

Practice Purchases & Sales

Equity without partnership

Q: *How do I give my associate of two years equity in the practice when I am not looking for a partner, but am looking to phase out over the next five to seven years? What is the guideline for a value on the practice?*

A: The direct answer is that you can't provide equity in the practice and continue in an equity position without transferring an equity position to the associate.

Generally, the transfer would occur in one of two ways. One is a stock sale, if you are incorporated. If you are a sole proprietor, then a sale of a portion of your assets to the associate to create a partnership. You could also incorporate, and then have a stock sale.

If you followed one of the options, you also would time the sale of the remainder of your equity interest upon exiting the practice, which you indicated would be in five to seven years.

You state, however, that you are not looking for partner. Without providing an equity interest you might explore with your advisors another approach that might meet your needs. The approach involves setting up a "solo group" practice arrangement. Briefly the arrangement would allow the associate to run his or her own practice within your practice. The associate would own his or her own patient charts and pay for a proportionate share of the rent, utilities, etc.

A separate buy-sell agreement would be negotiated and entered that would provide that in the event of your permanent disability, death or retirement, upon notice in five to seven years, the associate would purchase your then practice equity interest based on a stated valuation methodology.

Regarding how to value the practice, I would encourage you to obtain and read the American Dental Association's publication "*Valuing a Practice, A Guide for Dentists*." In it you will find a description of a method that might work for an asset sale, called asset summation and for any other sale format noted here, the capitalized earnings method. Since I am a co-author of the material if you have questions relating to valuation please write in and I'll respond in this column.



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