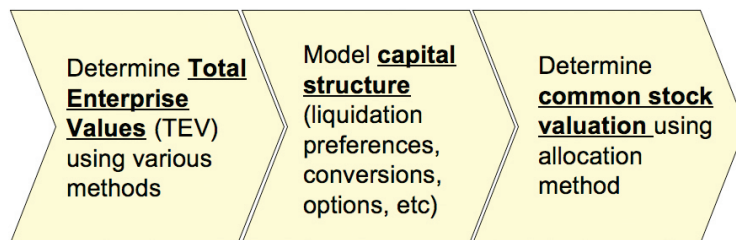


SECTION 409A VALUATIONS

Under newly promulgated Internal Revenue Code Section 409A, private companies are required to follow new, more stringent guidelines when issuing stock options and other forms of non-qualified deferred compensation. The consequences of failing to comply with these regulations can be dire. Noncompliance can lead to acceleration of taxable income, penalty taxes, company withholding tax issues and potential exposure for board members. Additionally, non-compliance with Section 409A could impact the marketability of a business to investors and/or acquirers. By obtaining a fair market valuation from a qualified independent appraiser, companies automatically qualify for a "safe harbor," shifting the burden of proof regarding the soundness of the valuation to the IRS.

Mirus is exceptionally well qualified to help private companies prepare 409A valuations. We have performed numerous 409A valuations and have in-depth expertise in the many theoretical and practical considerations necessary to prepare a sound common stock valuation. Mirus has in-depth expertise in the full range of traditional valuation methodologies, sophisticated modeling of capital structures and a deep understanding of the methods for allocating value across different classes of equity.

What makes 409A valuations different from other valuations? Most valuations begin and end with an estimate of the value of the total enterprise and its equity. However, a 409A valuation goes beyond an enterprise valuation because it is critical to model the financial features of a company's capital structure and allocate the value of the equity among different classes of shareholders, as shown in the Exhibit to the right.



- **ESTIMATING THE VALUE OF THE ENTERPRISE**

A range of traditional valuation methods is available to estimate this enterprise value, such as public comparables, precedent transaction comparables, discounted cash flows analysis, liquidation value and other methods.

- **MODELING THE FINANCIAL FEATURES OF A COMPANY'S CAPITAL STRUCTURE**

This additional step raises a series of complex questions including: What liquidation preferences are in place for preferred stock holders? Are there any participation rights (or "double dips")? Are the participation features capped in some way? What conversion features are available to the different shareholders? Mirus has extensive experience and proprietary models to analyze even the most complex capital structures and calculate proceeds to the various stakeholders under all possible scenarios.

- **ALLOCATING THE VALUE OF THE EQUITY AMONG DIFFERENT CLASSES OF SHAREHOLDERS**

Given the benefits and drawbacks of different allocation methods, which allocation method should be deployed? Mirus can help you determine the method that is most suitable for your specific situation, and will implement this method to arrive at an estimate of the fair market value of your company's common stock that is used to set the strike price of stock options.

Through our work as M&A experts, we are continuously helping buyers and sellers determine the accurate market value of companies at all stages of growth. Mirus appreciates that stock options can be an important incentive for employees and a key ingredient for your company's success. IRC 409A introduces additional considerations to take into account when you are issuing stock options. We can help you navigate these implications and ensure that your company avoids future problems. Mirus has built a storehouse of expertise over nearly 20 years of transaction and valuation mandates, making it a superior resource for companies seeking assistance in meeting Section 409A standards.