

Quarterly Supplement To Business, Legal, And Tax Planning for the Dental Practice

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The purpose of the Quarterly Supplement is to continually update the material contained in **Business, Legal, And Tax Planning for the Dental Practice**, Second Edition, as "free-standing" articles relative to both current business, legal, tax and pending legislative matters that affect your practice and my ongoing experiences as an attorney representing dental and dental specialty practices. At times, articles will be written by my partners and friends who consist of tax attorneys, accountants, actuaries and dentists. The articles contained in the Quarterly Supplements all relate to material contained in my book, which I hope you will purchase after reading this Supplement if you haven't already.



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PRACTICE VALUATIONS — FROM THE LAWYER'S PERSPECTIVE

Most lawyers do not prepare practice valuations. Having worked as a dental equipment and supply salesman for almost 17 years, I am an exception. Your lawyer, however, should understand the valuation process and, like you, should be able to recognize if the economics of a complete or partial practice sale are fair and reasonable. If not, the transaction will be unsuccessful. Therefore, this article is written from the perspective of the lawyer representing you as the practice owner or incoming doctor in a complete or partial practice sale. As such, please share this article with your spouse, attorney, as well as your CPA. Fortunately, valuation reports are prepared in the same manner, irrespective of whether the transaction involves a complete or partial sale. The only difference is the financing; complete sales are typically 100% financed by third-party lenders and, partial sales are almost always internally financed. What your lawyer should be most concerned about when representing the practice owner is that the owner is fully paid. When representing the incoming owner or purchaser, the lawyer should be concerned that the incoming doctor or purchaser can: (i) earn a "reasonable" living while paying for the practice or practice interest; (ii) pay the operating expenses that the purchaser or incoming doctor will have in the practice; (iii) pay the lender(s) the purchase price for the practice or practice interest; and (iv) pay for the practice or practice interest within a measured time period, e.g., in five years.

Minimize the Risk of Default

While a complete sale is usually a much simpler transaction to complete for the lawyer because the full purchase price is typically paid at closing, a partial practice sale is much more complex. This is because the lawyer, on each side, is not only dealing with repayment of the practice purchase price, but also the tax and business structure of: (i) the associate buy-in; (ii) operational matters such as allocation of compensation and benefits, decision making or operational control and employment of family members; and (iii) the departure of an owner through the triggering events of death, permanent disability, retirement (as a defined term, e.g., attaining age 60 or 20 years of service with the practice), election to transfer the ownership interest (e.g., the owner quits or relocates), termination of employment (e.g., loss of license or termination "for cause" or by notice where the founder no longer desires to work with the incoming owner), or dispute.

Many complexities of co-ownership are handled pursuant to a buy-sell agreement that, I believe, should consider an owner's buy-out through a formula that accounts for future practice growth. While an appraisal for an owner's buy-out at the time of departure may work well, future appraisals can create disputes and take time. Further, the appraisal must be consistent with the tax and business structure of any buy-out, e.g., payment for stock in after-tax dollars inclusive of goodwill, payment for stock with personal goodwill to the departing doctor, or payment for stock coupled with the payment of deferred compensation. Notwithstanding this, the tax affects of owner buy-outs, except for the payment of stock in after-tax dollars inclusive of goodwill, remain unsettled from a tax perspective. Thus, any valuation report must be consistent with the tax and business structure of the transaction. This is why your lawyer needs to be actively involved in the transaction at the initial planning stage. For example, if 100% of the stock of a professional

corporation is valued at \$100,000, the valuation report should be consistent with this value. This \$100,000 may represent the fair market value or "in place" value of the professional corporation's tangible assets (e.g., the dental equipment), less any debt, and exclude the personal goodwill of the shareholder-employee(s). In this case, the personal goodwill would be separately valued, assuming that the personal goodwill is existent.

Seller Beware

You spend your life and career building your practice. You are the practice and to you, it's worth a lot. You are ready to retire and sell your practice, so you have your practice appraised. What if it's overvalued? For the purchasing doctor, the answer is obvious; the new doctor can go broke or be forced to find an additional job to meet outstanding obligations. For the seller? You may not be paid and be forced to return to practice, if you can.

Although the purchase and verification analysis examples herein are based upon a complete sale, the overvaluation problem is very significant where an associate is being elevated to owner and/or buying out a senior owner in a two or more doctor practice. That is, because co-ownership arrangements are almost always financed internally, the risk of default is an important consideration.

Assume that the appraiser overvalues your practice. A potential purchaser(s) is found who agrees to the purchase price, but you are required to finance a substantial portion of the sale. Maybe the purchaser is told that both the practice and location have great potential; that fees can, on the average, be raised 10%; that you don't do endodontics and the purchaser will; that you only work a few days per week and that the purchaser will work five and one-half days; and that you can continue to work in the practice for two days per week indefinitely, as you have no plan on how to spend your time outside of dentistry after retirement. This, of course, assumes that you have adequately funded your retirement plan and have accumulated sufficient savings and other assets to live on in your retirement. Sounds great? Maybe. However, you are asked to finance some portion of the purchase price and this creates the potential for default by a potential "soon to be" discouraged incoming doctor. You don't get the full purchase price and the incoming doctor fails. A lose-lose situation. How do you protect yourself? If you are the seller in a complete sale, make sure that you receive the full purchase price in cash, at closing. If you are the purchaser, make sure that your licensed CPA verifies that the appraisal is workable for you.

Purchase Analysis Example

Notwithstanding that the marketplace is drastically changing due to supply and demand for doctors, I believe that dental practices have generally been valued too high for some time. An

average selling price for a general practice has been said to be approximately 61%¹ of one year's gross collections. In 1985, it was approximately 64% of one year's gross collections.²

How can a practice be overvalued? Let's look at the following example in the purchase analysis. Let's assume that the practice owner requests 60% of one year's gross revenues as the purchase price. One year's gross revenues for the most recent fiscal or calendar year equals \$650,000. The fair market value of the collective tangible assets (dental equipment, office equipment, furniture, dental supplies and dental instruments) is \$149,500 or 23% of gross revenues. If gross annual revenues are \$650,000 and tangible assets are \$149,500, then the goodwill of the practice, or arguably the selling doctor (individually), is \$240,500 or approximately 37%³ of one year's gross revenues. In other words, the total purchase price is \$390,000 or 60% of gross revenues of \$650,000. However, the purchase price in a complete sale usually, but not always, excludes the accounts receivable which necessitates a loan by the purchaser for operating capital. Assume that working capital needs are \$60,000, payable over five years, at 7% interest. In this example, the purchaser will also have remodeling and equipment replacement costs, which will further reduce the practice cash flow. Assume that the remodeling and equipment replacement costs are \$50,000, payable over five years, at 7% interest. Note that the purchaser in this analysis is not assuming any debt of the selling doctor; typically the case unless otherwise agreed upon by the parties to the transaction.

Where the working capital and remodeling/equipment replacement costs are present, the purchaser will earn 21.72% of practice gross revenues or \$141,193 while paying for the practice. This assumes a five-year repayment period or 20% capitalization rate. This example also assumes that there is no drop in patient base and/or referral sources if a specialty practice. Think what happens to the incoming doctor's compensation if \$650,000 of annual practice revenues becomes \$585,000 as a result of a 10% drop in the patient and/or referral source base. Note that overhead expenses will not drop significantly as the variable expenses are laboratory charges for a general practice, supply costs and possibly some staffing costs for both general and specialty practices.

If no working capital is needed and no remodeling/equipment replacement costs are incurred while the practice is being paid for, the purchaser earns 25.74% (approximately 26%) of gross revenues or approximately \$167,330; more favorable than 21.72% or \$141,193.

An attorney friend of mine noted that the \$141,193 compensation amount for the new doctor is significant and should not present a problem. Thus, the purchase price of \$390,000, he argues, is justified. I respectfully disagree and have successfully argued this point as an expert

¹ Valuing a Practice, A Guide for Dentists, Practice Management Series, American Dental Association, 2001, p. 21.

² Shannon Pratt, Valuing Small Businesses and Professional Practices, Dow Jones-Irwin, 1986, p. 361.

³ The Goodwill Registry, The Health Care Group, Plymouth Meeting, Pennsylvania, Cumulative Goodwill Registry Findings, 1999-2001, statistical mean for a general dental practice; Note that for the ten year period ending in 2003, the statistical mean for a general dentist practice was 39%.

witness in valuation cases. If an incoming doctor can earn 30% plus of adjusted production or collections as an associate dentist, this doctor will probably not agree to work for less than 22% of collections. Additionally, the new doctor must have the ability to produce at the level of the practice owner. In this example, the practice owner would undoubtedly be required to continue a working relationship with the incoming doctor to assist in both the transfer of patients and/or referral sources and provide mentorship and training. In this example, the working relationship would be for one year and, thereafter, by mutual agreement. However, the incoming doctor would retain the ability to end the working relationship if he or she would so choose.

The term "capitalization rate" can be thought of as the percentage by which a constant income stream is divided in order to obtain the value of the business on the basis of an assumed rate of return⁴. The income stream represents the annual sum available from gross revenues after the payment of operating expenses for the purchaser, the purchase price to the lender(s) and an "agreed" compensation amount to the purchaser, e.g., approximately 26% of practice collections. For example, if an income stream of \$66,533 after the payment of purchaser compensation is capitalized at a rate of 20%, the calculation would be \$66,533 divided by .20, which equals \$332,665, excluding interest. Provided that the stream of income being capitalized is constant, then the multiple is the reciprocal of the capitalization rate. This multiple can also be thought of as the repayment period for the purchase of the practice, e.g., \$332,665 divided by \$66,533, equals five years, the repayment period. However, if a 7% interest component is included, the purchase price would be approximately \$280,000.

The capitalization rate would be adjusted upward or downward according to various factors that impact practice value, e.g., owner profit and yearly revenues. A low capitalization rate yields a high practice value and vice versa. For example, a 20% capitalization rate, five year repayment period, on \$66,533 of earnings, would yield a practice value of \$332,665, excluding interest; a 25% capitalization rate, four year repayment period, would yield a \$266,132 practice value, excluding interest; and a 14.28% capitalization rate or a seven year repayment period would equal a \$465,917 practice value, excluding interest. Therefore, slight increases or decreases in the capitalization rate create substantial variations in practice value and any interest component will lower that value. Similarly, practice revenues, practice profitability, purchaser compensation, patient/referral source retention, percentage of patients in hygiene, manner of payment for services (fee based versus managed care), level of fees, scope of professional services and staff effectiveness are only a few of the key components that will directly determine the sum available to be capitalized.

⁴ Shannon Pratt, Valuing Small Businesses and Professional Practices, Dow Jones-Irwin, 1986, p. 122, 123.

Verification Analysis

The verification analysis determines the price that a practice can afford to purchase itself.⁵ Assuming that a purchaser's only source of income is the practice being acquired, the purchaser should pay no more for the practice than the cash flow for the practice can support. Additionally, the purchaser needs a yearly compensation level to live comfortably, not extravagantly, while paying for the practice. This compensation level is usually lower than the compensation level for the prior practice owner(s). In determining the necessary compensation for a purchaser while paying for a practice purchase, the purchaser should review the compensation that he or she could or did earn as an associate, recognizing that the practice being purchased will eventually be paid for. The question then becomes how long is the repayment period? A 20% capitalization rate would provide for a five year repayment period. However, to maintain the highest level of practice value in a changing market, consultants and brokers often advocate a seven year repayment period. A seven year repayment period could be acceptable for a quality practice. This assumes that the purchaser and the purchaser's CPA recognize that the longer the repayment period, the higher the practice value and the lower the capitalization rate. Generally, I would have difficulty recommending a repayment period beyond seven years, yet some lenders are willing to offer ten year repayment periods.

If the purchasing doctor has enough savings for a substantial down payment, then the yearly amount available for compensation to a potential purchaser will be increased, as the down payment amount would not be includable in the loan for the purchase of the practice.

A verification analysis can be thought of as a "check" against the valuation methods used in the appraisal to determine the affordability over a predetermined repayment period, and given the economic history of the particular practice. As indicated in the purchase analysis, the asset summation method of valuation considered working capital needs, renovation/equipment replacement requirements, as well as the loan for the payment of the practice. In the example provided, the purchaser has the following choices: (i) work at a yearly compensation level of \$141,193; (ii) offer a reduced purchase price for the practice in order to increase the available level of compensation; (iii) pay for the practice over a longer period of time than originally anticipated; (iv) attempt not to spend any funds on equipment replacement or facility renovations; (v) determine the feasibility of increasing gross revenues; (vi) find additional employment; (vii) purchase another practice; or (viii) establish a practice. The difficulty in paying the purchase price over five years, representing a 20% capitalization rate, is further made difficult should a 10% to 15% drop in patient base and/or referral sources occur. In such case, the analysis should be revised to reflect the "best guess" of practice revenues and operating expenses. The verification analysis provides for purchaser compensation of approximately 26% of gross revenues or \$167,210. With a capitalization of earnings method of valuation, tangible assets are already included in the sum available to be capitalized. There is \$66,533 available, inclusive of interest, to pay for the practice over five years. Therefore, the purchase price should be \$280,000

⁵ Valuing Small Businesses and Professional Practices, Third Edition, Shannon P. Pratt, Robert F. Reilly, Robert P. Schweihs, McGraw-Hill, 1998, p. 236. Shannon Pratt, Valuing Small Businesses and Professional Practices, Dow Jones-Irwin, 1986, p. 310.

or 43% of gross revenues; not \$390,000. This sum increases to the extent that the repayment period is extended. However, in this example, the \$390,000 or 60% of one year's gross revenues, without the verification analysis, valued the practice too high. In other words, all that really counts may be the verification analysis in light of the length of the repayment period.

Verification by the CPA

Both purchaser's and seller's CPA should review and confirm the results of the valuation report. For the purchaser, there may be expenditures that directly impact the ability to pay for the practice or practice interest being acquired, e.g., school loans, mortgage, children.

For the seller, the CPA must confirm that the seller can afford to retire, given anticipated lifestyle, irrespective of the sales proceeds.

Co-Ownership Problem

Assume that the practice owner sells one-half of the practice to an associate dentist at today's fair market value. This means that the founder only has one-half of the practice to sell upon retirement when the fair market value should have increased in the future. Notwithstanding that the associate may not remain in the practice if not made an owner in time, possibly the highest value may be obtained by waiting to sell until retirement. But try to take a vacation without a second doctor in a busy practice.

Current Compensation

Learn how to run your practice well. Maximize current compensation and retirement plan contributions in light of favorable new tax regulations. If you sell your practice to fund your retirement, it is likely that you will run out of money.

Unique Services and Managed Care

Unique services, such as orthodontics, high-end cosmetic dentistry and reduced fee plans directly reduce the value of your practice.

Computer Generated Valuation Reports

We are moving toward computer-generated valuation reports that are colorful and aesthetically pleasing. The problem, however, is that these reports often include a growth component that may not be accurate. The fact is, I believe that the fair market value of a practice should be established at one point in time and should not be based upon future growth that would hopefully be attributable to the incoming doctor. Similarly, I would typically not use an average of the last three years to value a practice today, as the value today is probably higher than it would have been by using a three-year historical average. If the practice is declining in revenues, however, the opposite holds true. If value is based upon future growth, possibly this type of transaction should be a "contingent" sale that would typically involve seller assisted financing with "offsets" upon the occurrence of specific contingencies. To the extent that future revenues and

expenses cannot be determined, then a contingent sale transaction may be appropriate. However, in a complete sale, seller financing, which is often a component of contingent sales and acquisitions, is ill-advised due to the risk of default. In such case, the seller must weigh the reduction in the purchase price to obtain full payment against the probability that the contingencies that would create offsets may occur. In co-ownership, seller financing is almost always a significant component of the transaction.

Valuations Without Supporting Tax Returns and Financial Statements of the Practice

It is rare that I see tax returns and financial statements attached as schedules to the valuation report. This means, as part of the purchaser "due diligence", that such items need to be requested for review and analysis by the purchaser's or incoming doctor's licensed CPA. Unfortunately, some appraisers consider it "offensive" to provide this information. Are these individuals paid on a percentage of the selling price?

Brokers and Consultants

If a broker or consultant is or will be involved in the sale of a particular practice, the broker or consultant works for the individual who pays the brokerage or consulting fee. However, incoming doctor sometimes think that the broker or consultant is acting on behalf of both parties. If, for example, a broker or consultant earns a percentage of the selling price (which is certainly justified to bring the seller and purchaser together), it is in the broker's interest to obtain the highest selling price possible for the seller. If the purchaser or incoming doctor thinks otherwise, the purchaser or incoming doctor may not engage his or her licensed CPA to independently complete the verification analysis. Beware of dual representation and recognize its risks.

On the seller side, if the purchasing or incoming doctor believed that the broker or consultant was acting on behalf of both seller and purchaser without having engaged a licensed CPA and attorney, it could be possible that the purchasing or incoming doctor could, or attempt to, "unwind" or reverse the transaction in the event that the purchaser or incoming doctor cannot meet his or her obligations after the sale and purchase.

Valuations are Prepared on a Tax-Neutral Basis

Because dental practice valuations are almost always prepared on a tax-neutral basis, the tax effects to the purchaser or incoming doctor and seller or existing owner must be considered and the purchase/selling price of the practice or practice interest should be adjusted to account for the tax effects.

Acquiring a Practice Interest Through Compensation Adjustments

In co-ownership, it has been common to balance the after-tax payment for stock with compensation adjustments. However, an incoming owner is not permitted to acquire an interest

in a practice by way of compensation shifts. Nevertheless, existing owner(s) are almost always worth more to the practice than are new owner(s) and this is where a compensation shift or "guaranteed" bonus to the existing owner(s) may be justified as a "booked" liability. As such, the valuation report should be consistent with the agreed value of the practice, and reduced by any booked liabilities or guaranteed bonuses, management fees and/or deferred compensation obligations of the professional corporation that must be "legitimate" under the facts and circumstances.

Rather than take the risks associated with compensation shifts, e.g., see the Pediatric Surgical Associates case, April, 2001, and the lack of security for payment of the compensation to the existing owner(s) by the professional corporation, consider the following. Adjust the fair market value of the practice downward to consider the tax deterrent for the purchaser paying for stock in after-tax dollars, with the favorable capital gains treatment to the seller(s). However, the verification analysis, after this adjustment to the purchase price, should be completed by the purchaser's CPA to ensure that the purchaser can meet his or her obligations within a measured time period.

Personal Goodwill

There is a prevalent perception among brokers and consultants, as well as some lawyers and accountants, that the double tax on the sale of professional C-corporation assets can be overlooked by labeling goodwill as "personal" to the selling doctor, based upon two 1998 tax cases. While the two 1998 tax cases recognize the existence of personal goodwill (earlier cases have also recognized the existence of personal goodwill), there are tax risks to this method. This approach is so prevalent that some advisors are attempting to structure owner buy-outs and associate buy-ins with the value of the professional corporation's stock equal to the tangible assets and the value of the goodwill or intangible assets characterized as personal goodwill. In such case, the incoming doctor in an associate buy-in pays for stock in after-tax dollars and amortizes the goodwill over 15 years. In an owner buy-out, the remaining doctor(s) or professional corporation acquires the stock in after-tax dollars and amortizes the personal goodwill over 15 years. Assuming that the goodwill is personal, the seller attains favorable capital gains treatment at one tax level. This approach may well affect the appraisal that has probably been prepared where the value of the C-corporation includes any personal goodwill of the owner(s). If the goodwill is personal to the owner(s), then it should be valued separately from the C-corporation.

Practice Debt and Accounts Receivable

In a complete purchase and sale, the valuation report typically excludes practice debt and accounts receivable. Liabilities are not assumed, unless specifically agreed to, and accounts receivable usually remain the property of the seller, unless otherwise agreed to. In co-ownership, the addition of these two components will definitely affect the ability of the incoming doctor to meet his or her obligations and are often a significant cause of failed working relationships.

Date of Valuation

The date of valuation will become important, particularly if the complete or partial sale will occur in the future. What works well is to value the practice as of the current date, e.g., the date that the incoming doctor becomes an associate general dentist or specialist. Thereafter, any increase, or decrease, in value can easily be measured at the time of a complete or partial sale and acquisition. For example, in a two doctor practice, the new doctor would pay 50% of any increase in the value of the goodwill, as the incoming doctor will object to paying for what the incoming doctor thinks is his or her contribution to the increase in goodwill. You're right, as an associate, the incoming doctor does not own the practice and the goodwill value should not be reduced. In reality, however, the incoming doctor will probably object to the full increase in goodwill value. This is in contrast to a solo group arrangement, whereby the associate acquires an undivided interest in the tangible assets and all of the goodwill attributable to those patients customarily treated by the associate. In a solo group, the incoming doctor would then own his or her practice and share space with the existing practice owner pursuant to an office sharing agreement.

Large Practices

Large practices often sell for a lesser percentage of one year's gross revenues than do average size practices. This is because of the difficulty of locating a candidate who will work as efficiently and effectively as a hard working "high achiever". Possibly a husband and wife, who are both dentists, would be suitable candidates for this type of practice. Large practices often perform a wide range of procedures, e.g., crown and bridge, implants, cosmetic dentistry, orthodontics or endodontics, that may not be within the scope of professional services provided by an incoming doctor(s).

Conclusion

As a significant part of the due diligence investigation or homework for both the purchaser/incoming doctor and seller/practice owner, make sure that the respective CPA confirms any valuation report, as well as a tax and economic impact, of a complete or partial sale. Once the economic considerations are agreed upon by all parties, documents can then be prepared by the attorneys.

PURCHASE ANALYSIS

1.	Practice Gross Revenues* :	\$ 650,000
2.	Proposed Selling Price of the Practice at 60% of Gross Revenues: (Tangible Assets, \$149,500; Goodwill, \$240,500 or 37% of One Year's Gross Revenues):	\$ 390,000
3.	Less: Payment of Debt Service for Practice (Yearly Payment of Selling Price Over Five Years @ 7%):	<\$ 92,670>
4.	Less: Working Capital (Yearly Payment of \$60,000, Payable Over Five Years @ 7%):	<\$ 14,257>
5.	Less: Remodeling and Equipment Replacement Costs (Yearly Payment of \$50,000, Payable Over Five Years @ 7%):	<\$ 11,880>
6.	Practice Operating Expenses @ 60% of Gross Revenues:	\$ 390,000
7.	Adjusted Yearly Owner Compensation @ 40% of Gross Revenues:	\$ 260,000
	(Owner's net profit from Federal income tax return, plus: (i) automobile expense; (ii) existing equipment lease paid off by the selling doctor; (iii) retirement plan contribution for the doctor(s); (iv) continuing education; (v) travel expense; (vi) entertainment expense, less: (i) rental increase after acquisition; (ii) wages, part-time employee)	
8.	Less: Total of Items 3, 4 & 5:	<\$ 118,807>
9.	Available Compensation for Purchaser:	\$ 141,193
10.	Ratio of Compensation for Purchaser to Average Gross Revenues where Initial Remodeling, Equipment Costs and Working Capital are Considered ($\$141,193 \div \$650,000 = 21.72\%$):	21.72%
11.	Ratio of Compensation for Purchaser to Average Gross Revenues where Initial Remodeling, Equipment, and Working Capital Are Not Considered ($\$260,000$, Less: Yearly Payment of the Selling Price of $\$92,670 = \$167,330$) ($\$167,330 \div \$650,000 = 25.74\%$):	25.74%

Considerations

1. Decrease Purchase Price
2. Increase Payment Term
3. Accept 21.72% or 25.74% as Compensation While Practice is Paid For
4. Acquire Another Practice
5. Start Your Own Practice
6. Increase Revenues — Are You Selling or Acquiring Potential?
7. What if Revenues and/or Referral Sources Decrease?

* This analysis assumes gross revenues will not decrease.

VERIFICATION ANALYSIS

1.	Gross Revenues:.....	\$ 650,000	
2.	Operating Expenses:.....	<\$ 390,000>	
3.	Less Working Capital Needs (Yearly Payment of \$60,000, Payable Over Five Years @ 7%):.....	<\$ 14,257>	
4.	Less: Remodeling and Equipment Replacement Costs (Yearly Payment of \$50,000, Payable Over Five Years at 7%):.....	<\$ 11,880>	
5.	Subtotal: Operating Expenses, Remodeling and Equipment Replacement Costs and Working Capital Needs:.....	<\$ 416,137>	
6.	Yearly Available Owner Compensation in All Forms:.....	\$ 233,863	
7.	Less, Compensation Requirements for Purchaser @ approximately 26% of Practice Gross Revenues:.....	<\$ 167,330>	
8.	Yearly Available Sum to Pay Purchase Price, Inclusive of Interest:.....	\$ 66,533	
9.	Above Sum, Capitalized @ 20%, Payable Over Five Years, Inclusive of Interest @ 7%:.....	\$ 280,000	
10.	Purchase Price as a Percentage of Practice Gross Revenues:.....	\$ 280,000	=43%
		\$ 650,000	

Assuming that the purchaser requires approximately 26% of gross collections as compensation, and that the purchase price will be paid over five years, given 7% interest, as well as working capital and equipment replacement needs, the purchase price would approximate \$280,000 or 43% of practice gross revenues. This assumes owner compensation in all forms of 40%. This example illustrates that a purchase price of 60% of one year's gross revenues can not be supported with a five year repayment period with the assumptions as described herein. This analysis also assumes that there will be no decrease in revenues to the purchaser.