

MERCER CAPITAL'S

Value Matters™

Volume 2009-01 » January 31, 2009
www.mercercapital.com
mcm@mercercapital.com

Recession, Market Meltdown Put Spotlight on Goodwill Impairment

The sharp decline in stock market indices through the first eleven months of 2008 has shaved over \$5.0 trillion off the equity market capitalization of companies in the S&P 500. The falling market valuations reflect both a reduced appetite for risk and an expectation that corporate cash flows will be pressured as the global economy enters a recession of unknown depth and duration.

For auditors and financial statement preparers, the bear market suggests that the goodwill reported on many corporate balance sheets may be impaired. The accounting for goodwill, the amount paid in excess of net identifiable assets in previous acquisitions, is set forth in SFAS 142, Goodwill and Intangible Assets. SFAS 142 provides for an annual impairment test for goodwill, rather than systematic amortization as under prior guidance. The two-step impairment test starts with a comparison of the reporting unit's fair value to carrying value. Impairment is indicated if the fair value of the reporting unit is less than carrying value. Step 2 of the impairment test involves quantifying the amount of impairment by determining the implied fair value of the reporting unit's goodwill.

A broad look at the S&P 500 provides some clues regarding the magnitude of potential impairment for companies throughout the economy. In the following table, we compare the market capitalization of companies in the index to their respective book values. While the actual analysis for an individual company depends on reporting unit structure and a host of other unique facts and circumstances, consideration of the price/book multiple is often viewed as a reasonable proxy for assessing where goodwill impairment is likely to exist.

Sector	# of Cos.	Nov-08 Market Cap	Dec-07 Market Cap	% Change	Nov-08 Book Value	# of Cos Nov-08	(P/B<1.0) Dec-07
Basic Materials	59	1,310,520.60	2,047,930.40	-36.0%	755,490.10	15	0
Conglomerates	7	297,036.50	572,042.30	-48.1%	166,471.40	0	0
Consumer Goods	58	869,638.70	1,193,241.80	-27.1%	237,912.70	9	0
Financials	83	1,034,823.60	2,123,310.60	-51.3%	1,239,886.10	49	13
Healthcare	45	1,020,014.50	1,448,814.90	-29.6%	411,273.60	6	0
Industrial Goods	41	377,376.70	676,866.30	-44.2%	211,332.20	11	4
Services	88	1,221,702.00	1,761,937.60	-30.7%	649,382.20	19	4
Technology	85	1,570,547.30	2,796,164.40	-43.8%	709,531.10	21	2
Utilities	31	327,740.90	465,032.30	-29.5%	215,735.70	7	0
TOTAL	497	\$8,029,401	\$13,085,341	-38.6%	\$4,597,015	137	23

FIGURE 1

INSIDE

*Special Offer on
Mercer Capital's
Newest Book*



While financial stocks have been hardest hit, no sector has been immune. Over 25% of the companies in the S&P 500 were valued by the market at a discount to accounting book value. We would expect a sampling of smaller companies throughout the economy to reveal similar results.

Regardless of a company's regular annual testing date, SFAS 142 prescribes an interim test upon occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. In our practice, we are observing many audit firms that regard the sharp decline in stock prices and the general economic uncertainty to be triggering events for an interim impairment test.

When it comes to financial statement reporting, dependable valuation advice is more important than ever. In our experience, audit firms are increasingly uncomfortable with do-it-yourself goodwill impairment analysis. At Mercer Capital, we have been helping clients navigate fair value reporting requirements since the FASB revised the purchase accounting rules in 2001. Call one of our professionals to discuss your unique situation in confidence.

“For auditors and financial statement preparers, the bear market suggest that the goodwill reporting on many corporate balance sheets may be impaired”



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

Financial Reporting Valuation Services

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

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

The professionals of Mercer Capital can guide you through the complexities of the fair value landscape.

We provide financial reporting valuation services for the following:

- » Impairment testing
- » Purchase price allocations
- » Alternative investment portfolio valuations
- » Employee stock option valuations
- » International fair value valuations
- » Other related valuation & consulting services

CONTACT US

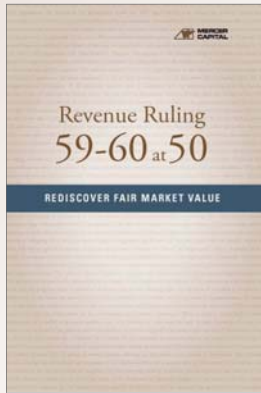
Matthew R. Crow, CFA, ASA
901.322.9728 » crowm@mercercapital.com

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

Lucas M. Parris
901.322.9784 » parrisl@mercercapital.com

B. Patrick Lynch
901.322.9727 » lynchp@mercercapital.com

Sujan Rajbhandary
901.322.9749 » sujanr@mercercapital.com



Revenue Ruling 59-60 at 50

REDISCOVER FAIR MARKET VALUE

Tagging a text with the label “classic” should not be done carelessly. But 50 years after its initial release, few would disagree that Revenue Ruling 59-60 deserves the title. Written in the spare, unadorned style of a government publication, the Ruling is a compact storehouse of enduring practical wisdom for business appraisers and the users of appraisal reports.

Our purpose in writing this book is twofold: first, to offer a guided tour through the Ruling, pointing out some of the most prominent features of the landscape (and providing the occasional warning about rough terrain); second, to pull back the curtain a bit, granting a non-technical view of how appraisers (at least this group) attempt to translate the guidance found in the Ruling into actual valuation engagements.

Published in January 2009, this 120+ page book is written for attorneys and other users of business appraisal reports. Order your copy today.

Chapter List

Chapter 1	A Summary of Revenue Ruling 59-60 from a Business Appraiser’s Perspective
Chapter 2	Fair Market Value Versus The Real World
Chapter 3	What Revenue Ruling 59-60 Means for Operating Companies
Chapter 4	Revenue Ruling 59-60’s Application to Asset-Holding Entities
Chapter 5	The Growing Influence of Intangible Assets
Chapter 6	Selecting a Business Appraiser
Chapter 7	Landmark Tax Court Cases
Appendix A	Revenue Ruling 59-60
Appendix B	Court Case Bibliography
Appendix C	The National Economy in 1959

QTY	ITEM	REG. PRICE	SPECIAL PRICE	TOTAL
	Revenue Ruling 59-60 at 50	\$50	\$45	

Sales Tax - TN Residents (9.25%)

SHIPPING CHARGES

Shipping Charge

	1 Book	2 or More
Standard	\$7.00	\$11.00
2-Day	\$11.00	\$15.50
Overnight	\$35.00	\$40.00

TOTAL

Please call for Canadian & International rates

Name

Firm

Address

City/State/Zip

Telephone

Email

Visa Mastercard American Express Check Enclosed

Card Number

Name on Card

Exp. Date

Signature



5860 Ridgeway Center Parkway, Suite 400
Memphis, Tennessee 38120

901.685.2120 (P) :: 901.685.2199 (F) :: www.mercercapital.com

MERCER CAPITAL'S E-BOOK LIBRARY

TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
NEW E-BOOK			
The Capital Purchase Program Handbook	This 33-page handbook covers a number of topics related to the CPP, including the activity to date in the program, the advantages and disadvantages of participating, accounting issues raised, and the actual cost of the preferred stock after factoring in the warrants. Mercer Capital will endeavor to provide appropriate updates to this handbook as conditions warrant.	Complimentary	<i>Currently Available</i>
The QMDM Companion, Version 4.0 (2008)	The Quantitative Marketability Discount Model (QMDM) presents a practical model to assist business appraisers in developing, quantifying and defending marketability discounts under the income approach. The very latest version of the QMDM now includes a revised and expanded explanatory manual. The model and manual are delivered as a .zip file electronically via email.	\$125.00	<i>Currently Available</i>
Valuing Financial Institutions	We are responding to requests to put this 1992 book back into print and we are doing so as an E-Book	\$65.00	<i>Currently Available</i>
Are S Corporations Worth More Than C Corporations?	An e-booklet that adds to the S Corp vs. C Corp debate.	\$19.95	<i>Currently Available</i>
Embedded Capital Gains	A closer look at the Embedded Capital Gains issue.	\$19.95	<i>Currently Available</i>
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.	Complimentary	<i>Currently Available</i>
QMDM Fact Sheet	The latest information about the QMDM in a pdf format	Complimentary	<i>Currently Available</i>

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

NEW WHITEPAPER SERIES: "UNDERSTAND THE VALUE OF ..."

TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
Understand the Value of Your Local Exchange Carrier	Over the past decade, the telecommunications industry has been characterized both by rapid innovation and obsolescence. Whether through selling, acquiring, divesting, or any other major strategic change, it is important to realize the value of your telecommunications company as it stands today.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Electrical Distributorship	Electrical equipment wholesalers operate in a highly fragmented industry, consisting largely of family-owned business with a few locations within a relatively close proximity. This article provides insight into the situational (when and why) and analytical (how) aspects of valuing electrical distributors.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Start-Up Business	Valuation for start-up enterprises can be a tricky proposition. Regardless of industry, start-ups generally share a common set of operational characteristics and valuation needs that are distinct from mature firms. This article discusses specific valuation considerations relevant to start-up companies.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Independent Trust Company	Due to their variance in size, there is no one-size-fits-all definition of an independent trust company, and recognition of the particular attributes of independent trust companies is significant to understanding their value.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Brick Business	This article provides an informative overview regarding the valuation of businesses operating in the brick industry, including a discussion of value as it relates generally to both manufacturers and wholesalers, as understanding how brick businesses are valued may help you understand how to grow the value of your business.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Insurance Brokerage	For the past several years, insurance brokerages have been in a period of consolidation, and the current soft market is expected to persist for at least the near term. As such, it is an opportune time for business owners to have an idea of what their brokerage business is worth.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Physician Practice	The event that triggers ownership transfer can be categorized as either voluntary or involuntary. It is important for physicians to consider the universe of ownership transfer possibilities, because sooner or later, you will be involved.	Complimentary	<i>Currently Available</i>
Understand the Value of Your Wholesale Distributorship of Malt Beverage Products	The financial landscape is littered with rules of thumb pertaining to the value of privately owned businesses. Perhaps in no other industry is the rule of thumb concept more prevalent than in beer distribution. It is critical that value be determined and articulated in a credible fashion.	Complimentary	<i>Currently Available</i>

Visit our website at www.mercercapital.com for more information or to download a whitepaper.

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.

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

- » Dispute Analysis Services and Expert Testimony
- » Valuation for Corporate Tax Matters
- » 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

Mercer Capital's investment banking professionals specialize 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.

INTERNET COMMERCE: OBTAIN PROPOSALS TO VALUE YOUR COMPANY, BANK, FLP OR LLC VIA OUR WEBSITE

The cost of your time and delays in obtaining proposals has just gone down. Use one of the PROPOSAL REQUEST FORMS on our website.

Many of your colleagues have already used our PROPOSAL REQUEST FORMS and are impressed by the decrease in transactional overhead and the increased ease in obtaining actionable proposals for their clients. We are pleased to be doing business with them. Try it yourself! Visit our website and provide us with the pertinent information via this form, and we'll prepare a proposal and deliver it to you via e-mail, fax or USPS. Complete confidentiality is assured.

UNSUBSCRIBE

We will continue to send the newsletter as published at no cost unless you notify us that you wish to be removed from the distribution list. To REMOVE yourself from this list, send an e-mail to: newsletters@mercercapital.com and type the words "Unsubscribe – Value Matters" in the subject line (without the quotation marks).



Business Valuation » Investment Banking

HEADQUARTERS:

5860 Ridgeway Center Parkway, Suite 400
Memphis, Tennessee 38120
901.685.2120 » Fax 901.685.2199

LOUISVILLE OFFICE:

455 South 4th Street, Suite 690
Louisville, Kentucky 40202
502.585.6340 » Fax 502.585.6345

www.mercercapital.com

DISCLAIMER. This publication does not constitute legal, valuation, tax, or financial consulting advice. It is offered as an information service to our clients and friends. Those interested in specific guidance for legal and accounting matters should seek competent professional advice. Inquiries to discuss specific valuation or corporate finance matters are welcomed. Permission is specifically granted to send copies of this Value Matters™ to others who might have an interest in its contents. Permission is also granted to quote portions of this newsletter with proper attribution.

Copyright © 2009 by Mercer Capital Management, Inc., all rights reserved. Text, graphics, and HTML code are protected by US and International Copyright Laws, and may not be copied, reprinted, published, translated, hosted, or otherwise distributed by any means without explicit permission.