

MERCER CAPITAL'S

Value Matters™

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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.

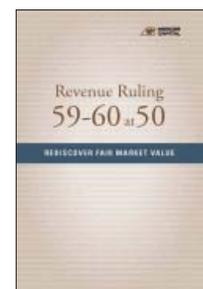
A broad look at the S&P 500 provides some clues regarding the magnitude of potential impairment for companies throughout the economy. In the following table, we compare the market capitalization of companies in the index to their respective book values. While the actual analysis for an individual company 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

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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”



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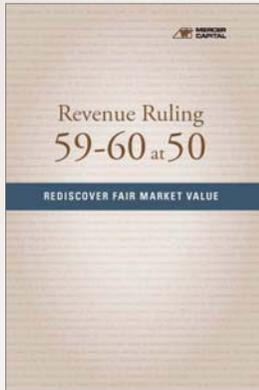
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Revenue Ruling 59-60 at 50

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

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	Revenue Ruling 59-60 at 50	\$50	\$45	

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TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
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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>
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TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
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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>

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