MERCER CAPITAL

VALUE MATTERS™

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USPAP Sanctions Use of QMDM?

"Although often misunderstood as some kind of proprietary black box, the QMDM is simply a shareholder level discounted cash flow model..."

Does the new USPAP sanction the use of the Quantitative Marketability Discount Model? Not exactly. But among the more interesting aspects of the revised Uniform Standards of Appraisal Practice, which is scheduled to go into effect on July 1 of this year, deals with the issue of marketability.

For the first time, USPAP will now require consideration of the "extent to which the interest is marketable and/or liquid" (Standards Rule 9-2.e.v). The revisions to this element of the standard goes on in Rule 9-4(d) to state "an appraiser must, when necessary for **credible assignment results**, analyze the effect on value, if any, of the extent to which the interest appraised contains elements of ownership control and is marketable and/or liquid" **[emphasis added]**.

In a comment to this section, it states "an appraiser must analyze factors such as holding period, interim benefits, and the difficulty and cost of marketing the subject interest."

Twelve years ago we introduced the Quantitative Marketability Discount Model, or QMDM, as a methodology that would assess the cost of liquidity on the basis of facts and circumstances that were specific to a subject interest. We believed this was a big improvement on the then-standard methodology of relying on irrelevant and often obscure data to impute the same discount for every business interest regardless of reality.

Although often misunderstood as some kind of proprietary black box, the QMDM is simply a shareholder-level discounted cash flow model (DCF) that looks at five factors:

1. The expected growth in value of the subject interest (necessary to generate a terminal value for the DCF).
2. The expected interim benefits from the subject interest (dividends or distributions during the expected holding period).
3. The expected growth in the expected interim benefits during the expected holding period.
4. The shareholder level required holding period return (not surprisingly a premium return to that which would be expected for the enterprise on a marketable basis).
5. The expected holding period for the subject interest (you can't have a DCF without some specific term).

ALSO IN THIS ISSUE

» **Register for Mercer Capital's Newest Webinar *The QMDM: A Shareholder-Level DCF -How to Understand, Use, & Defend It - Page 3***

» Mercer Capital's Newest Book - *Buy-Sell Agreements: The Do's & Don'ts from a Business Appraiser's Perspective* - Reserve Your Copy at the Special Pre-Publication Rate (publication date summer 2006) - *Page 4*

» Mercer Capital on the Road - *Page 6*

The appraisal community includes plenty of smart and creative people and no doubt there is another way out there to satisfy USPAP without the QMDM, but at least we know where we stand. We've written books and articles, given dozens of speeches, and have successfully used the QMDM thousands of times over the last twelve years.

No Nobel Prize in economics yet, but much of the appraisal community has come around to the concept of rate of return based models for determining marketability discounts; the rest of you have until July 1st.

"As for the pre-IPO and restricted stock studies, they've had more comebacks than Martha Stewart."

As for the pre-IPO and restricted stock studies, they've had more comebacks than Martha Stewart. It's going to be tough to slice and dice that data such that it considers holding period and interim benefits, but we have faith that someone out there is working on it, feverishly. *Bon chance!*

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crowm@mercercapital.com

The QMDM: A Shareholder-Level DCF

Understanding, Using, and Defending the QMDM

A
Mercer Capital
Webinar

TUESDAY, JUNE 13, 2006

10:00 am - 11:40 am (Pacific)
11:00 am - 12:40 pm (Mountain)
12:00 pm - 1:40 pm (Central)
1:00 pm - 2:40 pm (Eastern)

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REGISTER TODAY!

Much has been written and said about the Quantitative Marketability Discount Model (QMDM) – some of it positive, and some not. While some may think of it as a proprietary "black box," we contend that the QMDM is simply a shareholder-level discounted cash flow model (DCF).

Rule 9-4(d) of the 2006 USPAP Standards (effective July 1st) states: "*an appraiser must, when necessary for credible assignment results, analyze the effect on value, if any, of the extent to which the interest appraised contains elements of ownership control and is marketable and/or liquid.*" In a comment to this section, it states "*an appraiser must analyze factors such as holding period, interim benefits, and the difficulty and cost of marketing the subject interest.*"

If You Are Still Relying Solely on Restricted Stock Studies, USPAP 9-4(d) just Changed Your Life.

To our knowledge, the QMDM is the only tool available to you to comply with this new standard. In this webinar, Chris Mercer will demystify the QMDM and give you tools to understand, use, and defend it.

After this webinar, you will know:

- **The theoretical foundations of the QMDM**
- **What the QMDM does, why it works, and how it has been used successfully**
- **How to develop each of the assumptions of the QMDM, discussing the underlying facts, circumstances and market data that are used to support the reasonableness of the assumptions**
- **How to counter assertions that the QMDM has been rejected by the courts**

We'll also illustrate the use of the QMDM in specific examples and answer questions. **Don't miss this one-time-only event!**

Registration	$180
Add'l CPE registrants only $29 per person	
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TO REGISTER, FAX BACK TO 901.685.2199,
or visit www.mercercapital.com/qmdmwebinarvm.htm

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Additional CPE Registrants (Must Have Full Names):

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The QMDM to be Discussed and Debated in a Teleseminar on May 30th

The three most widely used methods to determine discounts for lack of marketability are the use of restricted stock studies, the use of Pre-IPO studies, and the QMDM. In this teleconference, scheduled for Tuesday, May 30th, three leading experts, Espen Robak , Brian Pearson , and Chris Mercer, who are staunch defenders of their approaches, will enter into a debate on the merits of each method. Lance Hall will act as a partial moderator.

This presentation will give equal time to each of the proponents to give the listener a greater understanding of: the strengths of the weaknesses of each method, how to respond to court "rejections," and how to respond to criticisms of each method. A case study will also be featured.

If you are looking for a lively debate on the topic of determining marketability discounts, register for this teleseminar today by visiting BV Resources website at www.bvresources.com.

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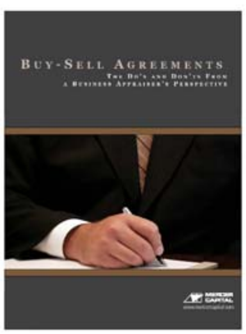

BUY - SELL AGREEMENTS

THE DO'S AND DON'TS FROM A BUSINESS APPRAISER'S PERSPECTIVE

Coming Summer 2006

Does your or your clients' buy-sell agreement say what you think it says? You might be surprised.

In this book, we speak from our own experiences valuing hundreds of buy-sell agreements. You will gain insight into the folly of fixed-price or formula pricing, the different appraisal mechanisms, common misunderstandings that can end up as big money issues, and the pitfalls of buy-sell templates. This information can save you or your clients thousands, if not hundreds of thousands, of dollars and years of frustration dealing with buy-sell agreements that, in the end, don't say what you think they say! If you are an attorney, CPA, insurance provider, business owner, or a business appraiser, you have to have this book.

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NEW E-BOOK FROM MERCER CAPITAL

RATE & FLOW

An Alternative Approach to Determining Active/Passive Appreciation in Marital Dissolutions

BY CONLEY W. PATTON

In this complimentary e-book, we present an alternative model for determining active / passive appreciation in a marital dissolution. In states where an owner/spouse's active management of a business does not preclude the consideration of passive appreciation, we offer a fresh approach based on rate and flow analysis.

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ANNOUNCING MERCER CAPITAL'S E-BOOK LIBRARY

Title	Description	Investment	Release Date
Valuing Shareholder Cash Flows: Quantifying Marketability Discounts	*Quantifying Marketability Discounts* has been updated and is now offered as an e-book. Titled *Verifying Shareholder Cash Flows: Quantifying Marketability Discounts - 2005 E-Book,* this edition provides a brand new chapter which discusses each of the five assumptions of the QMDM in depth. As a bonus, when you purchase the e-book, you will also receive the *QMDM Companion,* the latest edition of the Quantitative Marketability Discount Model in spreadsheet format. We plan to continually add content to this e-book, and as a purchaser, you will receive this content free-of-charge when it becomes available.	**$95.00**	*Currently Available*
Valuing Financial Institutions	We are responding to requests to put this book back into print and we are doing so as an e-book	**$65.00**	*Currently Available*
Valuation for Impairment Testing	The first SFAS 142 valuation resource for CFOs and auditors. Also available in printed form at www.mercercapital.com	**$45.00**	*Currently Available*
Are S Corporations Worth More Than C Corporations?	An e-booklet that adds to the S Corp vs. C Corp. debate	**Complimentary**	*Currently Available*
Embedded Capital Gains	An examination of the Embedded Capital Gains issue through 2005	**$19.95**	*Currently Available*
Rate & Flow: An Alternative Approach to Determining Active/Passive Appreciation in Marital Dissolutions	In this e-book, we present an alternative model for determining active / passive appreciation in a marital dissolution. In states where an owner/spouse's active management of a business does not preclude the consideration of passive appreciation, we offer a fresh approach based on rate and flow analysis	**Complimentary**	*Currently Available*

Visit our website at www.mercercapital.com for more information or to download an e-book.

MERCER CAPITAL ON THE ROAD

May 30, 2006
"Marketability Discounts - The Debate Continues"
Teleseminar Sponsored by Business Valuation Resources
Z. Christopher Mercer, ASA, CFA
with Lance Hall, ASA and Brian Pearson, ASA

June 1, 2006
"Buy - Sell Agreements: Ticking Time-Bomb or Reasonable Resolution?"
NACVA's Annual Conference
San Francisco, California
Z. Christopher Mercer, ASA, CFA

June 13, 2006
"The QMDM: A Shareholder-Level DCF *How to Understand, Use, & Defend It*"
Webinar sponsored by Mercer Capital
Z. Christopher Mercer, ASA, CFA
(See page 3 for registration information)

June 15, 2006
"The Basics of Business Valuation"
Business Law Institute
St. Louis, Missouri
Z. Christopher Mercer, ASA, CFA

August 21, 2006
CPA Associates
Philadelphia, Pennsylvania
"Buy - Sell Agreements: Ticking Time-Bomb or Reasonable Resolution?
Matthew R. Crow, ASA, CFA
"FAS 141 Issues"
Travis W. Harms, CPA/ABV, CFA

September 18, 2006
"Buy - Sell Agreements: Ticking Time-Bomb or Reasonable Resolution?"
Virginia Society of CPA's 7th Annual Business Valuation, Fraud and Litigation Services Conference
Richmond, Virginia
Z. Christopher Mercer, ASA, CFA

October 19-20, 2006
"Today's Word on Lack of Marketability"
CICBV/ASA Annual Conference
Toronto, Canada
Z. Christopher Mercer, ASA, CFA

November 6, 2006
"Marketing with the Newest Technology Tools"
IGAF Conference
Las Vegas, Nevada
Barbara Walters Price

December 3, 2006
"Buy - Sell Agreements: Ticking Time-Bomb or Reasonable Resolution?"
AICPA Business Valuation Conference
Austin, Texas
Z. Christopher Mercer, ASA, CFA

December 4, 2006
"Business Valuation Experts Panel"
AICPA Business Valuation Conference
Austin, Texas
Z. Christopher Mercer, ASA, CFA

The professionals of Mercer Capital have a great deal of experience speaking to industry and professional groups across the nation on topics such as:

- Buy-Sell Agreements
- The Integrated Theory of Business Valuation
- Is Your Business Ready for Sale?™
- Purchase Price Allocation
- Valuation of Employee Stock Options
- Litigation Support and Expert Testimony
- Valuation of Privately Held Businesses, Partnerships, or LLCs
- Financial Institution Valuation
- ESOP Valuation

To book a Mercer Capital professional as a speaker at your next conference or CLE/CPE meeting, please contact Barbara Walters Price at priceb@mercercapital.com.

A GENTLE PLUG FOR OUR FIRM

MERCER CAPITAL is a business valuation and investment banking firm serving a national and international clientele. Our reputation for excellence is based on an ability to solve complex financial problems expeditiously. We convert over 20 years of experience, including thousands of assignments, into solutions for the issues of today.

Corporate Valuation. Mercer Capital provides a broad range of independent valuation and financial advisory services, including:

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- Valuation for Corporate Income Tax Issues
- Valuation for ESOPs
- Purchase Price Allocations
- Valuation of Employee Options
- Goodwill Impairment Testing
- Valuation of Intangible Assets
- Fairness Opinions

Investment Banking. Mercer Capital's investment banking division and specializes in providing merger and acquisition services to sellers or buyers of private businesses or public companies divesting divisions and subsidiaries. In addition, we assist clients in industry consolidations, roll ups, and refinancings.

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