



# ADS South Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

IN THIS ISSUE

MAY 2008

Practice Transitions Made Perfect™

ADSSouth.com



Just Who Are We, Anyway?

## Just Who Are We, Anyway?

Lately, you have been hearing from us as several different identities. We are known to many of you personally as Earl Douglas, DDS, MBA, BVAL. Many others also know of us through my company name, Professional Practice Consultants, Ltd., or PPC for short. And from this time forward, our company will be identified as ADS South.



I know this sounds kind of confusing, but here's the background of this evolution. When I sold my dental practice in 1982 and gained my MBA degree, I was in the business of appraising and selling dental practices and identified myself as Earl M. Douglas, DDS. In 1984 I created the business entity Professional Practice Consultants, Ltd. and have been using that name up to the present time.

that we need to show our clients that while we are still the independent consultant that you have trusted for over twenty-five years, that we are now just importantly a part of ADS.

So now, when you see an ADS advertisement or newsletter or other venue, remember, it's the same person and company you have trusted for the past twenty-five years. While we have added more consultants to our staff, ADS South still operates with the same skill, integrity and honesty that you have come to expect for over a quarter of a century.

However another important event happened in 1996 when I brought together the best practice brokers, appraisers and consultants in the country under the name American Dental Sales or ADS. Over the years ADS has developed and matured to the point where we feel it is the leading force in the national market for practice appraisals and sales. ADS is currently making large marketing thrusts through our website and printed venues such as Dental Economics. As a result, it appeared to many of our members

*Earl M. Douglas, DDS, MBA*

Earl M. Douglas, DDS, MBA, BVAL  
President, ADS South



Tackling Tough Times

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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.



What if Something Happens?

ADS South  
*Congratulates*  
on recent sales

Ray T. Gable, DDS to  
Rory B. Sprouse, DMD  
Marietta, Georgia

Harry R. Culp, DDS to  
Cody S. Fielden, DDS  
High Point, North Carolina

Roy R. Bratton, DDS to  
Misty Horn-Blake, DDS  
Johnson City, Tennessee

John W. Hooker, DDS to  
Jennifer LaQuay, DMD  
Southport, North Carolina

# 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 South 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](mailto:wprescott@wickenslaw.com).

# Practice Transitions Made Perfect

## General and Specialty Practice Purchase Opportunities

### ALABAMA

Contact: Rebecca Kyatt

Birmingham #8503 Busy GP needs associate

Gross

### GEORGIA

Contact: Earl M. Douglas, DDS, MBA, BVAL

Carroll County 4 ops 4 days/week  
 Duluth Office Space & Equipment  
 Ft. Valley 4 ops 4 days/week  
 Lilburn 8 ops 5 days/week  
 Marietta area 9 ops 5 days/week  
 Riverdale 4 days/week  
 SE Georgia 5 ops 4 days/week

Gross  
 \$603K  
 PRICE  
 \$437K  
 \$1.07M  
 \$1.57M  
 \$836K  
 \$797K

### LOUISIANA

Contact: Earl M. Douglas, DDS, MBA BVAL

Lake Charles 5 ops 4 days/week - Pedo  
 Metairie 4 ops 4 days/week  
 Metairie 6 ops 3.5 days/week

Gross  
 \$488K  
 \$611K  
 \$277K

### MISSISSIPPI

Contact: Rebecca Kyatt

Gulfport 6 ops 4 days/week  
 Jackson 3 ops 3.5 days/week

Gross  
 \$670K  
 \$949M

### NORTH CAROLIA

Contact: James J. Howard, DMD

Ashville area 3 ops 2.5 days/week  
 Ashville area 6 ops 4 days/week  
 Burlington 4 days/week  
 Charlotte 4 days/week  
 Charlotte area 4 days/week  
 Coastal Carolina 4 days/week - Pedo (2150 sq ft)  
 Coastal Carolina 6 ops 4 days/week - Perio  
 High Point area 8 ops 4.5 days/week  
 High Point area 3 ops 4 days/week  
 Jackson County 3 ops 3 days/week  
 Lincoln County 4 ops 2 days/week - Reduced  
 NC mountains Excellent opportunity for 1/4 the cost of a start up  
 Wilmington-Brunswick Co 5 ops 4 days/week  
 North Coastal 3 ops 4 days/week

Gross  
 \$409K  
 \$693K  
 \$503K  
 \$1.6M  
 \$263K  
 \$868K  
 \$1.56M  
 \$2.11M  
 \$553K  
 \$586K  
 \$416K  
 \$299K

Pinehurst area 2 ops 4 days/week  
 Raleigh 4 ops 4 days/week  
 Raleigh 3 ops 5 days/week  
 Rocky Mount 4 ops 3 days/week  
 Triad area 7 ops 4 days/week  
 Western 6 ops 6 days/week  
 Western Mount 4 ops 4 days/week  
 Wilmington 6 ops 4 days/week - Endo

Gross  
 \$928K  
 \$1.12M  
 \$360K  
 \$860K  
 \$841K  
 \$946K  
 \$821K

### SOUTH CAROLINA

Contact: James J. Howard, DMD

Charleston 5 ops 4 days/week  
 Charleston 3 ops 4.2 days/week  
 Charleston area 3 ops 2.5 days/week  
 Charleston area 2 ops 4 days/week  
 Hilton Head Oral & Maxillofacial Surgery  
 Lexington 7 ops 4 days/week  
 North Charleston  
 Merger 1.2 days/week  
 N of Charleston 4 ops 5 days/week

Gross  
 \$737K  
 \$525K  
 \$323K  
 \$285K  
 \$686K  
 \$996K  
 \$215K  
 \$366K

### TENNESSEE

Contact: Earl M. Douglas, DDS, MBA, BVAL or Rebecca Kyatt (western)

Memphis 5 ops 4 days/week  
 Memphis 5 ops 4 days/week  
 Nashville 5 ops 4 days/week  
 Tri-cities 4 ops 4 days/week  
 Tri-cities 4 ops 4 days/week  
 western 3 days/week - Perio-implant Surgery

Gross  
 \$1.05M  
 \$702K  
 \$825K  
 \$518K  
 \$504K  
 \$612K

### VIRGINIA

Contact: James J. Howard, DMD

Charlottesville 4 ops 5 days/week  
 Christianburg 4 ops 4 days/week - Perio  
 Danville 3 ops 4.5 days/week  
 Fairfax County 4 ops 6 days/week - Pedo Distress Sale  
 Loudoun County 4 ops 4 days/week  
 Newport News 7 ops 4.5 days/week  
 Petersburg - Ft. Lee area 4.5 days/week  
 Roanoke 7 ops 4 days/week  
 South Central 4 ops 4.5 days/week

Gross  
 \$573K  
 \$667K  
 \$568K  
 \$650K  
 \$714K  
 \$1.58M  
 \$438K  
 \$1.03M  
 \$741K



For the most recently updated listings, including associate listings visit [ADSsouth.com](http://ADSsouth.com)

# We are coming to you!

**Alabama Dental Association Meeting**  
 Perdido Beach Resort - Orange Beach, AL  
 June 10-15, 2008

**Mississippi Dental Association Meeting**  
 Sandestin Resort - Destin, FL  
 June 13-17, 2008

**Virginia Dental Association Meeting**  
 Williamsburg Lodge - Williamsburg, VA  
 June 19-21, 2008



GEORGIA, LOUISIANA & TENNESSEE  
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