation & Consulting
Energy & Infrastructure
213.233.1516
darmour@marshall-stevens.com



Gabriel Rodriguez
Associate
Business Development
847.529.1315
grodriguez@marshall-stevens.com



JC Feldman
Assistant Director
Business Development
941.527.5647
jcfeldman@marshall-stevens.com



James Sieman, ASA
Principal
Financial Valuation & Consulting
813.345.5308
jsieman@marshall-stevens.com



David A. Gaynor, II, ASA, CEIV
Practice Leader
Managing Director
Financial Valuation & Consulting
212.575.2298
dgaynor@marshall-stevens.com



Roger Smith, CPA / ABV, CFF
Managing Director
Business & IP Valuation
Commercial Litigation Support
801.321.6330
rsmith@lonepeakvaluation.com



Simon Koo, CFA
Director
Financial Valuation & Consulting
646.438.8074
skoo@marshall-stevens.com



Matthew R. West, ASA
Principal
Practice Leader
Healthcare
Financial Valuation & Consulting
312.223.8547
mwest@marshall-stevens.com