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Meeks v. Meeks, 2006-Ohio-642 (Part 1)

The Ohio Court of Appeals for the Tenth District affirmed the decision regarding the valuation of a beauty salon.

The appeal contends that the trial court ruled against the manifest weight of the evidence when it found the beauty salon business to have a fair market value of \$100,000.

The business owner testified at trial that she could sell the salon for, at most, \$10,000 for goodwill, but that the business has essentially no resale value. The non-business owning spouse asserted at trial that the business should have been valued at \$100,000, which was the amount the business owner used on a loan application for her condominium. The business owner countered that the \$100,000 value was the result of "puffing" in order to secure the loan. In the decree, the trial court valued the business at \$100,000, based upon the \$10,000 goodwill value combined with its 2003 gross receipts.

At trial, there was very little testimony and evidence submitted as to the total valuation of the hair salon. The owner testified that, on a loan application in 2001, she indicated her salon, including its equipment, was worth \$100,000. She said this was the amount it would cost to start the business over again, and she only used such a high figure because she wanted the business to look valuable so she could obtain the loan to buy a condominium. She then testified that she did not think she could sell her business. If she did try to sell it, she thought she could get \$10,000 in goodwill. She said the value of the salon was comprised of her own skills, used furniture, and chairs that she rented to other stylists. She rented the building in which the salon was located and had no long-term contracts with the stylists or the landlord. She also testified that she had tried to sell the salon periodically over the past 20 years but has never had a buyer. She said in 1998, she placed the business for sale at a price of \$20,000, and the result was laughter because everyone felt the price was unreasonably high.

Apart from pointing to the \$100,000 valuation that was used on her loan application, the non business owner spouse offered little guidance as to how to value the hair salon.

Valuation Comments

The appellate court noted: "Valuing businesses is a difficult task, and even experts in the field differ on the most appropriate methods to use when valuing

certain types of businesses. The trial court here was presented with paltry evidence pertaining to the appropriate method for valuing this type of business. Neither party can now complain that the trial court used a method that took into consideration goodwill and the annual gross income of the business when it was presented with nothing else with which to make a determination. Although experts may have enlightened the court with other, or even better, methods of valuing the salon, the trial court did not have the luxury of hearing such evidence. The trial court believed that taking into account only the goodwill value of the hair salon was not an accurate measurement of its true value. Given the parties' failure to submit any expert testimony as to any other means of valuation in the present case, we cannot say the trial court's valuation method constituted an abuse of discretion."

When I consider the few facts that were presented in the full text, it is likely that the salon was over valued. Significant empirical evidence exists concerning the selling prices of beauty salons. Without a detailed analysis, three simple calculations that I made would suggest that the value of the salon was probably worth half of what the court determined it to be worth. Further the business owner hinted at the concept of personal goodwill, but it was not adequately explained to the court.

Obviously, economics must always enter the equation. The cost-benefit of having a business appraised certainly needs to be taken into consideration. For certain small businesses, it may never make economic sense. But for long established industries with significant empirical data available, a simple appraisal may make all of the difference. In this case, a simple valuation would have probably cost less than \$2,000.

