MERCER CAPITAL

Value Added™

MERCER CAPITAL'S LATEST THINKING

Valuing S Corporations

RECENT CASE LAW IN PERSPECTIVE

by Z. Christopher Mercer, ASA, CFA and Travis W. Harms, CFA, CPA/ABV

FEATURED ARTICLES

2 **An Overview of SFAS 141R**
by B. Patrick Lynch

18 **Bank Valuation: A Focus on Earnings Quality**
by Andrew K. Gibbs, CFA, CPA/ABV and Jay D. Wilson, Jr.

22 **Good Things Come to Those Who Don't Wait**

ALSO INCLUDED

5 **Alternative Investments Portfolio Valuation Services**

8 **Mercer Capital's Thought Leadership**

17 **Mercer Capital By the Numbers**

21 **Subscribe to Mercer Capital's Bank Watch**

24 **Highlights**

VOLUME 20, NO. 1 :: 2008

New Look,
Same Thought Leadership

Dear Reader,

We hope you have noticed a change in our newsletter, Value Added™. We've moved away from a traditional 4 page newsletter into more of a news magazine, if you will. Why? To provide more content that is helpful to you and your business.

Each issue of Value Added™ will contain articles from several of the service groups of Mercer Capital, which are financial reporting valuation, corporate valuation, transaction advisory, controversy services, and financial institutions valuation. Not every article will speak to every reader, yet each reader should find information that is useful.

In this issue, Patrick Lynch tackles the issue of SFAS 141R and provides a wonderful overview of the upcoming standard. Andy Gibbs and Jay Wilson have included an article discussing how to analyze a bank's earnings quality as a precursor to understanding its earning power. Also included is an article from our controversy services team that lists at least 10 reasons why it's important to hire your expert witness earlier, rather than later, in the process. The longest article was penned by me and Travis Harms, and puts recent S corporation valuation case law in perspective. There is much confusion surrounding S corporation valuation in the business appraisal profession. As usual, we're seeking to help business appraisers as well as users of business appraisals understand the issues and solutions.

I'm also pleased to report that this issue begins the 20th year of publication of this newsletter. Twenty years ago, Mercer Capital was a much smaller firm yet one with big dreams. We have been fortunate to realize many of those dreams with the help of our clients, referral sources, and employees. Like any successful firm, we still have big dreams and we're pressing forward to reach them.

Thank you for your interest in the content of this issue and, as always, if we can help you in any way, please do not hesitate to contact me or any of the professionals listed in this newsletter.

Z. Christopher Mercer, ASA, CFA
mercerc@mercercapital.com
901.685.2120

Copyright © 2008 Mercer Capital Management, Inc. All rights reserved. It is illegal under Federal law to reproduce this publication or any portion of its contents without the publisher's permission. Media quotations with source attribution are encouraged. Reporters requesting additional information or editorial comment should contact Barbara Walters Price at 901.685.2120.

Value Added™ is published quarterly and does not constitute legal or financial consulting advice. It is offered as an information service to our clients and friends. Those interested in specific guidance for legal or accounting matters should seek competent professional advice. Inquiries to discuss specific valuation matters are welcomed. To add your name to our mailing list to receive this complimentary publication, visit our web site at www.mercercapital.com.

Value Added™

VOLUME 20, NO. 1 :: 2008

FEATURED ARTICLES

2 An Overview of SFAS 141R

by B. Patrick Lynch

The Financial Accounting Standards Board released a revised version of Statement of Financial Accounting Standards No. 141, *Business Combinations*, ("SFAS 141R") on December 7, 2007. While the standard will not be effective for most practitioners until early 2009, financial managers should familiarize themselves with the rule changes now, so that they can be adequately prepared when SFAS 141R becomes effective. The revised standard sharpens the accounting guidance for business combinations as well as the scope of situations applicable to these rules, and also provides a significantly larger body of implementation guidance than its predecessor.

6 Valuing S Corporations: Recent Case Law in Perspective

by Z. Christopher Mercer, ASA, CFA and Travis W. Harms, CFA, CPA/ABV

In this article, we will examine the limitations inherent in such *fair value* cases with respect to assessing the *fair market value* of enterprises organized as S corporations. Despite these limitations, we will review the economic analysis of the subject S corporation in the *Kessler* decision, highlighting the encouraging manner in which the Court distinguished between the enterprise and shareholder benefits of the S election. Finally, we will propose a technique allowing judges and appraisers to extend the analysis found in *Kessler* in a robust manner to different fact patterns.

18 Bank Valuation: A Focus on Earnings Quality

by Andrew K. Gibbs, CFA, CPA/ABV and Jay D. Wilson, Jr.

Given the earnings challenges facing numerous banks and the declining valuations of publicly traded banks during 2007, it is important to know how to analyze a bank's earnings quality as a precursor to understanding its earning power. In this article, we examine the philosophy of earnings quality analysis and overarching earnings quality issues and focus on an analysis of the adequacy of the loan loss reserve, which is one critical earnings quality issue facing banks in the current environment. We also provide general recommendations of how to construct a reasonable estimate of earning power after assessing earnings quality.

22 Good Things Come to Those Who Don't Wait

Having been retained for a number of significant litigation engagements over the years, Mercer Capital has had the opportunity to observe a variety of theories on the best time for attorneys to retain experts for their lawsuits. In many lawsuits, the testimony of your business valuation, economic damages, or investment banking expert will be among the more important elements of your case, making it vital that the expert be involved early in the process.

ALSO INCLUDED

5 Alternative Investments Portfolio Valuation Services

8 Mercer Capital's Thought Leadership

17 Mercer Capital By the Numbers

21 Subscribe to Mercer Capital's *Bank Watch*

24 Highlights

An Overview of SFAS 141R

by B. PATRICK LYNCH

The Financial Accounting Standards Board released a revised version of Statement of Financial Accounting Standards No. 141, *Business Combinations*, ("SFAS 141R") on December 7, 2007. While the standard will not be effective for most practitioners until early 2009, financial managers should familiarize themselves with the rule changes now, so that they can be adequately prepared when SFAS 141R becomes effective. The revised standard sharpens the accounting guidance for business combinations as well as the scope of situations applicable to these rules, and also provides a significantly larger body of implementation guidance than its predecessor.

REPORTING REQUIREMENTS

The increased timing sensitivity and lengthened list of disclosure requirements in the revised standard will likely prove to be the most immediate challenge for financial managers. While current rules prescribe only a vague timeline for the reporting of business combinations, SFAS 141R establishes a defined *measurement period* that governs the time period within which the business combination must be reported. If the accounting for a business combination is not completed by the end of the reporting period the transaction occurred, a company must report provisional amounts for the incomplete items. The measurement period is the period (of up to one year following the close of a transaction) during which the company gathers the necessary information to complete the accounting. During this period, changes to the provisional amounts can be made without reporting the changes as errors in accounting.

In addition, the revised standard significantly expands the scope of disclosure requirements. The full list of required disclosures can be found in paragraphs 67 – 73 of SFAS 141R. Of note, if the company does not complete the business combination accounting by the end of the reporting period when the business combination occurred, the company must disclose the reasons why the accounting is incomplete. This requirement may create significant pressure for companies to complete the business combination accounting during that reporting period, which would be a dramatic change of pace for the completion of business combination accounting for many reporting companies. Given the changes in reporting requirements, discussing the pertinent valuation issues with the valuation specialist early in the process will be helpful in minimizing the potential for unsavory surprises.

PURCHASE CONSIDERATION

SFAS 141R includes several important changes to the measurement of purchase consideration, the most significant of which is the inclusion of contingent consideration (i.e. earn-out consideration). When the revised standard becomes effective, consideration transferred in a business combination will be defined as the aggregate of the fair

values of assets transferred from, liabilities incurred, and equity interests issued by the acquirer to the target company and its previous owners.

This definition specifically includes contingent consideration, which must be recognized at its fair value as of the transaction date. Two significant implications of this rule change for financial managers are: 1) reported purchase consideration for transactions with the potential for significant earn-out payments will be reported greater under SFAS 141R compared to current rules, and 2) the need to measure the fair value of contingent consideration, which is by nature characterized by significant uncertainty, will inevitably increase the complexity of the purchase price allocation process.

Other notable changes in the definition of purchase consideration are the exclusion of acquisition costs and clarified treatment of share-based payments to existing employees of the target company. While current rules allow a company to capitalize deal costs into the purchase price, SFAS 141R requires that such costs be expensed as they occur. More detailed discussion of the appropriate treatment of share-based payments in this context can be found in paragraphs 43 – 46 of SFAS 141R.

GOODWILL MEASUREMENT

Under the new standard, the measurement of goodwill is defined as the aggregate fair value of 1) purchase consideration, 2) any non-controlling interests in the target company, and 3) any equity interests in the target company already held by the acquirer on the transaction date less the net fair value of identifiable assets acquired and liabilities assumed in the business combination. Currently, goodwill is measured as the residual of the cost of the acquisition less the net fair value of identifiable assets acquired and liabilities assumed. This change will have the greatest effect in acquisitions of less than 100% of the target company and acquisitions completed in a series of transactions.

The underlying concept is that the fair values of the entire target company and its identifiable assets are measured, rather than just the component represented by the transaction. Note that this will generally increase reported total asset values, annual intangible asset amortization, as well as decrease the margin for error regarding future goodwill and long-lived intangible asset impairment.

OTHER CHANGES

Other notable rule changes in SFAS 141R from the current standard include:

» **Research & Development** – Under existing rules, an acquirer must measure the fair value of acquired in-process research and development and immediately charge off that amount. When the revised standard becomes effective, acquired IPR&D will be recognized as an identifiable intangible asset.

RELATED SERVICES

Mercer Capital provides comprehensive valuation services that assist our clients in complying with financial reporting requirements.

We produce valuation opinions that withstand the scrutiny of auditors and regulatory bodies

We combine our expertise in applicable accounting standards with rigorous documentation of each valuation report to develop independent valuation opinions consistently accepted by auditors and other reviewing parties.

Mercer Capital will guide you through the complexities of the fair value landscape

Our professionals keep up with continually changing fair value rules and guidance to produce relevant and timely valuation opinions for our clients.

We provide the full range of financial reporting valuation services

With over 25 years of valuation experience, Mercer Capital has cultivated the broad institutional expertise necessary to provide clients with valuation opinions that meet all of their financial reporting needs.

Mercer Capital Financial Reporting Valuation Services

» Purchase price allocation
» Alternative investments portfolio valuation
» Impairment testing
» Employee stock option valuation
» International fair value valuation
» Other related valuation & consulting services

Contacts

Matthew R. Crow, CFA, ASA
crowm@mercercapital.com » 901.322.9728

Travis W. Harms, CFA, CPA/ABV
harmst@mercercapital.com » 901.322.9760

B. Patrick Lynch
lynchp@mercercapital.com » 901.322.9727

Lucas M. Parris
parrisl@mercercapital.com » 901.322.9784

Sujan Rajbhandary
sujanr@mercercapital.com » 901.322.9749

> "Alert financial managers need to know that the effective date for SFAS 141R is around the corner, become aware of the changes that it will bring, and to adequately prepare for its arrival. With such preparation, the challenges presented by SFAS 141R need not be insurmountable."

» **Acquisition Date** – SFAS 141R clarifies the definition of the acquisition date for a business combination. Under the revised standard, the acquisition date is always the date when the actual change of control occurs. Currently, the relevant measurement date for some components of a business combination can be different than the change of control date (e.g. the announcement date for a transaction).

» **Negative Goodwill** – SFAS 141R also eliminates the potential for the recognition of negative goodwill related to a bargain purchase. Under the revised standard, if the fair value of net identifiable assets acquired is greater than the sum of purchase consideration and the fair values of any non-controlling interests and existing equity interests, the excess must be recorded as a gain in earnings as of the transaction date.

» **Expanded Scope** – The scope of SFAS 141R was expanded to include business combinations that occur without the transfer of consideration (e.g. transfer of control through the lapse of minority veto rights).

CONVERGENCE

Financial managers that regularly wrestle with international accounting should be pleased with the significant progress in convergence with international accounting standards represented by the issuance of SFAS 141R and IASB's revised IFRS 3, Business Combinations. Certain remaining differences include the treatment of non-controlling interests and contingent consideration. More information related to the status of convergence between the two standards can be found in Appendix G to SFAS 141R.

AT THE END OF THE DAY

SFAS 141R will create challenges for financial managers with the increased reporting requirements and significant number of rule changes. That being said, the revised standard includes more detailed practical implementation guidance, which should ease the accounting difficulties caused by ambiguity in the current standard. Alert financial managers need to know that the effective date for SFAS 141R is around the corner, become aware of the changes that it will bring, and to adequately prepare for its arrival. With such preparation, the challenges presented by SFAS 141R need not be insurmountable.

B. Patrick Lynch
lynchp@mercercapital.com

Alternative Investments Portfolio Valuation Services

Mercer Capital provides independent portfolio valuation services and advice to alternative investment fund managers, third-party administrators, and investors.

Independent estimates enhance the confidence of all parties in the reasonableness of overall portfolio valuation of illiquid assets. They also help assure compliance with a fund's applicable accounting standards, including SFAS 157 (Fair Value Measurements). Private investment funds, including private equity funds and hedge funds, can provide comfort to their investors, auditors, and fund managers by seeking independent estimates of the fair values for Level 3 assets.

We also assist fund managers by providing periodic, independent reviews of management determinations of fair value. These services are cost-effective and include a series of established procedures designed to provide both internal and investor confidence in fair value determinations.

Procedures include the verification of analytics, financial analysis, independent analysis of public guideline or comparable companies and private transactions, evaluating income methods (capitalization or discounted cash flow), tests of internal consistency in valuation, and other techniques based on our years of experience in valuing illiquid, alternative investments.

OUR SERVICES:

- » Financial reporting valuation services
- » Secured and unsecured debt instrument valuation services
- » Illiquid equity interest valuation services
- » Convertible security, warrant and option valuation services
- » Derivative security valuation services
- » Auction rate securities valuation services

We provide these services to management teams, directors, and audit committees of:

- » Hedge Funds
- » Private Equity Funds
- » Funds of Funds
- » Business Development Companies
- » Fund Investors
- » Third-Party Administrators of Investment Funds

For more information, visit our website at www.mercercapital.com or contact Travis Harms (harmst@mercercapital.com) or Matt Crow (crowm@mercercapital.com). Both can also be reached at 901.685.2120.

Valuing S Corporations

Recent Case Law in Perspective

by Z. Christopher Mercer, ASA, CFA and Travis W. Harms, CFA, CPA/ABV

Since 2001, with the issuance of the *Gross* decision by the U.S. Tax Court, there has been considerable judicial confusion regarding the theoretically correct manner in which to value S corporations and interests in them.[1] *Gross* has been followed by four additional S corporation cases from the Tax Court in which the same theoretical misunderstandings were perpetuated.[2]

We have previously written about the theoretical misunderstandings initiated by *Gross*.[3] Unfortunately, many business appraisers have reacted to this line of faulty Tax Court decisions regarding S corporation valuation by simply mimicking the Court's confusion rather than addressing the underlying economics in a consistent and appropriate fashion.

The body of S corporation valuation case law continues to expand. The two most recent additions, *Kessler* and *Bernier*, are unique, as they have been handed down by the Delaware Chancery Court and Massachusetts Supreme Court, respectively, rather than the U.S. Tax Court.[4] Most importantly, in neither of the cases were the courts seeking to determine the *fair market value* of the subject shares, but rather were attempting to craft *equitable resolutions* to shareholder conflicts. Both courts were actually determining the *fair value* of shares.

In *Kessler*, the Delaware Chancery Court determined the *fair value* of shares held by a group of minority shareholders being "squeezed out" of a radiology practice. In *Bernier*, the Massachusetts Supreme Court established the *fair value* of the non-managing spouse's share in a profitable grocery store as an element of divorce proceedings.

In this article, we will examine the limitations inherent in such *fair value* cases with respect to assessing the *fair market value* of enterprises organized as S corporations. Despite these limitations, we will review the economic analysis of the subject S corporation in the *Kessler* decision, highlighting the encouraging manner in which the Court distinguished between the enterprise and shareholder benefits of the S election. Finally, we will propose a technique allowing judges and appraisers to extend the analysis found in *Kessler* in a robust manner to different fact patterns.

KEY ISSUES

There is considerable literature on the subject of S corporation valuation. References to much of this literature can be found in our earlier articles cited above. Additional background can be found in a recent book by Nancy Fannon.[5] In spite of plentiful literature, there remains confusion among business appraisers and confusion in courts regarding the valuation of S corporations and other tax pass-through entities and of interests in them.

Before addressing the topic of S corporation valuation directly, we focus the reader's attention on several issues:

- The central issue of S corporation valuation is recognizing that the benefits of S corporation ownership are experienced at the *shareholder* level and not at the level of the enterprise. Some writers miss this critical point, and many appraisers apparently miss it as well.

- At least one court, *Kessler*, cited previous work by Mercer on the distinction between valuation at the enterprise level and the shareholder-level benefits conveyed by S corporation ownership.[6] We recommend that readers examine not only this case but also the materials that are referenced in it.

- While there are several so-called "models" to value S corporations (or interests in them), with many of their names attributed to appraisers (including Mercer), there is only one model to successfully value S corporation interests – the shareholder level discounted cash flow model.

- It is important to note that while we are addressing S corporations, the methodology we are describing is generally applicable to all tax pass-through entities.

- We should also be clear that we are not attempting to address so-called "mom-and-pop" businesses or small professional practices that might be organized as S corporations. We are addressing the issues of larger, more developed companies, whose values ($2 to $3 million at the least) are beyond the purchasing ability of most individuals.

FAIR VALUE VS. FAIR MARKET VALUE

Fair market value is defined in the *ASA Business Valuation Standards* of the American Society of Appraisers as:

> The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.[7]

Fair market value is, as noted above, an arm's length standard. Appraisers applying this standard of value are simulating the negotiations of hypothetical willing, able, and knowledgeable parties who negotiate in their own self-interests. All appraisals prepared for gift and estate taxes are rendered under the fair market value standard.

Fair value is not a defined term in the *ASA Business Valuation Standards* because it is variously defined in state statutes and in the judicial interpretations of the respective state.[8] Fair market value may, but not necessarily will, equal fair value, depending upon judicial interpretations. It is therefore necessary for business appraisers to understand the valuation implications of judicial interpretations of fair value.

We mentioned the line of S corporation cases in the Tax Court above. *Kessler* and *Bernier* each cite this line of reasoning from *fair market value* cases in their *fair value* determinations. The confusion between differing standards of value in these cases has the potential to breed further confusion for appraisers attempting to render *fair market value* opinions.

It has been said that to quote wisely, one must read wisely and read well. This insight has broad application to many areas of valuation, not least in the interpretation and application of prior court decisions. Part of reading wisely and well is to understand an author's motivation and intent. A brief review of the pertinent facts of the *Bernier* and *Kessler* cases reveals pronounced differences between the *fair value* standard under which the subject cases were decided and *fair market value*.

At this point, we should note one important caveat. We read cases, hopefully wisely and well, from our perspectives as businessmen and valuation experts. Any comments we provide should be considered in that light. We are not lawyers and offer no legal opinions. Nevertheless, it is necessary and appropriate for business appraisers to read cases and to make judgments regarding their implications for valuation.

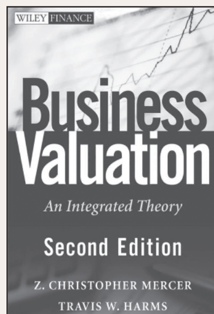
BERNIER

In *Bernier*, a Massachusetts divorce matter, the subject shareholder interests were 50% ownership interests in two S corporations that

THOUGHT LEADERSHIP

Business Valuation: An Integrated Theory, Second Edition

by Z. Christopher Mercer, ASA, CFA
and Travis W. Harms, CFA, CPA/ABV



Whether you are an accountant, auditor, financial planner, or attorney, *Business Valuation: An Integrated Theory, Second Edition* enables you to understand and correctly apply fundamental valuation concepts. Thoroughly revised and expanded, the *Second Edition* demystifies modern valuation theory, bringing together various valuation concepts to reveal a comprehensive picture of business valuation.

With the implementation of new accounting pronouncements mandating the recognition of numerous assets and liabilities at fair value, it has become critical for CPAs charged with auditing financial statements to understand valuation concepts.

With thoughtful and balanced treatment of both theory and application, this essential guide reveals:

» The "GRAPES of Value"—Growth, Risk and Reward, Alternative Investments, Present Value, Expectations, and Sanity

» The relationship between the Gordon Model and the discounted cash flow model of valuation

» The basis for commonly applied, but commonly misunderstood valuation premiums and discounts

» A practical perspective on the analysis of potential business acquisitions

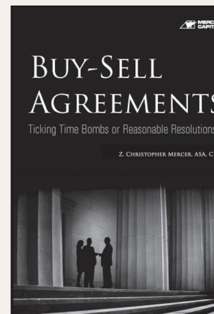
ONLY

$95

(plus shipping and handling)

Buy-Sell Agreements: Ticking Time Bombs or Reasonable Resolutions?

by Z. Christopher Mercer, ASA, CFA



Written for business owners, attorneys, CPAs, business appraisers, and other professional advisors to business, this book provides a roadmap for you (or your clients) to develop or improve your buy-sell agreement. The first book written from a valuation perspective which is important to note because business appraisers are usually consulted when there is a problem. Learn from our 25 years of experience working with well-constructed and terribly constructed buy-sell agreements (in almost every case no one realized there were problems until a trigger event occurred)

HIGHLIGHT SECTIONS/CHAPTERS INCLUDE:

» Categories & Types of Buy-Sell Agreements

» Process & Single Appraiser Buy-Sell Agreements

» Process Timetables - Why it takes more time than you think

» The Six Defining Elements of Buy-Sell Agreements - Agreements must have all six but most do not!

» War Stories from our experience

» The Buy-Sell Audit Checklist - This alone is worth the price of the book

» In addition, the ASA BV Standards and USPAP Standards 3, 9 & 10 are reprinted in full for your convenience

ONLY

$79

(plus shipping and handling)

ORDER TODAY AT WWW.MERCERCAPITAL.COM

operate grocery stores on Martha's Vineyard. The grocery stores were managed by the husband. In the years leading up to the valuation date, the company had regularly distributed a portion of taxable corporate earnings to the shareholders. The decision does not provide an estimate of the magnitude of distributions, but seems to infer that they were substantial.

At trial, the judge heard valuation evidence regarding the fair value of the subject interests from experts on behalf of both parties. The valuation experts treated the potential benefit of the S election quite differently. The expert retained by the husband (the purchasing party in the divorce) valued the enterprises as if they were C corporations, deducting taxes on corporate income from the pro forma enterprise cash flows. The expert retained by the wife, in contrast, made no adjustment to the pro forma enterprise cash flows for taxes on corporate income. Purporting to rely on the infamous *Gross* decision, the trial judge essentially adopted the valuation of the husband's expert, effectively treating the company for valuation purposes as if it were a C corporation.[9]

On appeal, the Supreme Judicial Court of Massachusetts criticized the valuation conclusions of the trial judge, remanding the case for rehearing in light of the valuation methodology adopted by the Delaware Chancery Court in *Kessler*. We now focus on the economic analysis presented in the *Kessler* decision.

KESSLER

In *Kessler*, the question before the Delaware Chancery Court was whether the minority shareholders of a growing operator of MRI imaging centers received fair value in a squeeze-out merger. The case addressed three distinct valuation issues: (1) consideration of expansion plans in the determination of fair value, (2) normalization of related-party fees and expenses, and (3) appropriate treatment of S corporation tax benefits. We limit our focus to the third issue related to S corporation benefits.

As with the valuation evidence presented at trial in *Bernier*, the valuation expert for the majority shareholders (the purchasing party) treated the company as if it were a C corporation. In other words, in determining the net cash flows of the company, he deducted pro forma corporate taxes equal to 40% of pre-tax corporate earnings. Taking the opposite approach, the valuation expert for the minority shareholders (those being squeezed out) did not apply any pro forma corporate income taxes to derive the net cash flows of the company.

Criticizing the analysis of both experts, Vice Chancellor Strine prepared his own valuation analysis, applying a pro forma tax rate to the pre-tax earnings of the company that is adjusted to account for the shareholder tax benefits of the S corporation election. We will describe the derivation and implications of this adjustment in a separate section of this article.

THE OBJECTIVE OF FAIR VALUE

The Delaware Code Annotated states that the Chancery Court:

> shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors.[10]

Delaware courts have interpreted this statute for many years in a long series of cases. In *Bernier*, the relevant definition of value is not so explicitly defined. However, the court's preliminary comments are clear:

> …As a preliminary matter, where valuation of assets occurs in the context of divorce, and where one of the parties will maintain, and the other will be entirely divested of, ownership of a marital asset after divorce, the judge must take particular care to treat the parties not as arm's length hypothetical buyers and sellers in a theoretical open market but as fiduciaries entitled to equitable distribution of their marital assets.[11]

The court's preliminary comments and endorsement of the economic analysis in *Kessler* suggest that that the objective was to provide a similarly equitable resolution to the shareholder controversy, or fair value. The court makes a clear distinction between fair market value – "price hypothetical willing buyer would pay hypothetical willing seller, both having reasonable knowledge of all relevant facts and neither being under compulsion to buy or sell" – and fair value.[12]

Significantly, in both *Kessler* and *Bernier*, the courts focused on the benefits lost by selling shareholders rather than the fair market value of the subject enterprises. This is a subtle but critical difference that must be recognized when analyzing the valuation approach adopted by both courts.

In *Kessler* for example, the minority shareholders were squeezed out of a profitable, cash-flowing S corporation. The putative intent of the fair value statute is to ensure that the economic interests of such shareholders are not impaired as a result of being squeezed out. Careful analysis demonstrates that the present value of the *shareholder* benefits of an S corporation is not identical to the *fair market value* of the *enterprise*. As a result, the Court's analysis is not directly relevant to determining the fair market value of S corporations at the enterprise level. In short, the Court is answering a different question.

Vice Chancellor Strine summarized this distinction in his opinion:

> In other words, I am not trying to quantify the value at which Delaware Radiology would sell to a C corporation; I am trying to quantify the value of Delaware Radiology as a going concern with an S corporation structure and award the Kessler Group their pro rata share of that value.

In contrast to the fair market value emphasis on a transaction between hypothetical willing parties, the Delaware Chancery Court's task was to make the minority shareholders whole, recognizing that the shareholders enjoyed material cash flow benefits owing to the company's status as a qualifying S corporation.[13] As the decision clarifies further:

> Under Delaware law, an appraisal petitioner is "entitled to be paid for that which has been taken from him…." In this case, the Kessler Group was involuntarily deprived of the benefits of continuing as stockholders in a profitable S corporation – benefits that were comprised materially of the favorable tax treatment that accompanies S corporation status. As a matter of fairness, the merger price had to take into account these benefits and provide fair compensation for the Kessler Group's loss.

The courts in *Kessler* and *Bernier* could not be clearer – they are determining fair value, which includes equitable considerations, and not fair market value, which is an objective, arm's-length standard. It would therefore be incorrect and unreasonable to cite or to rely on either case for judicial guidance for fair market value determinations.

ENTERPRISE VS. SHAREHOLDER BENEFITS

In estimating the fair value to be awarded the minority shareholder, Vice Chancellor Strine's economic analysis is noteworthy for unambiguously distinguishing the shareholder and enterprise level tax benefits of the S election. Addressing the approach taken by the valuation expert for the minority shareholders, the opinion notes that "[t]he value of the S corporation structure is one that is experienced at the stockholder level and that is easy to overstate."

The failure to properly situate the S corporation tax benefit with the shareholder rather than the subject enterprise has been the source of much of the confusion regarding the appropriate valuation treatment of S corporations. Recognition of this distinction by the court in *Kessler* marks a significant step forward, and should, given the prominence attributed to the Delaware Chancery Court, signal the beginning of the end of the current valuation impasse regarding S corporation valuation in the courts.

The relevant mechanics of S corporations and other tax pass-through entities are familiar. The S corporation election replaces the corporate income tax with a personal shareholder tax on S corporation income "passed through" to the individual shareholders. Of critical importance, the S corporation income is "passed through" to the individual shareholders for tax purposes irrespective of whether the S corporation makes any cash distributions. The elimination of the corporate income tax leads some observers to the erroneous conclusion that the benefit of the election accrues to the enterprise. However, the S corporation's income continues to be fully taxable. While the *legal obligation* to pay "corporate" income taxes shifts to S corporation shareholders, the *economic obligation* remains with the corporation.[14]

The distinction between shareholder and enterprise S corporation tax benefits can be illustrated with a simple example.[15] In the following table, we consider *otherwise identical* C and S corporations under three different distribution scenarios.

		0% Economic Payout		50% Economic Payout		100% Economic Payout	
		C Corp	S Corp	C Corp	S Corp	C Corp	S Corp
Taxable Corporate Income		$100.00	$100.00	$100.00	$100.00	$100.00	$100.00
Corporate Tax on Corporate Earnings	40.0%	($40.00)	$0.00	($40.00)	$0.00	($40.00)	$0.00
Shareholder Tax on Corporate Earnings	40.0%	$0.00	($40.00)	$0.00	($40.00)	$0.00	($40.00)
Net Income Available for Economic Distributions		$60.00	$60.00	$60.00	$60.00	$60.00	$60.00
Economic Payout Ratio		0.0%	0.0%	50.0%	50.0%	100.0%	100.0%
Economic Distribution to Shareholders (Pre-tax)		$0.00	$0.00	$30.00	$30.00	$60.00	$60.00
Shareholder Tax on Economic Distribution (%)		15.0%	0.0%	15.0%	0.0%	15.0%	0.0%
Shareholder Tax on Economic Distribution ($)		$0.00	$0.00	$4.50	$0.00	$9.00	$0.00
Economic Distribution to Shareholders (After-tax)		$0.00	$0.00	$25.50	$30.00	$51.00	$60.00
Shareholder Level Benefit of S Corporation Election			$0.00		$4.50		$9.00
Retained Corporate Earnings		$60.00	$60.00	$30.00	$30.00	$0.00	$0.00
Enterprise Level Benefit of S Corporation Election			$0.00		$0.00		$0.00

TABLE ONE: Comparison of Enterprise Cash Flows (S versus C Corporation)

We make the following observations with respect to Table One:

» Taxes are paid on the pre-tax corporate income of both the C and S corporation in each scenario, regardless of distribution policy. However, while corporate earnings are fully taxed in each scenario, economic distributions to S corporation shareholders are not. We use the term "economic distributions" to refer to all shareholder distributions beyond the level needed to fund the personal taxes due on corporate earnings.

» Economic distributions to C corporation shareholders are taxed at the current (federal) dividend income rate of 15%, while the same distributions to S corporation shareholders are not taxed. For simplicity, we will not treat state taxation of dividends in this article and will assume that personal marginal income tax rate and corporate income tax rates are identical.

» The fact that taxes are paid on pre-tax corporate income suggests that, for any given level of economic distribution, the retained earnings available to the S and C corporations for reinvestment are identical. Therefore, the S corporation election does not confer any benefit on the enterprise.[16]

» The absence of taxes on economic distributions to S corporation shareholders gives rise to a potential S corporation tax benefit *at the shareholder level*. The magnitude of the cash flow benefit increases with the portion of available earnings distributed to shareholders. In the case of no economic distributions, there is no cash flow benefit related to the S corporation election. The valuation impact of the cash flow tax benefit is contingent upon the accompanying shareholder risks, an S corporation's distribution policy, the expected duration of the shareholder tax benefits, and the prevailing dividend tax rate.

» In addition, retained earnings in an S corporation add pro rata to the tax bases of its shareholders. Unlike a C corporation, where a shareholder's tax basis is fixed at its historical cost, the S corporation shareholder can experience an increase in basis which will offset capital gains taxes at the time of a future sale. The magnitude of this basis increase is a function

of the distribution policy. If all economic earnings (after shareholder-level taxes) are distributed, there will be no basis build-up, and shareholders will experience the maximum available cash flow tax benefit. Alternatively, if there are no economic distributions beyond the pass-through shareholder-level taxes, basis build-up will be maximized, and the shareholders will receive no cash flow tax benefit. Distribution policies between 0% of economic earnings and 100% of economic earnings provide for varying degrees of cash flow tax benefit and basis buildup benefit.

» As noted above, the magnitude of the shareholder level cash flow benefit is also directly related to the prevailing dividend income tax rate avoided by the S corporation election. The shareholder level tax benefit is greater under a tax regime in which dividends are taxed at the higher ordinary income tax rates, as was the case prior to 2003.[17]

To summarize these observations, recall that value is a function of expected cash flow, risk, and growth. The relevant cash flow expectations, risk profile, and growth prospects correlate to the familiar levels of value chart. As Vice Chancellor Strine noted, the benefits of the S corporation election are experienced at the shareholder level. In other words, the relevant cash flow expectations, risk profile, and growth prospects at the enterprise levels of value are unaffected by the S election – so the value of the enterprise is unaffected by the S election, as illustrated in Table Two.

S corporation models that ascribe all or a portion of the shareholder benefits of the S corporation election to the enterprise are flawed at a conceptual level. The benefit, or, as we will see below, the potential detriment in value of an S corporation interest relative to an otherwise identical C corporation interest, is properly assessed at the shareholder level. That benefit (or detriment) is properly determined, as shown at the bottom right of Table Two, at the shareholder level. In other words, the nonmarketable minority value of an S corporation (relative to an otherwise identical C corporation), would be adjusted upwards (or downwards) based on the expected distribution policy that gives rise to the shareholder-level tax benefit, the risks associated with receiving those benefits, and the duration of the expected holding period for the investment.

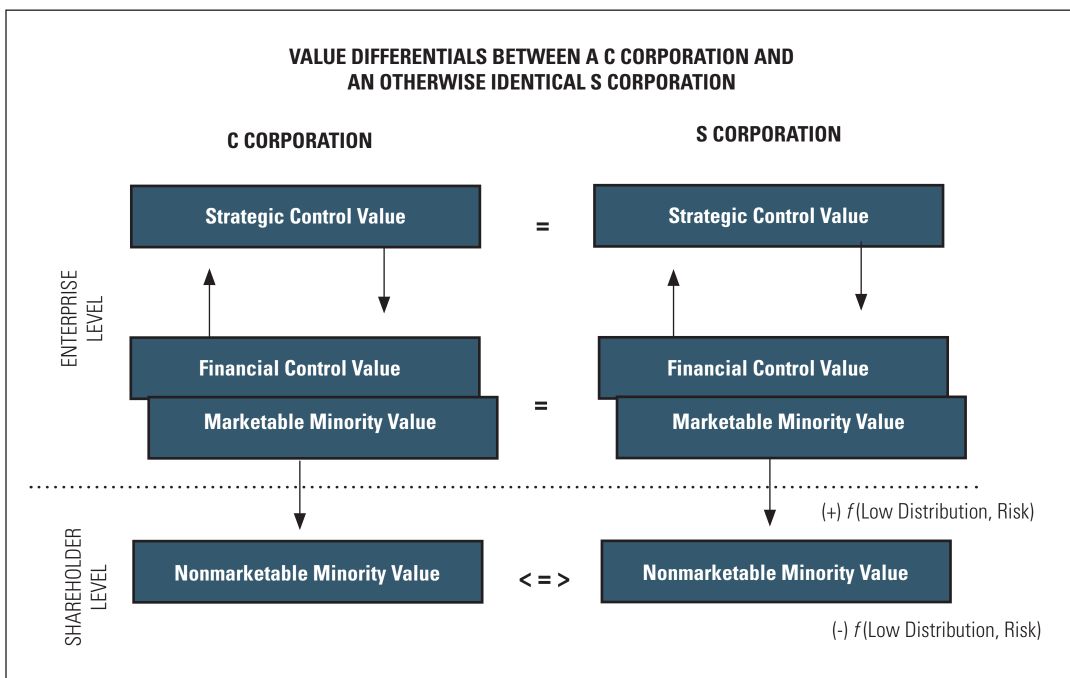


TABLE TWO: Levels of Value Comparisons

	C CORP	S CORP	S CORP VALUATION
Income Before Tax	$100	$100	$100
Corporate Tax Rate	40.0%	0.0%	29.4%
Available Earnings	$60	$100	$70.6
Dividend or Personal Income Tax Rate	15.0%	40.0%	15.0%
Available After Dividends	$51	$60	$60

TABLE THREE: Corporate Tax Rate Analysis from *Kessler* Opinion

S CORPORATION VALUATION TECHNIQUE IN *KESSLER*

Vice Chancellor Strine rejected the S corporation valuation techniques of both experts in *Kessler*. Homing in on the distinction between enterprise and shareholder tax benefits of the S corporation election, the Vice Chancellor prepared an analysis to objectively quantify "the primary tax benefit associated with an S Corporation, which is the avoidance of a dividend tax in addition to a tax on corporate earnings."

The Court's analysis is straightforward. Assuming full distribution of earnings, what pro forma corporate tax rate applicable to S corporation earnings, followed by application of the personal income tax on dividends yields the after-tax distribution available to the S corporation shareholder? Table Three, reproduced from the *Kessler* opinion, illustrates the question and answer.

At the left-most column, we see a fully-taxable C corporation that distributes 100% of its after-tax earnings. The assumed corporate tax rate is 40%. The $60 available for distribution yields $51 of shareholder cash flow after payment of taxes on the dividends at the current rate of 15%. The middle column provides a similar analysis for an otherwise identical S corporation, indicating that after-tax distributions are $60. The S corporation "multiplier" is 1.176x (i.e., $60/$51).

The court then asked, in effect: what corporate tax rate should be applied to an S corporation to provide an identical $60 benefit to the S corporation example in the middle? As the right-most column in Table Three indicates, a pro forma corporate tax rate of 29.4% yields pro forma corporate earnings available for distribution of $70.6. Assuming distribution of this amount, taxed at the dividend income tax rate of 15.0%, provides the S corporation shareholder with $60 of after-tax distributions, or precisely the same amount of benefit available to a fully-distributing S corporation shareholder (as indicated in the middle column of Table Three).

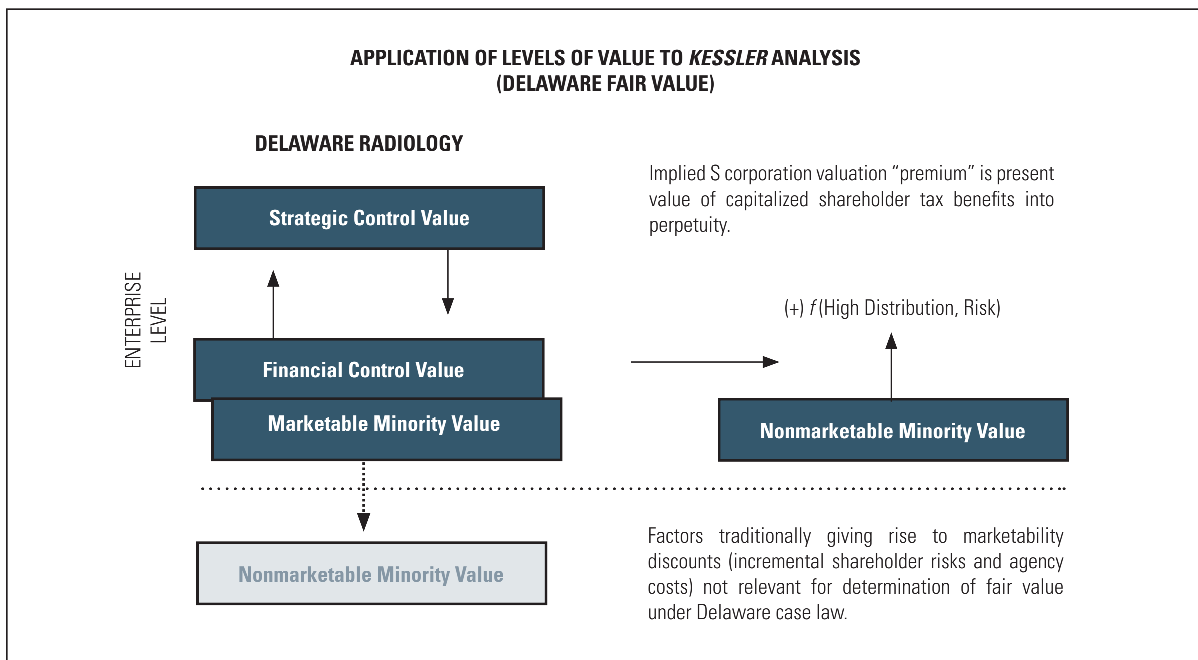


TABLE FOUR: *Kessler* and the Levels of Value

Assuming the same valuation multiple (10x) applies to both the C and S corporations, the Court's analysis suggests that the *fair value of the subject interest* in an S corporation is $706, or approximately 17.6% higher than the corresponding interest in an otherwise identical C corporation. This premium is the present value of all expected future shareholder tax benefits from the S corporation election, discounted to the present at the enterprise discount rate.[18]

One cannot, however, translate this result to the fair market value of the respective enterprises – determining fair market value was not the Court's task. Rather, the Court sought to compensate the minority shareholders for the specific economic benefits, as shareholders, that were taken from them.

The opinion describes this mandate thusly: "...when minority shareholders have been forcibly denied the future benefits of S corporation status, they should receive compensation for those expected benefits and not an artificially discounted value that disregards the favorable tax treatment available to them."

The court's analysis effectively capitalizes the shareholder cash flow tax benefit into perpetuity. In other words, the court made no decision about the likely holding period over which existing shareholders would enjoy S corporation benefits. And clearly, the court did not impose a marketability discount in *Kessler*, which would have been contrary to our understanding of prior Delaware fair value case law. Table Four adapts Table Two to the facts and circumstances of the *Kessler* case.

Table Four highlights the error of applying the economic analysis in *Kessler* directly to the determination of the *fair market value* of shareholder interests in S corporations. The adjustment of the pro forma corporate income tax rate to give effect to the shareholder tax benefits of the S corporation election was feasible in *Kessler* only because a marketability discount was not applicable. The better interpretation of the court's analysis in *Kessler* is that the shareholder tax benefit was added to the shareholder (nonmarketable minority) level of value, which by judicial precedent was equal to the enterprise level of value.

There is no conceptual basis for "grossing up" the enterprise value for *shareholder* tax benefits, and then taking a marketability discount from that ill-defined base. This point is critical – there are no enterprise cash flow benefits from the S corporation election, so there is no effect on the value of the enterprise. There are, however, discrete and readily definable cash flow benefits (and risks) for the S corporation election for shareholders. Therefore, the appropriate means of incorporating the shareholder benefits and risks is to adjust the otherwise applicable marketability discount to derive the nonmarketable minority level of value. The most concise, straightforward and conceptually appealing method for valuing shareholder interests is a shareholder level discounted cash flow model.

Appraisers who add the shareholder level benefit of the S corporation to enterprise value are left with the problem of then determining the appropriate marketability discount in *fair market value* determinations of illiquid minority interests in S corporations. If discounted cash flow (or capitalization) methods are used to value the S corporation incremental benefit (relative to an otherwise identical C corporation), use of those same methods to derive the value of all of the shareholder benefits flowing to the minority shareholder of an S (or C) corporation is compelling.

It is for this reason that we have not developed an "S corporation valuation model." On this point, we noted in *Business Valuation (Second Edition)*[19]:

> We are occasionally credited with developing a model to value the S corporation benefit. While we appreciate the credit, we have not done so. Rather, we advocate valuing nonmarketable minority interests in S corporations using the very same shareholder level discounted cash flow model we apply to such interests in C corporations. We find that the relevant shareholder tax benefits of the S corporation election can be reliably incorporated into the value of the subject interest using the Quantitative Marketability Discount Model.
>
> Consulting the conceptual framework of the Integrated Theory (Exhibit 10.4), we observe that any difference in value between a subject minority interest in an S corporation and a similar interest in an otherwise comparable C corporation must be attributable to a difference in interim shareholder benefits (CF_{sh}), risks over the expected holding period (manifest in R_{hp}), or growth in value over the expected holding period (G_v).

The Court's economic analysis and commentary in *Kessler* suggest that a shareholder level discounted cash flow model is needed to promote

equitable resolution of fair value cases involving S corporations. Such a model would incorporate the specific tax benefits reasonably anticipated by S corporation shareholders from owning an investment. *Kessler* meets this requirement for the facts and circumstances of that particular case. However, the Court's approach would not necessarily be portable to cases with different fact patterns.

To apply to a broader range of fact patterns, a more supple model is needed. As its name implies, the Quantitative Marketability Discount Model (QMDM) is principally used to determine marketability discounts when developing the fair market value of minority interests in closely held companies.[20] However, the QMDM is neither more nor less than a shareholder level discounted cash flow model. As such, it can also be used to determine the *fair value* of S corporation interests even if no marketability discount is applicable.

CONCLUSION

The economic analysis set forth by the Delaware Chancery Court in *Kessler* (and endorsed by the Massachusetts Supreme Judicial Court in *Bernier*) represents a significant step toward resolution of the S corporation valuation struggles that have bedeviled appraisers and courts far too long. In *Kessler*, Vice Chancellor Strine clearly and unequivocally identified the potential tax benefits of the S election as inuring to the shareholders.

Unfortunately, although achieving the intended result, the valuation technique advanced by the Court in *Kessler* (application of an adjusted pro forma tax rate to the pre-tax cash flows of the enterprise) obscures the important distinction between the value of an enterprise and the value of a particular shareholder interest in the enterprise. It is now the task of business appraisers to present credible valuation evidence to courts that builds upon the judicial insights of *Kessler* within an intellectually and theoretically coherent framework.

Using a shareholder-level discounted cash flow model (the QMDM in particular) to account for all the potential shareholder benefits of the S corporation election allows appraisers and courts to extend the analytical insights of the *Kessler* decision to a much broader range of relevant fact patterns. Use of this model, which provides a clear delineation of the degree to which the specific shareholder benefits of the S election contribute to the value of the subject *shareholder* interest, represents a significant improvement over the current practice of many appraisers.

RELATED SERVICES

Mercer Capital's ability to understand and determine the value of a company or financial institution has been the cornerstone of the firm's services and its core expertise since its founding

In fact, since our founding, Mercer Capital has provided thousands of sound, well-documented financial analyses and valuation opinions for corporations large and small in a wide variety of industries.

Companies and financial institutions require independent assessments of value for numerous reasons. Mercer Capital provides the following services:

» Corporate Valuation Services
» Litigation Support Services
» Tax Compliance Valuation Services
» Financial Reporting Valuation Services
» Employee Stock Ownership Plan Valuation
» Financial Institutions Valuation Services

Contacts

Z. Christopher Mercer, CFA, ASA
mercerc@mercercapital.com » 901.685.2120

Kenneth W. Patton, ASA
pattonk@mercercapital.com » 901.685.2120

Timothy R. Lee, ASA
leet@mercercapital.com » 901.322.9740

Matthew R. Crow, CFA, ASA
crowm@mercercapital.com » 901.322.9728

Travis W. Harms, CFA, CPA/ABV
harmst@mercercapital.com » 901.322.9760

Andrew K. Gibbs, CFA, CPA/ABV
gibbsa@mercercapital.com » 901.322.9726

Nicholas J. Heinz
heinzn@mercercapital.com » 901.322.9788

Wendy S. Ingalls, CPA/ABV, CBA, ASA
ingallsw@mercercapital.com » 901.322.9716

Jean E. Harris, CFA
harrisj@mercercapital.com » 901.322.9761

Finally, business appraisers looking to either *Kessler* or *Bernier* for guidance must understand the relevant differences between *fair value* and *fair market value*. Appraisers must exercise due professional caution when attempting to translate the implication of decisions of courts seeking equitable resolution of shareholder disputes to assignments involving fair market value determinations. As with other disputed areas of valuation, a dogged focus on the relevant expected cash flows, growth and risk attributes of the subject enterprise and shareholder interest will allow our profession to exit the confusing maze of competing techniques and models.

Z. Christopher Mercer, ASA, CFA
mercerc@mercercapital.com

Travis W. Harms, CFA, CPA/ABV
harmst@mercercapital.com

Endnotes

1 *Gross v. Commissioner of Internal Revenue*, 272 F.3d 333, 344-347 (6th Cir. 2001), cert. denied, 537 U.S. 827 (2002). In *Gross*, the expert for the taxpayer tax-effected S corporation earnings of a large and highly profitable Pepsi-Cola distributor. The expert for the Internal Revenue Service did not, offering no authoritative rationale for that position. Nevertheless, the court accepted the rationale for not tax-effecting S corporation earnings. Gross has been cited numerous times by courts, including the U.S. Tax Court, as the basis for not tax-effecting S corporation earnings. This incorrect finding from the viewpoint of financial and valuation theory has generated considerable confusion both for business appraisers, subsequent decisions of the Tax Court, and other courts.

2 *Wall v. Commissioner*, T.C. Memo 2001-75; *Adams v. Commissioner*, T.C. Memo 2002-80; *Heck v. Commissioner*, T.C. Memo 2002-34; *Dallas v. Commissioner*, T.C. Memo 2006-212.

3 Mercer, Z. Christopher, ASA, CFA, "Are S Corporations Worth More than C Corporations?," *Business Valuation Review*, Vol. 23, No. 3 (September 2004); Mercer, Z. Christopher, ASA, CFA, "S Corporation versus C Corporation Values," *Business Valuation Update*, Vol. 8, No. 6 (June 2002); Mercer, Z. Christopher, ASA, CFA, "Imbedded Capital Gains in C Corporation Holding Companies," *Valuation Strategies*, November/December 1998.

4 *Delaware Open MRI Radiology Assocs., v. Kessler*, 898 A.2d 290, 327 (Del. Ct. Ch. 2006); *Judith E. Bernier vs. Stephen A. Bernier*, SJC-09836 (Massachusetts Supreme Judicial Court 2007)

5 Fannon, Nancy J., *Fannon's Guide to the Valuation of Subchapter S Corporations* (Portland, OR, Business Valuation Resources, LLC, 2008). A review of this guide is beyond the scope of this article, but Fannon makes clear that the benefit of the S corporation is a shareholder-level benefit, and not a benefit to the enterprise.

6 The Court cited Mercer, Z. Christopher, "S Corporation Valuation Issues," Handout Information presented at the 22nd Annual Business Valuation Conference of the American Society of Appraisers, October 17, 2003. This material contained two sections, an article by Mercer, "Are S Corporations Worth More than C Corporations," and examples of the change in the value of the S corporation dividend benefit following the passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced the personal federal dividend tax rate from 35% to 15%. Readers seeking direct reference to the *Kessler* citations of Mercer can locate this material at www.mercercapital.com. The court in *Kessler* cited this material: 1) in its entirety in footnote 87; 2) referenced pp. 9-14 in footnote 89 (supporting the conclusion of the equivalency of S and C corporations at the level of the enterprise if the market for the S corporation is C corporation purchasers); 3) referenced page 9 (while concluding that the S corporation benefit is a shareholder benefit which can be captured "while employing an economically rational approach to valuing an S corporation which is net of personal [deemed about equal to corporate] taxes).

7 Glossary, *ASA Business Valuation Standards* (American Society of Appraisers, November 2005).

8 The difficulty of defining fair value with precision is compounded by the fact that it is an accounting term, as well, with another varied set of interpretations as to meaning.

9 *Gross, ibid.* This reference to *Gross* by the trial judge in *Bernier* is perplexing since the valuation approach adopted by the trial court was the opposite of that endorsed in *Gross.*

10 DEL. CODE ANN., tit. 8, §262.

11 *Bernier*, introductory comments.

12 *Bernier*, footnotes 8 and 18, citing the distinction between fair market value and fair value made by the Tax Court in Dallas.

13 Note that the Vice Chancellor seems to be using the term "going concern" in a somewhat different sense than business appraisers generally do. Rather than identifying a particular premise of value, as opposed to say, a liquidation value, the Vice Chancellor's usage seems to refer to the business as it is currently constituted with respect to the current tax status, shareholder base, and distribution policy.

14 In nearly all S corporations, distributions sufficient to pay the personal tax obligation on corporate income "passed through" to shareholders are assured, often contractually In the rare instances in which insufficient distributions are made, payments of the pass-through taxes by the shareholders are effectively additional capital contributions agreed to by the shareholders. The fact is that any shareholder in such a situation could take action to break the S election.

15 The following example is taken from Exhibit 10.2 of our book, *Business Valuation: An Integrated Theory Second Edition* (Hoboken, NJ, John Wiley & Sons, Inc., 2008), available at www.mercercapital.com and elsewhere.

16 It is at this point that many appraisers seem to lose the logic of S corporation valuation *relative to otherwise identical* C corporations. Consider the operative analytical question: is there a difference between the enterprise value of a C corporation and an *otherwise identical* S corporation? Table One should make clear that enterprise cash flows are precisely identical (assuming equivalency between corporate and personal income tax rates). If enterprise cash flows are identical between a C corporation and an otherwise identical S corporation, and there are no other differences (embedded capital gains or other aspects of S corporations that can enhance the value of a shareholder's interest relative to owning an interest in a C corporation), then their enterprise values must be the same. In other words, over time, differences can arise that increase shareholder proceeds from the sale of an S corporation relative to the proceeds from the sale of a C corporation that is no longer identical. At that point, the appraiser's job is to value the particular company called for by the engagement, whether an S corporation or a C corporation, based on the particular facts and circumstances applicable to it.

17 When dividends were taxed at ordinary income tax rates, the (relative) S corporation cash flow tax benefit (relative to C corporation dividends) was substantial. Assuming personal dividend rates of 40%, the benefit (into perpetuity) can be calculated as: Benefit (40% Rate) = 1 / (1 – Personal Dividend Rate) = 1 / (1 – 40%) = 1.667x. With personal dividend rates now at 15%, the S corporation benefit "multiplier" is considerably smaller: Benefit (15% Rate) = 1 / (1 – 15%) = 1.176x.

18 Note that while it is technically incorrect to develop the shareholder-level benefit at the enterprise level, the court was clear that it was determining just that, the shareholder-level benefit. So the shareholder level benefit in the example is $106 (or $706 - $600), and the S corporation multiplier is once again 1.176x ($706/$600). This comment should not suggest that we are critical of the court on this point. Vice Chancellor Strine told readers exactly what he was doing and why he did it. While we might have used a different technique to achieve the same result under this judicial interpretation, the court used the described techniques to achieve it.

19 *Business Valuation: An Integrated Theory* (Second Edition), pp. 261-262 (citation omitted).

20 The QMDM was introduced and presented at the Third Joint Business Valuation Conference of the Canadian Institute of Chartered Business Valuators and the American Society of Appraisers in San Diego in November of 1994. This presentation was subsequently published in *The Journal of Business Valuation* in 1995. *Quantifying Marketability Discounts* was published in 1997, and the QMDM was made available in Excel™ format on CD. The updated version of the QMDM (QMDM Companion, QMDM-4.0, 2008) now contains modules consistent with the tables in this article to estimate S corporation benefits in the context of the QMDM. The most current writing about the QMDM is found in *Business Valuation: Second Edition.* Both this book and the QMDM Companion are available at www.mercercapital.com.

MERCER CAPITAL BY THE NUMBERS

Mercer Capital brings uncommon professionalism, intellectual rigor, technical expertise, and superior client service to every engagement, and we have the numbers to prove it.

METRICS

- An employee-owned company
- One of the 5 largest business valuation offices in the nation and the only one that is employee-owned
- 7,000+ engagements, nationally and worldwide
- Over 25 years in business
- 95%+ recurring client retention rate
- Over 400 client engagements completed each year
- Diverse industry and valuation-scenario experience
- Professional Designations:
  - 8 CFA charterholders. 7 in the process of testing (The CFA Institute)
  - 6 Accredited Senior Appraisers (The American Society of Appraisers)
  - 3 Accredited in Business Valuation (The AICPA)
  - 3 Certified Public Accountants (The AICPA)
  - 1 Juris Doctor along with several MBAs

THOUGHT LEADERSHIP

- Our professionals have authored 8 books
- Published over 100 articles on business valuation, transaction, and financial consulting topics in over 35 external industry and professional publications
- Contributed to 10 books on valuation-related topics
- Been featured speakers over 100 times for over 30 industry and professional associations across the country
- Publish three newsletters on business valuation and transaction advisory topics with a combined circulation of over 20,000

> "Mercer Capital has completed over 7,000 engagements nationally and worldwide."

PROFESSIONAL MEMBERSHIPS

- The CFA Institute
- The American Society of Appraisers
- The Institute of Business Appraisers
- The American Institute of Certified Public Accountants
- Financial Executives International
- The ESOP Association
- The National Center for Employee Ownership
- The Financial Consulting Group
- The Association for Corporate Growth
- The Appraisal Issues Task Force
- The Memphis Society of Financial Analysts
- The National Speakers Association
- Editorial Advisory Board for *Valuation Strategies* magazine (published by RIA Group)
- Editorial Advisory Board for *Business Appraisal Practice Journal* (published by the Institute of Business Appraisers)
- Editorial Advisory Board for *Financial Valuation and Litigation Expert* (published by Valuation Products)
- Various Industry Associations

Bank Valuation:
A Focus on Earnings Quality

by ANDREW K. GIBBS, CFA, CPA/ABV
and JAY D. WILSON, JR.

Investors have often viewed banks as less volatile than non-financial companies due to several factors, including a high level of regulatory oversight, less variance in earnings from period to period, and favorable dividends. However, investors' traditional perception of the volatility of financial institutions may no longer be true in the current environment. The banking industry has been a casualty of the turmoil in the broader debt markets brought on by the unwinding of the housing bubble, which accelerated in mid-May 2007. Bank stocks, as reflected in the total return for the SNL Bank Index, were down 7.09% year-to-date through September 30, 2007 compared to an increase of 9.13% for the S&P 500.

The most significant factor weighing on bank stocks' performance in recent months has been credit quality. According to a recent review by the American Banker of third quarter financial statements for 16 of the nation's largest banks, "rising loan delinquencies and their attendant costs constitute the most immediate threat to earnings." Smaller, privately held banks have not been immune to this difficult operating environment either, as concerns have also developed regarding other lending areas that many smaller banks are dependent upon, such as construction and development lending. Due to increasing levels of impaired loans and concerns regarding other loans that may become but are not yet impaired, many banks have experienced earnings pressure in recent quarters and anticipate the difficult operating environment to continue in the near-term. The Federal Deposit Insurance Corporation's Quarterly Banking Profile for the Second Quarter of 2007 provides a review of public and private banks and noted increased loan loss provisions (particularly at larger institutions), increased charge-offs, a faster pace of reserve growth, and a modest increase in the number of banks deemed "problem" institutions.

Given the earnings challenges facing numerous banks and the declining valuations of publicly traded banks during 2007, it is important to know how to analyze a bank's earnings quality as a precursor to understanding its earning power. In this article, we examine the philosophy of earnings quality analysis and overarching earnings quality issues and focus on an analysis of the adequacy of the loan loss reserve, which is one critical earnings quality issue facing banks in the current environment. We also provide general recommendations of how to construct a reasonable estimate of earning power after assessing earnings quality.

PHILOSOPHY OF EARNINGS QUALITY ANALYSIS FOR BANKS

By nature, valuation is forward looking. Value is a function of future cash flows, not historical cash flows. However, historical cash flows can help predict (or confirm other estimates of) future cash flows, as any prediction of the future depends on the quality of the inputs. Analyzing the quality of historical earnings, and making appropriate adjustments thereto, can aid in making better predictions of future earnings.

Adjusting earnings is a relative concept, and the analyst should view potential adjustments in relation to the subject bank's history, the market for publicly traded banks, and the banking industry in general. Adjustments appropriate for one bank may not be applicable to another. However, it is always important to keep in mind that items deemed unusual, non-recurring, and/or discretionary do create or destroy shareholder value. Non-recurring items flow through the equity

account just like recurring revenue and expense. The gain or loss to shareholders from the non-recurring items can be measured as the amount that the bank can use (if there is a gain) or could have used (if there is a loss) to pay dividends, repurchase stock, make an acquisition, or grow the balance sheet.

Additionally, it is important to remember the interaction between earnings quality analysis and risk assessment when valuing banks. Short term earnings can be enhanced by taking more risk (of the credit or interest rate variety), and the impact of accepting an inappropriate level of risk is usually not immediately evident in a bank. However, earning power can be viewed as a long-term concept and not necessarily a prediction of next quarter's earnings.

Bank financial analysis is different from other industries in that the balance sheet drives the income statement. Thus, the key to a solid analysis of the earnings quality of a bank begins with a thorough review of the subject bank's balance sheet. While a detailed discussion of all the elements of importance in the balance sheet is beyond the scope of this article, we focus on one issue of current importance, the loan loss reserve.

FOCUS ON ADEQUACY OF THE LOAN LOSS RESERVE

With credit concerns currently looming as the most pressing earnings issue for numerous banks, a determination of the adequacy of the loan loss reserve, which can serve to either mitigate or heighten these credit concerns, is vitally important. When analyzing asset quality, it is important to focus on two components of the financial statements: the loan loss provision- an income statement component, and the loan loss reserve - a balance sheet component. Analysts should ask the following questions regarding these accounts:

» Does the current period loan loss provision reflect a normalized provision?

» Is the loan loss reserve adequately funded?

Loan Loss Provision. When examining the loan loss provision, the analyst should attempt to determine whether the current period's loan loss provision reflects a normalized provision. For instance, the analyst should look at trends in the ratio of the loan loss provision to loan charge-offs. Other than for short periods, loan charge-offs cannot exceed the loan loss provision, and charge-offs in excess of the provision are generally a sign of lower quality earnings. The loan loss provision can also be analyzed by examining trends in the composition of the bank's loan portfolio and the risk of the portfolio. For example, an increase in consumer loans, which tend to generate higher losses, may require a higher loan loss provision going forward.

Loan Loss Reserve. The loan loss reserve represents an amount necessary to cover the losses inherent in the loan portfolio. Under the current accounting methodology, the loan loss reserve contains the following components:

» Specific reserves against identified impaired loans (per SFAS 114); and,

» Reserves for non-impaired loans (per SFAS 5) based on the bank's prior charge-off history, adjusted for "environmental" factors that could cause future losses to diverge from recent history, such as changes in portfolio delinquencies, local economic conditions, loan concentrations, etc.

Several factors can be used to analyze the bank's loan loss reserve:

» *Loan Loss Reserve / Loan Ratio*. A declining ratio suggests that the bank's loan loss provision is either not keeping up with loan growth or that current period loan charge-offs are more than the loan loss provision. Future income could be affected as provisions are recorded to increase the loan loss reserve / loan ratio.

» *Loan Loss Reserve / Non-Performing Loans Ratio*. Non-performing loans are usually defined as the sum of loans for which interest accrual has ceased and loans that are 90 days or more past due that are still accruing interest. An increasing level of non-performing assets suggests that credit risk in the portfolio may be increasing, while a lower ratio of reserves to non-performing loans may indicate that future increases in loan loss reserves (and provision) could occur.

» *Composition of the Loan Portfolio*. It is important to analyze the diversity of the bank's loan portfolio, both in terms of type of borrower and type of loan product. Potentially, a more concentrated loan portfolio in terms of both borrower and/or loan type could be indicative of higher risk. It is important to remember though that each bank is unique,

RELATED SERVICES

The Financial Institutions Group of Mercer Capital provides a broad range of valuation, investment banking, and industry expertise to assist banks, thrifts, mortgage banks, money managers, brokers/dealers, insurance companies, and REITS meet their financial objectives.

Our banking clients range from new bank charters to multi-billion dollar (assets) bank holding companies. We have worked for numerous governmental agencies, including the IRS, the FDIC the SBA, the U.S. Attorney General's Office, and the Attorney General of the State of Tennessee. Our work has been reviewed and accepted by the major agencies of the federal government, including the SEC, the FDIC, the Federal Reserve, the Office of Thrift Supervision, and the OCC. Our work has also been reviewed by the largest accounting firms in the nation in connection with transactions involving their clients.

Our valuation services are organized as follows:

- Goodwill Impariment Services
- Minority Shareholder Transactions
- Mergers, Acquisitions, & Corporate Reorganizations
- Financial Statement Reporting Compliance
- Litigation Support and Expert Testimony
- Core Deposit and Other Intangible Asset Appraisals
- Employee Stock Ownership Plans
- Tax Compliance
- Fairness Opinions
- Strategic Analysis of Alternatives to Enhance Shareholder Value
- Financial Advisor to Independent Board Committees

Contacts

Andrew K. Gibbs, CFA, CPA/ABV
gibbsa@mercercapital.com » 901.322.9726

Kenneth W. Patton, ASA
pattonk@mercercapital.com » 901.685.2120

Jay D. Wilson, Jr.
wilsonj@mercercapital.com » 901.322.9725

Kristin C. Beckman
beckmank@mercercapital.com » 901.322.9753

Laura J. Hoffmeister
hoffmeisterl@mercercapital.com » 901.322.9764

Laura O. Matthews
matthewsl@mercercapital.com » 901.322.9746

and this diversification should be considered in light of other factors as well. For example, community banks often have less diversification in terms of types of loans and borrowers and are generally tied to the economic health of the local market served by the bank. This factor may be mitigated to some extent by a strong management team's understanding of the their local market and the unique risk present better than their larger, more diversified counterparts who may have extended into unfamiliar product lines and/or markets.

- *Other Factors*. These factors include, for example, the analyst's impression of management, the bank's primary market area, types and quality of collateral, and the type of loans emphasized by the bank.

HOW DOES THE EARNINGS QUALITY ANALYSIS AFFECT YOUR VALUATION ANALYSIS?

After the analyst's assessment of the overall quality of the bank's earnings, the analyst must then consider how this assessment affects the valuation analysis. We briefly describe three ways to handle this assessment in the valuation analysis either individually or in some combination with each other.

1. *Adjust the historical financial data*. Once the analyst has assessed the bank's earnings quality, the analyst may identify adjustments to apply to the bank's historical earnings. By

Common Adjustments
Income Statement
» Eliminate non-recurring gains and losses
» Recognize a normalized loan loss provision (i.e., greater than net charge-offs)
» Life insurance proceeds
Balance Sheet
» Adjust for unrealistic valuation of assets
- *Securities*
- *Investment in other companies carried at cost or equity*
» Recognize estimated cost of settling contingent liabilities
» Normalize loan loss reserve
» Adjust intangible assets

TABLE ONE: Common Adjustments

adjusting historical earnings, the analyst seeks to derive a better depiction of the bank's underlying earning capacity from which future growth may occur. Table One details several common adjustments, which may be deemed appropriate.

2. *Estimate earning power via a normalized return on assets ("ROA") or return on equity ("ROE")*, which are common measures of profitability in the banking industry. In some cases, a bank's earnings may have so much "noise" that determining specific adjustments is difficult. In this instance, it may be beneficial to use historical returns to estimate earning power. For example, the analyst might take an average of the bank's ROA and ROE measures for a five year period prior to the current year and apply this normalized ROA and ROE measure to the bank's assets or equity in the current period. An important assumption in this approach is that the bank's historical returns are reasonably indicative of its future returns.

3. *Carve out part of the business and value separately.* This type of analysis may be helpful when a significant component of the bank has a different risk/return profile than other parts of the bank. For example, consider a bank with a substantial mortgage subsidiary. Mortgage companies tend to have more volatile earnings than commercial banks, and publicly traded mortgage banks are often valued differently in the market than commercial banks. Rather than attempting to "smooth out" the volatility of a bank's mortgage company, the mortgage company could be valued separately and added to the value of the other parts of the bank.

Once earning power has been specified using one of the preceding approaches, the analyst can proceed with valuation analyses commonly used in appraisals of financial institutions, such as a guideline public company analysis, guideline change of control transaction analysis, or discounted cash flow analysis.

For more information or to discuss a valuation matter in confidence, call us at 901.685.2120.

Andrew K. Gibbs

Andrew K. Gibbs, CFA, CPA/ABV
gibbsa@mercercapital.com

Jay Wilson, Jr.

Jay D. Wilson, Jr.
wilsonj@mercercapital.com

Sign up for a complimentary subscription to Mercer Capital's e-mail newsletter

MERCER CAPITAL'S

Bank Watch

If you are a banker or work with financial institutions, this monthly newsletter that focuses on the Southeast is for you. Completed transactions are profiled, key indices of the top financial institutions in the region are followed, and insights into financial institution valuation issues are provided.

Every month, *Bank Watch* contains:

- Mercer Capital's Southeast Bank Index
- Public Market Indicators
- Southeast Bank Group (peer data on Southeast banks)
- M&A Market Indicators
- Executive Deal Summaries of Recent Transactions

To receive your complimentary subscription, visit www.mercercapital.com

Good Things Come to Those Who Don't Wait

Some attorneys tend to wait until the last minute to hire their experts. This may not be a good thing for their clients.

Having been retained for a number of significant litigation engagements over the years, Mercer Capital has had the opportunity to observe a variety of theories on the best time for attorneys to retain experts for their lawsuits.

In many lawsuits, the testimony of your business valuation, economic damages, or investment banking expert will be among the more important elements of your case, making it vital that the expert be involved early in the process. However, some attorneys tend to wait until the last minute to hire their experts, ostensibly under the theory that hiring experts late in the game minimizes the overall expense of the case. After all, the thinking goes, if the experts are not hired until it is certain that their expert reports will be needed, then the looming deadline provides an automatic limit to the number of hours that can be billed.

This approach is flawed for a number of reasons. In our experience, it is far better to involve the experts early. The sooner your business valuation, economic damages, or investment banking expert is involved, the sooner the expert will be able to provide you with an economic perspective on the facts of your case or your theory of damages. The longer you wait, the later your expert will be able to provide economic insight, good or bad, and the less time you will have to address any issues raised by your expert.

As an example of the above, Mercer Capital was contacted by an attorney concerning a significant breach of contract case involving a warehouse and distribution business whose business had been damaged when a key supplier canceled a supply contract. The lawsuit was very well developed by the time we were contacted, and detailed pleadings existed concerning the mechanism by which the plaintiff's business was damaged and the results of the defendant's actions. The result of the case as presented to us was that, aside from some distraction and aggravation on the part of the plaintiff, a big piece of the case was essentially a wash, with very little economic damages. It would have been beneficial to the plaintiff's lawyer to have known much earlier in the process that the damaged part of the operation was essentially breaking even (at best) prior to the breach of contract, and that there were few fixed costs that continued after the breach. The bottom line is that our estimate of damages was far lower than anticipated by either the plantiff or his attorney.

In addition to the advantages associated with gaining perspective described above, hiring your expert early provides the following advantages:

1. Your expert can help you understand financial and economic concepts that are relevant to the dispute at hand. There are words and concepts that have particular meanings in a

> "In our experience, it is far better to involve the experts early. The sooner your business valuation, economic damages, or investment banking expert is involved, the sooner the expert will be able to provide you with an economic perspective on the facts of your case or your theory of damages.

legal context that are unfamiliar or even surprising to non-attorneys. Similarly, there are certain elements of finance, accounting, and economics that might surprise those who do not work in these areas.

2. Your expert can help you figure out the discovery and documentation requirements associated with your case. This can help you give your client a better understanding of the overall cost of the lawsuit in terms of time, legal fees, and possible accounting, forensic accounting, or other services that might be required.

3. Your expert can consult with you about economic and financial matters, helping you create a theory of damages that is relevant and calculable. In economic damages cases in particular, it is important that the facts and the law align in such a way that an economic damages expert can provide an opinion that is consistent with the remedies the law allows.

4. Time allows organization and familiarity with the underlying facts and documents of the case. The more organized your experts, the better able they will be to get command of all the information in the case relevant to their opinions, and the less likely they will be to be surprised by key documents that may appear to undermine their opinions.

5. Hiring experts early provides additional time to prepare for deposition and trial, which will allow for more effective testimony. Your experts can help you create more effective direct examinations and cross examinations of opposing experts if they have the time to do so.

6. Experts may be able to supply deposition questions for opposing experts and fact witnesses. In some cases, Mercer Capital has provided literally hundreds of questions for opposing expert and fact witnesses that greatly clarified the underlying economic and financial facts of the case. Better depositions of experts enhance the potential for settlement, and better depositions of your experts compared to the other side's experts enhance your negotiating position. It has been our experience that many cases settle shortly after expert depositions, and we have seen at least a few where another expert completely torpedoed a case.

7. As the case progresses, your expert can vet the work of experts on the other side.

8. Hiring an expert early allows your reports to be prepared at lower effective billing rates. Reports prepared in the normal course of business benefit from data entry and basic analytical functions being performed by professionals with lower billing rates than your expert. If a report is prepared at the list minute, it must typically be prepared almost exclusively by (rather than under the supervision of) higher-rate personnel.

9. The sooner "the team" on the litigation is complete, the better they will work together. This is not to imply that your expert is anything but independent, but rather to point out that the familiarity that comes from working together over the course of an engagement will enhance the communication and rapport between attorney and expert.

10. If you hire your experts early, you generally get a better product. Being hired early allows your expert time to prepare a report, reflect on that report, and then issue a final report. It minimizes the potential for mistakes and last minute changes to the final report, and it also allows your expert to issue a more complete, more cohesive, and better written expert report.

As you can see, hiring your experts early in the process allows the experts to do a better job forming and documenting their opinions, and informing you and the court. While it may seem to be a greater financial commitment from your client, waiting until the last minute could prove to be much more costly. Simply put, the early dollars spent on your valuation, economic, or investment banking expert may be the best dollars. Good things come to those who don't wait.

MERCER CAPITAL
HIGHLIGHTS

Mercer Capital is proud to announce that **Laura J. Hoffmeister** and **B. Patrick Lynch** have been promoted to the position of Senior Financial Analyst.

"Laura and Patrick have demonstrated technical proficiency, determination, and the ability to form strong relationships with clients, with exceptional results," said Mercer Capital senior vice president **Timothy R. Lee, ASA**. "We thank them for their efforts and challenge them to higher achievements and responsibilities in the future."

Mercer Capital's professionals are actively engaged in thought leadership through various speaking engagements and published articles.

Z. Christopher Mercer, ASA, CFA, wrote an article titled "Wealth Management for Private Businesses - The One Percent Solution" that appeared in the February 2008 issue of ***Southeast Wealth Management*** magazine. Chris also recently spoke on the topic of buy-sell agreements at the ING International Forum in Miami, Florida.

Andrew K. Gibbs, CFA. CPA/ABV was quoted in the article titled "Eroding Goodwill Sparked a Slew of Charges for 4Q," which appeared in the February 8, 2008 issue of ***American Banker*.**

Jay D. Wilson, Jr. recently participated in a panel discusssion titled "How Much is an M&A Intermediary Really Worth?," at the **Alliance of Merger & Acquisition Advisors Winter Conference** in Las Vegas, Nevada. Wilson's presentation was based on his article, "Empirical Evidence Regarding the Importance of a Transaction Advisor," which can be accessed at www.mercercapital.com.

Travis W. Harms, CFA, CPA/ABV and **B. Patrick Lynch** were recently quoted in an article published on ***CFO.com***, titled "How Fair Value Could Affect Your Next Deal," by Sarah Johnson. In the article, Harms and Lynch discuss the effect that the new fair-value accounting standard, FAS 157, may have on a financial executive's approach to purchase price allocation reports, which determine the value of an acquired company's intangible assets.

Travis Harms was also quoted in an article published on April 8, 2008 on ***ComplianceWeek.com***, titled "When Bear Stearns Rammed Into Fair Value," by Tammy Whitehouse.

Timothy R. Lee, ASA was quoted in an article titled "How to Value a Restaurant for Resale," which appeared in the March 2008 issue of ***QSR Magazine***.

Mercer Capital is proud to announce that vice presidents **Andrew K. Gibbs, CFA, CPA/ABV** and **Travis W. Harms, CFA, CPA/ABV** have been promoted to the position of Senior Vice President.

Andy joined Mercer Capital in 1999 and currently leads Mercer Capital's Financial Institutions Group. Andy has extensive experience working with financial institutions in merger and acquisition advisory engagements. Andy has also taken a lead role in projects in a litigated context, including tax disputes, dissenting shareholder actions, and employee stock ownership plan related matters.

Travis also joined Mercer Capital in 1999, and currently leads Mercer Capital's Corporate Valuation Group. He has broad industry experience providing corporate valuation services to hundreds of companies. Travis is also senior member of the Mercer Capital's Financial Reporting Valuation Group, and is experienced in the valuation of various intangible assets, employee options, restricted stock, and assets subject to specific contractual restrictions. In addition, Travis recently co-authored the book, *Business Valuation: An Integrated Theory, Second Edition*, with Z. Christopher Mercer, ASA, CFA, published in 2007 by John Wiley and Sons, Inc.

Recent Transaction Announcements

Check out Mercer Capital's new complimentary whitepaper series, "Understand the Value Of..."

Written for business owners, each article in this series focuses on a particular industry, providing an overview of that industry and the issues that affect the value of businesses within the industry. Each whitepaper also reviews the basic concepts of value. Business owners should not miss this valuable resource.

Current whitepapers in the series include:

» **"Understand the Value of Your Local Exchange Carrier"**

» **"Understand the Value of Your Electrical Distributorship"**

» **"Understand the Value of Your Start-Up Business"**

» **"Understand the Value of Your Trust Company"**

» **"Understand the Value of Your Truck Dealership"**

» **"Understand the Value of Your Brick Business"**

» **"Understand the Value of Your Insurance Brokerage"**

» **"Understand the Value of Your Physician Practice"**

» **"Understand the Value of Your Auto Dealership"**

» **"Understand the Value of Your Distributorship of Malt Beverage Products"**

Visit www.mercercapital.com to download these complimentary whitepapers. Check back often for new whitepapers in the series.

Upcoming Speeches

May 12, 2008
"Value Creation, Asset Management, and Estate Planning"
The Next Generation Executives Forum
Orlando, Florida
Z. Christopher Mercer, ASA, CFA

July 16, 2008
"The Integrated Theory of Business Valuation"
NACVA Webinar
Z. Christopher Mercer, ASA, CFA

August 12, 2008
"Banking Topic TBD"
BV Resources Teleseminar
Andrew K. Gibbs, CFA, CPA/ABV

September 16-17, 2008
"Active vs. Passive Appreciation"
BV Resources/ASA Conference
Chicago, Illinois
Z. Christopher Mercer, ASA, CFA

September 26, 2008
"Continuity Planning"
TSCPA Construction Conference
Nashville, Tennessee
Timothy R. Lee, ASA

November 11, 2008
"Marketing & Practice Management"
AICPA/ASA Joint BV Conference
Las Vegas, Nevada
Barbara Walters Price
co-presenting with Kevin R. Yeanoplos, CPA/ABV, Bruggeman and Johnson Yeanoplos, PC

November 11, 2008
"Fairness Opinions"
AICPA/ASA Joint BV Conference
Las Vegas, Nevada
Z. Christopher Mercer, ASA, CFA

5860 Ridgeway Center Parkway, Suite 400
Memphis, Tennessee 38120

PRSRT STD
AUTO
U.S. POSTAGE PAID
Memphis, TN

Receive Value Added™ via Email

Did you know that Mercer Capital's Value Added™ is also available via email?

To receive Mercer Capital's Value Added™ via email, send an email to washburnm@mercercaptial.com, or visit the Knowledge Center section of our website at www.mercercapital.com.