



Value Matters™

THE COMPLIMENTARY NEWSLETTER FOR ATTORNEYS AND OTHER PROFESSIONAL ADVISORS TO BUSINESSES

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A New Approach to Fair Value: Welcome to FAS 157

The rules of fair value are changing. With its September 15, 2006 issuance of Statement of Financial Accounting No. 157, "Fair Value Measurements," the Financial Accounting Standards Board (FASB) has redefined fair value, established a framework for measuring fair value, and expanded disclosure requirements regarding fair value measurement. While FAS 157 does not require any new fair value measurements, the Statement applies to other accounting standards that require or permit fair value measurement.

Fair Value Redefined

FAS 157 puts forth greater emphasis on fair value as a market-based measurement as opposed to an entity-specific measurement. According to the new standard, fair value is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." In other words, fair value is an exit price rather than an entry price. FAS 157 provides a concrete definition for fair value as it is to be employed by the various other accounting standards.

Fair Value Measurement

With respect to the measurement of fair value, the Standard reaffirms that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that are independent, knowledgeable, and both willing and able to transact for the subject asset or liability.

The new Standard continues to recognize the valuation approaches that are most familiar to financial reporting and valuation professionals (the market, income, and cost approaches). However, to increase consistency and comparability in fair value measurements, FAS 157 introduces a fair value hierarchy that prioritizes the inputs to the valuation techniques used

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to measure fair value. The new hierarchy gives preference to quoted prices in active markets and gives the lowest priority to unobservable inputs such as a reporting entity's own data. Entities are to employ inputs for measuring fair value using the highest level possible (Level 1) if such inputs are available and if not, proceed to the next lower level.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs include: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical assets or liabilities in markets that are not active, (3) observable inputs other than quoted prices, such as interest rates and yield curves, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 inputs are unobservable inputs for the asset or liability that are developed based upon the best information available under the circumstances, which might include the reporting entity's own data. The fair value measurement objective remains the same (an exit price from the perspective of a market participant). Stated differently, the unobservable inputs should reflect the reporting entity's assumptions about the assumptions of market participants.

Additional Disclosure Requirements

FAS 157 also introduces new disclosure requirements relating to fair value measurements. For each major category of assets and liabilities, the reporting entity will be required to disclose the following information for each interim and annual period:

- Fair value measurements at the reporting date.
- The level within the fair value hierarchy in which the fair value measurements in their entirety fall (i.e. Levels 1, 2, or 3).
- For assets and liabilities measured on a non-recurring basis (such as impaired assets), a description of inputs and information used to develop such inputs is required for fair value measurements using significant unobservable inputs (Level 3).
- Fair value measurements performed on a recurring basis with significant Level 3 inputs will require a reconciliation of beginning and ending balances, total gains and losses, and transfers in and/or out of Level 3.
- In annual periods only, the valuation techniques used to measure fair value and a discussion of changes in valuation techniques, if any, during the period. For non-recurring fair value measurements, entities are also required to disclose and discuss any changes in the valuation techniques used to measure similar assets or liabilities in prior periods.

DID YOU KNOW?

Mercer Capital's Bank Watch, a monthly publication, is being reintroduced at the request of our clients and referral sources.

Delivered via e-mail, we have expanded the publication to include public market indicators such as the Southeast Bank Group Index, as well as M&A market indicators. Covering eight states, Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee, we follow and discuss recent transactions. And, of course, Mercer Capital's Southeast Bank Group is included. If you are a banker or advise bankers, you cannot be without this complimentary publication.

To receive a **complimentary** subscription to *Mercer Capital's Bank Watch*, just provide us your e-mail address by visiting www.mercercapital.com.

Effective Date and Implementation

While early adoption is encouraged, FAS 157 shall be formally effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Retrospective treatment (as of the beginning of the fiscal year in which the Statement is initially applied) is required for certain financial instruments measured at fair value using a blockage factor, instruments previously measured using transaction price under FAS 133, and hybrid financial instruments measured via transaction price under FAS 155. It is important to note, however, that the FAS 157 does not apply under accounting pronouncements that address share-based payment transactions such as FAS 123.

The new standard emphasizes consistency and comparability in fair value measurement, and it is clear that the use of fair value reporting in all of its applications will be under close auditor scrutiny as FAS 157 becomes effective.



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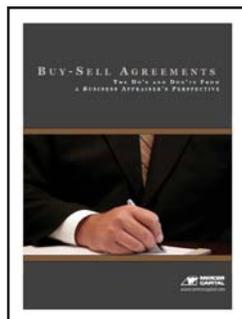
MERCER CAPITAL PROFESSIONALS IN PRINT

Nicholas J. Heinz was quoted in the September 22-28, 2006 edition of the *Memphis Business Journal* in an article entitled "Many Signs Point to Possibility That a Company May Be Up For Grabs."

Andrew K. Gibbs, CFA, CPA/ABV, was quoted in the August 18-24, 2006 edition of the *Memphis Business Journal* in an article entitled "Interest Rate Environment, Quality of Loans Could Put Pressure on Banks' Earnings."

Z. Christopher Mercer, ASA, CFA, wrote an article entitled "Buy-Sell Agreements: Ticking Time Bomb or Reasonable Resolution?" for the October/November issue of *Financial Valuation and Litigation Expert*.

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Title	Description	Investment	Release Date
Valuing Shareholder Cash Flows: Quantifying Marketability Discounts	<i>Quantifying Marketability Discounts</i> has been updated and is now offered as an e-book. Titled <i>Verifying Shareholder Cash Flows: Quantifying Marketability Discounts - 2005 E-Book</i> , 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 <i>QMDM Companion</i> , 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

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MERCER CAPITAL ON THE ROAD

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

November 8, 2006

"Discount & Capitalization Rates Revisited"

BV Resources Teleconference

For more information, visit www.bvresources.com

Z. Christopher Mercer, ASA, CFA, panelist

November 30 - December 1, 2006

Topic TBD

Arkansas AICPA Meeting

Little Rock, Arkansas

Timothy R. Lee, ASA

December 3-4, 2006

"Buy - Sell Agreements: Ticking Time-Bomb or Reasonable Resolution?"

"Ask the 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?TM
- » 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:

- » 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

Investment Banking. Mercer Capital's investment banking division 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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