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## ***Navigating OMS Practice Transitions***

Roger K. Hill, MSA, ASA

**P710**

Thursday, October 15, 2009  
1 pm - 5 pm

All follow-up questions can be directed to AAOMS at 800-822-6637

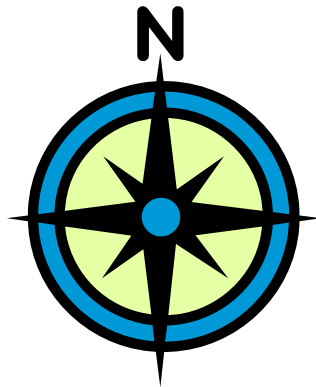
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# Navigating Dental Transitions

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Presented by Roger K. Hill, A.S.A.

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American Association of  
Oral & Maxillofacial Surgeons

Toronto, Ontario

October 15, 2009

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## NAVIGATING DENTAL TRANSITIONS

### I. Transitions in Tough Times

- A. Are Practice Values Decreasing?
  - 1. Fewer Sellers – No Fewer Buyers
  - 2. Maintaining Current Income
  - 3. Lenders Believe In You
  - 4. Expect Values to Maintain or Increase
- B. What Can I Do to Help Myself?
  - 1. Control What You Can
    - a. Overhead Costs
    - b. New Patient Count
    - c. Marketing
    - d. Fees
- C. Are Motivated Buyers Available?
  - 1. Fewer Available Opportunities
    - a. Full Sale
    - b. Buy-In / Buy-Out
  - 2. Number of Buyers / Candidates Constant
  - 3. Cost of Start-Up
  - 4. Improved Seller / Purchaser Ratio
  - 5. Future of Ratio
- D. Start-Up vs. Acquisition
  - 1. Acquired (Full Sale or Fractional)
    - a. Financial Risk
    - b. Immediate Income Stream
    - c. Established Referral Base
  - 2. Start-Up
    - a. Financial Risk
    - b. No Income Stream
    - c. No Referral Base
- E. Is the Purchase Price Fair / Reasonable?
  - 1. Internal Factors
    - a. Value Is Within Current Market Range
    - b. Multiple Approaches to Value
      - (1) Comparable Sales
      - (2) Capitalized Earnings (3-4)

2. External Testing
  - a. Cash Flow Projections
  - b. Generally 7-10 Years
  - c. After-Tax Cash Flow
  - d. Financial Structure for Partnerships
    - (1) Affordable for Entering Doctor
    - (2) Fair / Tax-Efficient for Senior Doctor

- F. On-Site Visits Are Critical Because:
  1. Not Everything Is Obvious on Paper
  2. Same Reason You Pursue Models / X-Rays / Diagnosis
  3. A Personal Relationship Is Established
  4. Success Rests on Knowledge
- G. Working With Both Buyer and Seller
  1. More Efficient with Time and Money
  2. Objectives of Both Doctors in a Unified Plan
  3. Provides Long(er) Range Outlook
  4. Less Stress

## **II. Transition Alternatives** *(pages 37-38)*

- A. Prototypical Sale
  1. Full Sale
  2. Control
  3. Cash / Note Ratio
  4. Little Recovery Time, Least Secure
  5. Practice Size Limitation
  6. Time Frame 0-2 Years
  7. Asset Sale
- B. Delayed Sale
  1. Full Sale
  2. Control and Compromise for Security
  3. Cash / Note Ratio Reduced
  4. Time Frame 1-4 Years
  5. Asset Sale
- C. Fractional Sale
  1. Portion of Practice
  2. More Complex
  3. Emotional Aspects
  4. Larger Practices or Time Frame of More than 5 Years

- D. Hybrid (Fractional to Full Sale)
  - 1. Begins as Fractional Sale
  - 2. Predetermined Buy-Out Date
  - 3. Purchaser Owns 100.0% At End
  - 4. Managing Growth
  - 5. Adding Associate After Seller's Departure
  - 6. Can Progress to New Fractional Sale
- E. Mergers
  - 1. Most Complex
  - 2. Single Survivor Entity
  - 3. Longest Time Frame (Generally 8 to 10 Years)
  - 4. Slow Down Merger

### **III. Associateships**

*(pages 39-46)*

- A. How Do You Know if You Need One?
  - 1. Rapid Growth in Practice
  - 2. Reduction of Time / Scope
  - 3. Transition Planning
  - 4. New Satellite Office(s)
  - 5. Raising Barrier(s) to Entry
- B. Part of a Larger Plan
- C. Relationship Failures
  - 1. Personality
    - a. Acid Test
    - b. Professional Assessment
  - 2. Unforeseen
  - 3. Unfulfilled Expectations
    - a. Financial Outcomes
    - b. Legal Obligations
    - c. Process
- D. Break-Even Point Analysis (BEP)
- E. Determining Compensation Fairly and Accurately
  - 1. Threshold Increases
  - 2. Ownership Incentive
- F. Basics of Agreement
  - 1. Selected Sections
  - 2. Win-Win

*(pages 40-42)*

- G. Interview Outline (pages 43-46)
  - 1. Two-Way Street: Flow of Information
    - a. Each Interview
    - b. Record Answers / Impressions

**IV. Fractional Sale (Buy-In and Buy-Out)** (pages 47-50)

- A. The Partnership Success Formula
  - 1. Advance Planning Defines Expectations
    - a. Analysis
    - b. Planning (Strategic and Near-Term)
    - c. Review with Doctors / Spouses
  - 2. Why Do Some Partnerships Fail?
    - a. Primary Reason Is Unmet Expectations
      - (1) Financial Outcomes
      - (2) Legal Arrangements
      - (3) Process (Planning Protocol)
- B. Defining Financial Expectations: Two Components
  - 1. First Component
    - a. Fair Market Value
      - (1) Due Diligence Visit
      - (2) Using Multiple Approaches to Value Increases Accuracy
      - (3) Regression Analysis if Associate Is in Place
  - 2. Second Component
    - a. Cash Flow Projections (After-Tax)
      - (1) Illustrate Financial Outcome
      - (2) Test Value
      - (3) Increase Confidence

**Phase One Planning – Structuring the Buy-In**

- |                                |   |                           |   |                       |
|--------------------------------|---|---------------------------|---|-----------------------|
| 1. Fair Market Value           | } | Financial<br>Expectations | } | Flow Chart<br>Page 48 |
| 2. Proforma                    |   |                           |   |                       |
| a. Trigger Point               |   |                           |   |                       |
| b. Income Distribution Formula |   |                           |   |                       |
| c. Financial Structure         | } | Legal<br>Expectations     |   |                       |
| 3. Employment Agreement        |   |                           |   |                       |
| 4. Letter of Intent            |   |                           |   |                       |

- C. Trigger Point *(Item 2A on flowchart)*
    - 1. Sufficient Collections
    - 2. No Decrease In Earnings
  
  - D. Financial Structure *(Item 2B on flowchart)*
    - 1. Simultaneous Objectives
      - a. Affordable for Associate / Purchaser
      - b. Fair / Equitable for Owner / Seller
    - 2. Push / Pull in Tax Code
    - 3. Area of Planning Most Fertile for Catastrophic Error
- 4. Solving Financial Structure - Two Alternatives**
- a. Stock Sale (I)
  - b. Asset Sale (II)
- 5. Alternative Financial Structure I: Stock Sale**
- a. Most Practices Incorporated
  - b. Ownership Conveyed by Stock Purchase
  - c. Taxed at Capital Gains Rate (15.0%)
  - d. Inefficient for Purchaser
    - (1) Non-Depreciable
    - (2) Paid With After-Tax Income
    - (3) Interest Not Deductible
    - (4) High Cost Basis
6. Stock Sale: Affordable and Fair
- a. Assign Portion of Value to Stock (Tangible)
  - b. Remainder Paid With Pre-Tax Earnings Shift (Intangible)
  - c. Requires Establishing Value of:
    - (1) Tangible Net Worth
    - (2) Intangible Value
    - (3) Sum is Fair Market Value
7. Stock Sale Made Affordable and Fair
- a. Tangible Allocated to Stock
    - (1) Paid With After-Tax Earnings
    - (2) Generally Modest Portion of Value (Often <25.0%)
    - (3) Paid Over 5-7 Years
  - b. Intangible Allocated to Management Fee
    - (1) Paid With Pre-Tax Income
    - (2) Imputed Interest
    - (3) Tax Differential

**8. Alternative Financial Structure II: Asset Sale**

- a. Generally Two Sellers
  - (1) Practice Sells Tangible
  - (2) Doctor Sells Intangible

**9. Which Structure is Better?**

- a. Stock Sale With Management Fee
- b. Asset Sale With Three Entities
- c. Best Results from Looking at Both
  - (1) Compare Financial Outcomes
  - (2) Requirements for Comparison:
    - i. Depth of Experience
    - ii. Software Capability

**10. Fractional Interest Acquired By:**

- a. Purchasing an Interest in Corporation, or
- b. Partnership of Seller's and Purchaser's Corporations
- c. CRITICAL: Run Planning Protocol on Both – One Is More Efficient, But it Varies
- d. 50% Chance of Being Wrong Without Evaluating Both

**E. Income Distribution Formulae** *(Item 2C on flowchart)*

- 1. Equity
- 2. Percentage
- 3. Multi-Tiered
- 4. Lifestyle Expenses
- 5. Rent > Fair Market Rental Rate

**F. Proforma: Putting It All Together** *(pages 49-50)*

- 1. Tests Financial Outcome
- 2. Sets Target for Associate
- 3. Illustrates Financial Structure
- 4. Pre-Defines Distribution Formula

**G. Associateship Agreement**

- 1. Employs Associate Until Buy-In Begins
- 2. Compensation / Benefits Defined
- 3. Covenant Not to Compete
- 4. Term (Length of Employment)
- 5. Related Matters



- H. Buy-In Letter (Letter of Intent): Two Purposes
  - 1. Buy-In Defined
    - a. Commits Seller / Purchaser to Buy-In
    - b. Purchaser's Nightmare
    - c. Defines Buy-In (Transaction) Details
    - d. Seller's Nightmare
    - e. Financial Commitment (Non-Cash)
  - 2. Partnership Preview
    - a. Previews Partnership Operations
    - b. Previews Buy-In / Buy-Out
    - c. Daily Operational Details
  
- V. **Fractional Sale (Beginning the Buy-In)**
  - A. Decision to Proceed
    - 1. Achieved Trigger Point (3-4 Months Running Rate)
    - 2. Partnership Desired
      - a. More Important Than Trigger Point
      - b. Resolving Concerns Before Proceeding
  
  - B. Updated Fair Market Value / Proforma
    - 1. Updated Tangible Net Worth
    - 2. Original Intangible Value
    - 3. Updated Proforma

$$\left. \begin{array}{l} 1. \text{ Updated Tangible Net Worth} \\ 2. \text{ Original Intangible Value} \end{array} \right\} \text{ Sum} = \text{Fair Market Value}$$
  
- VI. **Fractional Sale (Structuring the Buy-Out)**
  - A. Selling the Remaining Interest
    - 1. Required Purchase
    - 2. Purchase with Adequate Notice
    - 3. Increased Value: How is it Allocated?
      - a. Tangible (Ownership Percentage)
      - b. Intangible (Productivity Percentage)
    - 4. Productivity/Time Index
      - a. 40.0% Threshold
        - (1) Doctor Collections – Last 12 Months
  
  - B. Four Structural Alternatives:
    - 1. Original Purchaser Assumes All Production
    - 2. New Associate in Practice
      - a. Helps With Production
      - b. Profit Helps at Buy-Out
    - 3. New Associate Offered Buy-In

- a. Helps Fund Buy-Out
  - b. Original Purchaser Maintains Control
- 4. Seller Remains as Associate
  - a. No Abrupt Change for Senior Doctor
  - b. Profit From Seller Helps With Buy-Out
  - c. Extended Time to Find New Associate / Partner

**VII. Buy-Out Financial Structure: Three Alternatives** *(Item 2B on flowchart)*

- A. Alternative Structure I:  
Stock / Deferred Compensation (Symmetrical Structure)
  - 1. Deferred Compensation (Buy-Out)
    - a. Paid Over 5-7 Years
    - b. Imputed Interest
    - c. Tax Differential
- B. Alternative Structure II:  
Asset Sale Structure (Symmetrical Structure)
  - 1. Required if Asset Sale for Buy-In
  - 2. Two Sellers
    - a. Seller's Entity
    - b. Seller Individually
  - 3. A New Generation
- C. Alternative Structure III:  
Stock / Asset Sale (Asymmetrical Structure)
  - 1. Stock Portion From Management Fee
  - 2. Intangibles Portion From Asset Sale
  - 3. A Blend of Stock and Asset Structure
    - a. Management Fee (Buy-In)
    - b. Stock / Goodwill and Covenant (Buy-Out)
      - (1) 100.0% Capital Gains Possibility
      - (2) Cash or Promissory Note
      - (3) Purchaser Can Depreciate Goodwill / Covenant
      - (4) Purchaser Can Deduct Interest
- D. Which Buy-Out Structure is Better?
  - 1. Stock and Deferred Compensation (Symmetrical)
  - 2. Asset Sale Structure (Symmetrical)
  - 3. Stock & Goodwill / Covenant (Asymmetrical)
  - 4. Best Results From Looking at Both
    - a. Compare Financial Outcomes

b. Requirements for Comparison:

- (1) Depth of Experience
- (2) Software Capability

E. Fractional Sale

1. Rapidly Increasing Trend Among Successful Practices
2. Provides Senior Doctor With Long-Range Security
3. Provides New Doctor With Career Path
4. Must Be Done Early to Position Your Practice
5. ***Must Be Constructed Carefully to Avoid Loss of Time and Money***

**VIII. Sellers: What About Me?**

A. When Is the Right Time?

1. Could Be Now
2. Designing Financial Success – My Experience
3. My Goal – Pros and Cons of Adding Associate

B. Signs You Need an Associate

1. Need Help with Patient Schedule
2. Schedule Booked Too Far Out – Unable to Accommodate
3. Desire to Focus / Expand
4. Advised to Do So for Retirement

C. Is the Practice Ready?

1. Want Permanent Relationship So You Can Retire
2. Advice from a Credible Source
3. Evaluate Numbers
4. Need Comprehensive Plan in Place
5. Staff Onboard?

D. Define Target Pool of Candidates

1. Find Associate Appropriate to Your Needs
2. Retiring Immediately or Slow Transition?
3. Designing the Keyhole

E. Methods for Recruiting Dr. New

1. Contact Dental Schools
2. Mentor Patients
3. Networking – Other Colleagues, Dental Associations
4. Consultants and Brokers
5. Supply Reps
6. Internet
7. Print Media

- F. Qualities of Good Associate
  - 1. Excellent Dental Skills
  - 2. Wants to Live and Work in Community
  - 3. Participation in Community Organizations (Rotary, Chamber)
  - 4. Married
  - 5. Has Extended Family Nearby
  - 6. Friendly and Outgoing
  
- G. Start Off Right
  - 1. Dinner with Spouses
  - 2. Ask Right Questions – Open-Ended
  - 3. LISTEN to Answers
    - a. Goals and Dreams
    - b. Five Years From Now
    - c. What Will You Contribute to This Practice?
  - 4. Outlines for Interviews (pages 40-42)
  - 5. Confidentiality Statements
    - a. Stress Privacy
    - b. Can Share Practice Information with Accountant, Attorney
  - 6. Sign Up with Email Address to Get One for Your Use
  
- H. Introducing Dr. New to Practice
  - 1. Internal Marketing (vs. External Marketing)
  - 2. Encourage Staff to Support New Dentist to Existing Patients / Referring Sources
  - 3. Allay Patient Concerns About Your Retirement
  
- I. Scheduling Dr. New
  - 1. New Dentist Needs Patients
  - 2. Scheduling Plan
    - a. New Patients Go to Dentist with First Available Appointment
    - b. Established Patients with Preference Go to Preferred Doctor
    - c. Established Patients Without Preference Got to Doctor with First Available Appointment
  
- J. Introducing Dr. New to the Community
  - 1. Introduction to Specialists
  - 2. Announcement Ads
  - 3. Share Marketing Duties – “Divide and Conquer”
  - 4. Joint Different Community Organizations
  - 5. Live in Different Neighborhoods

## **IX. Full Sale: Delayed Transition**

*(pages 51-55)*

- A. Phase One Planning
    - 1. Fair Market Value
    - 2. Proforma
      - a. Purchaser
      - b. Seller
      - c. New Doctor(s)
    - 3. Employment Agreement
    - 4. Letter of Intent
    - 5. Usually 18-36 Months
    - 6. Increased Profit to Owner
    - 7. Longer Planning Time Frame
- } Phase One }
- Flow Chart  
Page 52
- B. Post Closing Associateship (Seller)
    - 1. Often 1-3 Years with Decreasing Schedule
    - 2. May Involve New (Additional) Doctor if Practice Continues to Increase
  - C. Proforma *(pages 53-54)*
    - 1. Ten (10) Year Forecast
    - 2. Illustrates After Tax Cash Flow for Purchaser
    - 3. Estimates After Tax Gain for Seller
  - D. Purchase Competitor's Practice
    - 1. Decreased Overhead Offsets Acquisition
    - 2. Enhances Transition Plan
    - 3. Increases Production for Associate
  - E. Tax Strategies for Full Sale
    - 1. Keep Corporation and Use Service Agreement
      - a. Contract Status
      - b. Continue to Fund Retirement Plan
    - 2. Allocation of Purchase Price (Or, How to Lose Thousands of Dollars)
      - a. Assign Specific Value to Each Asset Class *(page 55)*
      - b. Seller and Purchaser Must Use Same Allocation
      - c. Push / Pull in Tax Code
      - d. Order of Allocation:
        - 1) Receivables (If Sold)
        - 2) Consumable Supplies
        - 3) Fixed Assets
        - 4) Patient Records
        - 5) Covenant Not to Compete
        - 6) Goodwill

- e. Incorporated Practices
  - 1) Corporation Sells:
    - i. Receivables (If Sold)
    - ii. Supplies
    - iii. Fixed Assets
    - iv. Patient Records
  - 2) Doctor Sells:
    - i. Assignment of Personal Goodwill / Covenant
    - ii. Distinct From Corporation
    - iii. Document Language Critical
- 3. Real Estate Matters
  - a. Parallel Proforma
  - b. Right of First Refusal
  - c. Negotiated as Part of Global Transaction with Purchase at Lease End

## **XII. Establishing Fair Market Value**

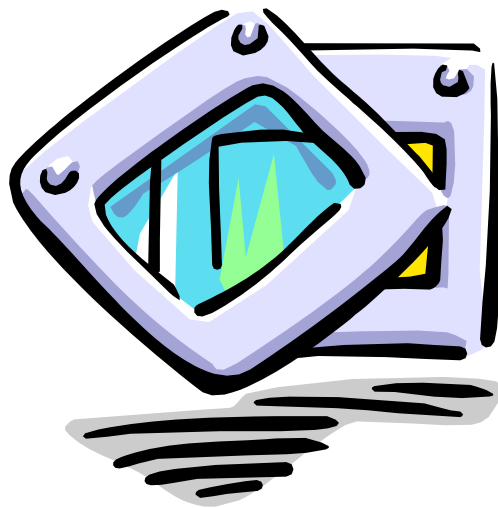
- A. General Valuation Theory
  - 1. Cost
  - 2. Market
  - 3. Earnings
- B. Earnings Based Approaches
  - 1. Basic Value Equation
  - 2. Risk Rate / Required Rate of Return
    - a. Average Market Return
    - b. Premium for Size (Illiquidity)
    - c. Risk-Specific
      - (1) General
      - (2) Specialty
    - d. Discount Rate = (1 + 2 + 3)
    - e. Long Term Growth Rate
    - f. Capitalization Rate
  - 3. Replicability and Appropriateness of Focus
  - 4. An Example and Explanation
- C. Alterations for Specialty Practices
  - 1. Risk Rate – Generally Higher
  - 2. Referring Sources
    - a. Range
    - b. Depth

- D. Typical Value Ranges
- E. Future Value Trends

### **XIII. Summary and Review**

- A. Getting Underway Without a Transition Plan
  - 1. Invitation to Heartache / Disaster
  - 2. Does Not Set Out Realistic Expectations
    - a. Financial Outcome
    - b. Legal Arrangements
    - c. Process (Planning Protocol)
  - 3. Inherently Unfair to One / Both Doctors
- B. When Should Transition Planning Begin?
  - 1. The Most Successful Plans Begin with a Vision, No Matter the Timeframe
  - 2. Planning Brings Structure / Reality to the Vision
  - 3. The Search for the Right Doctor Is Begun
  - 4. The Transition Plan Is Implemented / Realized
- C. How Is Transition Planning Begun?
  - 1. Assess Needs / Objectives of Doctors (Another Reason for the On-Site Visit)
  - 2. Assemble Financial Plan
    - a. Determine Fair Market Value
    - b. Affordable for New Doctor
    - c. Fair / Tax-Efficient for Senior Doctor
    - d. Cash Flow Projections
      - (1) Financial Structure
      - (2) Income Distribution Formula

# PowerPoint Slides





## **Navigating Dental Transitions**

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### **Fundamentals and Questions**



### **Transitions in Tough Times**

- Are Practice Values Decreasing?
  - Fewer Sellers – No Fewer Buyers
  - Maintaining Current Income
  - Lenders Believe in You
  - Expect Values to Maintain or Increase

### **Transitions in Tough Times**

- What Can I Do to Help Myself?
  - Control What You Can
    - Overhead Costs
    - New Patient Count
    - Marketing
    - Fees

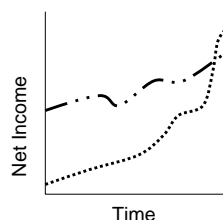
### **Transitions in Tough Times**

- Are Motivated Buyers Available?
  - Fewer Available Opportunities
    - Full Sale
    - Buy-In / Buy-Out
  - Number of Buyers / Candidates Constant
  - Cost of Start-Up
  - Improved Seller / Purchaser Ratio
  - Future of Ratio

## Transitions in Tough Times

- Start-Up vs. Acquisition
  - Acquired (Full Sale or Fractional)
    - Financial Risk
    - Immediate Income Stream
    - Established Referral Base
  - Start-Up
    - Financial Risk
    - No Income Stream
    - No Referral Base

## A Comparison: Where Is Success Maximized?



Net Income of  
Acquired Practice:  
—————

Net Income of Start-Up  
Practice:  
.....

## Is the Purchase Price Fair / Reasonable?

- Internal Factors:
  - Value is Within Current Market Range
  - Multiple Approaches to Value
    - Comparable Sales
    - Capitalized Earnings (3-4)

## Yes, But Will This Dog Hunt?

- External Testing:
  - Cash Flow Projections
  - Generally 7-10 Years
  - After-Tax Cash Flow
  - Financial Structure for Partnerships
    - Affordable for Entering Doctor
    - Fair / Tax-Efficient for Senior Doctor

## Proforma: Previewing Financial Outcome

	1st Year	2nd Year
Proj. Prof. Income	\$1,311,251	\$1,307,123
Practice Overhead	(607,311)	(742,631)
Distributable Profit	\$703,940	\$764,493
Dr. New's Alloc. Coll.	\$433,559	\$524,833
Hygiene Allocation	0	228,729
Total Allocation	\$433,559	\$753,562
Overhead Allocation	(200,805)	(371,315)
Pre-Tax Profit	\$232,754	\$382,246
Assoc. Compensation	150,000	
Management Fee Paid		(19,240)
Existing Debt Interest		(1,605)
Line of Credit Interest		(2,391)
New CapEx Interest		(21,695)
Personal Items		(6,028)
Personal Deductions	(20,200)	(11,841)
Pre-Tax Income	\$129,800	\$319,447
Estimated Taxes	(41,000)	(106,433)
After Tax Income	\$88,800	\$213,014
Stock Pmts. Buyin		(5,219)
Existing Debt Principal		(16,083)
Line of Credit Principal		(6,842)
New CapEx Principal		(25,594)
Non-Financed Capital Exp.		0
Personal Deductions	20,200	11,841
After Tax Cash Flow	\$109,000	\$171,117

## “Are On-Site Visits Important?”

Now that value  
*must* be around  
here somewhere...



### **On-Site Visits Are Critical Because:**

- Not Everything Is Obvious on Paper
- Same Reason You Pursue Models / X-Rays / Diagnosis
- A Personal Relationship is Established
- Success Rests on Knowledge

### **Two Consultants or One?**



### **Working with Both Buyer and Seller:**

- More Efficient with Time and Money
- Objectives of Both Doctors in a Unified Plan
- Provides Long(er) Range Outlook
- Less Stress

### **Transition Alternatives**



### **Transition Alternatives: Prototypical Sale**

- Full Sale
- Control
- Cash / Note Ratio
- Little Recovery Time, Least Secure
- Practice Size Limitation
- Time Frame 0-2 Years
- Asset Sale



### **Transition Alternatives: Delayed Sale**

- Full Sale
- Control and Compromise for Security
- Cash / Note Ratio Reduced
- Time Frame 1-4 Years
- Asset Sale



### Transition Alternatives: Fractional Sale

- Portion of Practice
- More Complex
- Emotional Aspects
- Larger Practices or Time Frame of More than 5 Years



### Transition Alternatives: Hybrid (Fractional to Full Sale)

- Begins as Fractional Sale
- Predetermined Buy-Out Date
- Purchaser Owns 100.0% At End
- Managing Growth
- Adding Associate After Seller's Departure
- Can Progress to New Fractional Sale

### Transition Alternatives: Mergers

- Most Complex
- Single Survivor Entity
- Longest Time Frame (Generally 8-10 Years)
- Slow Down Merger



### Associateships

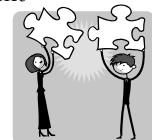


### Associateships

- How Do You Know If You Need One?
  - Rapid Growth in Practice
  - Reduction of Time / Scope
  - Transition Planning
  - New Satellite Office(s)
  - Raising Barrier(s) to Entry
- Part of a Larger Plan

### Associateships

- Relationship Failures
  - (1) Personality
    - Acid Test
    - Professional Assessment



### Associateships

- Relationship Failures (continued)
  - (2) Unforeseen
  - (3) Unfulfilled Expectations
    - Financial Outcomes
    - Legal Obligations
    - Process

### Associateships

#### Break-Even Point Analysis (BEP)

$$\frac{\text{Total Fixed Costs (TFC)}}{1.0 - \text{Variable Costs (\%)}} = \text{BEP}$$

### Associateships

#### Break-Even Point Analysis (cont'd)

Assume:

Salary/Benefits	= \$150,000
Additional Employee	= \$35,000
Variable Costs	= 12.0%

Then:

$$\frac{\$150,000 + \$35,000}{1.0 - 0.12} = \$204,500$$

\$204,500 / 12 months / 17 days = \$1,000 per day additional

### Associateships

- Compensation, continued
  - Threshold Increases
  - Ownership Incentive

### Associateships

- Basics of Agreement
  - Selected Sections
  - Win-Win



### Associateships

- Interview Outline
  - Two Way-Street: Flow of Information
    - Each Interview
    - Record Answers / Impressions

### Fractional Sale (Buy-In and Buy-Out)



### The Partnership Success Formula

- **Advance Planning Defines Expectations**
  - Analysis
  - Planning (Strategic and Near-Term)
  - Review with Doctors / Spouses

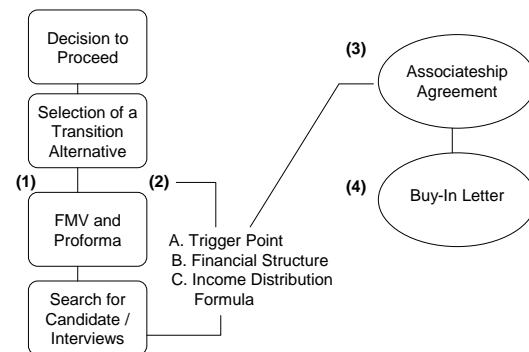


### Why Do Some Partnerships Fail?

- **Primary Reason Is Unmet Expectations**
  - Financial Outcomes
  - Legal Arrangements
  - Process (Planning Protocol)



### Structuring the Buy-In



### Defining Financial Expectations: Two Components

- **First Component**
  - Fair Market Value
    - Due Diligence Visit
    - Multiple Approaches to Value Increases Accuracy
    - Regression Analysis if Associate Is in Place

### Defining Financial Expectations: Two Components

- **Second Component**
  - Cash Flow Projections (After-Tax)
    - Illustrate Financial Outcome
    - Test Value
    - Increase Confidence

## Fractional Sale: Structuring the Buy-In

### Phase One Planning

- |                                |   |                                   |
|--------------------------------|---|-----------------------------------|
| 1. Fair Market Value           | } | <b>Financial<br/>Expectations</b> |
| 2. Proforma                    |   |                                   |
| A. Trigger Point               |   |                                   |
| B. Financial Structure         |   |                                   |
| C. Income Distribution Formula |   |                                   |
| 3. Employment Agreement        | } | Legal<br>Expectations             |
| 4. Letter of Intent            |   |                                   |

## Fractional Sale: Structuring the Buy-In

- Trigger Point
  - Sufficient Collections
  - No Decrease in Earnings



## Fractional Sale: Structuring the Buy-In

- Financial Structure
  - Simultaneous Objectives
    - Affordable for Associate/Purchaser
    - Fair/Equitable for Owner/Seller
  - Push / Pull in Tax Code
  - Area of Planning Most Fertile for Catastrophic Error

## Fractional Sale: Structuring the Buy-In

- Solving Financial Structure: Two Alternatives
  - Stock Sale (I)
  - Asset Sale (II)



## Fractional Sale: Structuring the Buy-In

- **Alternative Financial Structure I: Stock Sale**
  - Most Practices Incorporated
  - Ownership Conveyed by Stock Purchase
  - Taxed at Capital Gains Rate (15.0%)

## Fractional Sale: Structuring the Buy-In

- Alternative Financial Structure I: Stock Sale (cont'd)
  - Inefficient for Purchaser
    - » Non-Depreciable
    - » Paid With After-Tax Income
    - » Interest Not Deductible
    - » High Cost Basis

### Inefficiency of (All) Stock Sale

\$100,000	Purchase Price of x.xx% of Stock
\$ 18,800	Interest on Loan to Purchase Stock
<u>\$118,800</u>	Sub-Total
/ 0.65	Income Taxes at (Assumed) 35.0%
<u>\$182,700</u>	Total Cost for Stock

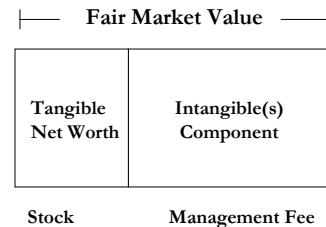
### Fractional Sale: Structuring the Buy-In

- Stock Sale: Affordable and Fair
  - Assign Portion of Value to Stock (Tangible)
  - Remainder Paid with Pre-Tax Earnings Shift (Intangible)

### Fractional Sale: Structuring the Buy-In

- Stock Sale: Affordable and Fair
  - Requires Establishing Value of:
    - Tangible Net Worth
    - Intangible Value
    - Sum is Fair Market Value

### Stock Sale: Affordable and Fair



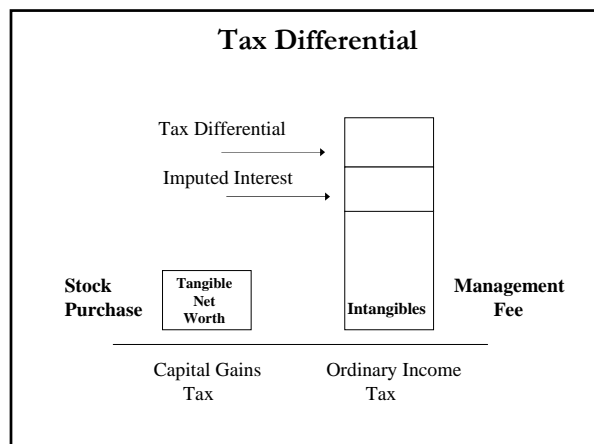
### Fractional Sale: Structuring the Buy-In

- Stock Sale Made Affordable and Fair
  - Tangible Allocated to Stock
    - » Paid with After-Tax Earnings
    - » Generally Modest Portion of Value (Often <25.0%)
    - » Paid Over 5-7 Years

### Fractional Sale: Structuring the Buy-In

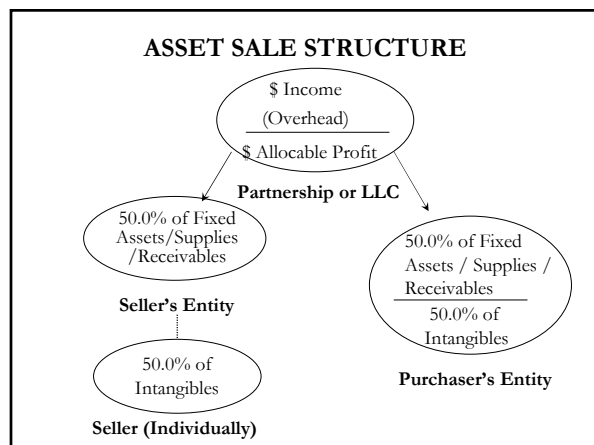
- Stock Sale Made Affordable and Fair
  - Intangible Allocated to Management Fee
    - » Paid with Pre-Tax Income
    - » Imputed Interest
    - » Tax Differential





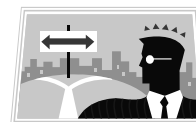
### Fractional Sale: Structuring the Buy-In

- Alternative Financial Structure II:  
Asset Sale
  - Generally Two Sellers
    - » Practice Sells Tangible
    - » Doctor Sells Intangible



### Fractional Sale: Structuring the Buy-In

- Which Structure is Better?
  - Stock Sale with Management Fee
  - Asset Sale with Three Entities



### Fractional Sale: Structuring the Buy-In

- Which Structure is Better?
  - Best Results From Looking at Both
    - » Compare Financial Outcomes
    - » Requirements for Comparison:
      - \* Depth of Experience
      - \* Software Capability

### Financial Structure: Structuring the Buy-In

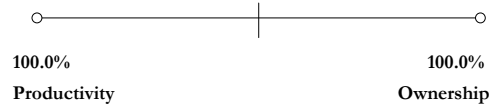
- Fractional Interest Acquired By:
  1. Purchasing an Interest in Corporation, or
  2. Partnership of Seller's and Purchaser's Corporations
  - **CRITICAL:** Run Planning Protocol on Both – One is More Efficient, But it Varies
- **50% Chance of Being Wrong Without Evaluating Both**

### Fractional Sale: Structuring the Buy-In

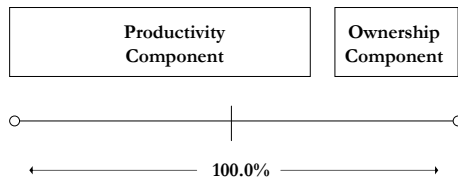
- Income Distribution Formulae
  - Equity (Ownership)
  - Percentage (Productivity)
  - Multi-Tiered



### Income Distribution Formula Single Tier



### Income Distribution Formula Multi-Tier



### Fractional Sale: Structuring the Buy-In

- Do I Have to Give Up My Lifestyle Benefits?
- Income Distribution Formulae (cont'd.)
  - Lifestyle Expenses
  - Rent > Fair Market Rental Rate

### Fractional Sale: Structuring the Buy-In

- Proforma: Putting It All Together
  - Tests Financial Outcome
  - Sets Target for Associate
  - Illustrates Financial Structure
  - Pre-Defines Distribution Formula



#### Proforma: Previewing Financial Outcome

	1st Year	2nd Year
Proj. Prof. Income	\$1,311,251	\$1,507,123
Practice Overhead	(607,311)	(742,631)
Distributable Profit	\$703,940	\$764,493
Dr. New's Alloc. Coll.	\$433,559	\$524,833
Hygiene Allocation	0	228,729
Total Allocation	\$433,559	\$753,562
Overhead Allocation	(200,805)	(371,315)
Pre-Tax Profit	\$232,754	\$382,246
Assoc. Compensation	150,000	
Management Fee Paid		(19,240)
Existing Debt Interest		(1,605)
Line of Credit Interest		(2,391)
New CapEx Interest		(21,695)
Personal Items		(6,028)
Personal Deductions	(20,200)	(11,841)
Pre-Tax Income	\$129,806	\$319,447
Estimated Taxes	(41,000)	(106,435)
After Tax Income	\$88,800	\$213,014
Stock Pmts. Buyin		(5,219)
Existing Debt Principal		(16,085)
Line of Credit Principal		(6,842)
New CapEx Principal		(25,594)
Non-Financed Capital Exp.		0
Personal Deductions	20,200	11,841
After Tax Cash Flow	\$109,000	\$171,117

## Fractional Sale: Structuring the Buy-In

### Phase One Planning

1. Fair Market Value
2. Proforma
  - A. Trigger Point
  - B. Financial Structure
  - C. Income Distribution Formula
3. Employment Agreement
4. Letter of Intent

} Financial  
Expectations

} Legal  
Expectations

## Fractional Sale: Structuring the Buy-In

- Associateship Agreement
  - Employs Associate Until Buy-In Begins
  - Compensation/Benefits Defined
  - Covenant Not to Compete
  - Term (Length of Employment)
  - Related Matters

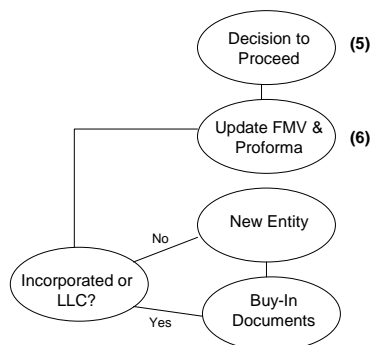
## Fractional Sale: Structuring the Buy-In

- Buy-In Letter (Letter of Intent): Two Purposes
  1. Buy-In Defined
    - Commits Seller/Purchaser to Buy-In
    - Purchaser's Nightmare
    - Defines Buy-In (Transaction) Details
    - Seller's Nightmare
    - Financial Commitment (Non-Cash)

## Fractional Sale: Structuring the Buy-In

- Buy-In Letter (Letter of Intent), cont'd.
  2. Partnership Preview
    - Previews Partnership Operations
    - Previews Buy-In/Buy-Out
    - Daily Operational Details

## Beginning the Buy-In



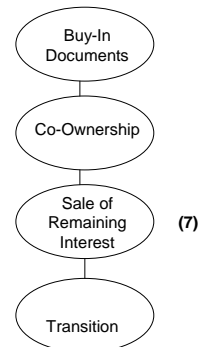
## Fractional Sale: Beginning the Buy-In

- Decision to Proceed
  - Achieved Trigger Point
    - 3-4 Months Running Rate
  - Partnership Desired
    - More Important Than Trigger Point
    - Resolving Concerns Before Proceeding

### Fractional Sale: Beginning the Buy-In

- Updated Fair Market Value / Proforma
    - Updated Tangible Net Worth
    - Original Intangible Value
    - Updated Proforma
- } Sum = Fair Market Value

### Structuring the Buy-Out



### Fractional Sale: Structuring the Buy-Out

- Selling the Remaining Interest
  - Required Purchase
  - Purchase With Adequate Notice
  - Increased Value: How Is It Allocated?
    - Tangible (Ownership Percentage)
    - Intangible (Productivity Percentage)

### Fractional Sale: Structuring the Buy-Out

- Selling the Remaining Interest (cont'd.)
  - Productivity / Time Index
    - 40.0% Threshold
    - Doctor Collections – Last 12 Months

### Fractional Sale: Structuring the Buy-Out

- Four Structural Alternatives
  1. Original Purchaser Assumes All Production
  2. New Associate in Practice
    - Helps With Production
    - Profit Helps at Buy-Out

### Fractional Sale: Structuring the Buy-Out

- Four Alternatives (cont'd)
- 3. New Associate Offered Buy-In
  - Helps Fund Buy-Out
  - Original Purchaser Maintains Control

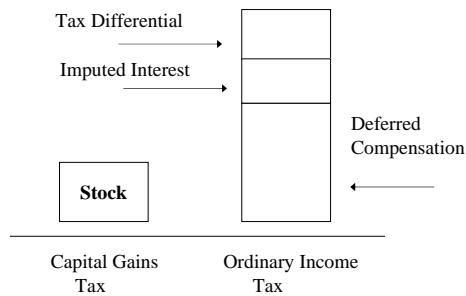
### Fractional Sale: Structuring the Buy-Out

- Four Alternatives (cont'd.)
- 4. Seller Remains as Associate
  - No Abrupt Change for Senior Doctor
  - Profit From Seller Helps With Buy-Out
  - Extended Time to Find New Associate / Partner

### Buy-Out Financial Structure: Three Alternatives

- **Alternative Structure I:**  
Stock / Deferred Compensation  
(Symmetrical Structure)
  - Deferred Compensation (Buy-Out)
    - Paid Over 5-7 Years
    - Imputed Interest
    - Tax Differential

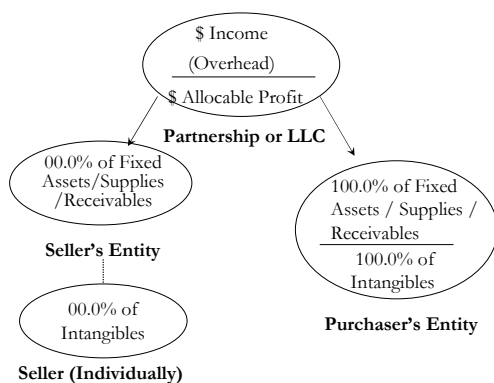
### Alternative I: Fractional Sale (Buy-Out) Deferred Compensation



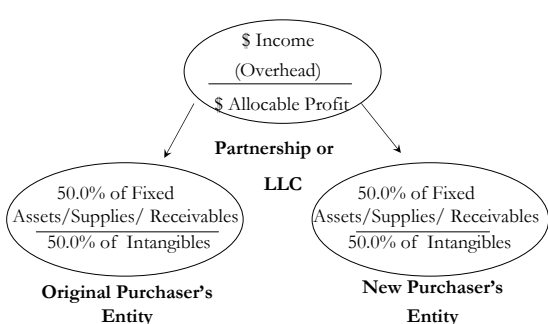
### Buy-Out Financial Structure: Three Alternatives

- **Alternative II: Asset Sale Structure**
  - Required if Asset Sale for Buy-In
  - Two Sellers
    - Seller's Entity
    - Seller Individually
  - A New Generation

### Alternative II: Fractional Sale (Buy-Out) ASSET SALE STRUCTURE



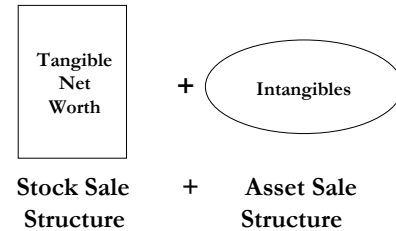
### Alternative II: Fractional Sale (Buy-Out) ASSET SALE STRUCTURE A New Generation



### Buy-Out Financial Structure: Three Alternatives

- **Alternative III: Stock / Asset Sale**  
(Asymmetrical Structure)
  - Stock Portion From Management Fee
  - Intangibles Portion From Asset Sale

### Alternative III: Fractional Sale (Buy-Out) Stock/Asset Sale



### Buy-Out Financial Structure: Three Alternatives

- **Alternative III: Stock / Asset Sale (cont'd.)**
  - A Blend of Stock and Asset Structure
    - Management Fee (Buy-In)

### Buy-Out Financial Structure: Three Alternatives

- **Alternative III: Stock / Asset Sale (cont'd.)**
  - A Blend of Stock and Asset Structure
    - Stock/Goodwill and Covenant (Buy-Out)
      - 100.0% Capital Gains Possibility
      - Cash or Promissory Note
      - Purchaser Can Depreciate Goodwill/Covenant
      - Purchaser Can Deduct Interest

### Fractional Sale: Structuring the Buy-Out

- Which Structure Is Better?
  - Stock & Deferred Compensation (Symmetrical)
  - Asset Sale Structure (Symmetrical)
  - Stock & Goodwill / Covenant (Asymmetrical)

### Fractional Sale: Structuring the Buy-Out

- Which Structure is Better?
  - Best Results From Looking at All Three (3)
    - » Compare Financial Outcomes
    - » Requirements for Comparison:
      - \* Depth of Experience
      - \* Software Capability

### **Fractional Sale**

- Rapidly Increasing Trend Among Successful Practices
- Provides Senior Doctor with Long-Range Security
- Provides New Doctor with Career Path
- Must Be Done Early to Position Your Practice
- **Must Be Constructed Carefully to Avoid Loss of Time and Money**

### **Sellers: What About Me?**



### **When Is the Right Time?**

- Could Be Now
- Designing Financial Success – Your Experience
- Your Goal – Pros and Cons of Adding Associate

### **Signs You Need an Associate**

- Need Help with Patient / Surgery Schedule
- Schedule Booked Too Far Out – Unable to Accommodate
- Desire to Focus / Expand
- Advised to Do So for Retirement

### **Is the Practice Ready?**

- Want a Permanent Relationship So You Can Retire
- Advice from a Credible Source
- Evaluate Numbers
- Need Comprehensive Plan in Place
- Staff Onboard?

### **Define Target Pool of Candidates**

- Find Associate Appropriate to Your Needs
- Retiring Immediately or Slow Transition?
- Designing the Keyhole

### **Methods for Recruiting: Finding Dr. New**

- Contact Residency Programs
- Mentor Patients
- Networking – Other Colleagues, Dental Associations
- Consultants & Brokers
- Supply Reps
- Internet
- Print Media

### **Qualities of Good Associate**

- Excellent Skills
- Wants to Live and Work in Community
- Participation in Community Organizations (Rotary, Chamber)
- Married
- Has Extended Family Nearby
- Friendly and Outgoing

### **Start Off Right**

- Dinner with Spouses
- Ask the Right Questions – Open-Ended
- LISTEN to Answers
- Goals & Dreams
- Five Years from Now
- What Will You Contribute to the Practice?

### **Start Off Right**

- Outlines for Interviews
- Confidentiality Statements
  - Stress Privacy
  - Can Share Practice Information with Accountant, Attorney
- Sign Up with E-mail Address to Get One for Your Use

### **Introducing Dr. New to Practice**

- Internal Marketing (vs. External Marketing)
- Request Staff to Support New Doctor to Referring Sources / Existing Patients
- Allay Patient Concerns About Your Retirement

### **Scheduling Dr. New**

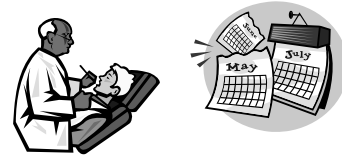
- New Dentist Needs Patients
- Scheduling Plan:
  - New Patients Go to Doctor with First Available Appointment
  - Established Patients with Preference Go to Preferred Dentist
  - Established Patients Without Preference Go to Dentist with First Available Appointment



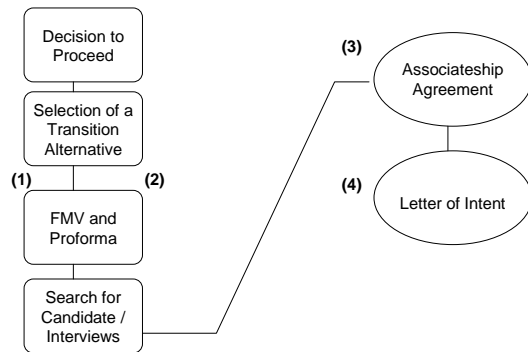
### Introducing Dr. New to the Community

- Announcement Ads
- Share Marketing Duties – “Divide and Conquer”
- Join Different Community Organizations
- Live in Different Neighborhoods

### Full Sale: Delayed Transition



### Full Sale: Delayed Transition



### Full Sale: Delayed Transition

- **Phase One Planning**
  - Fair Market Value
  - Proforma
    - Purchaser
    - Seller
    - New Doctor(s)
  - Employment Agreement
  - Letter of Intent

### Full Sale: Delayed Transition

- Usually 18 – 36 Months
- Increased Profit to Owner
- Longer Planning Time Frame



### Full Sale: Delayed Transition

- Post Closing Associateship (Seller)
  - Often 1 – 3 Years with Decreasing Schedule
  - May Involve New (Additional) Doctor if Practice Continues to Increase

### Full Sale: Delayed Transition

- Proforma
  - Ten (10) Year Forecast
  - Illustrates After Tax Cash Flow for Purchaser
  - Estimates After Tax Gain for Seller



#### Proforma: Previewing Financial Outcome

	1st Year	2nd Year	3rd Year
Projected Professional Income	\$1,931,250	\$1,969,875	\$2,009,273
Operating Expense	(982,432)	(1,002,081)	(1,022,122)
Distributable Profit	\$948,818	\$967,794	\$987,150
Dr. Britain's Collections	\$834,346	\$746,063	\$373,032
Hygiene Collections	896,904	923,812	0
Total Allocable Collections	\$1,731,250	\$1,669,875	\$373,032
Allocable Overhead Expense	(880,691)	(849,470)	(189,762)
Pre-Tax Profit	850,559	820,405	183,270
Distributable from Dr. New	\$26,259	(\$14,611)	\$130,561
Compensation as Associate			(17,900)
Personal Deductions	(10,900)	(10,900)	
Profit Before FIT	\$865,918	\$794,894	\$112,661
Estimated Tax	(312,406)	(285,488)	(36,768)
Profit After FIT	\$553,512	\$509,406	\$75,893
Cash Payment at Closing			977,773
Personal Deductions	10,900	10,900	17,900
After Tax Cash Flow - Dr. Britain	\$564,412	\$520,306	\$1,071,566

### Full Sale: Delayed Transition

- Purchase Competitor's Practice
  - Decreased Overhead Offsets Acquisition
  - Enhances Transition Plan
  - Increases Production for Associate



### Full Sale: Delayed Transition

- Tax Strategies for Full Sale
  - Keep Corporation and Use Service Agreement
    - Contract Status
    - Continue to Fund Retirement Plan

### Full Sale: Delayed Transition

- Allocation of Purchase Price
  - Assign Specific Value to Each Asset Class
  - Seller and Purchaser Must Use Same Allocation
  - Push / Pull in Tax Code

### Full Sale: Delayed Transition

- o Allocation of Purchase Price
  - Order of Allocation:
    - Receivables (If Sold)
    - Consumable Supplies
    - Fixed Assets
    - Patient Records
    - Covenant Not to Compete
    - Goodwill

### Example of Allocation

#### Allocation of Purchase Price

Fixed Assets	\$214,800.00
Supplies	4,100.00
Patient Records	26,300.00
Goodwill/Covenant	483,200.00
Total	\$683,400.00

### Allocation of Purchase Price

Asset	Seller	Purchaser
Fixed Assets*	Generally Ordinary	Depreciable Over 5-7 Years
Supplies*	Ordinary Income	Expensed in First Year
Patient Records*	Capital Gain	Depreciable Over 15 Years

#### Allocation of Purchase Price (cont'd.)

Asset	Seller	Purchaser
Covenant	Ordinary if Isolated; Capital if Combined with Goodwill	Depreciable Over 15 Years
Personal Goodwill	Capital Gain	Depreciable Over 15 Years

\* If the practice is incorporated these items *must be sold by the corporation*. Gain from these may be subject to both corporate and personal taxation.

### Full Sale: Delayed Transition Allocation of Purchase Price

- Incorporated Practices
  - Corporation Sells:
    - Receivables (If Sold)
    - Supplies
    - Fixed Assets
    - Patient Records

### Full Sale: Delayed Transition Allocation of Purchase Price

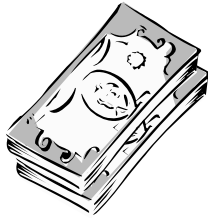
- Incorporated Practices
  - Doctor Sells:
    - Assignment of Personal Goodwill/Covenant
    - Distinct From Corporation
    - Document Language Critical

### Full Sale: Delayed Transition

- Real Estate Matters
  - Parallel Proforma
  - Right of First Refusal
  - Negotiated as Part of Global Transaction with Purchase at Lease End



## Establishing the Fair Market Value



## Establishing the Fair Market Value

- General Valuation Theory
  - Cost
  - Market
  - Earnings



## Establishing the Fair Market Value

- Earnings Based Approaches
  - Basic Value Equation

$$\frac{\text{\$Financial Reward}}{\text{Risk \%}} = \text{\$Fair Market Value}$$

## Establishing the Fair Market Value

- Risk Rate / Required Rate of Return
  1. Average Market Return
  2. Premium for Size (Illiquidity)
  3. Risk Specific
    - General
    - Specialty
  4. Discount Rate = (1 + 2 + 3)
  5. (Long Term Growth Rate)
  6. Capitalization Rate

## Establishing the Fair Market Value

- Earnings Based Approaches (cont'd.)
  - Replicability and Appropriateness of Focus
  - An Example and Explanation

## Establishing the Fair Market Value

- Alterations for Specialty Practices
  - Risk Rate – Generally Higher
  - Referring Sources
    - Range
    - Depth

## Establishing the Fair Market Value

- Typical Value Ranges
- Future Value Trends

## Maximizing Success and Benefit

### The Main Lesson:

**“It is always more efficient to acquire a benefit stream than to create one.”**

## Getting Underway Without a Transition Plan

Now, when we get up in the air, we better read the manual.



## Getting Underway Without A Transition Plan

- Invitation to Heartache / Disaster
- Does Not Set Realistic Expectations
  - Financial Outcome
  - Legal Arrangements
  - Process (Planning Protocol)
- Inherently Unfair to One / Both Doctors

## When Should Transition Planning Begin?

- The Most Successful Plans Begin With the Vision, No Matter the Time Frame
- Planning Brings Structure / Reality to the Vision
- The Search for the Right Doctor Is Begun
- The Transition Plan Is Implemented / Realized

## How Is Transition Planning Begun?

- Assess Needs / Objectives of Doctors (Another Reason for the On-Site Visit)
- Assemble Financial Plan
  - Determine Fair Market Value
  - Affordable for New Doctor
  - Fair / Tax-Efficient for Senior Doctor
  - Cash Flow Projections
    - Financial Structure
    - Income Distribution Formula

# Reference Material



## TRANSITION MODELS

There are several ways in which a practice, or an interest in the practice, can be sold. The following five overviews are basic practice sales alternatives.

- A. **Prototypical Sale** - This is the type of sale that, in the past, was the most common. It is characterized by selling the assets (not the corporation) of the practice, usually from one doctor to another. Assets sold are generally limited to fixed assets (dental equipment, office equipment, leasehold improvements, and furnishings), consumable supplies, and all of the intangible assets of the practice. Intangible assets are such things as goodwill, Covenant Not to Compete, telephone number(s), patient charts, a trained staff, and a known location. Oftentimes, the entire purchase price will be paid in cash at closing. This method of transition allows the selling doctor the maximum amount of control up to the date of sale.
- B. **Delayed Sale** - In cases where an owner doctor has met a promising candidate but is not yet ready to sell, or where the owner doctor would like to reduce his time at the practice, this transition method might well be the appropriate choice. Like the prototypical sale, this is a sale of the assets and not the corporation. However, in this case, the purchasing doctor will enter the practice as an associate with all of the details of the purchase of the practice arranged in advance through the use of a Letter of Intent, a legally binding document. The sale will be set at a date certain in the future with the ability to accelerate if both doctors so choose. This transition method gives both the selling and the purchasing doctor the security and comfort they both need.

Depending on the specific circumstances of the practice's growth rate, there may be a financial impact on the selling doctor in the interim years before the sale. This can be determined through the use of after-tax cash flow projections (proforma). Additionally, if the selling doctor is going to stay post-sale and produce a significant amount of income, there may need to be some owner financing involved with flexible terms in order to maintain sufficient cash flow for the purchaser. Nevertheless, this is an excellent method to meet the needs described above. This transition method ordinarily works best on a one to four (1-4) year time frame.

- C. **Fractional Sale (Buy-In)** - A fractional sale is the sale of only a portion of a practice. This is a transition alternative (model) that is more often associated with large practices, or those with a robust growth rate, where the seller's time frame is at least five (5) years or longer. Without doubt, this transition model is characterized by being more complex from the financial, operational and emotional standpoints than either a prototypical or delayed sale, but it is the appropriate application in a growing multitude of cases. As would be expected, since both ownership and control will be shared among the owner doctors, the nurturing and caring of the relationship among the doctors is a factor not to be overlooked. It will require genuine hard work coupled with respect for your colleague.

- D. **Hybrid (Fractional to Full Sale)** – In some cases, the time frame for the owner doctor is too short to accommodate a fractional sale as described above, where time frames are commonly five to seven (5-7) years, and yet too long for a delayed sale, as described in Section 1, above. In these cases, a combination of the fractional sale and delayed sale is utilized to meet the doctor's needs.

After an appropriate associateship period, the purchaser begins to acquire an ownership interest in increments, such as 10.0% per year. However, after a predetermined number of years, the remainder interest is acquired in a single transaction. For example, a hybrid approach might begin with the purchase of a 10.0% interest for three (3) consecutive years followed by the acquisition of the remaining 70.0% at the beginning of the fourth years. In some instances, the seller remains as an associate working for the purchaser post-sale. If this is the case, it gives the purchaser additional time to find his or her own associate who may, at some point, be a future partner.

This is an excellent example of how transition planning can be made fluid to fit the circumstances and needs of the doctors, rather than attempting to use a rigid template.

- E. **Mergers** - A merger involves the combining of two (or more) practices into a single unit (sole survivor entity) where the owners of the individual practices each own a fractional interest in the merged entity. It is a non-taxable event. In most cases, but not all, each of the doctors will have an equal ownership percentage. This is a complex transaction and should be employed only after the first of four (4) planning stages (economic feasibility) demonstrate a solid financial benefit for proceeding. Most often, each of the doctors will have a relatively long planning time frame of ten (10) years or more. A merger usually gains its financial benefit from a combination of (a) the elimination of duplicated overhead costs, (b) synergistic effects, and (c) in some cases, raising a barrier to entry into the area by new practitioners.



# ASSOCIATESHIPS



# ASSOCIATESHIP AGREEMENTS

1. **Services.** The contract should state the location of where services will be performed.
2. **Term.** The length of time that the agreement will be effective should be clearly stated. Also, this provision should state if the term of the agreement is automatically renewable.
3. **Duties.** The contract should articulate the associate doctor's role in the host doctor's practice.
4. **Restrictions.** The contract should state whether or not the associate is obliged to provide services exclusively to the host doctor. This option is not available if you are trying to preserve an independent contractor status, which is difficult, at best.
5. **Compensation.** The contract should outline the basis for compensation, frequency of pay and show example of computation, if possible. If base salary is provided, the contract should indicate if this is a true salary or a draw against a given percentage. This section should indicate how long accounts receivable attributable to the associate will continue to be paid in the event of termination. (This would not apply if the associate is paid on the basis of production.)
6. **Employer Obligations. Facilities, Equipment and Services.** This contract should outline what facilities, equipment, services, and benefits the host doctor will provide.
7. **Employee's Obligations.** The contract should articulate all of the obligations or expenses the host will not be providing or supporting and those the associate if expected to provide.
8. **Insurance.** The contract will ordinarily state that the general office liability is to be provided by the host. If the associate is to provide his or her own malpractice insurance, this should be included; many contracts state a minimum coverage level (usually a dollar amount per occurrence) and may require that the host be named as an additional insured on the associate's policy.
9. **Fees.** This section will specify that both the practice and the associate doctor will use identical fee schedules and that the associate has no authority to enter into arrangements with payor sources such as PPOs, HMOs, or capitation programs. This authority is reserved entirely to the owner of the practice, also the associate is generally prohibited from reducing fees (other than for immediate family members) without the approval of the owner doctor.
10. **Records.** In the case of either an independent contractor or employee, the contract will usually state that patient records remain with the practice if the associate leaves, unless there is some specific agreement and reason to the contract. As with the patient records, the business records of the practice will generally not be available to the associate except when access to the business records is necessary to verify compensation, or in the event of a possible acquisition of a part, or all, of the practice by the associate.

11. **Solicitation of Employees.** The contract should stipulate that the associate agrees to not solicit associates and/or employees of the host, and that the associate will not employ any of them for a one-year period following the termination of the agreement unless granted written permission by the host. This section may name an amount for liquidating damages per occurrence during such one-year period.
12. **Vacation.** The contract should state how many, if any, days will be paid for vacation, as well as sick leave, continuing education, meetings and similar absences. Even when the associate is paid on a commission basis, a maximum should be defined in order to maintain scheduling integrity.
13. **Termination.** The termination procedure, length of notice necessary and triggering events should be articulated.
14. **Patient Assignment and Operations Management.** The contract needs to detail how patients will be assigned to the associate and what, if any, management responsibilities the associate will be assigned to your associate in anticipation of becoming an owner.
15. **Status.** The contract should state if the associate is classified as an employee or an independent contractor.
16. **Noncompetition.** A covenant not to compete for an associate is enforceable in most states, with the exception of California and Alabama. The language should also contain a reference to the fact that confidential and sensitive information is being divulged to the associate and that he/she acknowledges that part of the compensation to be received is in return for a covenant (not to compete), and finally, that such covenant specifications will not prevent earning a living should the associateship be terminated.
17. **Notice.** The contract should state that any notices would be sent to an appropriate address which should be listed in the contract as required, particularly termination notices.
18. **Indemnity Agreement.** The contract should state that both parties hold each other harmless from any and all claims, losses, damages, injuries and liabilities arising from acts, done or not done, by the other party.
19. **Purchase of Fractional Interest (or Entire Practice)** Purchase of the practice (or an interest in the practice). This section will set forth whether the entire practice or a fractional portion will be sold, the date when this will happen, and the current Fair Market Value will be referenced on an attached schedule and update methodology will be set forth such that the update does not penalize the associate for his or her contribution to the practice in the interim between the date that they enter employment and the sale date.

20. **Death or Disability.** The contract should provide that in the event of the permanent disability or death of the owner doctor, the agreement accelerates the purchase of the entire practice. Moreover, the associate should be required to purchase life insurance on the owner doctor, naming him as the insured and either the estate or the spouse of the doctor as the beneficiary. The amount should be equal to, or greater than, the value of the entire practice.
21. **Financial Commitment.** Many doctors are now choosing to have the associate doctor make a financial commitment (generally in the range of \$25,000 to \$50,000) at the beginning of their associateship which is held in an escrow account (if cash). *Oftentimes this is in the form of a Promissory Note that will not become due and payable unless the associate voluntarily terminates the relationship after an initial 90 day trial period.*
22. **Mediation/Arbitration.** The contract should outline how both parties should try to resolve disputes, if any, that may arise according to the guidelines of the American Arbitration Association.
23. **Fees and Costs.** The contract should indicate that if any action is brought by one individual against the other, the prevailing party may recover the associated fees and costs.
24. **Entire Agreement.** The contract should indicate that it is the entire agreement.
25. **Amendments.** The contract should indicate that any amendment(s) to the contract require the mutual written consent of both parties.
26. **Enforcement of Agreement.** The contract must indicate that it will be interpreted and enforced in accordance with the laws of a given state.
27. **Assignability.** The contract must stipulate that neither of the parties may assign their rights nor delegate their duties under the agreement.
28. **Severability of Provisions.** The contract should indicate that in the event any part of the contract is held invalid, the ruling does not materially alter or change any of the other provisions.
29. **Counterpart Signatures.** The contract must be signed by both parties and notarized. This may seem obvious, but there are a number of otherwise good agreements that have never been signed; this renders them interesting, but useless.

## THE INTERVIEW

Like dentistry, interviewing is part science, part art. In order to maximize the benefit from the interview process, the host doctor should establish a list of questions which he explores with each candidate and records the answers such that an objective comparison of the candidate can be made. While no list of questions and considerations to be explored on an interview is complete, the following list is meant as a guideline to be augmented as each specific situation would demand.

1. Determine the type of person with whom you are interviewing. While you clearly are not looking for an exact duplicate of yourself, a person who is enough like you in personality that your patients will easily accept him is an important factor. Consideration should be given to having the final candidate(s) for the position interviewed by an objective third party in order to assess a personality match. This could be a consulting service that specializes in testing, a psychologist or similar practitioner.
2. Given that the community is the place which your associate will presumably live and work, it is important that the candidate prefer the setting in which the practice is located. For example, if the candidate prefers a rural setting and the practice is in a large city, the associateship may not have long term potential. On the other hand, if you practice in a relatively small community with an associate who has only known big cities, there is a significant likelihood that the candidate may be eventually lost back to the big city atmosphere.
3. While practice philosophy is difficult to detect in a person during an interview, and most especially with those candidates who have not had lengthy experience, it is important to try and explore this subject with the candidate. In the event that they have had some work experience, it will be helpful to check with the doctor for whom they worked. In the event that they

are a new graduate, a conversation with several of the instructors at the dental school from which they have graduated, or anticipate graduating, would be appropriate.

4. Administrative and management duties can sometimes be tiresome and onerous to the host doctor. If you are hoping to shift some of these kinds of responsibilities to the associate, this should be brought out in the interview in order to determine the candidate's willingness to accept these kinds of responsibilities.
5. The type of work conducted in the practice should be discussed thoroughly with the candidate with particular emphasis placed on the kind of work you envision the associate performing. For example, if you would envision the associate doing most of the amalgams, endodontia and very little of the crown and bridge work, this should be made clear on the interview in order to assess the candidate's willingness to accept these clinical guidelines.
6. Physical conditions are going to be important to the associate. Make certain that a tour of the office is conducted, indicating the area or areas in which the candidate will do most of his work.
7. Patient and treatment distribution are points related to an earlier discussion. Discuss with the candidate how existing patients and new patients of the practice will be assigned and what his expectations may be in this area.
8. Office coverage will explore the schedule, i.e., days and hours, you expect the associate to work. Additionally, you should discuss coverage for any emergencies and extended hours operation which you may be considering.
9. Discuss what obligations you expect the candidate to fulfill such as payment of their own malpractice insurance, dues and subscriptions to professional societies, filing of their own taxes, both State and Federal, and any memberships which you would expect him to maintain.

10. Compensation is almost always going to be the subject of most interest to the candidate. Thoroughly discuss how the compensation will be determined as well as how often the candidate is to be paid. As a further part of this, if the candidate is to pay part or all of his own laboratory bills, part or all of a chairside assistant's salary, whether or not the candidate will receive any income from the production of the hygienist, will all be of considerable interest to the candidate. Additionally, the candidate will want to know whether or not any insurance programs, such as medical insurance, will be available to him. As a parenthetical note, associates who are classified as an independent contractor ordinarily would not receive any fringe benefits (such as medical insurance), whereas those who are classified as an employee most likely would.
11. The office staff should be introduced to the candidate at some point, possibly on a second round of interviews. This is important given that the office staff's support and cooperation is going to be critical to the success of both yourself and the associate.
12. Acquisition possibilities are probably second only to compensation as an area of interest to the candidate. Depending upon the reason you are seeking an associate, you may indicate to them that such a possibility exists. You would need to discuss with the candidate such things as the length of time before such an opportunity might be offered, whether the opportunity would be for part or all of the practice, if the opportunity were for all of the practice, your status as a potential associate subsequent to such a sale and other related issues.

Once the entire field of candidates has been interviewed and responses to each of the areas of discussion recorded, let several days go by and then review the

interview sheet on each candidate. You should then narrow the field to no more than three possibilities and ask these individuals to return for a second interview. As mentioned earlier, it would be helpful on the second interview to introduce these individuals to the staff as well as spend some time in the office during operational hours in order to assess their reaction to the operating environment.

The possibility of discussing a case or two during the day while the patient is in the chair may provide meaningful insight into both the clinical skill level of the candidate as well as some of their ability to relate to people. Finally, from the second round of interviews, select one or two individuals whom you would like to offer the position and consider having a third party, as discussed earlier, interview them. Rank these individuals and offer the position to them in that order.



# **FRACTIONAL SALE: BUY-IN**

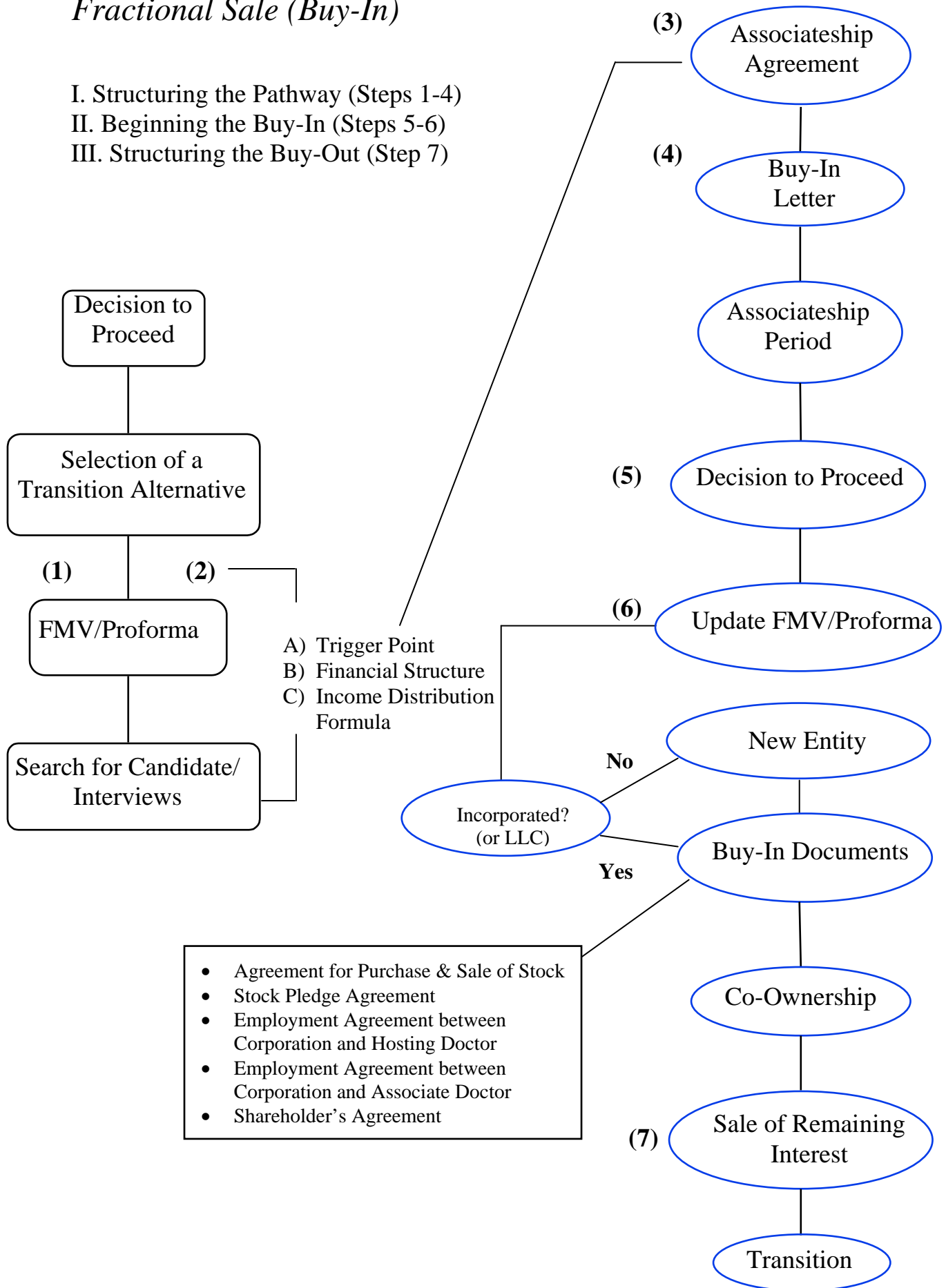


## Fractional Sale (Buy-In)

I. Structuring the Pathway (Steps 1-4)

II. Beginning the Buy-In (Steps 5-6)

III. Structuring the Buy-Out (Step 7)



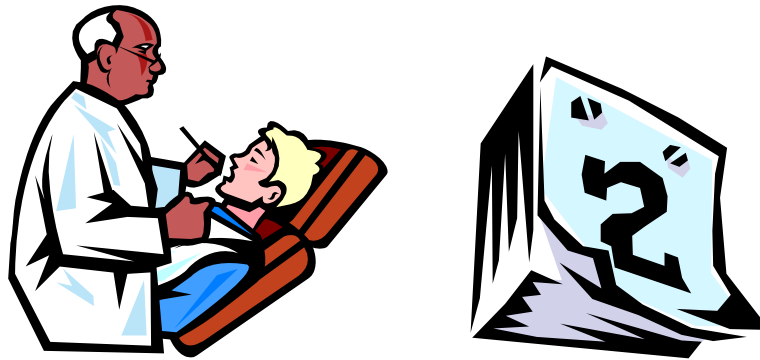
**PROFORMA  
DR. MOLAR (New Partner)**

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>	<u>5th Year</u>	<u>6th Year</u>	<u>7th Year</u>	<u>8th Year</u>	<u>9th Year</u>	<u>10th Year</u>
Dr. Molar's Allocable Coll.	\$497,696	\$572,350	\$629,585	\$676,804	\$722,488	\$758,613	\$796,544	\$836,371	\$987,974	\$1,037,372
Hygiene Allocation	193,041	198,832	204,797	210,941	217,269	223,787	230,500	237,415	244,538	503,748
<b>Total Allocation</b>	<b>\$690,736</b>	<b>\$771,182</b>	<b>\$834,382</b>	<b>\$887,745</b>	<b>\$939,757</b>	<b>\$982,400</b>	<b>\$1,027,044</b>	<b>\$1,073,786</b>	<b>\$1,232,512</b>	<b>\$1,541,120</b>
Overhead Allocation	(\$385,705)	(\$430,625)	(\$465,916)	(\$495,714)	(\$524,757)	(\$548,569)	(\$573,498)	(\$599,599)	(\$688,230)	(\$860,556)
Pre-Tax Profit	\$305,032	\$340,557	\$368,466	\$392,031	\$415,000	\$433,831	\$453,546	\$474,188	\$544,281	\$680,564
<b>Less: Management Fees</b>	<b>(43,120)</b>	<b>(53,900)</b>	<b>(64,680)</b>	<b>(64,680)</b>	<b>(64,680)</b>	<b>(75,460)</b>	<b>(86,240)</b>			
Existing Debt Interest	(3,829)	(3,494)	(3,237)	(2,962)	(2,668)	(2,353)	(2,016)	(1,656)	(1,271)	(1,718)
Distributable from Dr. New									15,085	73,916
Intangibles Buyout Interest										(30,017)
Amortization										(30,200)
Personal Items	(4,224)	(9,110)	(14,525)	(20,421)	(26,851)	(33,684)	(41,083)	(42,953)	(44,911)	(46,961)
Personal Deductions	(14,613)	(13,579)	(12,966)	(12,047)	(11,185)	(11,107)	(11,011)	(10,000)	(10,000)	(10,000)
<b>Pre-Tax Income</b>	<b>\$239,246</b>	<b>\$260,474</b>	<b>\$273,059</b>	<b>\$291,921</b>	<b>\$309,616</b>	<b>\$311,228</b>	<b>\$313,196</b>	<b>\$419,578</b>	<b>\$503,184</b>	<b>\$635,584</b>
Estimated Taxes	(77,641)	(85,262)	(89,780)	(96,551)	(102,904)	(103,482)	(104,189)	(144,243)	(175,929)	(226,109)
<b>After Tax Income</b>	<b>\$161,606</b>	<b>\$175,213</b>	<b>\$183,279</b>	<b>\$195,370</b>	<b>\$206,712</b>	<b>\$207,746</b>	<b>\$209,007</b>	<b>\$275,336</b>	<b>\$327,255</b>	<b>\$409,475</b>
<b>Stock Purch. Pmts.</b>	<b>(21,775)</b>	<b>(21,775)</b>	<b>(21,775)</b>	<b>(21,775)</b>	<b>(21,775)</b>	<b>(21,775)</b>	<b>(21,775)</b>			
Existing Debt Principal	(6,602)	(3,693)	(3,950)	(4,225)	(4,520)	(4,834)	(5,171)	(5,531)	(5,916)	(12,656)
Non-Financed Capital Expend.	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(20,000)
Stock Buyout Payments										(37,382)
Intangibles Buyout Principal										(51,900)
Amortization										30,200
Personal Deductions	14,613	13,579	12,966	12,047	11,185	11,107	11,011	10,000	10,000	10,000
<b>After Tax Cash Flow</b>	<b>\$137,841</b>	<b>\$153,323</b>	<b>\$160,519</b>	<b>\$171,417</b>	<b>\$181,603</b>	<b>\$182,243</b>	<b>\$183,072</b>	<b>\$269,805</b>	<b>\$321,339</b>	<b>\$327,738</b>

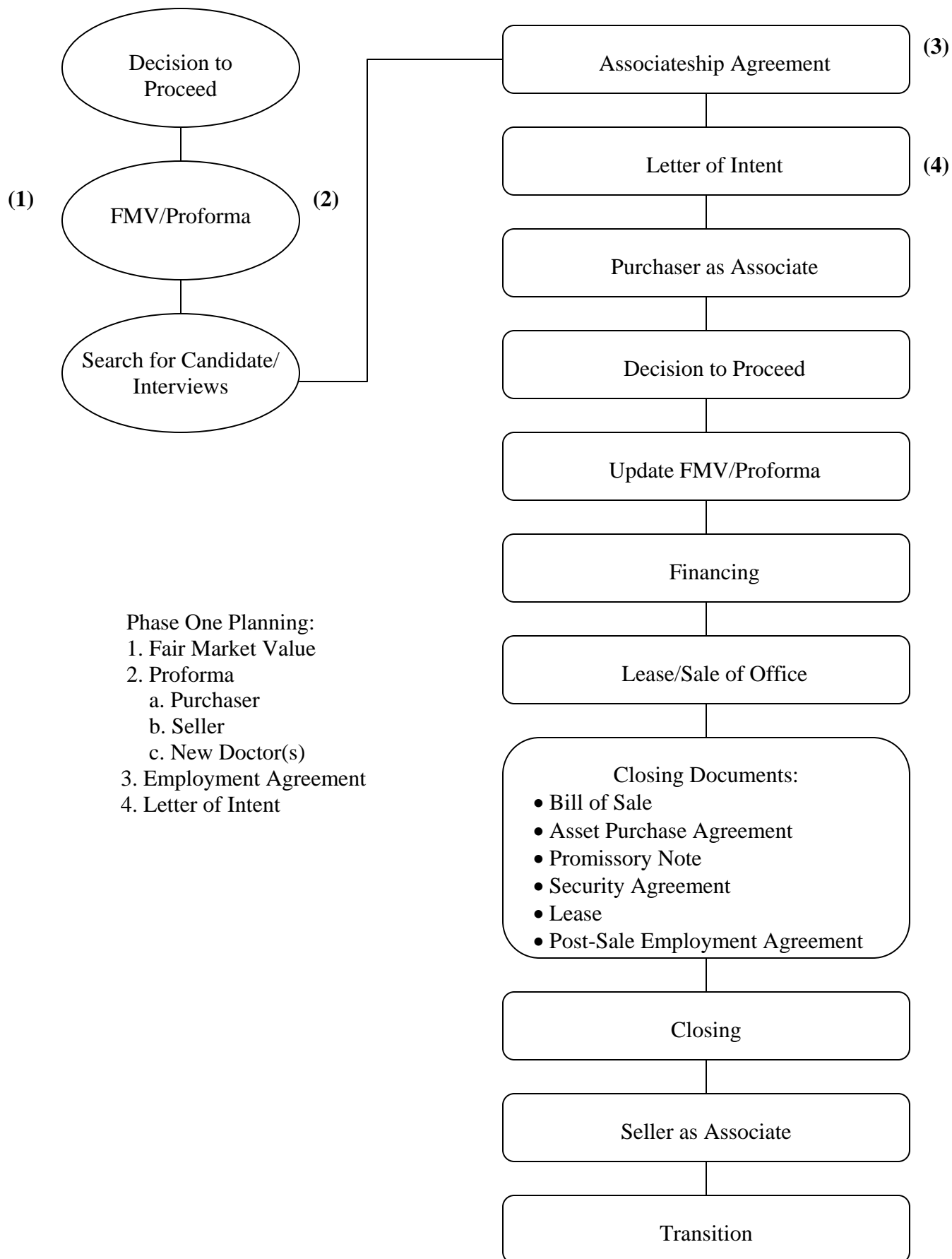
**PROFORMA**  
**DR. SMILEY (Senior Partner)**

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>	<u>5th Year</u>	<u>6th Year</u>	<u>7th Year</u>	<u>8th Year</u>	<u>9th Year</u>	<u>10th Year</u>
Dr. Smiley's Allocable Coll.	\$594,451	\$624,174	\$655,382	\$688,151	\$722,559	\$758,687	\$796,621	\$836,452	\$439,137	\$0
Hygiene Allocation	193,041	198,832	204,797	210,941	217,269	223,787	230,500	237,415	244,538	0
<b>Total Allocation</b>	<b>\$787,491</b>	<b>\$823,005</b>	<b>\$860,179</b>	<b>\$899,092</b>	<b>\$939,828</b>	<b>\$982,474</b>	<b>\$1,027,122</b>	<b>\$1,073,868</b>	<b>\$683,675</b>	<b>\$0</b>
Overhead Allocation	(\$439,733)	(\$459,563)	(\$480,321)	(\$502,050)	(\$524,797)	(\$548,610)	(\$573,541)	(\$599,644)	(\$381,762)	\$0
Pre-Tax Profit	\$347,759	\$363,442	\$379,858	\$397,042	\$415,031	\$433,864	\$453,580	\$474,224	\$301,913	\$0
Existing Debt Interest	(3,829)	(3,494)	(3,237)	(2,962)	(2,668)	(2,353)	(2,016)	(1,656)	(1,271)	
Practice Acquisition Debt Int.	(1,466)	0	0	0	0	0	0	0	0	
<b>Mgmt Fees - Dr. Molar</b>	<b>43,120</b>	<b>53,900</b>	<b>64,680</b>	<b>64,680</b>	<b>64,680</b>	<b>75,460</b>	<b>86,240</b>			
Distributable from Dr. New									15,085	
Personal Items	(29,565)	(31,884)	(33,891)	(35,737)	(37,592)	(39,297)	(41,083)	(42,953)	(44,911)	
Personal Deductions	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	
<b>Pre-Tax Income</b>	<b>\$351,019</b>	<b>\$376,964</b>	<b>\$402,410</b>	<b>\$418,024</b>	<b>\$434,452</b>	<b>\$462,673</b>	<b>\$491,721</b>	<b>\$424,614</b>	<b>\$265,816</b>	<b>\$0</b>
Estimated Taxes	(124,666)	(134,499)	(144,143)	(150,061)	(156,287)	(166,983)	(177,992)	(152,559)	(93,587)	0
<b>After Tax Income</b>	<b>\$226,353</b>	<b>\$242,465</b>	<b>\$258,267</b>	<b>\$267,963</b>	<b>\$278,165</b>	<b>\$295,690</b>	<b>\$313,729</b>	<b>\$272,056</b>	<b>\$172,229</b>	<b>\$0</b>
Existing Debt Principal	(6,602)	(3,693)	(3,950)	(4,225)	(4,520)	(4,834)	(5,171)	(5,531)	(5,916)	
Practice Acquisition Debt Prin.	(40,708)	0	0	0	0	0	0	0	0	
Non-Financed Capital Expend.	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
<b>Stock Purchase Payments</b>	<b>17,826</b>	<b>17,826</b>	<b>17,826</b>	<b>17,826</b>	<b>17,826</b>	<b>17,826</b>	<b>17,826</b>			
Buyout Stock										175,440
Buyout Intangibles										384,455
Personal Deductions	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	0
<b>After Tax Cash Flow</b>	<b>\$191,869</b>	<b>\$251,597</b>	<b>\$267,142</b>	<b>\$276,563</b>	<b>\$286,471</b>	<b>\$303,682</b>	<b>\$321,384</b>	<b>\$261,525</b>	<b>\$161,313</b>	<b>\$559,895</b>

# **FULL SALE: DELAYED TRANSITION**



# Transition Pathways - Full Sale (Delayed)



**PROFORMA  
DR. CROWN (Purchaser)**

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>	<u>5th Year</u>	<u>6th Year</u>	<u>7th Year</u>	<u>8th Year</u>	<u>9th Year</u>	<u>10th Year</u>
Projected Professional Income	\$1,113,782	\$1,208,588	\$1,256,931	\$1,307,208	\$1,346,425	\$1,386,817	\$1,428,422	\$1,471,275	\$1,515,413	\$1,560,875
Operating Expense	(686,905)	(768,375)	(798,189)	(829,197)	(853,383)	(878,294)	(903,953)	(930,382)	(957,603)	(985,641)
Distributable Profit	\$426,877	\$440,213	\$458,742	\$478,011	\$493,042	\$508,523	\$524,469	\$540,893	\$557,810	\$575,234
Dr. Crown's Collections	\$240,657	\$309,269	\$413,744	\$524,330	\$631,656	\$743,161	\$858,971	\$876,151	\$893,674	\$911,547
Hygiene Collections	0	0	344,523	354,858	365,504	376,469	387,763	399,396	411,378	423,719
Total Allocable Collections	\$240,657	\$309,269	\$758,267	\$879,188	\$997,160	\$1,119,630	\$1,246,735	\$1,275,547	\$1,305,052	\$1,335,267
Allocable Overhead Expense	(148,421)	(196,622)	(481,522)	(557,692)	(632,014)	(709,080)	(788,975)	(806,611)	(824,674)	(843,177)
Pre-Tax Profit	\$92,236	\$112,648	\$276,744	\$321,496	\$365,146	\$410,550	\$457,759	\$468,936	\$480,378	\$492,090
Distributable from Dr. Bridge			7,465	6,709	5,653	4,458	3,119	0	0	0
Distributable from Dr. New			0	0	0	0	0	3,452	3,806	4,181
Practice Purchase Interest & WC			(52,874)	(47,039)	(40,727)	(33,900)	(26,516)	(18,529)	(9,889)	(2,711)
Depreciation			(113,102)	(54,102)	(54,102)	(54,102)	(54,102)	(54,102)	(54,102)	(24,573)
Compensation as Associate	84,230	108,244								
Personal Deductions	(16,400)	(16,400)	(16,400)	(15,985)	(13,481)	(10,868)	(10,000)	(10,000)	(10,000)	(10,000)
Profit Before FIT	\$67,830	\$91,844	\$101,833	\$211,079	\$262,490	\$316,138	\$370,260	\$389,758	\$410,192	\$458,986
Estimated Tax	(20,665)	(30,115)	(32,901)	(67,529)	(85,985)	(105,245)	(125,551)	(132,941)	(140,685)	(159,178)
Profit After FIT	\$47,165	\$61,730	\$68,931	\$143,550	\$176,504	\$210,893	\$244,709	\$256,817	\$269,507	\$299,808
Practice Purchase Principal & WC			(71,810)	(77,646)	(83,958)	(90,785)	(98,169)	(106,156)	(114,796)	(65,980)
Depreciation			113,102	54,102	54,102	54,102	54,102	54,102	54,102	24,573
Personal Deductions	16,400	16,400	16,400	15,985	13,481	10,868	10,000	10,000	10,000	10,000
After Tax Cash Flow-Dr. Crown	\$63,565	\$78,130	\$126,623	\$135,991	\$160,129	\$185,078	\$210,642	\$214,763	\$218,813	\$268,401

Accumulated After Tax Cash Flow to Dr. Crown (Years 1 through 10):

\$1,662,134

Total Accumulated Profit Items to Dr. Crown:

(1) Interest Expense (Bank Financing & Working Capital)	\$232,185
(2) Estimated Taxes	\$900,796
(3) Principal Reduction (Bank Financing & Working Capital)	\$709,300
(4) After Tax Cash Flow	\$1,662,134

Total Accumulated Items \$3,504,414

**PROFORMA  
DR. BRIDGE (Seller)**

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>	<u>5th Year</u>	<u>6th Year</u>	<u>7th Year</u>	<u>8th Year</u>	<u>9th Year</u>	<u>10th Year</u>
Projected Professional Income	\$1,113,782	\$1,208,588	\$1,256,931	\$1,307,208	\$1,346,425	\$1,386,817	\$1,428,422	\$1,471,275	\$1,515,413	\$1,560,875
Operating Expense	(686,905)	(768,375)	(798,189)	(829,197)	(853,383)	(878,294)	(903,953)	(930,382)	(957,603)	(985,641)
Distributable Profit	\$426,877	\$440,213	\$458,742	\$478,011	\$493,042	\$508,523	\$524,469	\$540,893	\$557,810	\$575,234
Dr. Bridge's Collections	\$548,379	\$564,830	\$498,665	\$428,020	\$349,265	\$267,187	\$181,687	\$0	\$0	\$0
Hygiene Collections	324,746	334,488	0	0	0	0	0	0	0	0
Total Allocable Collections	\$873,125	\$899,318	\$498,665	\$428,020	\$349,265	\$267,187	\$181,687	\$0	\$0	\$0
Allocable Overhead Expense	(538,484)	(571,753)	(316,667)	(271,505)	(221,369)	(169,214)	(114,978)	0	0	0
Pre-Tax Profit	334,641	327,566	181,997	156,516	127,896	97,973	66,710	0	0	0
New CapEx - Interest	(2,076)	(5,591)								
Distributable from Dr. Crown	8,006	4,403								
Compensation as Associate			174,533	149,807	122,243	93,516	63,591	0	0	0
Personal Deductions	(10,173)	(10,900)	(16,400)	(16,400)	(16,400)	(16,400)	(16,400)			
Profit Before FIT	\$330,398	\$315,478	\$158,133	\$133,407	\$105,843	\$77,116	\$47,191	\$0	\$0	\$0
Estimated Tax	(110,443)	(105,008)	(49,754)	(42,114)	(34,020)	(24,408)	(13,569)	0	0	0
Profit After FIT	\$219,955	\$210,470	\$108,378	\$91,293	\$71,823	\$52,708	\$33,622	\$0	\$0	\$0
New CapEx - Principal	(5,138)	(11,746)								
Non-Financed Capital Expend.	(3,000)									
Cash Payment at Closing			219,737							
Owner Financing Payments			42,189	42,189	42,189	42,189	42,189	42,189	42,189	
Personal Deductions	10,173	10,900	16,400	16,400	16,400	16,400	16,400	0	0	0
After Tax Cash Flow - Dr. Bridge	\$221,990	\$209,624	\$386,704	\$149,882	\$130,412	\$111,297	\$92,211	\$42,189	\$42,189	\$0



## ALLOCATION OF PURCHASE PRICE

<u>Asset</u>	<u>Seller</u>	<u>Purchaser</u>
Fixed Assets*	Capital Gain or Undepreciated Amount	Depreciable Over 5-7 Years
Supplies*	Ordinary Income	Expensed in First Year
Patient Records*	Capital Gain	Depreciable Over 15 Years
Covenant	Ordinary if Isolated, Capital if Combined with Goodwill	Depreciable Over 15 Years
Personal Goodwill	Capital Gain	Depreciable Over 15 Years

\* If the practice is incorporated these items *must be sold by the corporation*. Gain from these may be subject to both corporate and personal taxation.