PRESCOTT'S PERSPECTIVE ON TRANSITIONS

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Alternatives to selling, which CPA to use, and which buyer to choose

QUESTION: I'm a specialty practitioner trying to sell my practice through a practice broker, but the broker hasn't been successful finding a purchaser. We collect approximately $850,000 per year and my profit is roughly 55% of collections. What are my alternatives?

Prescott: Ask your broker what they've done to assist you. Agree on a strategy to sell your practice, taking your retirement timeline into consideration. If the broker's response isn't acceptable, have your attorney determine whether your listing agreement can be terminated so you can engage another broker who works in your specialty. Discuss the location of your practice, the number of available candidates, and the profitability in light of the appraisal.

Your ongoing work assumes that you want to continue and are healthy enough to work. If you can afford to retire, you can work one or two years longer. You said your practice collects roughly $850,000 per year and your earnings are approximately $467,500, or 55% of collections. By working two more years, you earn about $935,000. If your practice sells for 85% of one year's collections, $722,500, you would not have lost anything except some time. Table 1 is an analysis of this example.

As a last resort, close the doors and send patients to another specialist who will continue their treatment. Or simply complete the treatment in progress yourself.

Question: I have entered a partnership arrangement under a three-entity method or professional limited liability company (PLLC) with our S corporations as members. I used a separate CPA through the negotiations because the practice was formed before August 10, 1993, when goodwill, I'm told, was not deductible. My CPA found a way to work through the issues in the allocations. In the future, should I work with the CPA firm for the founding owner, and the PLLC or the CPA for my S corporations and personal taxes?

Prescott: The biggest issue is your relationship with your CPA. Cost is probably comparable. Your CPA has specific allocations for your S corporation to get you the deductions for the goodwill since the owner's practice was formed before August 10, 1993. Your existing CPA knows your practice entity and personal situation. Interview both firms to determine with whom you're most comfortable. If you use the CPA for the existing owner, your attorney and CPA should discuss any conflict-of-interest issues.

Because of the rise in three-entity transactions, the parties usually use two CPAs. The CPA for the founding/existing owner generally handles the accounting for the PLLC, of which you and your partner's S corporations are members. However, if you do retain your existing CPA, upon the departure of the founding/existing owner, your CPA would also handle the accounting for the PLLC, assuming you admit a new partner in the future.

In summary, determine which CPA you're most comfortable working with, considering how well he or she knows your situation.

Question: I'm a specialty practitioner and I've located a quality candidate to purchase my practice in eight months when the candidate's residency is completed. I've also located another candidate who's in the same specialty practice as me. Both candidates appear that they will do very well, and I feel comfortable with both. Which candidate is the better choice?

Prescott: While you believe the current resident is a quality candidate, he or she may not be able to obtain 100% financing to purchase your practice without working as an associate for at least one year. The candidate with an existing specialty practice should be able to obtain 100% financing immediately.

Both candidates will probably want you to remain working for some period of time. The resident may want your assistance and mentorship from both a clinical and management perspective. The existing practitioner might also want you to keep working for some time to maintain coverage until they find a suitable successor for you. In such case, your successor would require mentorship and management training.

Go with the candidate you like best, recognizing that the resident/candidate may not have 100% immediate financing available and could leave for another opportunity. Sale and purchase agreements can be prepared early with safeguards in place for you, such as mutual promissory notes in the sum of $50,000 or $100,000 if either of you back out, as well as breach of contract provisions. DE

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Table 1: Work for one or two more years, then close doors

1. Annual collections	$850,000
2. Owner profit of 55%	$467,500
3. Walk away in two years	Multiplied by 2
4. Estimated two-year income	$935,000
5. Work less at 85% and 75% of existing schedule	$748,000 / $701,250
6. Sell practice at 85% of collections	$722,500