

An \$11.9 Million Boost for an Already Profitable Medical Practice

ASC Partners implemented a capital structure used and continually refined since 1996, generating \$10.6 million in additional after-tax business cash and \$1.3 million in employee economic benefits over eight years while preserving physician ownership and control.

CUMULATIVE RESULT / EIGHT YEARS

\$11.9M

TOTAL ECONOMIC BENEFIT

\$10.6M MORE BUSINESS CASH

+ \$1.3M EMPLOYEE BENEFITS

WITH ASC PARTNERS

\$33.6M

WITHOUT ASC PARTNERS

\$23.0M

THE BUSINESS AND STRUCTURAL CONTEXT

Preserving physician ownership and control.

A California specialty physician group was generating approximately \$4.2 million in annual taxable business profits. Because the practice operated as an S corporation, those profits passed through to its physician-shareholders, who faced approximately \$1.8 million in related annual income taxes. The owners wanted to keep more of the practice's earnings, improve retirement and employee benefits, and lower their cumulative tax burden.

The practice had previously considered a conventional Employee Stock Ownership Plan (ESOP), under which an employee stock ownership trust (ESOT) would acquire stock in the medical practice. California's Corporate Practice of Medicine rules generally restrict ownership of professional medical corporations to physicians and certain other licensed healthcare professionals, and an employee ownership trust is not among the permitted shareholders. Even if the physicians retained 51 percent of the stock, the trust couldn't legally own the remaining 49 percent. That ruled out the conventional ESOP transaction they had considered.

ASC Partners implemented a specialized alternative to a conventional ESOP transaction, using a capital structure its principals had employed in more than 280 transactions. Grounded in ERISA and federal tax rules governing ESOP-owned S corporations, Strategic Capital Architecture™ allowed the physicians to retain ownership of their medical practice, substantially reduce taxes, increase after-tax business cash, and fund additional employee retirement benefits.

IMMEDIATE IMPACT

\$1.1M ADDITIONAL FIRST-YEAR BUSINESS CASH, NET OF TAXES AND FEES

IMPLEMENTATION AND ECONOMIC RESULTS

The financial results were immediate. In the first year, the practice retained \$1.1 million in additional business cash, net of taxes and fees.

By the end of year eight, cumulative after-tax business cash reached \$33.6 million with ASC Partners, compared with \$23.0 million without ASC Partners. That \$10.6 million difference represented approximately 46 percent more after-tax business cash over the eight-year period.

Employees benefited as well. The structure generated \$1.3 million in additional contributions to their qualified retirement plan, without requiring any additional contributions from employees. Combined with the \$10.6 million in additional after-tax business cash, this brought the total economic benefit to \$11.9 million over eight years.

Ownership restrictions like California's also affect other professions, including law, architecture, and engineering, depending on the jurisdiction. For many other profitable businesses, the barrier to a conventional ESOP transaction is simpler: the owners don't want to sell company stock. The California result demonstrates that the financial advantages associated with an ESOP can be achieved without requiring owners to give up their operating companies.

CUMULATIVE AFTER-TAX BUSINESS CASH

WITH ASC PARTNERS

\$33.6M

WITHOUT ASC PARTNERS

\$23.0M

+\$10.6M

ADDITIONAL BUSINESS CASH / APPROXIMATELY 46% MORE

SHOULD YOUR BUSINESS BE RETAINING MORE OF ITS EARNINGS?

If you own a profitable business, ASC Partners can evaluate whether Strategic Capital Architecture™ would substantially reduce your income-tax burden, increase your after-tax business cash, and provide additional employee retirement benefits without requiring you to sell any ownership interest in your company.

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Illustrative case study based on an actual ASC Partners implementation. Certain identifying and background facts have been modified to preserve confidentiality. Figures reflect cumulative results 8 years after initial restructuring.