THE EQUITY DEVELOPMENT PLAN

By ADS SOUTH

I DESCRIPTION OF THE EQUITY DEVELOPMENT PLAN

THE EQUITY DEVELOPMENT PLAN provides a business structure for dentists who wish to practice together in a long-term career relationship. It is an ideal alternative to partnerships, corporations, and other forms of joint ownership of dental practices. **THE EQUITY DEVELOPMENT PLAN** has all the benefits of traditional partnerships and corporate structures and more, but none of the disadvantages. A particularly valuable benefit is that **THE EQUITY DEVELOPMENT PLAN** avoids the worst partnership catastrophe of all, the "practice divorce".

II FEATURES OF THE EQUITY DEVELOPMENT PLAN

A. The most striking feature of **THE EQUITY DEVELOPMENT PLAN** is its **simplicity**. Most dentists' confusion over **THE EQUITY DEVELOPMENT PLAN** is expecting another complicated incomprehensible set of buy-in schemes, vesting schedules, stock purchase plans, and options, when the mechanics of **THE EQUITY DEVELOPMENT PLAN** are disarmingly clear. While the **EQUITY DEVELOPMENT PLAN** is the most simple plan you will ever consider, it has many far reaching ramifications that result in enhancing the safety and success of the relationship between two or more dentists.

B. THE EQUITY DEVELOPMENT PLAN is composed of two parts.

1. Part one is a five-year associate employment contract with two main features. The associate is paid a commission equal to 37% (after owner paid laboratory costs are deducted) of his collections. There is also an appropriate covenant not to compete and non-solicitation agreement on the part of the associate. There are many other features and safeguards for each party contained in the eighteen-page contract. It is written in plain English so that when you read it, you will not only know what it says, but you will understand what it ***<u>means.</u>***

2. Part two is an office sharing agreement. The main features of this agreement are 1.) There is no covenant for either party, except for several specific circumstances, and 2.) Both dentists share prorata the practice net income based on the percentage of the total production that each party produced. That's all there is to it! There any many more features and safeguards in this twenty-page office sharing agreement with its exhibits. As with the associate employment agreement, it is written very clearly and plainly so you will know exactly what it means.

<u>III BENEFITS OF THE EQUITY DEVELOPMENT PLAN</u>

A. As we said, **THE EQUITY DEVELOPMENT PLAN** is very simple. You now know the two parts and the four principles that make it work. But don't be misled into thinking that its simplicity compromises your success. It just makes it ***easier for you to succeed***. Here are some of the most important superior benefits of **THE EQUITY DEVELOPMENT PLAN**.

B. Features and Benefits to the PRACTICE OWNER include the following:

1. The owner will own all equipment, building, assets, employees, etc. throughout the term of the employment contract and office sharing agreement. The reason for not selling an interest in assets in that they are immediately discounted in value for both buyer and seller since at the point of partial sale a tangible practice becomes two intangible interests, of which neither party has total ownership or control. **The benefit of THE EQUITY DEVELOPMENT PLAN is that neither owner nor associate suffers a loss (as much as 50%) of the value of their practices because of minority discounting due to loss of marketability and control of the practice. Rather than selling part of what an owner actually produces, we offer to an associate the "Phantom Practice"– those existing patients and that potential production that the owner cannot or will not produce.**

2. In **THE EQUITY DEVELOPMENT PLAN** the owner will net at least 20% profit from the collections of the associate for the first five years. The total owner profit over this period amounts to the average annual gross collections of the associate's first five-year period. **The benefit of THE EQUITY DEVELOPMENT PLAN is that the owner receives more income from the profit of the associate over the initial five year period than he would have received had he sold half of his practice – and yet he continues to own his whole practice. Compare THE EQUITY DEVELOPMENT PLAN which gives the owner <u>more</u> income and <u>100%</u> ownership, versus selling parts and halves of practices that yield <u>less</u> income and <u>50%</u> percent ownership (which is discounted at that!).**

3. The owner has five years to really get to know his associate, in which time he can assess the future success of the relationship. During this first five year period, if the owner decides that the relationship will not be mutually successful, he can terminate the relationship simply by giving sixty days notice. Compare this to a buy-in, in which an owner would have sold half of the equity and control in his practice, and later discovered that the relationship would not be successful. At this point, the associate partner would have as much right to be in the practice as the owner and the only way out for the owner would be to buy back his own practice, if the partner would even agree to that**. The benefit in THE EQUITY DEVELOPMENT PLAN is that in the event of an unsuccessful relationship, whether in the first five years or afterward, the owner can terminate the relationship by simply writing a letter. Compared to a partnership "divorce" which can result in years of litigation, loss of great amounts of stomach lining, legal costs, and stress, THE EQUITY DEVELOPMENT PLAN preserves the practice ownership and control that an owner has worked so long and hard to develop. The practice owner will always have and always own and control 100% of his practice and assets, with no buy-backs or legal hassles to threaten him.**

4. When a partner or stockholder, whether it be an associate or owner, wishes to sell his interest in his practice, he discovers the phenomenon of discounting for minority interest of his practice. The fact is that not many dentists want to buy your non-controlling partnership interest or stock in a privately held corporation and go into business with a stranger. Offers to buy non-controlling interests are invariably far less frequent and far less valuable than those for total practice ownership offers. **The benefit of THE EQUITY DEVELOPMENT PLAN is that the owner will always have 100% ownership and control of every aspect of his practice, including equipment, leases, buildings, and employees. THE EQUITY DEVELOPMENT PLAN**

owner will not be subject to discounting for minority interest, but will be secure in the financial and liquidity issues of his practice until the day he sells it.

5. To sum it up, **THE EQUITY DEVELOPMENT PLAN owner will maintain 100% ownership and control of his own practice until he sells the complete practice. He will not be a part owner in the asset he worked so hard to create, and he will not be subject to the whims of another party. Rather than have a 50% interest, which is then discounted even further if he wishes to sell, he will have 100% ownership. And he will have received more cash than had he sold a half. His "out" is not an ugly partnership/corporate divorce, but just the simple act of writing a letter.**

C. THE EQUITY DEVELOPMENT PLAN is not another lopsided plan designed just to benefit the practice owner. It also successfully meets the needs and goals of the associate from the first day until his ultimate retirement.

Additional Features and Benefits to the ASSOCIATE include the following:

1. The associate is not required to make a large investment into an unknown entity. It is impossible to judge what half of a practice is worth, since it is primarily an intangible, based on many factors beyond the control of the buyer. But when a buy-in takes place, the buyer has to pay the price, regardless of what opportunity he might acquire**. The benefit of THE EQUITY DEVELOPMENT PLAN is that there is no buy-in. There is no price. There is no payment. The equity in the associate's practice is "paid" by the owner profiting 20% of what the associate produces. And while the associate is developing equity, he is subjected to absolutely NO RISK!**

2. In a situation where an associate pays the owner a large sum of money for half of his practice, occasionally once the owner has been paid, the owner will not be as interested in the welfare of the associate as he was before being paid. **The benefit of THE EQUITY DEVELOPMENT PLAN is that unless the associate succeeds, the owner will not succeed. The owner's success is contingent on the success of the associate. No other plan places both parties in the same financial boat as does THE EQUITY DEVELOPMENT PLAN.**

3. In the event that the associate perceives that the relationship with the owner will not be successful in a buy-in arrangement, he must try to extricate himself from the partnership and then hopefully try to get back the money paid for the "half of a practice". This has resulted in lawsuits, some of which lasting a year or more, with great stress and financial and emotional costs. **The benefit of THE EQUITY DEVELOPMENT PLAN is that since there was no money paid, there is nothing to do but notify the owner that he (the associate) will not continue the relationship. If the termination comes after the five-year anniversary, there is no restriction on where the associate may locate, and he is free to solicit patients he has treated to patronize him. Also if the owner were to terminate the associate without cause during the first five year period, there would be no restrictive covenant or non-solicitation restriction either.**

4. When a partner or stockholder, whether it be an associate or owner, wishes to sell his interest in his practice, he discovers the phenomenon of discounting for minority interest of his practice. The fact is that not many dentists want to buy your non-controlling partnership interest or stock in a privately held corporation and go into business with a stranger. Offers to buy non-controlling interests are invariably far less frequent and far less valuable than those for total practice ownership offers. **The benefit of THE EQUITY DEVELOPMENT PLAN is that**

the associate has a 100% ownership of his personal practice as well as all assets he has personally acquired. We have sold a number of associate's practices at fair market value, even though most of them involved no office or equipment to sell (which actually made many them more desirable to the purchaser). THE EQUITY DEVELOPMENT PLAN associate is in a position to make a much higher capital gain on the sale of his practice than a partner or stockholder, and will find his practice much easier to sell due to his being the sole controlling owner and negotiator.

5. The benefit of THE EQUITY DEVELOPMENT PLAN is that after the first five years, the associate will have his own practice, sharing space and expenses with the original owner. Most associates find their net to be approximately 50% of their collections. The associate has direct individual control over issues such as his employees, pension plans, continuing education, vacation time, and many issues which in a partnership or corporation would require the agreement of another party. This is far preferable to having to agree on every practice issue with another party, or just having to do things the other person' way whether it makes sense or not.

IV HOW DOES THE OWNER IMPLEMENT THE EQUITY DEVELOPMENT PLAN AND WHAT DOES IT COST?

A. THE EQUITY DEVELOPMENT PLAN is a stepwise process that starts with the question of whether to employ an associate or not, and carries the process through to the signing of the agreements with the associate. The total cost of **THE EQUITY DEVELOPMENT PLAN is a total of $7,500 with an optional recruitment fee of $5,000** if the owner wishes for PPC to identify an associate. Each state is designed as a stop-loss so that if you decide not to proceed further, there will be no further costs and you will not have paid for any services you did not receive. Outlined below are the steps and the fee for each step for the practice owner/host.

1. Owner Phase One of **THE EQUITY DEVELOPMENT PLAN** consists of Consultation regarding initial feasibility of employing an associate. This step usually consists of a telephone consult, but may be done in person. **There is no fee for Phase One.**

2. Owner Phase Two. **If the initial consultation results from Owner Phase One result in the decision not to employ an associate, there has been and will be no cost to you.** If you decide to continue the study, the next step consists of performing a practice valuation, projections, and feasibility projections for the associateship. We will examine such areas as practice value, overhead control, and at least four projections demonstrating approximately what the owner and associate can expect financially over the next seven years. At this point you will have the information you need to decide whether or not to proceed with **THE EQUITY DEVELOPMENT PLAN. The total cost of Phase Two is $2,500.**

3. Owner Phase Three of **THE EQUITY DEVELOPMENT PLAN** consists of receiving the draft documentation for the agreement. You will review the agreement with your counsel and provide any necessary changes to make the agreement individually tailored for you and your practice. **The total cost of Phase Three is $3,500.**

4. Owner Phase Four is the delivery of your completed and custom-tailored **EQUITY DEVELOPMENT PLAN** agreement. **The total cost of Phase Four is $1,500.**

5. Owner Phase Five is meeting with prospects to determine their credentials, receive references, and to make judgments about the match of personalities. The owner will explain the nature of his practice, patients, staff, and other pertinent areas to the prospect. **The optional cost for Phase Five services is $5,000** if the owner desires to have PPC provide a candidate that enters into the agreement. There is no Phase Five charge if the owner has already identified the candidate or wishes to personally identify the candidate who enters into the agreement**.**

6. Owner Phase Six is the signing of the agreement with the associate and instituting **THE EQUITY DEVELOPMENT PLAN.** If you have not provided the associate, we will prospect and qualify candidates until you are satisfied with an associate to enter into the agreement. If, for any reason, your associate should not continue with the plan, we will again prospect and qualify candidates until you choose another associate. **There is no cost for Phase Six services.**

IV HOW DOES THE ASSOCIATE IMPLEMENT THE EQUITY DEVELOPMENT PLAN AND WHAT DOES IT COST?

A. The associate seeking an **EQUITY DEVELOPMENT PLAN** has a very simple and economical approach to this plan. **There is no cost to the associate to enter into THE EQUITY DEVELOPMENT PLAN.** The steps for the associate are as follows:

1. Associate Phase One consists of reviewing the concept of **THE EQUITY DEVELOPMENT PLAN** until the associate prospect understands the benefits and responsibilities that they will expect to accrue under the terms of the agreement.

2. Associate Phase Two consists of reviewing available opportunities offering **THE EQUITY DEVELOPMENT PLAN.** This involves reviewing practice locations and the financial projections for each available opportunity.

3. Associate Phase Three consists of meeting a prospective owner in which the associate prospect has a serious interest. This is an opportunity for each party to become acquainted with one another and to determine if the "chemistry" exists between them, for the owner to learn about the associate's credentials and references, and for the associate to see the office physical plant and, on occasion, to meet the staff.

4. Associate Phase Four consists of receiving the final documents as reviewed by the owner. The associate prospect receives the documents and has them explained in detail.

5. Associate Phase Five consists of signing the documents and instituting **THE EQUITY DEVELOPMENT PLAN.**

This has been a complete outline describing **THE EQUITY DEVELOPMENT PLAN** by **ADS SOUTH** It is a unique plan and represents a paradigm shift from previous approaches. It will give both parties the highest degree of profitability and success, while maintaining a fair yet intelligent approach to joint dental practice.

THE PRACTICE CONTINUATION PLAN is yet another excellent program by **ADS SOUTH**, that gives the ultimate protection to a practice owner, and is a perfect complement to **THE EQUITY DEVELOPMENT PLAN.** With **THE PRACTICE CONTINUATION PLAN,** in the event of the death of a practice owner, the decedent's practice is instantly and automatically sold to the surviving practitioner and a trust fund is instantly funded for the benefit of the decedent's heirs. There is no negotiating, no loss of value, and estate planning can be done with the highest degree of precision and confidence.

So, if you prefer a long term working relationship with another dentist rather than practicing solo, look closely at **THE EQUITY DEVELOPMENT PLAN** for the highest degree of practice safety, security and greatest financial reward. For more information, call 1-800-321-4540 for a free, no-obligation discussion on how to put **THE EQUITY DEVELOPMENT PLAN** to work for you.

Multi-Dentist / Multi-Owner Practice Options

Partnerships vs. the Equity Development Plan

Partnerships – The Pitfalls

KEY POINT   There is no structure, plan, legal advice, or clever contract that can prevent all of the pitfalls and problems of partnerships. At some point in time, all partnerships will be impacted by one or more of the following.

Due to inherent problems related to the partnership "buy-in" phase, most associateships end in separations. Most fail to materialize into partnerships.

Compared to typical outright practice sales, combining the buy-in and eventual buy-out price, partnerships tend to result in practice owners receiving considerably less for their practice. This can happen for different reasons at each of the sequential purchase steps.

At the time that the associate buys-in, the value of the interest purchased is likely to be discounted as a result of

- a discount for minority interest due to the lack of marketability and lack management control. Any practice interest of 50% or less is considered a minority interest. This means that the value of 30% or 50% undivided interest in a practice is less than 30% or 50% respectively of the total value of the entire practice;

- the buyer's lost tax advantages of depreciation and amortization deductions that result from purchasing stock rather than assets;

- or, in the worst cases, a combination of both.

At the time of the final interest buy-out - when the original practice owner wishes to sell the remaining percentage of their practice - severe price discounts often occur. This may result from the fact that the remaining partner has by now developed as much practice and income as they need or want. The remaining partner may not need or want to buy-out the original owner's interest. Most potential outside third parties would not consider buying into the partnership at this stage, so other purchaser prospects are rare. The original owner often ends up accepting a markedly reduced price from what they expected the buy-out to yield.

Partnerships greatly reduce a partner's managerial control over a practice. Partnerships also greatly reduce the marketability of a practice by converting it to intangible undivided interests.

Partnerships are very difficult to manage. Management by committee, negotiation, or concession is often ineffective and compromising two opposing good ideas often results in a poor third idea.

Partnerships typically deprive both partners of financial advantages they would otherwise have, such as individual control of the retirement plan structure, individual control of benefit plans, the ability to set the rent paid to one's self (if owner of the building), and so on.

Partnerships are complex to create and operate and decision making is far from simple. All partners must arrive at consensus in all matters of management, resulting in increased stress and frustration for each party.

If structured properly, partnerships are expensive to form and operate and require expensive and ongoing legal and accounting expenses.

When partnerships fail, the separation is complex and expensive. The "partnership divorce" is invariably an emotional, physical, and financial setback for both partners.

When a partnership fails it is possible that the original owner may be forced to choose between leaving the practice or buying the other partner's interest. In some cases the only final resolution may be the liquidation of the entire partnership, leaving both parties without a practice.

The Equity Development Plan

An alternative to partnerships – Benefits without the pitfalls

KEY POINT The Equity Development Plan was developed to offer the career and financial advantages of partnerships while eliminating partnership disadvantages, pitfalls and problems.

Advantages For Practice Owners in the Equity Development Plan

The EDP is simple, being much easier to set-up, operate, and understand than a partnership or buy-in.

The EDP is much less expensive than a buy-in or partnership with no ongoing legal or accounting expense and little if any cost to separate.

The EDP is easy to terminate. If the parties wish to separate, there is much less risk of severe financial damage, loss in practice value, forced relocation, or forced repurchase. The agonies of the “partnership divorce” are avoided. If it becomes necessary to terminate the relationship, it is not necessary for the original owner to buy-back the associate’s practice to regain ownership and control.

Discounts for minority interest that are encountered in the Buy-in and Buy-out process are avoided in the EDP.

The practice owner receives the profit from the “phantom practice” developed by the associate for the initial five year associateship phase as their “buy-in” payment Essentially, the practice owner is being paid for the “phantom practice” created by the associate, rather than selling part of the their own real practice.

The profit made by the owner from the associate’s income in the initial five year associateship phase usually results in more income to the practice owner than selling half of their real practice to the associate.

The practice owner retains 100% ownership and control of their own practice throughout the entire relationship, thus preserving the marketability and true value of their practice. The loss of value and marketability that results from a partnership is eliminated.

The original owner maintains total managerial control over their practice. The original owner retains control over their expenses, staff, fees, and policy, resulting in more effective and less stressful management.

In event of the original owner's death, if permission for insuring the owner's life was granted, the associate must purchase the owner's practice or be subject to a covenant not to compete, thus preserving the owner's practice valuable and marketability. The associate is given the opportunity to fund the purchase of the owner's practice with life insurance through a program available by this consultant. The key point is if the associate decides not to purchase a deceased owner's practice, the presence of the associate will not affect the value or marketability of that practice.

The associate is not a party to the owner's retirement programs, health insurance plans, or other benefits. The associate is free to have their own separate plans and programs, if they desire. Each party can establish benefits in the manner that best serves their personal interests.

The owner retains ownership of their equipment even if a separation occurs, eliminating at need to buy back or replace that equipment.

If different business entities offer better advantages for the individual practitioners, each practitioner can practice in the format most appropriate to them with no effect upon the other party. Parties can choose to form corporations, sole proprietorships, LLC's, LLP's, or whatever new entity may present in the future.

During the office sharing phase of the EDP, if the original owner wishes to slow down and work less, as most eventually do, the cost sharing advantages of the EDP will help prevent that owner's net percentage from decreasing.

Either party can terminate the arrangement at any time with or without cause without undue financial or practice penalty. There are no handcuffs and neither party will be locked into an arrangement that is not appropriate for them.

Advantages for Associates in the Equity Development Plan

There is no debt, liability or risk involved in participating in the EDP. There are no payments to make or wasted interest cost. There is little or no outside set up expense as opposed to the expensive fees to enter into buy-ins and partnerships. The money saved becomes profit that benefits the dentists rather than accountants, attorneys, and bankers.

The risks involved in the EDP are much lower than buying a practice, starting a practice, or “buying-into” a partnership. The EDP allows a dentist to acquire their own practice without debt, risk or liability. The financial reward for the original owner is the profit from the associate’s work. This is the only plan where the owner is motivated after the fact to support the associate in reaching their highest success. The more successful the associate is, the more successful the owner will be.

If the associate leaves, they have no continuing financial obligation as opposed to a buy-in. Since no loan is required, the associate will not incur credit limitations which may affect their ability to borrow money for other needs, such as a home. The EDP does not add debt to one’s balance sheet or lower one’s net worth.

The EDP turns an associateship period into an opportunity to build one’s own practice. It is not just a job as is the case with many associateships.

The associate is not restricted in location or practice options by a restrictive covenant if the practice owner terminates the associate without cause during the first phase of the EDP. There is no restrictive covenant during the subsequent office sharing phase if the associate decides to leave or relocate their practice.

Most dentists object the concept of joining a practice, building their part of the practice over several years, and then having to borrow money to buy that part of the practice that they have just built. This does not occur in the Equity Development Plan.

If the associate stays throughout the first phase of the EDP and enters the second phase, they can elect to leave the practice and relocate with no overhanging financial obligations.

The EDP is a model of simplicity, being easier to set-up, operate, and understand. The EDP is less expensive to establish, operate, and if necessary, to separate than a buy-in or partnership.

The EDP is easy to dismantle, with either party able to terminate with or without cause at any time. If the parties wish to separate, there is little if any risk of financial damage, thus avoiding the disastrous “partnership divorce”.

Once the second phase is reached, the associate gains ownership of their own individual practice and they will have management control over their own practice and issues such as retirement plan, benefit plans, and so on.

The associate will always have the first right of refusal to buy the owner’s practice when the original practice owner wishes to sell their individual practice or in the event of death.

There is a shorter time period for the associate to reach free and clear ownership of their practice. The EDP results in ownership by an associate in five years. In contrast, partnerships and buy-ins require an associate to work a number of years as an associate before going into debt to purchase a portion of the practice. It then will require an additional five to ten years of payments to attain free and clear ownership.

The practice attained by an associate in the EDP is much more valuable and marketable than the interest obtained in a buy-in or partnership.

Summary

Partnerships appear ideal in concept and on paper, but in life partnerships are far more difficult to operate due to human factors that cannot be identified or adequately addressed in a partnership agreement.

All co-practice arrangements will eventually be terminated, either by separation of the parties, death, disability or retirement of one of the parties. Therefore, the issues related to separation are as important, if not more important, than the issues related to operation during the co-practice phase. The ability to sell at sell the portion of the co-practice that the owner retains at a reasonable price is as important, if not more so, than the price received by the owner at the time of the buy in. Structures considered for co-practice arrangements should be selected based on their ability to offer not only profits of co-practice, but also the lowest risk of financial or career damage when the inevitable termination occurs.

No plan is without its problems, but based on our experience we have found that the Equity Development Plan offers the best possible combination of management control, career freedom, practice marketability, practice value; and overhead cost savings, profit margins, income benefits, practice coverage, and camaraderie.

Depending upon structure, not every pitfall and problem exists in each specific partnership. However most exist in all. Depending upon the specific practice, and contractual arrangements, not every advantage and benefit exists in each Equity Development Plan, but most exist in all.