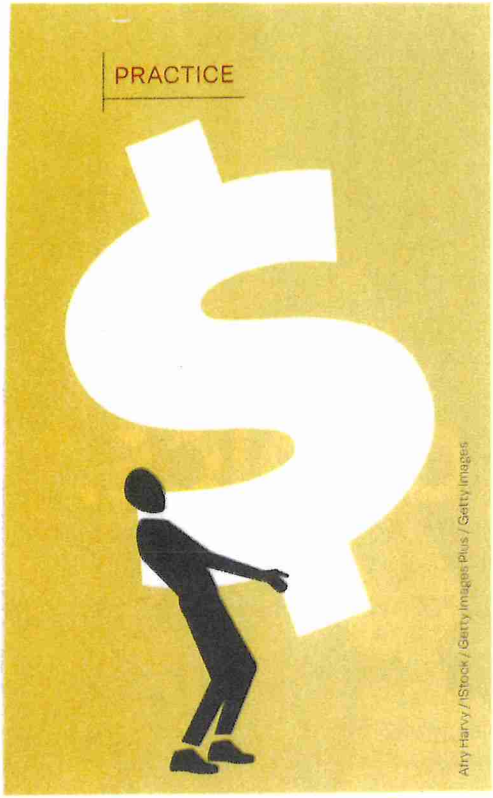

Purchasing dental practice charts and records

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To increase a practice's patient load, if an opportunity becomes available, a dentist may consider buying the goodwill attributable to the patient charts and records from a nearby retiring dentist. In purchasing the charts and records, the dentist wants assurance that they receive the goodwill attributable to the charts and records so that both dentists receive a fair price.

What dentists must consider

Goodwill attributable to the purchase of the patient charts and records makes sense and can increase a practice owner's patient base and profitability. To ensure that a purchasing dentist receives the additional collections for the purchase price, they must consider a few things. First, the purchasing dentist should authorize a valuation of the practice to be prepared. Specifically, they want to know the percentage of goodwill as a percentage of the tangible assets. The appraisal should consider the forms of patient payments at the practice.

The purchasing dentist needs to assess whether the patient payments are consistent with the way the purchasing dentist's practice is paid for services. For example, if the purchasing dentist's practice is primarily fee-for-service and the practice selling the goodwill is a reduced-fee practice, it's not wise for the purchasing dentist to proceed. On the other hand, if both practices are primarily fee-for-service, the goodwill is probably transferrable. However, it's important to know the compatibility of the procedures performed by the selling dentist in light of those performed by the purchasing dentist.

Second, to ensure the purchasing dentist is not paying more for the goodwill than it's worth, they should consider a down payment of no more than 50%, with the remainder paid over a period of time. If a down payment is made, the remaining purchase price can be based on the number of active patients who transfer and is trued up at the end of the transfer period. If the purchase price is a fixed dollar amount per chart, the down payment is offset against patient charts actually transferred. The purchase price can be a fixed dollar amount or a percentage of collections for patients who transfer to the purchasing dentist's practice.

Determining price and payment method

The price is determined by the percentage of goodwill of the overall practice value. On the other hand, if the purchase price is based on a percentage of collections, the purchase price could be 50% of revenues attributable to the transferred patients for a period of time. That time is typically one year but can be as long as 18 months or two years. If the purchase price is based on a fixed dollar amount per chart, a payment can be made for those patients who schedule a first, second, or even third visit on a graduated payment schedule.

The payment for the purchase price is made under a promissory note to the selling dentist's practice. The purchasing dentist's entity is the debtor, and the purchasing dentist personally guarantees the payment under the promissory note. There is also a bill of sale between the selling dentist's practice and the purchasing dentist's practice that transfers all active patient charts to the purchasing dentist's practice.

When to send letters to patients

It's in the best interest of both parties for an introductory letter written by the selling dentist and approved by the purchasing dentist to be sent to all active patients of the selling dentist. To preserve the selling dentist's practice, the letter should be sent after the closing of the purchase and sale. Active patients are those treated by the selling dentist's practice within the 18-month period immediately prior to closing, or within one or two years under certain circumstances.

continued on p. 44

continued from p. 28

Once the sale and purchase agreements are signed, the purchasing dentist should follow up with a second "state of the union" message six months after closing and again one year thereafter describing what's new in their practice and staff as well as from clinical perspectives.

Handling accounts receivable

The accounts receivable generally remain property of the selling dentist's practice and are typically collected by the purchasing dentist's practice for some period of time, e.g., six months. The purchasing dentist's practice then collects the accounts receivable on a first-in, first-out basis, except for insurances and third-party payments rendered by the purchasing dentist's practice to former patients of the selling dentist.

The purchasing dentist's practice prepares a monthly report tracking the accounts receivable and payment of the purchase price for those patients who have visited the purchasing dentist's practice. The selling dentist may work for the purchasing dentist's practice on a clinical and/or nonclinical basis for some time and for specified days and hours per week. Additionally, the purchasing dentist may hire some members of the selling dentist's staff.

In certain circumstances, the selling dentist may have their own dental practice in the purchasing dentist's practice facility before the purchase of the charts and records takes place. The purchasing dentist may perform procedures not performed by the selling dentist. However, the purchasing dentist should be careful not to accept cases they cannot complete. For example, if there are a significant number of orthodontic cases, either the selling dentist should complete those cases at the purchaser's office, or those cases should be transferred to an orthodontist and not be part of the charts and records purchase.

The bottom line is that chart and records purchases are usually, but not always, sensible. DE

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