



MERCER CAPITAL'S

# Value Matters™

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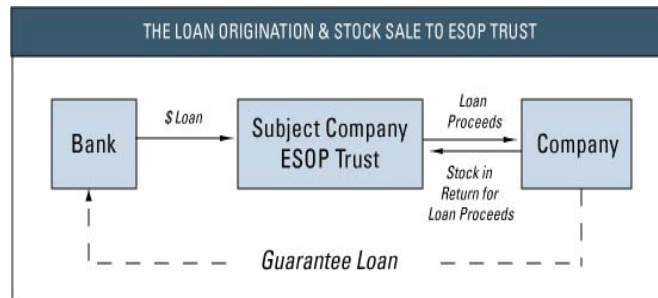
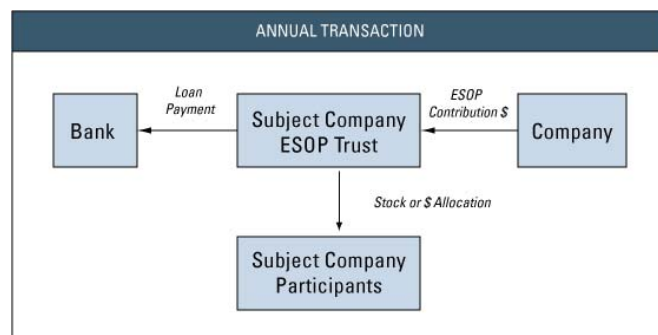
## How ESOPs Work

ESOPs are a recognized exit planning tool for business owners, as well as a vehicle for employees to own stock in their employer company. However, most business owners and their advisors are unfamiliar with how an ESOP works. The mechanics of an ESOP can vary somewhat, but there is a basic common functionality to all ESOPs. Below, we discuss the mechanics of leveraged and non-leveraged ESOPs.

Most ESOPs are leveraged and involve bank financed purchases of either newly issued shares, or more often, the stock of a selling shareholder. The Company funds its ESOP via annual contributions as a qualified retirement plan and the plan effectively uses those funds to repay the debt used for the purchase.

Leveraged ESOPs tend to be more complicated than non-leveraged ESOPs. A leveraged ESOP can be used to inject capital into the Company through the acquisition of newly issued shares of stock. Figure 1 illustrates how the initial leveraged ESOP transaction typically works.

Subsequent to the initial transaction, the Company makes annual tax deductible contributions to the ESOP, which in turn repays the loan. Stock is allocated to the participants' accounts — just as it is in a non-leveraged ESOP — enabling employees to collect stock or cash when they retire or leave the Company. ESOP participants have accounts within the ESOP to which stock is allocated. Typically, the participant's stock is acquired by contributions from the Company — the employees do not buy the stock with payroll deductions or make any personal contribution to acquire the stock. An exception to this norm could involve roll-overs of participant's funds from alternative qualified plans sponsored by the Company. Plan participants generally accumulate account balances and begin a vesting process as defined in the plan. Contributions, either in cash or stock, accumulate in the ESOP until an employee quits, dies, is terminated, or retires. Distributions may be made in a lump sum or installments and may be immediate or deferred. The typical annual flow of funds for a leveraged ESOP is illustrated in Figure 2.


**FIGURE 1**

**FIGURE 2**

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Although non-leveraged ESOPs have certain tax advantages to selling shareholders, they generally tend to be an employee benefit, a vehicle to create new equity, or a way for management to acquire existing shares. The Company establishes an ESOP and either makes annual contributions of cash, which are used to acquire shares of the Company's stock, or makes annual contributions in stock. These contributions are tax deductible for the Company. As in a leveraged ESOP, the employee/participant vests according to a schedule defined in the plan document, and stock accumulates in the account until the employee/participant leaves the Company or retires. At that time the participant has the right to receive stock equivalent in value of his or her vested interest. Typically, ESOP documents contain a provision called a "put" option, which requires the plan or the Company to purchase the stock from the employee after distribution if there is no public market for it, thus enhancing the liquidity of the shares. Figure 3 illustrates a non-leveraged ESOP.

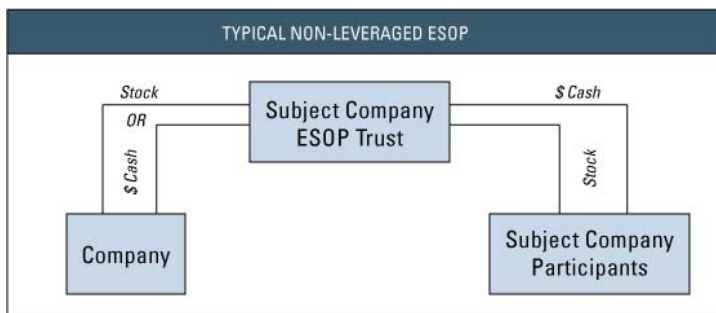


FIGURE 3

As ESOP participants roll out of the plan at termination or retirement, the ESOP or the Company purchases the employee's plan shares based on the terms specified in the plan document. Plan design and administration are crucial to a successful ESOP experience and require the participation of specialized financial and legal advisors.

As with all qualified retirement plans, there are rules and requirements pertaining to annual contribution limits, vesting, share allocation, plan administration, and other functional aspects which are beyond the scope of this overview.

Sellers of stock to an ESOP may enjoy certain tax benefits related to their sale proceeds, and the Company (the sponsor) may enjoy tax benefits related to its contributions to the ESOP. Thus, ESOPs are often postured by business advisors as a tax advantaged exit strategy. Please refer to other articles on Mercer Capital's website or contact me or Tim Lee for more information.

Mercer Capital is itself an employee-owned firm. We value scores of ESOPs annually and provide fairness opinions and other valuation services on a regular basis to many other plans. To discuss a valuation issue in confidence, give me a call at 901.322.9716.

*Wendy S. Ingalls*

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

“ESOPs are a recognized exit planning tool for business owners, as well as a vehicle for employees to own stock in their employer company. However, most business owners and their advisors are unfamiliar with how an ESOP works.”

**MOST RECENT TRANSACTION**



**CenterBank, Inc.**  
*Jacksonville, Florida*

Fairness opinion on behalf of the CenterBank, Inc. Employee Stock Ownership Plan in connection with the sale of a controlling interest in CenterBank, Inc. to a new investor



# What's New on Mercer Capital's Web Site

Mercer Capital's website is updated frequently and contains information of interest to attorneys, business owners, and other professional advisors to business. Please check it out often at [www.mercercapital.com](http://www.mercercapital.com).

## NEW ARTICLE

### Some (Unsolicited) Advice for CFOs and Controllers of Public Companies

Even if you are a veteran when it comes to goodwill impairment testing under SFAS 142, it's important to understand that things are different in 2009. Most of us have never experienced a business climate like this before (and hopefully won't again for a long time). The fair value standard is new, auditors are no longer content with some of the old answers, and reasonable fair value estimates are simply harder to make. We've mined our experience helping clients like you meet the new challenges of goodwill impairment testing for a few tips in advance of your annual goodwill impairment test.

## INDUSTRY OVERVIEW

### Value Focus: Insurance Industry

Mercer Capital's **Value Focus: Insurance Industry** is a quarterly perspective on valuation issues pertinent to insurance agencies, brokerages, and underwriters. The 4th Quarter 2008 issue was recently issued and contains a segment focus on reinsurers, as well as market and M&A reviews and outlooks.

## COMPLIMENTARY E-BOOK

### The Capital Purchase Program Handbook

Written by Mercer Capital's Financial Institutions Group, this complimentary 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 evolve.



[www.mercercapital.com](http://www.mercercapital.com)

## SELECTED LIST OF UPCOMING SPEAKING ENGAGEMENTS

*April 23, 2009*

### **"Discounts and Premiums in Valuations for Financial Statement Reporting"**

ASA Business Valuation Discipline Meeting

Washington, D.C.

Travis W. Harms, CFA, CPA/ABV

*April 29, 2009*

### **"Buy-Sell Agreements"**

Hoosier Hills Estate Planning Conference

Bloomington, Indiana

Z. Christopher Mercer, ASA, CFA

*May 8, 2009*

### **"Bank Valuation"**

New York ASA Chapter Meeting

New York City, New York

Andrew K. Gibbs, CFA, CPA/ABV

*May 27, 2009*

### **"Discounts for Lack of Marketability" and "Subsequent Events"**

2009 NACVA Annual Conference

Boston, Massachusetts

Z. Christopher Mercer, ASA, CFA

*June 9, 2009*

### **"Lack of Marketability and Lack of Control"**

AICPA Fair Value Measurements Conference

Chicago, Illinois

Travis W. Harms, CFA, CPA/ABV

*September 3, 2009*

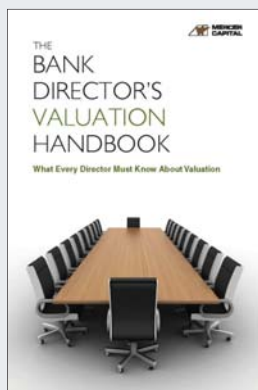
### **"Valuation for Gift and Estate Tax Purposes"**

Birmingham Estate Planning Council

Birmingham, Alabama

Timothy R. Lee, ASA

To see a complete list, visit the Speaker's Bureau section of our website at [www.mercercapital.com](http://www.mercercapital.com). To inquire about engaging a professional from Mercer Capital to speak to your group, contact Barbara Walters Price at [priceb@mercercapital.com](mailto:priceb@mercercapital.com), or by calling 901.322.9724.



# THE BANK DIRECTOR'S VALUATION HANDBOOK

What Every Director Must Know About Valuation

Valuation issues intersect with a bank's affairs more often than you may imagine, and they are likely to arise during your tenure as a director or manager. These valuation issues might include merger and acquisition activity, an employee stock ownership plan, capital planning, litigation, or financial planning, among others. Mercer Capital has been working with financial institutions for over 25 years and has provided valuation and other financial consulting services to thousands of clients. We find that most of our clients have the same basic questions about these important valuation issues. This handbook is written to address many of these questions and to provide useful information for bank directors and managers when valuation needs emerge.

## SECTION ONE: INTRODUCTION TO VALUATION

- Chapter 1: The Valuation Process
- Chapter 2: Core Valuation Concepts
- Chapter 3: Financial Management & Performance Measurement

## SECTION TWO: COMPENSATION & EMPLOYEE BENEFIT PLANS

- Chapter 4: Employee Benefit Plans
- Chapter 5: Stock Options, Restricted Stock, & Stock Appreciation Rights

## SECTION THREE: STOCK TRANSACTIONS

- Chapter 6: Estate & Gift Tax Issues
- Chapter 7: Raising Capital
- Chapter 8: Buy-Sell Agreements

## SECTION FOUR: STRATEGIC ALTERNATIVES

- Chapter 9: Mergers & Acquisitions
- Chapter 10: Fairness Opinions
- Chapter 11: Capital Gains & Dividends
- Chapter 12: Sub-Chapter S Conversions

## SECTION FIVE: FINANCIAL REPORTING

- Chapter 13: Fair Value Accounting
- Chapter 14: Fair Value Accounting In Business Combinations
- Chapter 15: Share-Based Compensation

## SECTION SIX: STATUTORY & LEGAL CONCEPTS

- Chapter 16: A Primer on Litigation
- Chapter 17: Statutory Fair Value
- Chapter 18: Divorce of a Key Shareholder

## SECTION SEVEN: CONCLUSION

- Addendum: The Capital Purchase Program (CPP)
- Addendum: IRS Provides New Tax Incentive for Banks

QTY	ITEM	1-5 COPIES	6 OR MORE	TOTAL
	<b>The Bank Director's Valuation Handbook</b>	\$45 per book	<b>\$29</b> per book	

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	1 Book	2-5 Books	6-12 Books	TOTAL
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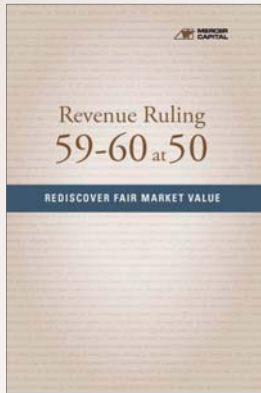
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# Revenue Ruling 59-60 at 50

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

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

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## MERCER CAPITAL'S E-BOOK LIBRARY

TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
<b>NEW E-BOOK</b>			
<b>The Capital Purchase Program Handbook</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>The QMDM Companion, Version 4.0 (2008)</b>	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.	<b>\$125.00</b>	<i>Currently Available</i>
<b>Valuing Financial Institutions</b>	We are responding to requests to put this 1992 book back into print and we are doing so as an E-Book	<b>\$65.00</b>	<i>Currently Available</i>
<b>Are S Corporations Worth More Than C Corporations?</b>	An e-booklet that adds to the S Corp vs. C Corp debate.	<b>\$19.95</b>	<i>Currently Available</i>
<b>Embedded Capital Gains</b>	A closer look at the Embedded Capital Gains issue.	<b>\$19.95</b>	<i>Currently Available</i>
<b>Rate &amp; Flow: An Alternative Approach to Determining Active/Passive Appreciation in Marital Dissolutions</b>	In this e-book, we present an alternative model for determining active / passive appreciation in a marital dissolution.	<b>Complimentary</b>	<i>Currently Available</i>
<b>QMDM Fact Sheet</b>	The latest information about the QMDM in a pdf format	<b>Complimentary</b>	<i>Currently Available</i>

Visit our website at [www.mercercapital.com](http://www.mercercapital.com) for more information or to download an e-book.

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

TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
<b>Understand the Value of Your Local Exchange Carrier</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Electrical Distributorship</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Start-Up Business</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Independent Trust Company</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Brick Business</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Insurance Brokerage</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Physician Practice</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>
<b>Understand the Value of Your Wholesale Distributorship of Malt Beverage Products</b>	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.	<b>Complimentary</b>	<i>Currently Available</i>

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**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.

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### 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

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