

OUR TARGETED
ADVERTISEMENT
AS SEEN IN

THE DAILY REPORTER

6/Wednesday, June 8, 1994, THE DAILY REPORTER

Advertisement

B·u·s·i·n·e·s·s·T·o·B·u·s·i·n·e·s·s

A Resource Guide for Businesses

Appraiser Mollica: Closely Held Companies Most Challenging

The appraisal of a closely held corporation poses a variety of intricate problems for the appraiser. According to Anthony F. Mollica, these matters include consumer demand for the company's products or services as well as a determination of the industry's and company's stage in the business "life cycle."

Further complicating the process can be the purpose of the appraisal. Among the reasons for business appraisals are estate planning, gifting, divorce, merger, sale or employee stock option plans (ESOPs).

The appraisal process becomes more involved when the assignment is not only to estimate the value of a corporation but to allocate this value into minority shares, majority shares, voting shares, non-voting shares, and other classes of shares that may get preferential treatment for dividends and/or distributions from sale.

After determining the scope of the assignment, the next step is to ascertain the required

documentation. The valuation of stock in a closely held corporation for the Internal Revenue Service must be supported by an appraisal report that meets the requirements of Revenue Ruling 59-60 and its amendments. To meet these IRS requirements, the appraisal must cover

13 separate categories. These include a complete description of the business, its products, number of employees, management profiles, wage rates, industry data, current economic data, strengths, options, weaknesses and trends.

After reaching a conclusion of value, the appraiser must show in detail all financial calculations. Further, if a fractional interest is being appraised, the tax cases or other data relied upon for discounts must be presented and explained.

The Department of Labor (DOL) regulates ESOPs as they are statutorily defined as Employee Benefit Pension Plans, the appraisals come under close scrutiny. The DOL considers its regulations to be consistent with the IRS; however, they have additional requirements. The DOL recently updated their requirements and added "adequate consideration." Adequate consideration is defined as "the fair market value determined in good faith." Good faith is defined as "applying sound business principles of valuation and conducting a prudent investigation of all circumstances prevailing at the time of the valuation."

Divorce or other litigation requires the appraiser to prepare a report that can be easily understood by lawyers, judges and juries. When litigation involves juries, consideration must be given to the sequence in which the evidence will be presented and the evidence that will be offered

by opposing witnesses. Professional appraisers are objective witnesses; however, they must be concerned with making an understandable presentation to support their opinion.

The value of a closely held corporation must be allocated among the tangibles and intangibles. The intangibles can include goodwill and patents.

Goodwill can be defined as the value that exists in addition to the value of the tangible assets (furniture, fixtures, equipment, inventory, etc.), which is created by the synergy between management, products, location, merchandising and continuing customer satisfaction.

Patents are special licenses issued by the United States government for the exclusive right to make, sell or lease a certain product.

Common mistakes, according to Mollica, include relying upon unadjusted financial statements and using unadjusted book values as a basis for valuation. Book value is the historical cost less

depreciation of the tangible assets and generally has little relationship to economic reality.

Financial statements (including audited statements) accurately reflect the results of the company's operations for tax purposes, but they are not designed to reflect market

value or economic reality.

When employing an appraiser, be sure to find one with experience in valuing companies in the line of business being appraised. Always ask for details about the appraiser's background, professional designations, and related appraisal experience.

Mollica is president of Anthony F. Mollica and Associates Inc., Columbus, Ohio, and has been active in the valuation and related fields for 38 years. He holds the ASA designation in the American Society of Appraisers, the CBA designation in the Institute of Business Appraisers, the MAI designation in the American Institute of Real Estate Appraisers, and is a Fellow in the American Society of Corporate Asset Managers. He is one of 20 appraisers in the United States who has earned the highest professional designation in both real estate and business valuation and the only one to hold all four designations.

Significant business appraisals completed by Mollica include golf courses, a company operating 38 restaurants in Long Island and Manhattan, a 6,000-acre golf course community, a regional fast-food chain, race tracks and a large engineering firm. Anthony F. Mollica and Associates Inc. consists of six professional appraisers completing 250 to 300 real estate and/or business appraisals each year in a variety of categories.



Columbus' Only Daily Business and Legal Newspaper! (614) 224-4835