



ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

IN THIS ISSUE

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Practice Transitions Made Perfect™

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Driving Through a Downturn

The sky is not falling, but the market certainly is and the warnings of a recession are being sounded from all quarters. Unfortunately, in the 35 years of working with dentists, I have seen several recessionary periods and their effect on the dental profession. It's sad, but dentistry is an early victim of economic downturns because in many cases dentistry is paid for with discretionary income and as discretionary income declines so do visits to the dentist.

So what do you do? This is a time to "Get Back to Basics" in your practice and life! The good news is that the experts project that this will be a relatively shallow and short economic slowdown. Stimulus measures are already in place and the ups and downs will eventually even out. For now, staying conservative, working as a team and adhering to fundamentally sound business practices will get you through this less than ideal time in excellent shape.

Just make sure you keep on driving!

Hy Smith, MBA | President, ADS Florida

In automobile racing, one of the rules when traveling at 200 MPH and a crash occurs with smoke and debris flying everywhere is to "drive through it". More often than not, the driver comes out the other side unscathed.



Keep on driving

Tackling Tough Times

It is hard to say that we have not seen it coming, but now it is here. Consumer spending is down, the worldwide markets are in relative free-fall, the Fed is cutting interest rates and the government continues to work on ways to stimulate the economy.

looking for last visit. Find those patients that may have fallen through the cracks.

What does all this mean for the dental practitioner? What can you do to help stem the tide in your dental office? Here are a few suggestions that may help in countering the effects of a slower economy:

- Monitor new patient activity and be aggressive about asking for referrals. Your best patients will most often find more like themselves; make sure they know that your doors and schedule are open to new patients.
- Do not change course from your practice philosophy. Do not panic and sign up for reduced fee plans; do not change your credit policies.
- Do not make unsubstantiated changes in your advertising. Take the time to evaluate your current marketing expenses by tracking the results of your current programs before assuming the responsibility of an expensive unproven new advertising program.

- Prepare an annual plan that projects realistic monthly production goals. Track your monthly goals and share the results with your team on a regular basis to keep them in the loop.
- Prepare a legitimate budget of expected expenses based on your production goals and stick to it. Eliminate any spending that is discretionary.
- Have a heart-to-heart talk with your team alerting them to the importance of keeping the schedule full and meeting the monthly production goals. Their participation and support is critical.
- Setup 'quick-call' lists for patients that have flexible schedules and can come in and fill slots opened by cancellations.
- Initiate a re-activation plan for patients that have not been in for scheduled visits. This may include reviewing the computer reports or even performing a full chart audit

The economy will always have its peaks and valleys. While we have moved into an era where we are able to gather more data and hopefully more accurately predict and therefore defend against the worst of the valleys, we have always survived those of the past. Take this opportunity to strengthen your team and the internal processes of the office so as we look to better economic times, your practice will be that much better. While it may be hard to see a light at the end of this dark tunnel, the road to recovery can foster positive momentum and a more efficient and profitable practice.



Driving Through a Downturn



Tackling Tough Times



What if Something Happens?

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What if Something Happens?

Is Your Practice Prepared for the Buy-Out of a Departing Owner?

William P. Prescott, MBA, JD



Dentists Joe Smith and Mary Brown practice together—until Smith has a disabling stroke. Brown is unable to buy Smith out or to pay Smith's share of the expenses. Smith has to sell, but is now at a negotiating disadvantage. The loss of a partner can throw any multi-owner or multi-practice relationship into a tailspin.

Protect Yourself With a Buy-Sell Agreement

The following are guidelines that buy-sell agreements should consider:

Events that Trigger a Buy-Out: The nature of the triggering event determines whether the buyer has an obligation or an option to purchase. An "involuntary" triggering event, such as when the owner dies, becomes disabled or reaches a predetermined retirement age typically mandates that the remaining owner buy-out the departing one. A "voluntary" triggering event, such as an owner's choosing to leave the practice or being terminated "for cause," typically gives the remaining owner an option to buy. The buy-sell agreement can also specify who buys whom out in the event of a dispute, thereby avoiding court battles.

The Purchase Price

A fair price for the departing owner's interest is usually established by a specific formula or appraisal. The purchase price may be adjusted by the triggering event (e.g., Brown pays less if Smith voluntarily quits or is fired for an inappropriate act).

The price must take into account tax laws. If Mary Brown purchases Joe Smith's stock in their professional corporation for \$300,000, Brown gets no tax deduction for the stock purchase, which she pays for with after-tax dollars, while Smith receives a tax benefit by paying a relatively low (15%) capital gains tax on the stock sale. (This assumes that Smith owned the stock for over one year.) Fairness suggests: **1)** lowering the purchase price to compensate for the negative tax effects on the buyer; or **2)** structuring the arrangement to be more equitable, tax-wise, to both parties, assuming that the tax regulations are complied with (in our next issue, we will discuss ways to do this).

The Payment Terms

If payments are made in installments, spread them over a time period that balances the buyer's ability to pay with the seller's need for safety. The triggering event often influences the number of payments (e.g., Brown may pay Smith over a longer time if he voluntarily quits, as opposed to his becoming disabled).

In a buy-out involving installment payments, the IRS mandates that the seller charge interest. If you don't provide for interest, the IRS will "impute" (charge) part of your payment as interest. If seller Smith wants to keep buyer Brown's interest rate to a minimum, Brown could pay one or two points below the prime rate, but not less than the mandated amount, called the "Federal applicable rate."

When extending installment terms to the buyer, the seller can secure payment by: **1)** having the debtor sign a promissory note guaranteeing payment corporately (or through the practice entity) and personally (and possibly also

through another individual, as endorser); **2)** holding the buyer's share of the stock in the professional corporation (or other entity) as collateral, and **3)** restricting the buyer's ability to borrow money, take excessive compensation, participate in a merger, etc. until completing the buy-out.

Using Insurance to Cover the Buy-Out

Life insurance (typically term life) and/or disability buy-out insurance can fund the buy-out should either of these triggering events occur. Disability buy-out insurance is cheaper and more prevalent than before. Be sure to distinguish disability buyout insurance from disability income replacement and overhead insurance, all of which are worth considering.

Review your practice's insurance coverage annually to be sure that it is: **1)** sufficient, and **2)** taken out by the right entity (e.g., Smith, Brown, and/or the professional corporation) on the right persons (Smith and/or Brown). The wrong party owning the insurance could have detrimental tax consequences. If senior partner Joe Smith is soon retiring, he may want life and disability buy-out insurance on junior partner Mary Brown, because if Brown died or were disabled, Smith would have no one to buy his interest. Brown may also want this insurance on Smith to fund her buy-out if Smith died or became disabled.

Covenants on the Departing Owner

Buyer Brown may want to insure that seller Smith does not compete with her after she buys him out. This is done through non-compete and non-disclosure provisions in which departing Smith agrees not to practice for a specified time and within a specified distance from Brown's practice and not to disclose or use any practice trade secrets or other confidential information, such as patient lists or referral sources.

However, if Brown defaults on the payments to Smith, she would be subject to "mirror" restrictive covenant provisions, and Smith's non-compete would become null and void.

Dentists should meet with their accountant and lawyer annually to review the buy-sell and other agreements, revising them as needed. If you find your agreements are not comprehensive or need additional guidance, your ADS Florida transition specialist is another excellent resource.

About the Author

William P. Prescott M.B.A., J.D. is a Practice Transition Attorney from Cleveland, OH where he is a shareholder/partner with the law firm Wickens, Herzer, Panza, Cook & Batista Co. He has authored the books: *Business, Legal and Tax Planning for the Dental Practice*; *The Practice Acquisition Handbook*; *The Limited Liability Company and Other Entities for Dentistry* and, due for release later this year, *Joining and Leaving the Dental Practice*. Bill also writes a quarterly supplement; *Business, Legal and Tax Planning for the Dental Practice*. Reach Bill at (440) 930-8067 or wprescott@wickenslaw.com.

Practice Transitions Made Perfect

General and Specialty Practice Purchase Opportunities

NORTH FLORIDA

Contact: Paul Rang, DMD, JD, Don Elsmann, DDS or Melody Elsmann, RDH

		Gross	Buyer Net
Ft. Walton Beach	4 ops FFS pano 3 days/week RE Available	Ask \$100K	
Lake City area	5 ops FFS pano 3 days/week RE Available	\$354K	\$107K
Pensacola	6 ops FFS 3 days/week RE Available	\$374K	\$103K

Specialty Practices

North Gulf Coast	Oral Surgery 6 ops RE Available	\$1.2M	\$463K
NE Florida	Pedo 6 ops RE Available	\$1.2M	\$450K

WEST FLORIDA

Contact: Greg Auerbach, MBA or Paul Rang, DMD, JD

		Gross	Buyer Net
Bradenton	3 + 1 ops FFS/PPO	\$735K	\$196K
Brandon	7 ops FFS/PPO Cerec RE Available	UNDER CONTRACT	
Citrus County	5 ops FFS Pano	\$705K	\$213K
Englewood	4 ops FFS/PPO Real Estate Available		SOLD
Tampa	2 + 2 ops – Downtown Tampa	Ask \$500K	
Tampa	3 ops FFS/PPO Real Estate Available	\$550K	\$150K
Tampa	5 ops FFS/PPO 3.5 days/week	\$660K	
Tampa (South)	3 ops FFS/PPO – Starter/Satellite	Ask \$170K	
Tarpon Springs	4 ops FFS/PPO – Starter/Satellite	Ask \$125K	
Sarasota	3 ops FFS	UNDER CONTRACT	
Venice	4 + 1 ops FFS/PPO RE Available	\$625K	\$125K
Venice	3 ops FFS/PPO	UNDER CONTRACT	

CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	\$705K	\$213K
Gainesville	4 ops FFS/PPO Pano	\$949M	\$333K
Levy County	7 ops 3 days/week	\$292K	\$ 58K
Orlando	5 ops FFS/PPO Pano	UNDER CONTRACT	
Vero Beach	3 ops Equipped Condo	Ask \$460K	

Specialty Practices

Orlando	Orthodontics 1 day/week	\$325K	
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Associate Opportunities

General Dentistry: Melbourne

SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

		Gross	Buyer Net
Hialeah	4 ops FFS/PPO Computer & Pan	Ask \$225K	
Lower Keys	3 + 2 ops FFS/PPO w/ Condo	\$600K	\$120K
Miami (Kendall)	Relocate your practice and transition		
N. Palm Beach	4 ops FFS/PPO Cosmetic w/RE	\$1.5M	\$382K

Specialty Practices

Palm Beach Cnty	Oral Surgery 5 ops – Well Established	\$700K	\$232K
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Practice Ready Facilities

Boca Raton	6 ops Equipped	Ask \$ 35K	
Cutler Bay	4 ops Equipped with Instruments	SOLD	

Associate Opportunities

General Dentistry: Miramar, Stuart, Tamarac

SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Hy Smith, MBA

		Gross	Buyer Net
Ft. Myers Area	5 ops FFS Pan, RE Available	\$725K	\$237K
Marco Island	5 ops FFS – Upgrades Inside	\$700K	\$241K
Naples	5 ops FFS – C&B RE Available	\$1.8M	\$603K

Specialty Practices

Naples	Proths 5 ops FFS only/RE Available	\$1.6M	
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Practice Ready Facilities

Naples	4 ops w/ 2 New ops	Ask \$60K	
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Associate Opportunities

General Dentistry: Naples



Buyer Projected Net Income Assumes 100% Financing

For the most recently updated listings visit ADSflorida.com

We currently have buyers looking for the following opportunities:

GENERAL DENTISTRY

Broward, Collier, Dade, Hillsborough, Manatee, Orange, Sarasota

PEDODONTIST

Broward, Dade, Palm Beach

ORTHODONTIST

Broward, Dade

PERIODONTIST

Broward, Palm Beach



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ARE YOU READY FOR TRANSITION?

"If you now or ever will own, sell, or work in a dental practice this book is a must read. Hy's decades of experience in creating WIN-WIN-WIN (seller-buyer-patients) transactions is yours in a clear, concise and entertaining account. Wherever you are in your career, the tools to create your ideal future lie within these pages."

Gary M. DeWood, DDS, MS
Clinical Director, Director of Business Systems, The Pankey Institute



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Buying & Selling A Professional Practice

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