



# New Stock Option Rules for Early Stage Companies

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# Agenda

- I. Overview of Fair Value Changes Relevant for Early Stage Companies
- II. Update on Final 409A Regulations
- III. Valuation of Early Stage Companies for 409A and 123R Expense Calculations
- IV. What is a CFO to Do?



# I. Overview of Fair Value Changes Relevant for Early Stage Companies

**Dr. Stanley Jay Feldman**



# Why the Fair Value Standard for Private Firms? Background and Context

- Globalization: Integration of advanced and developing economies
- Globalization requires integrated capital markets to efficiently finance cross-border economic activity
- Integrated capital markets require consistent financial reporting standards
- Financial experts have generally concluded that statement of financial condition is best represented when assets and liabilities are marked to market



## Why the Fair Value Standard for Private Firms?

- Venture and private equity funded firms have exit strategies that require that their reported historical financial performance be consistent with accepted financial reporting standards.
- Since fair value is by its nature is a market measure, it has become a de-facto reporting standard for both public and private firms.



## Defining Fair Value

- Fully informed willing buyers and willing sellers.
  - Hypothetical transaction
- Although the focus of 123R and 409A is on estimating the fair value of a share of common stock, the valuation process requires that the valuation analyst estimate the fair value of other elements of the capital structure
- Fair value of a share of common stock of a private firm is its value in a liquid informed market adjusted for its lack of marketability and lack of liquidity



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