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The Best Defense



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From Hy's Desk: Economically Speaking

Recently, I have been a "Chicken Little" about the economy. Fortunately the sky is not falling, but it seems the price of oil could be the economy's back breaker. We've been through these times before and have survived, but it takes a good, aggressive approach.

The effect on the consumer's budget is less disposable income to spend. The effect on the dental community is less elective spending, which affects hygiene checks, bleaching, implants, Invisalign, veneers, etc.

So it's back to basics. It is estimated that a practice grossing \$700,000 per year has over \$300,000 worth

of diagnosed, uncompleted dentistry in its patient charts. Now is the time to do a chart audit and encourage those patients to complete procedures for diagnosed problems. This may require "verbal skills" training which can come from role playing in office meetings.

The successful dentist will do something positive – develop a good offense.

Hy Smith, MBA | President, ADS Florida



The Three Prong Approach

Important IRS Considerations for Structuring a Partnership

By William P. Prescott, MBA, JD

An increasingly common method of structuring partnerships for the incoming owner is to form an S-Corporation and purchase assets from the existing practice owner. Thereafter, the new and existing owners operate the practice through a newly-formed limited liability company or partnership that collects the revenues, pays the operating expenses and employs the staff. Profits fall to the entities owned by the respective owners. Each doctor-owned entity pays the business expenses of each owner that may include liability insurance, continuing education, business travel, possibly lab and other expenses which may be disproportionate between the owners. General operating, staff, and occupancy expenses are usually split 50/50 in a two doctor practice. While this approach has benefits of potential deductibility/amortization of assets for many incoming owners and primarily capital gains treatment for the existing owner, there are two relatively unknown traps.

For those practices that were formed pre 1993, the Internal Revenue Code ("IRC") Section 197, anti-churning rules, will deny amortization of the goodwill purchased for the buy-in for the first half of the practice by the incoming owner if the existing and new owners have at least twenty percent (20%) ownership. It is the third entity, the limited liability company or partnership, that creates this problem.

If, on the other hand, the owners operate with separate practices under a solo group arrangement, with no common ownership of a third entity, the goodwill is amortizable for the buy-in. What's more, under IRC 414(m), each separate practice may adopt its own tax-qualified

retirement plan without covering the employees of both practices. This is a good thing and shared employees can be accounted for.

IRC Section 197 does not provide for bifurcation of the goodwill from pre and post 1993. This is probably not the result intended by Congress in enacting this legislation, but is, in the view of some commentators, the result. This trap can be avoided by forming a solo group, becoming "partners" in an entity which has other ramifications or remaining a solo practitioner – probably the best route.

The second problem relates to S-Corporation distributions, which have the effect of eliminating the 2.9% Medicare tax. First, it is no secret that the IRS dislikes S-Corporation distributions and believes that this practice is being abused. Second, where the three tier approach is used and the initial entity is a limited liability company, there is authority that the S-Corporation distributions are unavailable and that all income flowing through the limited liability company is self-employment income, irrespective of the "reasonableness" of the S-Corporation distributions.

While this three tier approach is relatively popular, these traps exist, but can be avoided by the formation of a solo group or partnership without a third entity. Nevertheless, the first problem is avoided if the entity was formed post 1993.

About the Author: William P. Prescott M.B.A., J.D. is a Practice Transition Attorney from Cleveland, Ohio where he is a shareholder/partner with the law firm Wickens, Herzer, Panza, Cook & Batista Co.



Practical Steps: Preparing a Practice for Sale

Timothy A. Brown | President & C.E.O. of ROI Corporation & ROI Capital

Many clients ask what steps they should take when preparing a practice for sale. Common wisdom suggests that a little planning can yield big results if the owner of a practice is committed to the succession planning process.

Even with one year or less before an anticipated sale, the following steps, if taken, may result in a higher sale price and a smoother transaction.

1. Confirm Your Premise Lease Renewal Option(s)

Most leases contain an option to renew, once the current term expires, but the tenant must confirm the presence of such an option or risk being faced with the following situation: the tenant failed to notice that the landlord had intentionally deleted the option to renew clause. The practice was put up for sale, but the dentist had yet to approach the landlord to discuss the matter of the renewal option. When an offer was presented, the buyer insisted that the landlord confirm, in writing, that the lease may be renewed. This was eventually accomplished, but not without delay, additional cost and frustration for all parties involved. It could have easily been prevented had the tenant carefully reviewed the first lease he signed, an easy and relatively inexpensive task. In the event the landlord was not as cooperative, this condition may not have been satisfied, resulting in a failed offer.

Today's buyers and their bankers normally demand the right to remain in the existing premises for a period of time equal to the acquisition loan. Banks are reluctant to finance a practice sale if the office has to be moved on short notice. If your lease does not include adequate renewal options, or stipulate your ability to assign your present lease, your landlord will control your ability to sell your practice. You may consider contacting your landlord in advance of the sale to ensure that you will have a lease that can be easily transferred to a buyer. You may want to consult with your broker or lawyer before doing so.

2. Prepare Your Financial Records

Most practices use computer software that tracks practice statistics. However, some of our clients are unfamiliar with their software and do not always have adequate reporting functions for income, hours worked and the various procedures performed or patients referred. Buyers wish to understand the unique nature of a practice, and often ask to see the procedure analysis to determine if their skill set is compatible with that of the owner. If you do not have computerized records (yes, about 20 % to 30% of dental offices are still using one-write systems) it is suggested that you retain the day sheets for at least 12 months, to demonstrate your appointment protocols and the procedures provided in your practice.

3. Protect Your Practice from Employee Fraud

Sadly, a growing trend in business is employee theft. While dentists are not usually victims of this crime, when compared with retail businesses, it is apparent that some staff are discovering methods of exploiting the inherent weaknesses of dental practice management systems. Longstanding and

trusted employees have been involved in cases of dental fraud. Employee fraud in dental practice appears to be a growing trend – one that may be very damaging to the value of your goodwill.

Here are a few ways to help 'fraud-proof' your practice:

- Request a copy of each day-end report and examine the billings and deposits
- Cross-check the daily billings with appointed patients indicated on the day-sheets
- Examine the deposit book for checks received and compare to the bank or computer deposit slips
- Randomly examine patient charts and compare the procedures recorded with those found on the patient ledger
- Day-end reports may be changed at any time – so cross-check them with month-end reports to verify no backdating or reversals have been made.

Some sophisticated software has accidentally provided a complex means to hide or erase data and make employee fraud easier. The major software companies though, have been modifying their programs to prevent changes to financial records. It is not yet a foolproof system. Any dentist who does not know how to use his or her dental software properly is open to fraud. To protect your investment it may be necessary to hire a professional fraud examiner.

4. Review and Update Contracts and Agreements

Purchasers demand accurate details of the contracts you have in place. Ask your associate(s), partner(s), landlord and any other suppliers for a current version or copy of your agreement(s). We often receive copies of important contracts that are not signed, current dated or valid. The owner has enjoyed a positive working relationship with the other party for many years and no one thought to revisit the agreement to be sure it accurately reflects the current relationship. Lawyers, accountants and bankers are becoming more skeptical and thus more protective of their clients. They do not enjoy the benefit of familiarity and trust that you have with your suppliers and other parties.

A lack of up-to-date contracts may substantially reduce the sale price of a practice, and in some instances it may prevent a sale altogether.

Timothy A. Brown is the President & C.E.O. of ROI Corporation & ROI Capital, companies that specialize in dental practice appraisals, brokerage, consulting, locum placements, associateships and practice financing across Canada.

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
Fort 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	\$340K	\$107K
Pensacola	6 ops FFS 3 days/wk Real Estate Available	\$361K	\$104K

Specialty Practices

North Gulf Coast	Oral Surgery 6 ops Real Estate available	\$1.2M	\$541K
NE Florida	Pedo 6 ops Real Estate Available	\$1.2M	\$485K

WEST FLORIDA

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

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	\$726K	\$213K
Sarasota	3 ops FFS		PENDING
Tampa (Carrollwood)	5 + 1 ops - PPO/FFS	\$660K	\$166K
Tampa (Downtown)	2 + 2 ops - Starter/Satellite	Ask: \$500K	
Tampa (South)	3 ops FFS/PPO Starter/Satellite		PENDING
Venice	4+1 ops FFS/PPO RE Avail	\$625K	\$125K
Venice	3 ops FFS/PPO	\$735K	\$208K

CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	\$729K	\$213K
Gainesville	4 ops FFS/PPO Pano	\$1.1M	\$333K
Levy County	7 ops 3 days/wk	\$362K	\$145K
Melbourne	3+1 ops FFS/PPO	\$517K	\$161K
Orlando	5 ops FFS digital x-ray and Pano Cerec	\$1.3M	\$443K
Orlando	4 ops FFS/PPO digital x-ray and Pano	\$803K	\$217K
The Villages	7 ops FFS/PPO digital x-ray Pano Cerec	\$1.4M	\$387K
Vero Beach	3 ops Equipped Condo		Ask \$460K

Specialty Practices

Central FL	Perio - 2 locations FFS	\$1.1M	\$508K
Orlando	Orthodontics 1 day/week	\$300K	

Practice Ready Facilities

Daytona Beach Facility - 1400 sf 4 ops Pano

SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

		Gross	Buyer Net
Hialeah	4 ops FFS PPO computer and pan		Ask \$225K
Lower Keys	3+2 ops FFS PPO - Practice and Condo or Patient Records		
Miami	7 ops PPO/FFS/HMO	\$502K	\$140K
Miramar	8 ops PPO/FFS/HMO		UNDER CONTRACT
N. Miami	5+1 ops FFS/PPO		Ask \$ 97K
Plantation	5 ops PPO/FFS		SOLD
Sunrise	4+2 ops PPO/FFS/HMO	\$434K	\$154K
Tamarac	3+1 ops w/Condo (2 days/wk)	\$388K	\$115K
W. Palm Beach	4 ops FFS/PPO digital x-ray		Ask \$183K

Specialty Practices

Indian River Cnty	Perio 5 ops new equipment w/Condo	\$770K	\$160K
Palm Beach Cnty	Oral Surgery 5 ops FFS/PPO	\$700K	\$232K
Palmetto Bay	Ortho 4 ops w/Condo		Ask \$305K
Miami Lakes	Pedo/Ortho		Ask \$98K

Practice Ready Facilities

Lake Worth	8 ops w/street exposure		FOR LEASE
Vero Beach	3 ops Condo w/equipment		Ask \$375K

Associate Opportunities

Pedodontic: Hialeah, Homestead, Lighthouse Point
 General: Hialeah, Miramar, Melbourne

SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Hy Smith, MBA

		Gross	Buyer Net
Ft. Myers Area	5 ops FFS Digital Upgrades, RE Avail	\$780K	\$256K
Marco Island	5 ops FFS - Upscale Interior	\$700K	\$241K
Naples	6 ops FFS - High End C&B RE Avail	\$1.6M	\$503K

Specialty Practices

Naples	Proths - 6 ops FFS Only RE Avail	\$1.6M	\$503K
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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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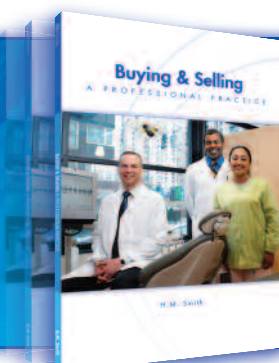


Jacksonville / Panhandle
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ARE YOU READY FOR TRANSITION?

"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



Contact us today for a **FREE** copy of Hy Smith's Book:

Buying & Selling A Professional Practice

Visit ADSflorida.com/book to order your copy today!