



# RP<sup>®</sup> FINANCIAL, LC.

*Celebrating 20 Years of Financial Advisory Services*

## **Options for Small Public Banks and Thrifts: Deregistration, Going Private and Subchapter S Strategies**

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# Are You Benefiting From Being Public?

- Has your stock price declined significantly in the last year?
- Does your stock price reflect a significant discount to the market?
- Is there a relatively illiquid market for your stock?
- Are shareholder activists able to acquire your stock inexpensively?
- Are you able to effectively deploy your equity and provide a market level return on equity?
- Do you seek to increase shareholder value?
- Do the costs of being publicly-traded offset the benefits of a public market for your stock?
- Have your public company costs and liability increased following the Sarbanes-Oxley Act?
- Do you seek to remain independent in the foreseeable future?

***If your answer is “Yes” to one or more of these questions, perhaps there are strategies you may wish to consider . . .***



# Alternative Strategies to Public Company Status

- Deregister from the Securities and Exchange Commission (“SEC”)
  - Must have less than 300 shareholders
  - Less burdensome and less expensive shareholder reporting (Also reduces Sarbanes-Oxley Act related costs)
  - Limits disclosure of certain sensitive personal data (e.g., compensation)
  - More difficult for unwanted shareholder activists or suitors to obtain financial, shareholder and insider data
- Go Private
  - Provide a fair cash return to eligible shareholders (typically smaller shareholders) through a tender offer, reverse stock split or subsidiary merger transaction
  - Fair cash value payable to eligible shareholders may include a premium – the amount of the premium, if any, depends on a number factors that must be evaluated
  - Cash payout may be financed through existing equity and/or holding company debt or trust preferred securities
  - Payout must also be attractive to continuing shareholders
  - Leveraged ESOP may facilitate funding of the purchase and provide valuable benefit to employees (capital gains may be deferred if ESOP holds 30%+ of stock)
- Reorganize as an S Corporation
  - Must have less than 100 shareholders (certain strategies can reduce the shareholder number below this threshold – see “Go Private”) – corporate shareholders and non-qualified plans not eligible as shareholders
  - All remaining shareholders must approve of the S Corp election
  - Only one class of stock can be outstanding (trust-preferred securities are not considered a class of stock)
  - Eliminates double taxation, thereby increasing cash dividends and earnings for continuing shareholders

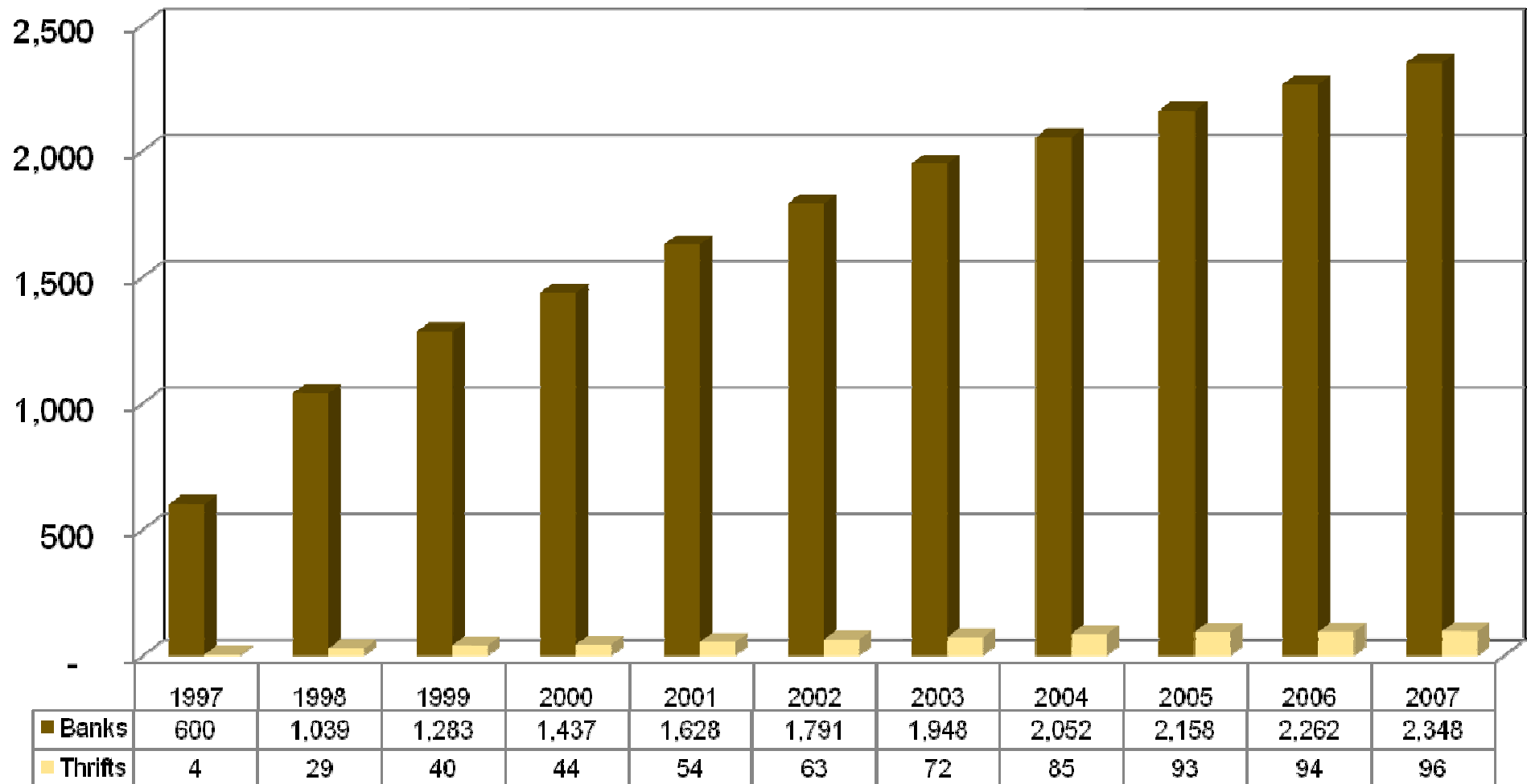


# “Going Private” Transactions by Public Banks & Thrifts

- Many publicly-traded banks/thrifts have pursued “going private” transactions over the last 10 years
- Such institutions terminated SEC registration and reduced related annual expenses
- Many of these de-listed from one of the major exchanges (also OTC Bulletin Board or Pink Sheets)
- Some of these “going private” transactions resulted in electing S Corp status
- Techniques used to “go private” included self-tender transactions, reverse stock splits and merger subsidiaries
- Average 18% premium paid to non-continuing shareholders in these “going private” transactions
- Continuing shareholders on average owned 90%+ of outstanding shares (including insiders, stock benefit plans and friendly shareholders) prior to “going private”
- Some institutions utilized a phased approach using a combination of strategies over time



# S Corporation Formations Have Been Strong



Note: Congress authorized S Corporation status for banks and thrifts for taxable years after December 31, 1996



# Solutions to Potential “Going Private” Issues

- Potential Issue: Fairness of purchase price paid to non-continuing shareholders
  - Pay a market price premium, supported by a fairness opinion from a financial advisor
- Potential Issue: Fairness of procedures to effect “going private” transaction
  - Engage financial and legal advisors early in process to ensure fairness of procedures
  - Form a Special Committee of independent directors to evaluate the merits of “going private” and the purchase price (including any premium)
  - Neutralize the vote of the continuing (controlling) shareholders by requiring approval of public shareholders
  - Consider the value and viability of alternative strategies before concluding with “going private”



# Solutions to Potential S Corporation Issues

- Potential Issue: Maximum of 100 Shareholders
  - Complete a reverse stock split or tender offer to reduce shareholder number below 100
  - Subsequent buy/sell agreements designed to keep shareholder number below 100 in the future
- Potential Issue: IRAs are ineligible holders
  - Insider IRA shares may be transferred to KSOP (counts as one shareholder)
  - 3rd party IRA shares may be forced to sell or divest to the IRA owners
- Potential Issue: For-profit corporations are ineligible holders
  - Corporations may divest of bank shares to owners
- Potential Issue: Insufficient capital to complete cash out transaction (reverse stock split or tender)
  - Finance cash out partially through holding company debt or trust preferred securities
- Potential Issue: Restrictive state tax structures
  - If remain taxable at state level, then benefits may be reduced, but the returns should still be attractive



# RP Financial's Services in Evaluating Such Strategies

- RP Financial has considerable experience in evaluating “going private” and S Corporation strategies
- We have developed models to evaluate the:
  - Pro forma effect reflecting the implementation of such strategies, including:
    - Impact to earnings and return on equity
    - Effect on equity and capital compliance
    - Holding company debt to consolidated equity ratios
    - Cost of financing strategies internally and externally
  - Composition of continuing shareholders and potential resolution strategies for ineligible shareholders
  - Returns to continuing shareholders and the value in comparison to the pre-transaction value
  - Premium to be considered fair to non-continuing shareholders
- RP Financial can determine the feasibility/financial merit of such transactions, structure transaction terms, and provide related consulting services as well as fair market valuation and fairness opinion
- RP Financial can also assist in any related regulatory business planning requirements



# Overview of RP<sup>®</sup> Financial, LC.

RP<sup>®</sup> Financial, LC. ("RP Financial") provides financial and management consulting, merger advisory and valuation services to the financial services industry nationwide. We offer a broad array of services, high quality and prompt service, hands-on involvement by principals and senior staff, careful structuring of strategic initiatives and sophisticated valuation and other analyses consistent with industry practices and regulatory requirements. Our staff maintains extensive background in financial and management consulting, valuation and investment banking. Our clients include commercial banks, thrifts, credit unions, mortgage companies and other financial services companies.

## **STRATEGIC PLANNING SERVICES**

RP Financial's strategic planning services are designed to provide effective feasible plans with quantifiable results. We analyze strategic options to enhance shareholder value, achieve regulatory approval or realize other objectives. Such services involve conducting situation analyses; establishing mission/vision statements, strategic goals and objectives; and identifying strategies to enhance franchise and/or market value, capital management, earnings enhancement, operational matters and organizational issues. Strategic recommendations typically focus on: capital formation and management, asset/liability targets, profitability, return on equity and stock pricing. Our proprietary financial simulation models provide the basis for evaluating the impact of various strategies and assessing their feasibility and compatibility with regulations.

## **MERGER ADVISORY SERVICES**

RP Financial's merger advisory services include targeting potential buyers and sellers, assessing acquisition merit, conducting due diligence, negotiating and structuring merger transactions, preparing merger business plans and financial simulations, rendering fairness opinions, preparing mark-to-market analyses and supporting the implementation of post-acquisition strategies. Through financial simulations, comprehensive data bases, valuation proficiency and regulatory familiarity, RP Financial's merger advisory services center on enhancing shareholder returns.

## **VALUATION SERVICES**

RP Financial's extensive valuation practice includes bank and thrift mergers, thrift mutual-to-stock conversions, insurance company demutualizations, ESOPs, subsidiary companies, purchase accounting and other purposes. We are highly experienced in performing appraisals which conform to regulatory guidelines and appraisal standards. RP Financial is the nation's leading valuation firm for thrift mutual-to-stock conversions, with offering values ranging up to \$4 billion.

## **OTHER CONSULTING SERVICES**

RP Financial offers other consulting services including branching and diversification strategies, feasibility studies and special research. We assist banks/thrifts in preparing CRA plans and evaluating wealth management activities on a de novo or merger basis. Our other consulting services are aided by proprietary valuation and financial simulation models.

### **KEY PERSONNEL (Years of Relevant Experience & Contact Information)**

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