

The REASOR REPORT

A Reasor Professional Dental Services publication

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Plan a Successful Sale

Reasor Professional Dental Services uses ten proven steps to ensure a successful sale of your dental practice

Our experience shows that the dentist who carefully plans the future sale of the practice sees a more profitable, satisfactory transition for him and his family, his patients, his staff and the new dentist who is taking over his legacy. Allowing us to organize and plan the sale of your practice in the following multiple step strategies ensures that you will achieve the highest possible price with the least amount of time taken from your practice. We know that your time is more valuable when invested in running your practice. Reasor Professional Dental Services' ten steps have proven to be an organized, strategic approach to the successful sale of a dental practice.

Step 1: Conduct a comprehensive business analysis. As your dental practice transition advisor, we analyze your operation, finances, market potential and trends. We generate a business profile that represents your practice in the most attractive way possible.

Step 2: Structure the sale. We then identify the best possible price range for your business. This is based on solid facts, the condition of the market, projected growth, sales potential and the sale of similar dental practices within your area. We apply sophisticated, time-proven valuation techniques to ensure that your price is appropriate for the current market condition. The price must not be too high or too low. Yet, it must represent an attractive investment potential.

Welcome...

To Our New Web Site



Step 3: Network the sale. We utilize the latest technology to present your practice to potential buyers. This greatly multiplies the effort in your favor.

Step 4: Market your practice. Our aggressive marketing program provides maximum exposure for your business yet ensures your confidentiality. Both are critical.

Step 5: Organize all necessary documentation. As part of our service, we help gather and organize all documentation that is relevant to the selling of your practice. Buyers are pre-qualified and required to execute a confidentiality agreement before receiving any sensitive information concerning the sale.

Step 6: Qualify the buyers. As your advisor, we can approach potential buyers without weakening your position. Knowing how to qualify a buyer is critical. (continued on page 3)

www.ReasorProfessionalDental.com

We are proud to present our new web site! It is the most complete and comprehensive dental practice transition web site in the Northwest. It is packed full of information pertaining to all aspects of dental practice transitions for both sellers and buyers. It consists of different articles that address the many questions we hear from potential buyers and sellers and will be the "go to" site for all practice transition solutions.

From time to time we will add guest articles from local and national dental experts on practice transitions. These articles will pertain to different aspects of making a dental practice transition a smooth, easy, and painless process for all parties involved. Access our web site on a regular basis to stay up-to-date on the latest tips and best practices in ownership transitions.

THE COVENANT NOT TO COMPETE

By Greg Englund, Attorney at Law with Hooper, Englund & Weil LLP

Perhaps the most important component in any dental practice sale is the seller's commitment not to compete, in any capacity and through any entity, with the purchaser's practice. In order to preserve the transfer of goodwill, the purchaser (and his or her bank) will insist that the agreement include a covenant not to compete. While generally disfavored by courts, such covenants will nearly always be enforced to preserve the transfer of goodwill from purchaser to seller. Such

covenants must, however, still be reasonable in time and space. The covenant should not only restrict the seller from practicing dentistry within a specified time period (usually between three (3) and five (5) years) and within a specified geographic area, but should also prohibit the seller from (i) treating patients of the practice anywhere, (ii) referring patients of the practice to any other dentist, and (iii) soliciting employees of the practice for work elsewhere.

The breadth of the geographic area to which the restriction applies will be negotiated the parties. Normally, the area is defined as a specified mile radius around the existing practice office. While not definitive, one factor will be the geographic area from which a practi-

tioner draws his or her patients. In a densely populated, urban area, the geographic area may be limited to five (5) miles. The restriction in more rural areas, however, could be twenty-five (25) to fifty (50) miles, or even more. Specialty practices also tend to have larger geographic areas in which practice is prohibited.

The time period will generally commence as of the date of closing. Nevertheless, if the selling doctor intends to continue practicing for the purchaser, the time period should include practicing during the period of association, and for the three (3) to five (5) year time period which begins when the selling doctor ceases practicing in the purchaser's office.

Sellers will normally negotiate a covenant which applies to the private practice of dentistry only,

and will except working for government or volunteer clinics, teaching, and limited *locum tenens* work. In addition, the seller may be able to except employment with preferred provider organizations which have captive patient bases.

From a tax perspective, sellers will normally want to keep the portion of the purchase allocated to the covenant not to compete to a minimum, since that portion of the purchase price is taxed as ordinary income, while goodwill is subject to lower capital gain rates. Conversely, for the purchaser, that portion of the purchase price allocated to either the noncompetition covenant or goodwill is all amortized, and therefore written off ratably, over fifteen (15) years.

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Practice Appraisals

When selling your practice, look for an appraisal that values your business objectively and results in a estimate of probable selling price that is fair for both seller and buyer

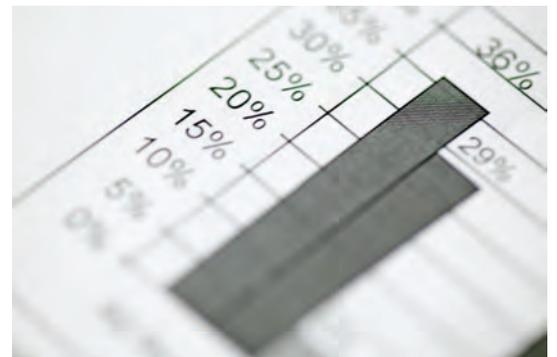
A good dental practice appraisal utilizes objective information and examines many elements of the practice, in sharp contrast to the "here's what I think it's worth" method that some brokers use. Some practice brokers use a tactic of "estimating high" on what the practice would sell for in order to get the listing, and then have to adjust the price down after the practice is evaluated by a qualified dental CPA and the buyer's lenders.

At this point, the true value is established and a disappointed and disgruntled seller reluctantly has to accept less for the practice than originally told and planned for. Trust is often breached at this point as the seller believed his practice to be worth more than it actually is and the buyer feels misled because he now realizes the practice is worth less than originally stated. This can create hard feelings between the buyer and seller and

can make for an unfavorable atmosphere for a smooth practice transition.

It is critical that a dental practice be evaluated fairly and objectively from the beginning, so that when the buyer's lender reads the evaluation, he will concur that the value was done correctly and can make a loan established by an accurate appraisal.

A good practice appraisal depicts the financial aspects, the character, personality and décor of the practice. A detailed description of and information on the practice provides a mental picture for prospective buyers and enables them to decide whether to follow through with the due diligence phase of the decision-making process. Appraisals prepared by us are bound and presented so that any attorney, accountant, lending institution or prospective buyer can easily access and understand the information.



Beware of brokers who state they will perform an appraisal and only charge by the hour. We have found that more often than not, the total cost will be double or triple the flat fee charged by most brokers. At the very least, get an estimate of the broker's expected charges so there are no surprises at the end.

We can provide samples of our professional evaluations to demonstrate how thorough and comprehensive they are, and to better explain what information is required and why. If you would like to receive a sample appraisal, please email us at:

info@reasorprofessional dental.com.



Did You Know?

Buck Reasor is a Licensed Commercial Real Estate Broker

Buck Reasor of Reasor Professional Dental Services is a licensed commercial real estate broker with the well-respected firm of Bluestone & Hockley Real Estate Services. His years of experience, both as a practicing dentist and as a commercial broker, give him the expertise to understand the unique challenges facing dentists as they buy, sell or lease an office or commercial property.

Buck has sold many medical dental buildings in Oregon and Washington, ranging in price from \$500,000 to \$3 million dollars. Most of these sales have been for dentists who sell their dental practices at the same time. Having expertise in both the selling of the dental practice itself and the real estate makes for a smooth and profitable practice transition

for both the selling dentist and the prospective buyer.

Buck has also sold many large medical dental buildings to investors. These transactions are invariably complex. Having someone of Buck's expertise and knowledge of real estate in your corner can be the difference between a deal that falls through and one that follows through to success.

Buck has probably helped more dentist find places to lease in Oregon and Washington than any other broker. As a practicing dentist in Portland for 28 years and a broker for almost 10, he has insight and experience with dentists and the entire leasing process.

Buck can help you identify the best location based on your personal criteria.

He can analyze demographic data, traffic patterns, and the dental economic needs for the selected area. In the site selection process, Buck can competently represent your interests in dealing with the landlord or owner.

Buck can also prepare a letter of intent for the proposed lease space, negotiate the terms and conditions of the lease and refer the leasing dentist to an attorney who specializes in reviewing leases.

In all lease transactions the landlord or owner pays the lease commission to the brokers, therefore you, the dentist, has no financial obligations in this process.

We welcome your questions about when, where and how to lease space for your dental practice.

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Thus, while a seller has an incentive to allocate as little as possible to the covenant not to compete, in order to take advantage of capital gains rates for goodwill, from a purchaser's perspective there is no difference in the tax treatment between the covenant not to compete and goodwill.

Besides the practice sales context, covenants not to compete also come into play for an employer when he or she is employing an associate dentist in his/her practice. An employer will usually seek to prohibit a full-time associate from competing during his or her period of employment, and for a period of one (1) or two (2) years following the termination of employment. Oregon law not only requires a covenant not to compete be entered into prior to the commencement of employment, but also requires the employer to inform the employee in a written employment offer that a non-competition agreement is a required condition of employment. The written offer must be received by the employee at least

two (2) weeks before the first day of employment. Furthermore, because of new annual gross salary requirements, imposing a traditional "time and space" restriction on a part-time employee may no longer be possible under Oregon law. Many employers have responded to the new requirements by conceding time and space, while continuing to impose restrictions against departing employees from soliciting or treating patients of the practice. The new law also limits a covenant not to compete in the employment context to two (2) years.

Gregory J. England is an attorney who has been in private practice in Portland since 1981. He is licensed in Oregon and Washington. His business and corporate practice emphasizes the legal needs of dentists. His practice includes practice sales, acquisitions and transitions, succession planning, office leases, associateship agreements, professional business entities (i.e. PC's, LLC's), employment law and estate planning. His experience includes work on well over 200 sales, acquisitions, and transitions.

Ten Steps to a Successful Practice Sale

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Buyers are qualified for financial ability to meet the offer; many times a negotiation fails because someone omits this important step. We prepare and present all offers and offer advice when you need it.

Step 7: Negotiate to achieve the best price. Appropriate negotiation is crucial to achieving your price and terms. We have expertise in sound and resourceful negotiation techniques and implement them on your behalf.

Step 8: Provide exceptional support to you, the seller. We take pride in our exceptional service. We realize that you depend on us to guide you through the sale of your practice. We know when an opportunity may arise and are always there to take advantage of it. We make the transition simple and easy for you.

Step 9: Be there from the beginning to the closing. We help manage all administrative procedures, licenses, inventory counts and lease assignments that may be required. We work closely with your advisors to ensure a smooth practice transition.

Step 10: Be available for the transitional phase. You have the option to consult with us at any time after the sale. We will provide you with any assistance you may require after the closing. We are always there for you. Because of our extensive dental background, we know what is needed to make a smooth transition for all parties concerned.

You simply cannot afford to sell your dental practice without the necessary skills and selling expertise. You run the risk of not getting the full value for your practice. Worse yet, you may turn off legitimate buyers who may have purchased your practice had your practice been properly packaged and represented.

Almost all dentists who sell on their own do not receive the full value for their practice. Let Reasor Professional Dental Services help you maximize your value and minimize headaches for you and your team.

WELCOME TO OUR FIRST NEWSLETTER

Welcome to our first quarterly newsletter to dentists in the Pacific Northwest. This is an exciting time for us as we have so many firsts for our dental practice transition business, both with our new web site (see page 1) and this newsletter.

Our newsletter will have interesting, pertinent information on different aspects of dental practice transitions that hopefully will answer your many questions on the transition process. This month's guest dental expert is highly-respected attorney Greg Englund, whose law practice emphasizes the legal needs of dentists. His article this month, "The Covenant Not to Compete", covers a controversial topic that is often misunderstood by and confusing for both buyers and sellers.

I will also write an article each newsletter on various topics that are important and pertinent to the successful sale of any dental practice, whether it be the buyer or the seller. This month's article, "Ten Step Business Plan: Strategies to Ensure a Successful Sale of Your Practice", describes our proven plan that

allows us, the broker, and you, the seller, to execute the successful sale of your practice. With our plan, you will achieve the highest price possible for your practice with the least amount of time taken from your practice. We know that your time is most valuable when invested in running your practice.

We hope our newsletter lets you take away some practical information that can help you in the successful sale of your dental practice as a seller and also provides the future buyer some helpful hints to enhance their transition process. After all, the successful sale of any dental practice needs to be a smooth transition and a win-win for both the buyer and the seller, the staff, and most of all the patients. To obtain this goal, we strive diligently to match both seller's and buyer's personalities and philosophies so the patient is the ultimate winner. Please look to Reasor Professional Dental Services to meet your dental practice transition needs and help you to the next level of success.

Sincerely,

Buck Reasor



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