

**EQVISTA**

# **409a Valuation**

## **Brochure**

Looking to **issue new shares, stock options**  
or **raise new funds** in your company?

Then **it may be a good time** to know what  
**a 409a valuation** is and what it has to do with you.

# What is a 409A valuation?

A [409A valuation](#) is used to find the fair market value (FMV) of the business. Regulated by the IRS, 409A sets the strike price for the common shares usually awarded to advisors, employees, and others, and makes sure that these represent the actual value of the company.



This valuation is normally, but not always, different from a [business valuation](#) done during the fundraising period or when the owner wants to know the value of the company. The main reason for this is that the investors usually receive preferred stock of the business, which is normally valued at a much higher price compared to common stock.

Companies undergo a 409a so they can maintain a [safe harbor status](#), which is conducted by a third party valuation service provider. This safeguards the company from onerous IRS penalties placed on the shareholders of the company in case the FMV of the company is inaccurate.

# What is the purpose of a 409a valuation, and why is it important?

[Getting a 409A valuation](#) allows your business to follow all the tax laws and avoid IRS audits that can cause legal troubles, tax issues and even interfere in the company's functions if problems arise. You would also save potential costs on hiring consultants or lawyers for defending your company if the IRS challenges your [FMV](#) price.



The employees in your company would suffer the most as it causes immediate tax penalties for them. Thus it's better to reduce your risk of an IRS audit and get a more accurate FMV by undergoing a 409a valuation.

## When to get a 409A valuation?

There isn't one specific time you need to get a 409A valuation done, but there are a few events that signal when a 409a valuation is needed, which are:

- You decide to offer stock options to your employees
- Your company is raising or has [raised new funding](#)
- It has been a year since you had a 409A valuation done
- People begin to buy and sell the company's shares as [secondary transactions](#)

Having these events take place in your company is a tall tale sign that a 409a valuation is needed.

# What is safe harbor for your company?

The meaning of safe harbor for your company means that you had a 409A valuation completed (in the last 12 months) at an acceptable and accurate price. This means that the burden of proof is on the [IRS](#) to show that your FMV is inaccurate (similar concept that you are innocent until proven guilty). Otherwise you would need to provide all the facts, figures and documentation to show why your FMV is accurate and within an acceptable range.



409A valuations are 99% of the time performed by a third-party, which is considered to be the safest way. If you do not have safe harbor and the IRS audit determines your common stock is mispriced, your employees would be taxed an extra 20% fine on the difference in value plus any additional penalties. In order to avoid this, most companies choose to play safe and appoint a third party valuer to conduct their 409A valuation.

# Guidelines for 409a valuation

With all the ideas clear about the 409A valuation, here are some guidelines to keep in mind:

- Normally you should get the first valuation before you issue [stock options](#), even for the very first hire or advisor.
- It is important to get a new 409A valuation done when you raise a new round of funding as the previous 409a valuation becomes obsolete when you receive more funding.
- 409a valuations are valid for 1 year, so you would need to have a new 409A valuation done every 12 months, or even earlier (for significant company events) if necessary.

## How Long Does the 409A Valuation Process Take?

The [time frame for the entire process](#) is:

Hand over your data (time frame depends on you)

The first step is to provide the company data to the valuer. The time frame depends on how soon you can provide all the [required information and documents](#). This step is the main reason why many companies have their 409A valuation delayed.

It's better that you have all the files with you organized in one place. But in case you don't, you can check with your accountant or lawyer, as they may have some on file.

## The data and documents that most of the 409A valuation firms need are:

- Your up to date [Cap Table](#)
- Article of Incorporation
- Full set of financial statements.
- Any off-balance sheet liabilities or assets
- Financial projections (3-5 years)
- Any history of secondary transactions
- [Term sheets](#)
- Copies of agreements or documents dealing with shareholder rights (if any)
- Copies of rev share agreements, partnering agreements, joint ventures (if any)
- [Convertible note](#) or term debt agreements (if any)
- Preferred stock purchase agreements (if any)
- Past 409A reports (if any)

Please let us know if you don't have some of these documents and we can adjust the valuation accordingly.

## Sign Engagement Letter and Settle Invoice: 1 day

Once most of the company data is ready and we can establish a quotation for your company valuation, we will send you an engagement letter outlining our valuation services and terms for the 409a valuation report.

Once this is signed and the invoice for the valuation services is settled, we can start running the report.

## Running the Report: 10-20 days

After the data is provided and the invoice is settled, our firm runs the report, which can take about 10 to 20 days. We may ask you some follow up questions and further information, but this is just to help us complete the [409a valuation report](#).

## Review first draft (15 min-1 hour)

The first draft gets to you when the 409A valuation is done. You can then analyze and review the information in the report. In case you have any questions about the draft, you can ask us and send it back for further amendments.

## Revisions (1-2 days)

It is very common for people to have revisions at least once or twice after the draft has been prepared. This is mostly to get a lower strike price or amendment specific information portrayed in the valuation report.

## Final report is delivered (1-10 days)

In the end you get the final report delivered to you, anywhere from 1 to 10 days after the final revisions. You can then use this FMV share price for your company for the next 12 months.

# 409 valuation starting at \$1100

Our valuation experts will handle your 409A valuation in an effective and audit ready way. Your valuation will be seamless.

SEED  
STAGE

- 409 A -

SERIES A

- 409 A -

SERIES B

- 409 A -

SERIES C

- 409 A -

SEED STAGE

\$1,100

SERIES A

\$1,600

SERIES B

\$2,100

SERIES C

\$2,700

ARE YOU INTERESTED IN GETTING A 409A?

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