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VALUATION OF A PROFESSIONAL PRACTICE

In the case of Lunn v. Lunn, a divorce case, the Court dealt with the issue of valuing the husband's dental practice. Specifically the court dealt with the "enterprise goodwill" of the practice and how it should be valued. The husband operated a dental practice as a sole practitioner. In valuing the dental practice, the Court heard testimony from an expert witness for the wife who valued enterprise goodwill, but did not include personal goodwill. The husband's expert witness included only the value of the net tangible assets of the practice, and not enterprise goodwill.

The Court pointed out that professional goodwill in a sole proprietorship is an intangible asset and is not divisible as marital property upon divorce because it is personal to the proprietor. However, the Lunn Court pointed out that Tennessee Courts have recognized the existence of "enterprise" or "business" goodwill as a distinct concept from "professional" or "personal" goodwill. Also the Court indicated that Tennessee Courts have been reluctant to allow enterprise goodwill to be divided as a marital asset upon divorce when the business involved is a sole proprietorship. Based on the prior precedents of Tennessee cases, the Lunn Court determined that the dental practice valuation of the sole proprietorship did not include enterprise goodwill.

MY RECOMMENDATION: The Lunn case dealt with the valuation of a professional practice for purposes of a divorce proceeding. The Court talked about the difference between enterprise or business goodwill verses personal or professional goodwill. The Court also discussed issues associated with the value of a sole proprietorship compared to other forms of business entities.

Although the Lunn case was a divorce case, the concepts could also apply in other aspects of valuation, whether that be for estate tax purposes, buy-sell agreements, business valuations in a Chapter 11 bankruptcy, redemptions of shareholders in a professional corporation or PLC, or other situations where valuation could occur.

It is important to understand and know concepts on valuations as to when they can help or hurt the person involved with the valuation issue.

Yours very truly,

RAINEY, KIZER, REVIERE & BELL, P.L.C.

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