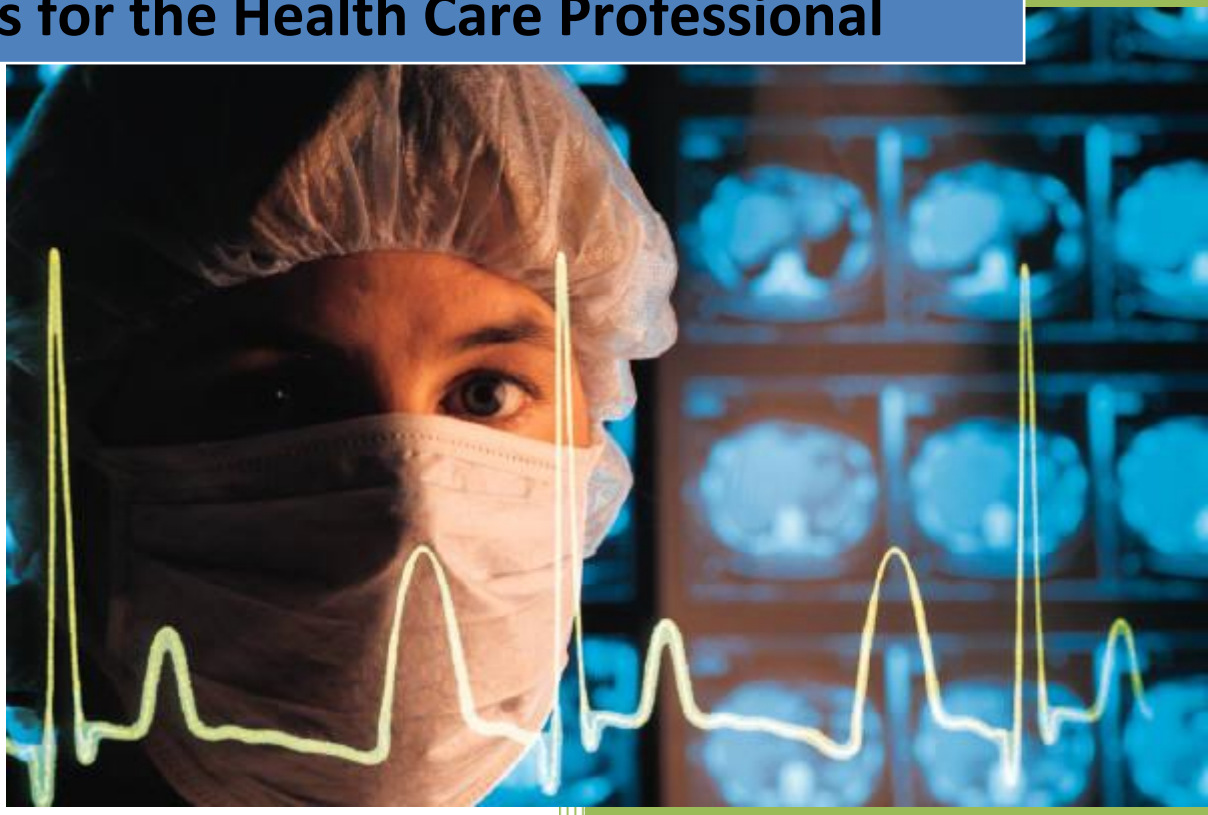
# MBA Tidbits for the Health Care Professional



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What every graduating health professional embarking on their career and every established physician with an eye toward business management should know to better run their practice!

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## Introduction:

This textbook is designed to provide the reader, in most cases a medical health professional, with survey material related to the basic knowledge and skills learned in many of the core courses taken toward a Masters in Business Administration. There is much to be learned beyond the scope of this text and it is highly recommended that the reader consult professionals when questions arise regarding circumstances which are unique to a personal situation. Other specialized texts are available which go into much greater detail on the specific topics covered and should be consulted and referenced should a specific topic pique the interest of the reader.

First, let me simply say what this text is not. This text is not designed to provide any information on "who to bill for what service." It is however the goal of this text is to provide the reader with enough basic tools to understand how business works, what it takes to run a practice and how benchmarks and metrics are used. Finally, and most importantly, how to generate a high quality business plan to present to financial institutions for the purpose or requesting funding support to either start a practice or join an existing one. The topics presented here will serve to provide this outline.

When I started my private practice career over 25 years ago, I wish that I had had someone to guide and advise me in the nuances of business. I knew medicine. That's what I was trained for. I knew very little about running a business. I often felt like I was stumbling in the dark trying to avoid stubbing my toes. Unfortunately, the vast majority of medical practitioners find themselves in situations that demand not only understanding diseases but also the working knowledge of how business works and with the tools to measure successes (and failures). It wasn't until I went back to school for my Masters in Business Administration with a concentration in health care that I found out what I was missing. Forewarned is forearmed. Knowing how to use essential business tools will provide you with the necessary awareness to be able to make informed, and consequently better, business decisions. It is for this reason that this textbook should prove to be an invaluable asset to your future success.

I strongly urge you to consider engaging the services of an outstanding attorney as well as an accountant. This textbook is an overview of a number of topics that are essential to the basic understanding of "the ways of the world" as it pertains to business; however there is much that dedicated professionals have to offer. This text provides the background necessary to better understand the advice they provide.

# Chapter 1: Accounting

## Basic Accounting

No discussion surrounding the management of the medical office would be complete with first discussing basic account principles and how they relate to the practice of medicine. Accounting is the professional discipline that deals with the preparation of financial documents related to the ongoing transactions of any business, medicine included. In the context of our discussions, it's not as much about tax preparation as it is a profession experienced in the generation of valuable reports that financially describe your practice. It is not the goal of this textbook to turn the reader into an accountant, but rather provide the reader with a basic understanding of the necessary vocabulary used by accountants in order to relate to those with whom they are working, and the understanding of some of the essential documents used by accountants.

Every profession has tools that it uses to measure certain critical values or metrics. At the core of medical vitals are the patient's blood pressure, pulse, respiration and temperature. In accounting terms, the three essential documents at the core of any business analysis are the Balance Sheet, Income Statement and the Statement of Cash Flows. Analysis of these documents allows for the measure of the basic vital signs of any business. What are these documents and how do they relate to the practice of medicine?

## Balance Sheet

Now let's look at the first of our accounting documents, the balance sheet. The balance sheet is a report that examines the accumulated assets and the liabilities a business has of the date of the report. For instance, let's say the fiscal year of the business is January 1 to December 31 each year. The typical balance sheet would be dated at the end of the fiscal year, but it can be generated for *any* date. The key point is that the balance sheet is a snap shot; it's a summary net worth as of the reported date.

First let's get some basic terms out of the way. Assets and liabilities are 2 very important terms. Assets are the economic resources a business uses to continue its operations. Examples of assets are the accounts receivable, cash on hand and properties owned by the business. Liabilities, on the other hand, represent the accounts payable, loans that have to be repaid and the accumulated debt owed to creditors. One other term that should be explained is Owner's Equity.

### Owner's Equity

Owner's equity represents the net worth of the business and is calculated as amount left over once you subtract all liabilities from all of the assets. In other words:

$$\text{Owner's Equity} = \text{Total Assets} - \text{Total Liabilities}$$

### Assets

Let's take a moment to look more closely at the elements that make up the balance sheet. The "Asset" side of the equation is divided up as both Current Assets (≤ 1 yr) and Long Term Assets (> 1 Yr). The Current Assets are further divided and itemized to include items such as Cash, Accounts Receivable, any Prepaid

expenditure (i.e. malpractice insurance, liability insurance), Supplies Inventory, and any Notes Receivable (i.e. the promissory note from a junior partner or practice associate who has recently bought into the practice). Long term Assets are further divided up into Plant and Equipment. This section includes any Land or Buildings the practice might own (less depreciation, a topic handled later) as well as any large equipment the practice owns (i.e. MRI machine, Laser, Lithotriptor, etc).

### Liabilities

Similar to the Asset side, the "Liability" side is divided up into Current Liabilities (≤ 1 yr) and Long Term Liabilities (> 1 Yr). Current liabilities include the practice's accounts payable (i.e. money owed to suppliers), Notes payable (i.e. loans taken out to buy and absorb purchased practices), Salaries payable, Rent, and other such items. Long term liabilities include notes of greater than 1 year term.

An example of a Balance Sheet can be found in Appendix A.

## Income (Profit/Loss) Statement

The income statement on the other hand, is not a snap shot. The Income Statement provides for a reconciliation of all of the income generating activities of the practice as well as the expenses incurred by the practice yielding a value that represents Net Income over a span of time. Let's take the previous example of a practice whose fiscal year is January 1 to December 31. The income statement examines all of the revenue generated by the practice from January 1 through December 31 and subtracts all of the expenses incurred by the practice over the same period in order to come up with the profit or loss for the period.

Now let's delve into the elements that make up the Income Statement in more detail. The Income Statement, as we said, divides Revenue generating activities (i.e. revenue derived from patient care) from expense activities (i.e. cost of supplies, rent, salaries, etc). When you subtract the expenses from the income, you're left with the practice's net profit (positive number) or loss (negative number).

### Sales

Many people think of sales as walking into a store and purchasing a candy bar. The term sales as it's applied to medical practices are represented by a number indicating the total amount billed. This amount is reduced by any Insurance write-offs or other discounts associated with the earned income to yield a number corresponding to Total Net Sales.

### Cost of Goods Sold

Although not applicable to all types of medical practices, this is a value that corresponds to supplies used to create that revenue. This could be the total value of all of the gauze, tape, or other supplies like creams and lotions that were dispensed or used during the course of a patient encounters and were part of the practice inventory.

Gross Profit on Sales = Sales – Cost of Goods Sold

The Gross Profit on Sales represents the first half of the Income Statement. The next part considers all of the expenses that the practice incurred during the course of doing business.

## Operating Expenses

This section of the Income Statement is divided up into the expenses resulting from Sales (Patient Care) and those resulting from the Practice Administration.

Sales expenses can include (but not limited to) things like salaries to providers, advertising, bad debts and depreciations on assets (i.e. MRI, X-ray machine). Administrative expenses include (but not limited to) things like salaries to clerical staff, rent, building depreciation, malpractice and liability insurances, office supplies, etc.

Lastly, and before profit or loss can be calculated, we have to look at other income or expenses not otherwise included above. Miscellaneous revenue items can be things like the interest earned from the proceeds of the sale of a portion of the practice or rental income. Other miscellaneous expense items can be things like the interest expense of a note to buy out an existing practice.

Taking all of these numbers into account, the profit or loss of the practice can be calculated.

An example of an Income Statement can be found in Appendix B.

## Statement of Cash Flows

The Cash Flow Statement provides for a detailed analysis of all of the sources and uses of cash. In other words, where did any cash come from, where did it go, and how much is left over? An important measure of the health of a practice is how much cash is left on hand to manage immediate debt concerns or other such immediate demands for cash to satisfy the needs of the practice. Cash is generated (or used) as a result of the ongoing day-to-day business activities of the practice (most common segment), from any investments of the practice (least common segment), and from financing activities of the practice (i.e. the cash proceeds from the interest revenue generated resulting from sale or purchase of a satellite office.) Each of these three segments is totaled and the cumulative sum represents the available cash-on-hand available to the practice.

Cash inflows and outflows occur because of 3 reasons, Operations, Investments and Financing. Medical practices primarily will weigh heavily in the Operations part of the equation as the typical medical practice does little investing and financing as compared to most corporations. The Statement of Cash Flows takes the Net Income from the Income (Profit/Loss) Statement, adds back any depreciation, and any other increases (or decreases) in Accounts Receivables, Inventories, Pre-payments, Accounts Payables, and any other liabilities associated with the practice to get to number representing the cumulative Cash flow from Operations. When an Asset goes up, cash goes up. Conversely when a liability goes up, cash goes down. It's important to keep this straight as you calculate these values.

As a new practitioner, one is most concerned with the many options available, starting a practice, purchasing a practice, or joining an existing practice. In any of the above scenarios, understanding financial

statements is critical to the decision to enter or abstain from your participation. Why is it important to understand the nuances of these reports? Let's say you're looking to start a practice. A bank is going to want to see at the very least, "pro-forma" (estimated) income statements and balance sheets to gather an understanding of how your practice will generate enough income to pay off the bank note. If you're buying a practice, these documents will provide you (and your accountant) with a measure of the success (or lack of success) of the practice you're looking to purchase. It will provide for details needed for your to understand where, from whom and how the practice was generating income, as well as where and to whom the practice spent its revenue. This will provide you with some understanding of the potential profitability of the practice. Let's say you're looking to join an existing practice. It's in your interest to understand the financial health of the practice so that you have some degree of comfort as to the viability of the practice and its potential for growth. Growth is essential as a joining practitioner because that's where you will benefit.

Other terms we'll discuss will be Cash Accounting, Accrual Accounting, Depreciation, Cost Accounting and Budgeting. Let's talk briefly about these terms.

## Cash vs. Accrual Accounting

This is really a hard concept to convey, but easy to understand. I think the best way to explain this is to use a simple example. Everyone at some point in their life has paid a six month advance premium on their car insurance. Let's say your annual premium is $1200, or simply $100/month, payable semi-annually. Let's also assume for the sake of our example that your semi-annual premium is $600. Accrual accounting takes into account the fact that you've paid ahead, so that when monthly statements are reported, they account for this and allot an equal portion ($100) to each month as a car insurance expense. Accrual accounting posts the expense and the income on the day the transaction posted and recognized as opposed to waiting for the actual cash to change hands. This is different from Cash Accounting which simply posts the expense in the month it was actually spent and therefore would put the entire $600 in the month it was paid (i.e. January and July) leaving the other months with a zero car insurance expense. Accountants like accrual accounting because it better enables them to understand the actual expenses incurred and revenue generated on a monthly basis and it better links the expenses incurred in the same period as the income generated from those expenses. That said, accrual account is more designed for practices that accept cash for their services and deal little with insurance companies. Medical practices that accept a high percentage of insurance revenue tend more to run under a cash accounting system as there is often a significant delay between the period when the income was generated and the revenue recognized.

## Depreciation

This is an accounting principle that deals with the useful life of an asset. Let's say you bought an x-ray machine for $10,000. From the day you start using this machine it decreases in value. At some point you're going to need a new one. Well, what depreciation does, is account for the declining value of the asset over the course of its useful life. The other term you'll see used for depreciation, is ACRS or Advanced Cash Recovery System. Let's say that your x-ray machine has a 10 year expected life span. At the end of that life span the residual value of the machine is estimated to be $2000. That means that over the course of 10 years, the machine depreciates a total of $8000, or, more simply, $800 per year. This is an example of an

accounting principle of "straight-line" depreciation, the one you'll encounter most often. There are other methods your accountant might use, but they are outside the scope of this textbook.

As a rule of thumb, the higher the depreciation expense, the lower the tax bill. The higher this number, the higher the TOTAL EXPENSES entry is on the Income Statement and therefore, the lower the Net Income. The lower the Net Income yields a lower tax burden.

## Cost Accounting

I'd like to think of this as just a method of understanding how to get a break even analysis done. Break even is simply a cost point where total costs are equal to total revenue. In the course of doing business the medical practice consumes resources and incurs costs. Some costs are fixed (stays the same from period to period) and others are variable (changes with respect to volume). Let take a simple example of a small, single practitioner medical office, and let's look simply at an x-ray machine. The fixed cost would be the loan or lease payment on the x-ray machine, the loan or lease payment on the automatic film processor, the monthly service contract fee for the machines and the loan or lease payment of the x-ray plates used for the images. The variable costs would be the film, developing solution, and perhaps the electricity used to run the machine. It is easy to calculate a break-even analysis by understanding and assigning costs with each of these items.

Let's say that these are the fixed costs:

| Item | Fixed Cost/month |
|---|---|
| Loan payment on X-ray Machine | $1,000 |
| Loan payment on Automatic Processor | 300 |
| Service Contract | 100 |
| Loan payment on x-ray plates | 50 |
| TOTAL FIXED COSTS | $1,450 |

Now, let's say that these are the variable costs:

| Item | Variable Cost/x-ray |
|---|---|
| Film | $3 |
| Developing Solution | 2 |
| Electricity | 1 |
| TOTAL VARIABLE COSTS/X-RAY | $6 |

Total X-ray costs can therefore be expressed by the formula:

TOTAL X-RAY COSTS = FIXED COSTS + (VARIABLE COSTS) * X

Or

Total X-ray Cost = $1450 + $6*X

"X" represents the number of x-rays taken per month. Now, if you know that you are going to charge a patient $75/x-ray, the break-even analysis would be calculated as follows:

TOTAL REVEUE = TOTAL COSTS

In order to break-even, you have to solve for the point where the following condition exists:

X * ($75) = $1450 + X * ($6)

Doing the algebra on this equation you get the following:

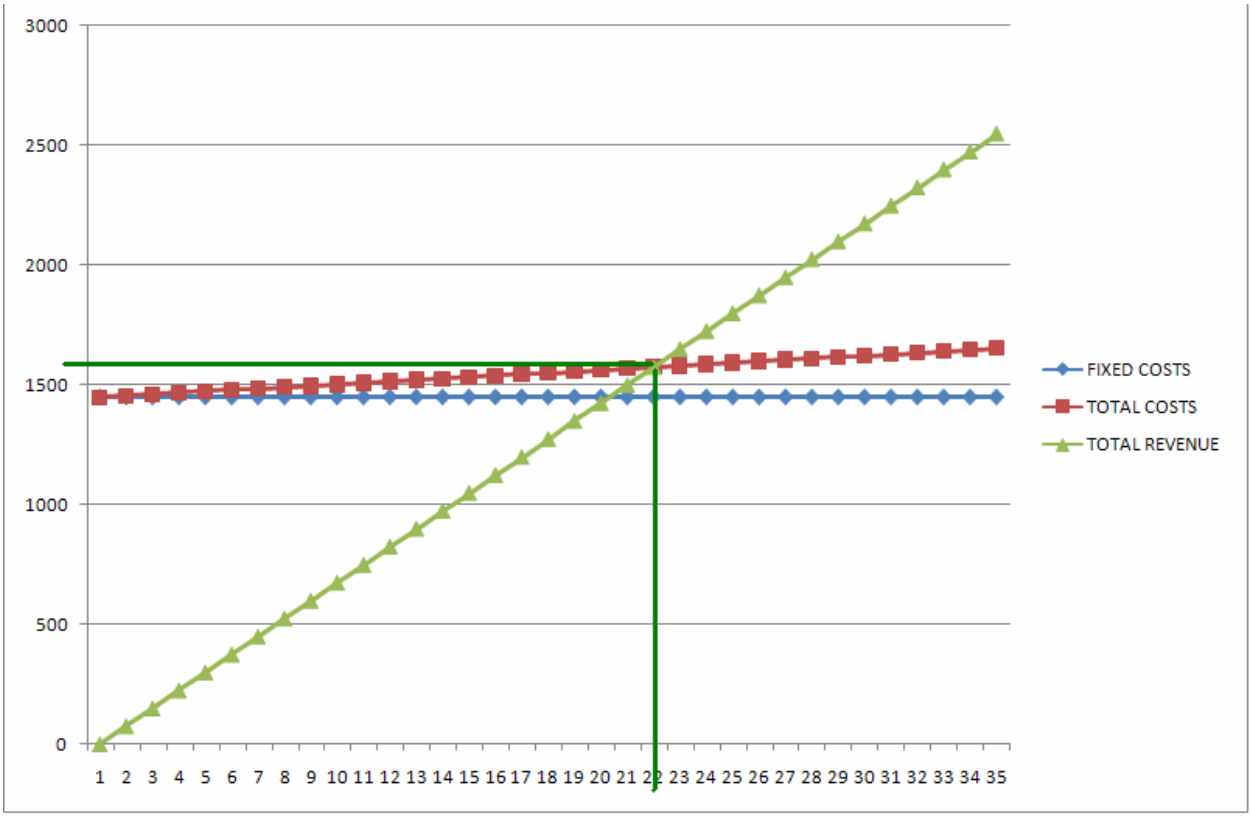
| | | | | |
|---|---|---|---|---|
| 75X | = | 1450 | + | 6X |
| -6X | | | - | 6X |
| | 69X | = | 1450 | |

Now, divide both sides by 69 and you are left with:

X ~ 21 x-rays/month

What this means is after about the 21st x-ray each month, you're making money. This can be done for virtually any other expense or revenue item in your practice. You simply have to find and sum all of the fixed and variable costs associated with the item and set the totals equal to each other and then solve algebraically.

Below is a graphical representation of this example. Not only does this graph demonstrates at what volume break-even occurs (~21 x-rays), but at what dollar volume as well (~$1,575):




Examples of other fixed costs associated with office overhead might be rent (or mortgage), liability insurance, electricity (if you're on a budget plan), malpractice insurance, student loan, lease payments on the office equipment, car payment. Examples of variable costs might be the weekly salaries of hourly paid employees, supplies, telephone and electricity (if you're not on the budget plan).

You can actually work backwards and based on an average volume; find the amount you have to charge a patient in order to break even. Let's say you know you're shooting 25 x-rays per month on average. Well, let's plug this value ($25) into our formula and let X equal the price of the individual x-ray instead of the number of x-rays taken.

TOTAL REVEUE = TOTAL COSTS

We also know that:

TOTAL COSTS = FIXED COSTS + X * (VARIABLE COSTS)

Where X represents the number of x-rays you take. In order to break-even, you have to solve for the point where the following condition exists:

X * (25) = $1450 + 25 * ($6)

Doing the algebra on this equation you get the following:

25X= $1450 + $150

$$25X = \$1600$$

Now, divide both sides by 25 and you are left with:

$$X = \$64/\text{x-rays}$$

What this means is, at the current volume of 25 x-rays per month, in order to break even you have to charge *at least* $64 per x-ray. Any more than that, you're making money. Again, this can be done for virtually any other expense or revenue item in your practice. You simply have to find all of the fixed and variable costs associated with the item and set the totals equal to each other and finally, solve algebraically.

In the end, the most important point to take away is that profit is strongly linked to minimizing your fixed expenses. Fixed expenses bleed off capital and destroy long term growth potential.

## Budgeting

The concept of budgeting should not be underestimated. One has to look critically at how much you spend and how much you earn in order to best create a plan that works over the long term. Budgeting simply uses an estimated value of either an expense or revenue item and then compares them to the actual values on a periodic basis, most often monthly. The difference between the actual amount and the budget amount is called the variance. Ideally, you'd like the variance to be zero. The smaller your variance the better your estimates were, and the better your budget is. Being able to put together a budget that works for your individual needs requires a lot of thought and time. Looking at past months to create averages is not a bad way to do this, but the way you choose to do it, based on the recommendations provided by your accountant, is clearly dependant on your individual needs.

I cannot stress the importance of doing this. Many a disaster has been averted by knowing where you've been, where you are, and where you're going. The only way to know this is to track the data as it unfolds and to use it to your advantage.

A great math tool used to calculate and measure variance is regression. Regression is the discipline of mathematics that statistically measures trends and creates mathematical models from which future decisions can be made. Rather than go into exactly how regression works, I would sooner just show you how to do it and leave the mechanics and details of the math aside.

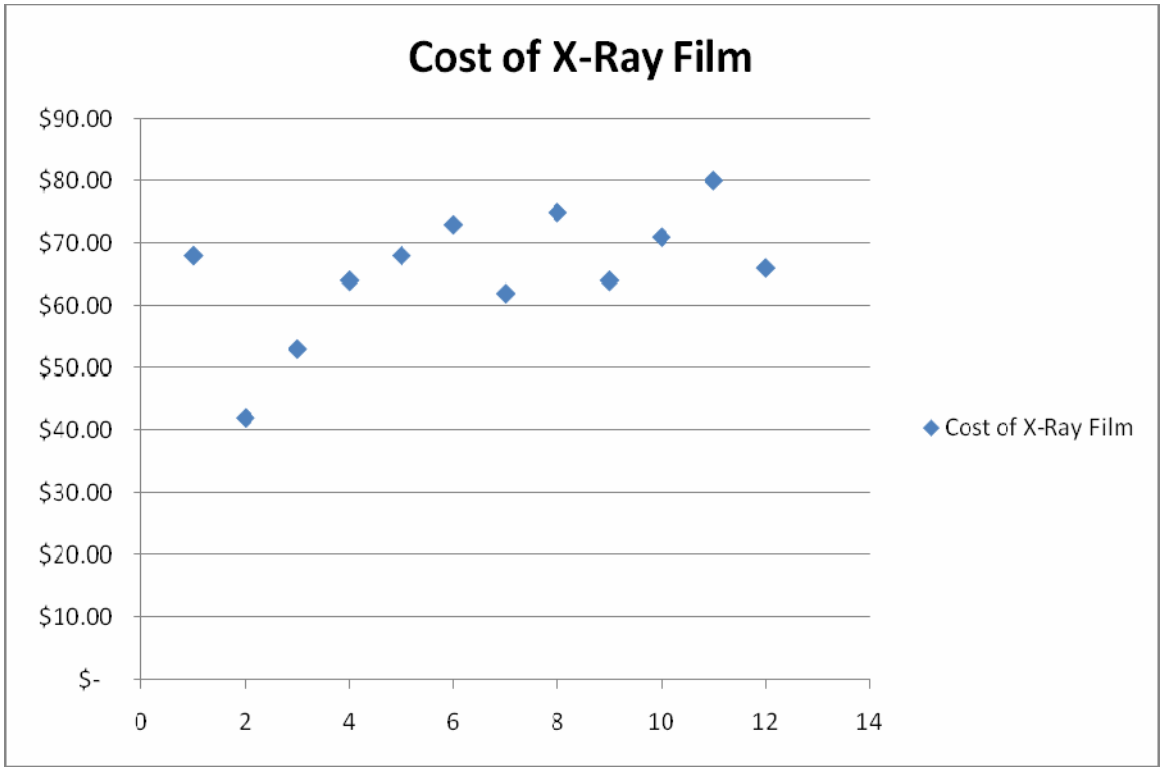
Let's say you have a series of data values representing expenses incurred by month for x-ray film over the course of a whole year. Regression crunches these numbers to find trends buried beneath them and yields statistical confidence data to tell you how comfortable you can be with the estimate of future costs.

| Month | Cost for X-ray Film | |
|---|---|---|
| Jan | $ | 68.00 |
| Feb | $ | 42.00 |

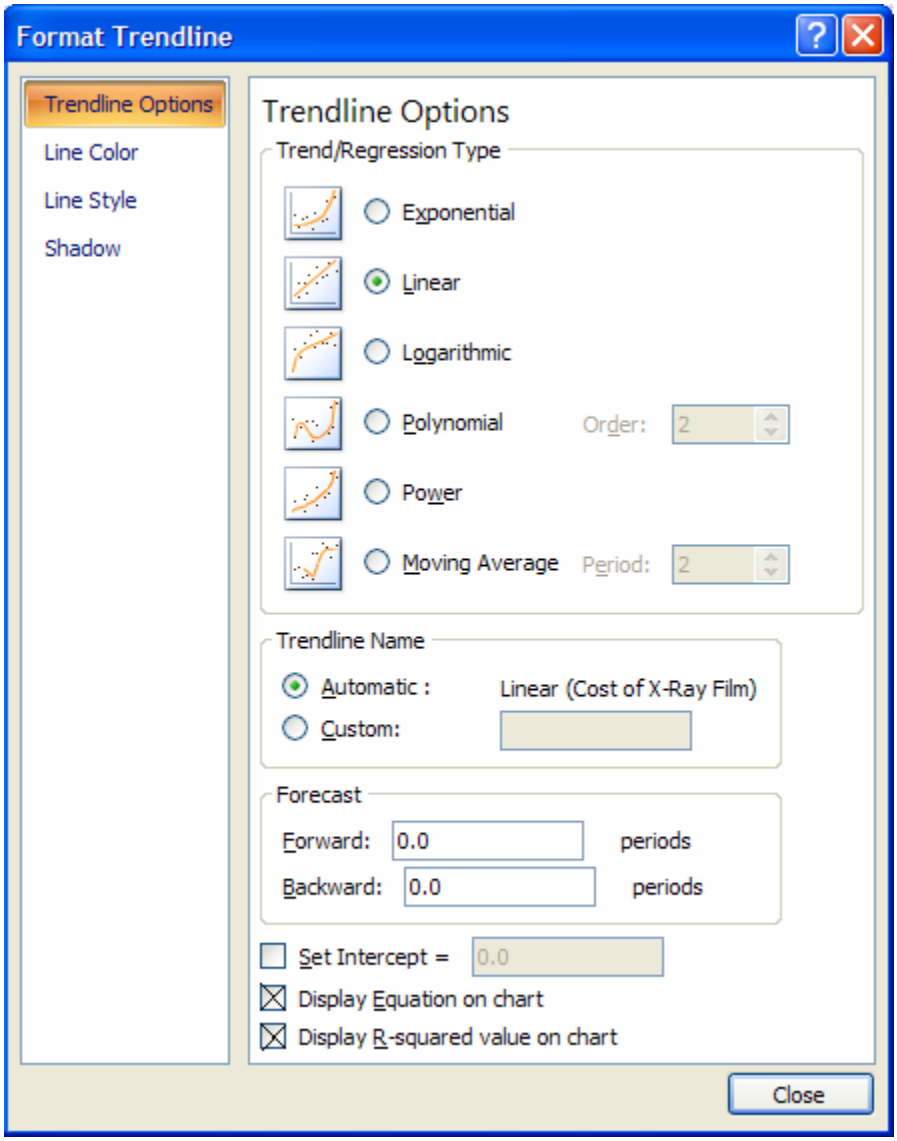
| | | |
|---|---|---|
| Mar | $ | 53.00 |
| Apr | $ | 64.00 |
| May | $ | 68.00 |
| Jun | $ | 73.00 |
| Jul | $ | 62.00 |
| Aug | $ | 75.00 |
| Sep | $ | 64.00 |
| Oct | $ | 71.00 |
| Nov | $ | 80.00 |
| Dec | $ | 66.00 |

Now, using the functions of a Microsoft's Excel™ spreadsheet, we can calculate a formula that provides for a predictor of what we may spend the month after our data stops.

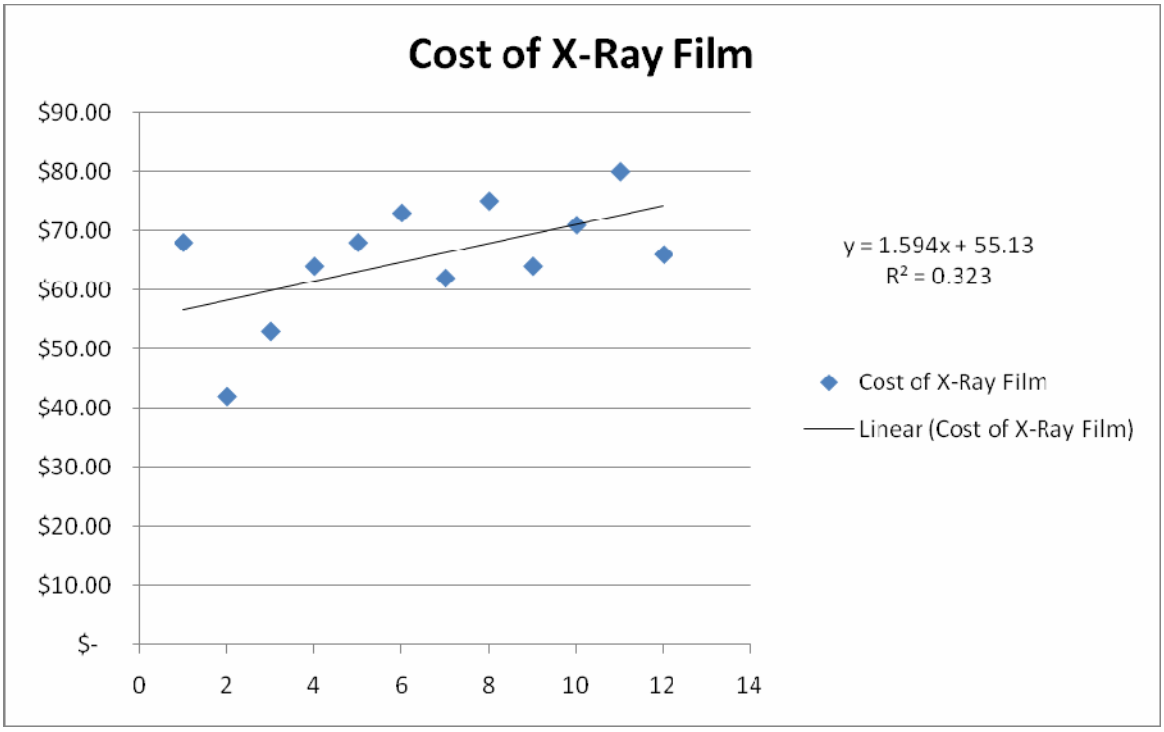
First, graph your results with either a scatter graph or a line graph. This is what you'll see:



Next, right mouse click on one of the data points and select Add Trendline.




Click the boxes that say “Display Equation on chart” and “Display R-squared value on chart” ON. Then click CLOSE. This is what you’ll see:



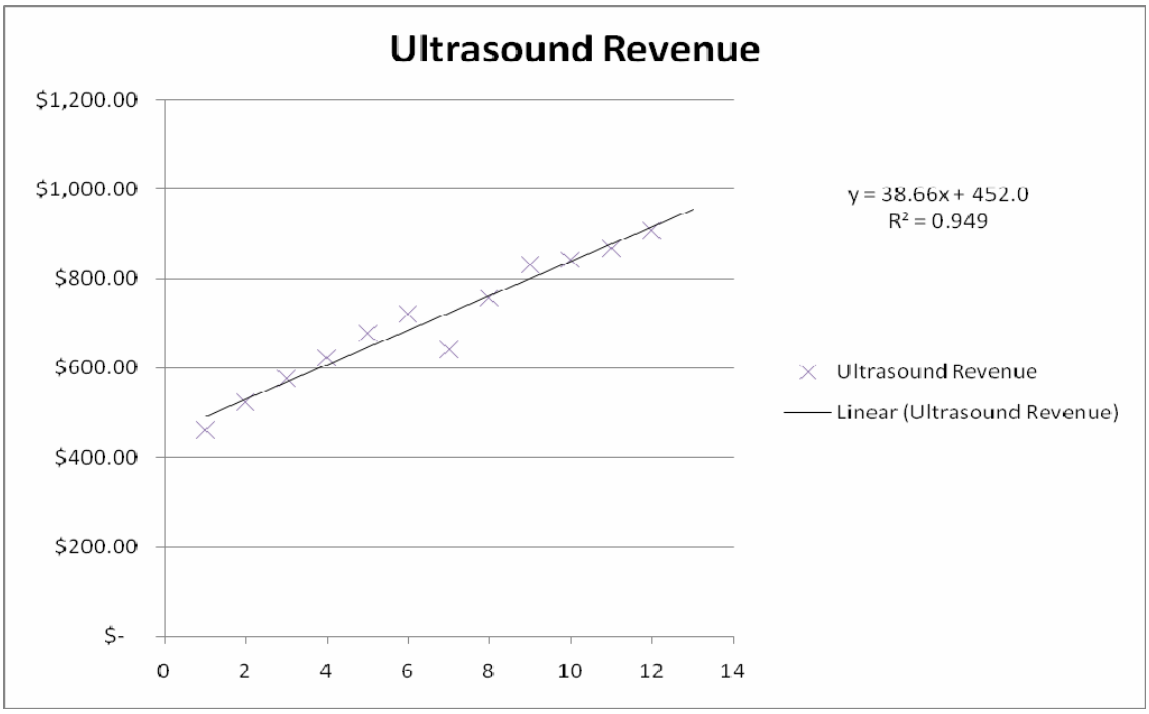

Take a look at the $R^2$ value. $R^2$ is a number that goes from 0 to 1. What $R^2$ tells you value is only 32.3% of variation (difference between the actual value and prediction line that's been created) is explained by the model. In other words, the higher this number is, the closer it is to 1, the more of the variance is explained by the regression model and the more accurately the formula can predict the future. A low number generally means that there's too much variablility to the data for any prediction to be realy accurate. The "future" is represented by the formula y = 1.594x + 55.13 where x represents sequence number of the month. So if we create an imaginary extension of this line into month 13, our data should be able to make a prediction about what's coming. For instance, 1.594 * 13 + 55.13 = $75.80.

Let's now look at data for an imaginary revenue stream from ultrasound treatments:

| Month | Ultrasound Revenue | |
|---|---|---|
| Jan | $ | 462.00 |
| Feb | $ | 525.00 |
| Mar | $ | 578.00 |
| Apr | $ | 624.00 |
| May | $ | 678.00 |
| Jun | $ | 722.00 |

| | | |
|---|---|---|
| Jul | $ | 642.00 |
| Aug | $ | 758.00 |
| Sep | $ | 832.00 |
| Oct | $ | 843.00 |
| Nov | $ | 868.00 |
| Dec | $ | 909.00 |

This yields a scatter graph and trendline that look like this:




You can see that the data here provides for a much more comfortable predictable value in month 13. There's a real tight fit of the points around the prediction line and 94.9% likely that Ultrasound Revenue in month 13 will be:

$$\text{Ultrasound Revenue}_{\text{period 13}} = 38.66 * 13 + 452.0$$

$$\text{Ultrasound Revenue}_{\text{period 13}} = \$954.58$$

As you can see, there are many analytical and mathematical tools available to assist you in this regard. Again, applying this technique to any series of data, whether it's income or expenses, can yield a potential budget value that can be incredibly accurate.

# Chapter 2: Finance

## Basic Finance

Building on the skills learned in the previous chapter where we provided an overview of accounting skills, we will now turn our attention to the next level of management with a discussion of finance. How is accounting different from finance? Well, think of accounting as a beautiful picture and finance as the interpretation of the art work. Finance adds a dimension to accounting. Finance skill sets allow for decision making based on the findings provided by the financial documents that accounting provides.

What we will cover in this chapter is some of the decision making skills that an understanding of finance provides. Also covered will be a thorough discussion of time value of money skills. These skills will be among of the most practical skills you will use in almost every aspect of your everyday life. Other topics covered will be the difference between loans and leases and how these impact on the bottom line. You will better understand when it's better to buy, lease or abstain from that big capital purchase. Lastly, we'll cover the different types of practices and help you decide for yourself what works best for you.

The real value of any asset resides in its impact on future cash flows. Why buy an x-ray machine, an MRI, a diagnostic ultrasound, anything? The simple reason is because it creates a revenue stream. The real question is *how much*? We can actually calculate the present value of the revenue stream the asset creates by understanding the concept of time value of money. There is tremendous value in understanding this skill.

## Time Value of Money

First, let's go over the concept of a time line. Time lines are created by looking at what happens to money over the course time. For the moment you have to accept on faith that, assuming there's an interest rate other than zero, each of the fixed and equal dollar values along the time line has a different present value. In the diagram below, the present value of the $100 in period 10 is *NOT* worth the same as the present value of the $100 in any other period.

| TIME | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | I = 10% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | |

Let's say you have a dollar right now (Time 0). What's that same dollar going to be worth a month from now if you get interest on it? What if you don't get interest on it but inflation erodes some of its value? Other valuable uses for this tool is the ability to project way into the future to see what your money would be worth years and years from now, say, at retirement or when your children are ready for college. These skills can also be used to calculate the present day dollars you need in order to achieve some significant long term goal.

Compounding is the term attributed to present day dollars moving over time to some future date and future value. Discounting is the term attributed to moving backward in time from some future value and seeing what that equivalent value is in today's dollars. Just to complete the terminology section, an annuity is simply an income stream that goes on in perpetuity.

When discussing time lines, conventionally we represent the present as "Time 0" (Time Zero). Subsequent time periods are numbered sequentially until some end point, even if that end point is infinity. A key point to realize when applying this technique is that the money assigned to each of the time intervals is treated differently. Mixing or adding them as though they are equal would be like mixing apples and oranges and expecting a rational result.

To illustrate this point further, let's say you open up a deposit account with $1000 in an account earning 10% interest compounded annually. After 1 year you would have earned $100 in interest. Your total balance is now $1100. Now let's carry this forward 1 more year, to year 2. Now, instead of earning $100 in interest (10% of $1000), you earn $110 in interest (10% or $1100) for a total account balance of $1210. Mathematically, the formula that handles this concept is expressed as follows:

$$\text{Future Value}_P = \text{Present Value} \times (1 + \text{Interest Rate})^P$$

"P" represents the period interval. It could be monthly, annually or in a special case, instantaneously. What this formula states is that the Future Value at period "P" is the sum of 1 plus the interest rate, raised to the "P" power, times the present value of the asset. Using our example, the $\text{Future Value}_p$ is equal to $1000 x $(1+.10)^2$. 1.10 raised to the second power is 1.21. If we multiply 1.21 by our original (present value) amount of $1000, we quickly arrive at our anticipated future value balance, $1210.

Discounting on the other hand says that if I need $1210 two years from now, how much do I have to invest at 10% today? The formula that manages this is expressed as follows:

$$\text{Present Value}_P = \text{Future Value}_P \ / (1 + \text{Interest Rate})^P$$

"P" once again represents the number of interval periods. Let's plug in our values once again to see this formula work in action.

$$\text{Present Value}_{\text{period 2}} = \$1210 / (1 + .10)^2$$

$$\text{Present Value}_{\text{period 2}} = \$1210 / (1.21)$$

$$\text{Present Value}_{\text{period 2}} = \$1000$$

What has all this nonsense have to do with the practice of medicine? Well, the reason lies in the revenue stream derived by an asset like the x-ray machine we mentioned earlier. Let's make believe you are deciding whether or not to buy an x-ray machine. Let's assume you will earn an average of $1000 per month from the x-ray machine over a 5 year period. The revenue recognized from this asset after 5 years is anticipated to be $60,000. Using the formulas provided earlier you can calculate what the present value of this asset is to better decide whether the purchase is worth it.

For instance, what if the machine cost you $40,000 to buy? Assume you had to decide whether to take $40,000 and spend it on an x-ray machine, or put it in the bank at 10%. What should you do? If you took the $40,000 and put it the bank at 10%, you would have $64,420.40 after the same period of 5 years, more

than the $60,000 the x-ray machine would have provided. Instead of making you $20,000, essentially buying the machine could actually *cost* you $4,420.40 after 5 years! This is the power these tools provide.

A neat trick you can also take away from this discussion is the Rule of 72. This rule simply states that:

72 = Doubling Principle Years x Doubling Principle Interest Rate

In order to double your lump sum present value you simply have to divide 72 by the interest rate. In our example, take 72 / 10 (the interest rate) and you get 7.2, the number of years it would take compounding to work on our initial $1000 investment and double it to $2000. You can also take 72 and divide it by the number of years to back into the interest rate needed to double your investment. For instance, 72 / 7.2 years = 10%, the interest rate needed to double the money after 7.2 years.

Until now we've made one very critical assumption, that every period has an equal compounding interest rate and that there was only one single contribution which was left untouched. In the real world, this is not always the case. More often than not you will be dealing with uneven revenue streams and unequal amounts. For this, you will need to analyze each of the anticipated future payments over the desired period (i.e. 5 years) to get their respective present values, and then add these respective values together in order to get to the cumulative present value. For instance, let's say that we anticipate $1000 next month, $1250 two months from now and $1500 three months from now. In order to calculate the present value of this revenue stream, you have to run each of these values through the formulas presented earlier to achieve their respective present (Time 0) dollar value of this revenue stream. It is strongly suggested to enlist the support of a good financial calculator to aid is such calculations.

## Leasing

Many practices are recommended leases as a means to acquiring long term or expensive assets. We will now discuss what leasing is as well as discussing different types of leases so that you can decide for yourself as to whether to buy or lease that new piece of equipment. First, some definitions. More often than not, you're going to be the Lessee, the user of an asset which features prominently as part of a lease agreement with the Lessor, the actual owner of the asset. There are 2 main types of leases, Operating leases and Capital Leases.

### Operating Leases

This is generally a short term lease where the lessor is responsible for insurance, taxes and general upkeep of the equipment. This often referred to as a "Service Lease". This appears on the Income Statement as an expense item for the lessee. You won't see this type too often.

### Capital Lease

There are three types of capital leases; Tax-Oriented Leases, Leveraged Leases and Sale/Leaseback Agreements. These leases tend to be longer term, fully amortized and the lessee is responsible for all maintenance, taxes and insurance. These leases are typically not cancellable by the lessee without a significant penalty. These are often referred to as "Financial Leases". Most car leases fall under this category.

Tax Oriented Leases

This is a lease where the lessor is the owner for tax purposes. The item is depreciated by the owner of the asset. This lease makes the most sense in situations where the lessee is not in a position to use any tax credits or depreciation deductions that come with owning an asset. Why would you take such a deal? In these types of leases, the lessee can benefit from the lessor's ability to take these credits and pass the savings along in the form of lower lease costs. You won't see this too often either, but it's good to know about it.

Leveraged Leases

This lease features the lessor borrowing a substantial portion of the cost of the asset on a non-recourse basis. What this means is if you, the lessee, fail to make regular payments, the lessor does not have to make any more loan payments and the owner of the asset, the lender, commences an action directly against the lessee to recover its investment. This is most often the case in medical equipment leases, cars, etc. This is the one you will most often encounter in your practice.

Sale/Leaseback Agreements

This type of capital lease features a situation where a company sells an asset it owns to another party and then leases it back. Two things happen in this lease, the lessee receives immediate cash from the sale of the asset and the lessee continues to use the asset. With the sale and leaseback agreements, the lessee may have the option to repurchase the leased asset at the end of the lease.

There are very specific rules governing leases and you should consult your accountant if you have any doubt about the nature of your specific situation. There is a very specific test to judge whether or not you are dealing with a capital or operating lease. If a lease is a capital lease, the asset must appear on the balance sheet. The lease is a capital lease as long as *at least one* of the following applies:

The lease transfers ownership of the property to the lessee by the end of the term of the lease.

The lessee can purchase the asset at a price below fair market value (bargain) when the lease expires.

The lease term is 75% or more of the estimated economic life of the asset.

The Present Value of the lease payments is at least 90% of the Fair Market Value of the asset at the start of the lease.

Medical equipment often hovers around situations 3 or 4. Why is it important to understand the nuances of leases?

Let's say a practice wants to purchase an MRI for $100,000. There are three possibilities. Option 1, the practices buys the MRI and borrows the money. Option 2 the practice leases the MRI with an Operating Lease and Option 3, the practice leases the MRI unit with a Capital Lease. Should the practice buy it, lease it

and if so, how? Let's see how the accounting is handled in each of these scenarios and how this is reflected on the accountant's Balance Sheet.

Option 1: The practice *buys* the MRI and borrows the money.

| Assets | | Liabilities | |
|---|---|---|---|
| MRI | $100,000 | Debt | $100,000 |
| TOTAL ASSET | $100,000 | TOTAL LIABILY | $100,000 |

Option 2: The practice *leases* the MRI with an Operating Lease.

| Assets | | Liabilities | |
|---|---|---|---|
| MRI | $0 | Debt | 0 |
| TOTAL ASSET | $0 | TOTAL LIABILY | $0 |

Option 3: The practice *leases* the MRI with a Capital Lease.

| Assets | | Liabilities | |
|---|---|---|---|
| MRI | $100,000 | Obligations under | |
| | | Capital lease | $100,000 |
| TOTAL ASSET | $100,000 | TOTAL LIABILY | $100,000 |

Option 2 is the only option that appears only as an expense item on the income statement and reduces taxable income thereby reducing the tax liability on the practice. The MRI appears nowhere on the Balance Sheet as an asset in Option 2. Essentially, the practice uses the asset to make money while it reduces the fixed cost of using the MRI.

## Understanding Taxes

I wanted to insert a very brief narrative on taxes, not to minimize its importance, but more so because it changes so frequently. Tax consultants are an integral member of the bank of team professionals you will need on your personal road to success. However have you ever wondered how much pretax income it takes to overcome a particular tax burden? Here's a neat little formula that provides this information.

$$\text{Taxable Income} = \text{Net Income} / (1 - \text{Tax Rate})$$

The following is also true:

$$\text{Net (After tax) Income} = \text{Taxable Income} - (\text{Taxable Income} \times \text{Tax Rate})$$

Let's use a real world example. Let's say you want to clear (net after taxes) $100,000 per year of revenue. If we assume a tax rate of 30%, how much would you need to make in order to clear the $100,000 you were looking for? Well:

Taxable Income = $100,000 / (1- 0.3)

Or

Taxable Income = $100,000 / 0.7

Or

Taxable Income = $ 142,857.10

In our example you have to earn $ 142,857.10 in order to clear $100,000 with a 30% tax burden. As you already know, it's not what you make, it's what you keep. Clearly anything that reduces the Taxable income side of the formula yields a higher net income. As you have seen from the prior discussion on leasing, this becomes a very interesting strategy.

## Financial Ratios

No discussion on Finance would be complete with some coverage of financial ratios and how they impact on a business. Financial ratios can be used for 2 purposes, either to compare a single practice over a longitudinal period of time (most often years), or alternately, comparing 2 practices over the same period.

Let's say you're shopping practices and you want to see if the practice you're considering purchasing has been improving, declining or stable. You can run these ratios and gather some very sophisticated information. Let's say you're exploring a number of practices in the same geographical region and you want to compare them to each other. These ratios provide the measuring tool to understand which the better buy is.

Ratios can be classified into categories. There are Profitability Ratios, Liquidity Ratios, Asset Management Ratios and Debt Management Ratios. Each will be discussed briefly. There are other ratios not listed here but because of their marginal relevance to the medical practice, I will omit them for the purposes of our discussion. Keep in mind that for a complete analysis, you may need to employ more data then that provided by the limited number of ratios provided here.

## Profitability Ratios

This provides a nice measure of the overall performance of the practice. Within Profitability Ratios, there is the analysis of Total Margin and Return on Assets (ROA).

The Total Margin ratio is often also referred to as the Profit Margin of the practice. The higher the Total Margin, the better the practice. It represents the ratio of income generated by revenue. Essentially, how many dollars am I keeping for each dollar earned? This is expressed as:

Total Margin = Net Income / Total Revenue

The Return on Assets ratio indicates the percentage of profit generated by the practice's assets. The higher the ROA, the higher the gross profit is for each dollar of practice asset.

ROA = Net Income / Total Assets

## Liquidity Ratios

These ratios provide information on the practice's ability to meet the short term needs of its creditors. These ratios are made up of the Current Ratio. The Current Ratio demonstrates the cash generated for each dollar of current liability. If this ratio begins to fall, liabilities may be rising too quickly indicative of possible trouble.

Current Ration = Current Assets / Current Liabilities

## Asset Management Ratios

There are a number of ratios in this category. There is the Fixed Asset Turnover Ratio, The Total Asset Turnover Ratio and the Days is Patient Accounts Receivable Ratio. Let's look at a few of these more closely. The Fixed Asset Turnover Ratio measures the practices utilization of its equipment. The higher this ratio, the more cash is generated from each dollar of net fixed asset (x-ray machine, ultrasound, MRI, etc.)

Fixed Asset Turnover Ratio = Total Revenue / Net Fixed Assets

The Total Asset Turnover Ratio represents a measure of the all of the practice's assets. Again, the higher this ratio, the more cash is generated from each dollar of assets.

Total Asset Turnover Ratio = Total Revenue / Total Assets

The Days in Patient Accounts Receivable Ratio indicates the efficiency of how a practice manages its receivables. The higher this ratio, the slower the practice is in turning its receivable into cash.

Days in Patient A/R = Net Patient Accounts Receivable / (Net Revenue / 365)

## Debt Management Ratios

This is an important set of ratios which provide an insight into how heavily leveraged a practice is and how much debt is being used to carry the practice. This set of ratios is comprised of a Capitalization Ratio and a Cash Flow Coverage Ratio. Typically, creditors prefer lower debt practices.

Capitalization Ratio 1 represents the amount of dollars in debt needed to acquire a single dollar in assets.

Capitalization Ratio 1 = Total Debt (Total Liabilities+ Long term debt + Capital Lease debt) / Total Assets

The Cash Flow Coverage Ratio represents the amount of income needed to pay the interest on a practice's loans and how well cash flow covers the existing debt.

CFC Ratio = Net Income + Lease Payments + Depreciation Expense / [Interest Expense + Lease Payments + Debt Principal / Pretax Income]

# Chapter 3: Marketing

Unlike the quantitative nature of accounting and finance, marketing is more of a social science rooted in behaviors, and the strategies needed to shape those behaviors. While it may be easy to understand the general concepts associated with marketing, implementing a plan that achieves a desired result may be much more challenging. Patients often have many choices about who they see for their healthcare. There is often a significant challenge in coming up with the right mix of the usefully presented, easily understood and provocative messages that you will convey that ultimately influence patient behavior resulting in higher practice revenues. This chapter will serve to lay the groundwork by providing you the vocabulary terms familiar to those in marketing as well as introducing basic marketing strategies and analysis tools.

Despite what you think, you cannot make someone want to come to your practice. The ultimate decision lies with the consumer of medical services, the patients. You can, however, create the environment favorable to the indecisive patient selecting your practice over others if you learn how patient decisions and selections are made.

First, let's understand who we have to target in order to make any of our efforts effective. In order to do that, we have to understand the marketplace and the definitions of the types of markets with which we will be dealing. Census information and other associated research can actually put hard numerical values next to each of the following categories.

- Total Market --- the total population in a fixed geographic radius around your practice
    - Population : *Borough of Brooklyn* 2,500,000
- Potential Market --- The part of the Total Market that possess some interest in your service or specialty
    - Potential : S*urrounding Zip Codes* 10 % of total 250,000
- Available Market --- The part of the Potential Market that possess some interest coupled with enough income or enough access (i.e. insurance plan)
    - Available : *Interest/Need for Primary Care* 40 % of 250,000 100,000
- Qualified Market --- The part of the Available Market for whom there may be any important restrictions (i.e. pre-certifications, pre-authorizations or referrals). It's not enough to simply say that 50% of the population is male and 50% is female. The qualified market may be better represented by understanding what percentage of the sexes is more likely to be a patient and purchase the service(s) you provide.
    - Qualified : *Medicare/Medicaid* 20 % of 100,000 20,000

- Served Market --- The part of the Qualified Market where the "market segment" is actually pursued. The market segment for the purposes of our discussion is a group of patients having a specific interest in the services you provide. The better your "market segment" selection, the easier and cheaper it is to market to that group. It's very expensive to tailor a message so that it appeals perfectly to everyone.
    - Served : *Brochures & Visits to Senior Centers, etc.* 40 % of 20,000 8,000
- Penetrated Market --- These are the patients actually seen
    - Penetrated : *Excellent Salesmanship* 10 % of 8,000 800
- Repeated Market --- These are the returning patients with recurring or multiple visitations.
    - Repeat : *High Satisfaction* 75 % of 800 600

## Routes To Disaster

" I talked to 50 people, and they all said they would buy_____."

OR

"All I need is _____ customers a month to break even."

### " The Enthusiasm Conundrum"

Banks want to see *Product Champions* or *Entrepreneurs w*ith great enthusiasm for their concept. Never confuse Enthusiasm with a Well-Defined Market!

## Buying Behavior

Why do people buy what they buy and when they want to buy it? What forces act upon an individual that motivates them to act upon a need or want? To answer this question you have to be able to fill in the blank of the following statement, "For patients seeking my service, my practice is unlike any other practice because _____."

The more reasons you have to fill in the blank, the more you are providing the reason why a patient lacking specific loyalties to any other practice would choose yours. Completing this statement with insignificant subjective statements (i.e. "our practice is the best") is useless. Patients have to have firm, convincing and concrete reasons if you're to have any chance to change or influence their behavior. Any statement that completes the above sentence must not only add perceived value to the patient, either physical or monetary, but this value must be real.

## Price vs. Quality Based Differentiation

How can a practice distinguish itself from other professional medical practices? There are three common ways to do this. One is to stand out with a differentiation on price; the second is to differentiate on quality and the third is a combination of the two.

## Price Differentiation

Statement completions relating to price advantages only work if the price differential does not significantly alter the perceived quality of care or service. Any distinguishing characteristics should be unique, sustainable and difficult to duplicate.

Price, as a differentiator, has to be balanced against the perceived value for the cost. There are two points to make with regard to this issue. Often dropping price or reducing the cost to the consumer (patient) to zero may have a counterproductive result. The first consequence is obvious, financial. When the price drops, the revenue derived from each patient decreases. The financial ramification of this is a relative increase in the fixed costs associated with the ongoing management of the practice. Low prices typically are associated with high volume so that the "per patient" costs can be divided over a larger number. If revenue declines and this decline is coupled with a reduced volume of patients, there is an increased expense the office incurs per patient as the fixed costs have to be divided over a smaller number. Why, you ask, might volume decline of if price drops?

The answer to this question is found in a medical economics term "moral hazard." Moral hazard, when applied to the patient-insurance relationship, is the co-payment the patient pays for each visit. Co-payments exist so that the patients, along with the insurance company assume some part of the financial burden associated with medical care. If there were no co-payments, patients would assume no financial burden and would therefore over utilize medical services. The problem however is the paradox that is created when the real value of your services is reduced, at least in the mind of the patient, to the small co-payment. If a patient only pays $10 to obtain your service that is the value they've placed on it. If a patient paid $150 for the same service, than that is the value they have ascribed to it. Ironically, the co-payment has effectively reduced the patient's perception of the actual market value of your service. The unfortunate consequence of reducing or eliminating the co-payment may be over utilization, but more importantly, a further erosion of the perceived value of your service to nothing. Said another way, if patients don't pay anything for the services they receive, they may very well assess the service as valueless – worth nothing. This is why patient volume declines. Patients perceive your services as worth nothing, so why bother going? This can lead to a death spiral of declining revenue and declining patient volume.

## Quality Differentiation

The quality approach to differentiation relies heavily on your ability to convey to a prospective patient the notion that while you're not the least expensive, you and your practice are worth the extra expended resources (money, time, travel distance) it takes for the patient to see you. It's the reason why a consumer would buy the "luxury" automobile. You certainly have many choices when trying to decide the kind of car to buy. Does buying the more expensive car always mean you're going to have a better automobile experience? The answer is simple, it better if the car manufacturer wants to sell more than a few cars.

Quality approaches to differentiation often exploit a marketing tactic called branding. Branding is a term attributed to name recognition and familiarity with a patient's image of you or your practice. Cars and fast food chains, for instance, are easily recognizable based on the colors in their signs and/or the shape of their logo. Quality is intangible at least as it pertains to patient perceptions. Patients will chase a dream, who

they want to be and how they want to feel. The goal is to market to the level of quality the patient wants, based on perceived patient value systems and expectations.

In the end, patients want to get the feeling that whatever reason brought them to your office, it was because you can provide them a level of service they feel is best and most uniquely suited to their needs and wants.

## Practice Growth Strategy

In the earliest stages of a new practice, after the first of the print ads have hit, a small number of patients start to call. Much of this next discussion may be contingent on the doctors' practice participation in an insurance plan a prospective patient subscribes to. Although not dramatically different, patients who select their providers solely on participation will be playing by a potentially different set of rules. Often patients selecting based merely on plan participation have little if any discrimination characteristics upon which they base their continued relationship. These patients are, as you are, bound contractually. Unless there is a significant perceived personality conflict or professional irregularity, these patients are "sold." They're coming back anyway. It's analogous to the comedian entertaining a crowd on Nitrous Oxide ("laughing gas"), their laughing no matter who's talking to them.

We will now discuss the patient population who has choices of providers and practices. The earliest of the patients to show up, we'll call these patients the "innovators," are the patients who will typically never let you forget that they were the "first patient in your office." If the innovators have a positive experience, they should and will in turn, spread a positive message about your practice to the next consumer group, the "early adopters." The early adopters heavily value a new professional relationship as well as the opinion of the innovators, and see the benefits your practice can provide that will make their life better based on their conversations with the innovators. Unlike the innovators however, the early adopters need prior positive feedback in order to influence their decision. The "early majority," our next group, has the traditional and familiar wait-and-see attitude and tends to be pragmatic about their practice and doctor selections. This is a large group and essential to tap and sustain if the practice has any aspirations of success and longevity. The "late majority" constitutes a group of people that tend to be very conservative about the selection of whom they entrust for their care. These people tend to need many positive messages from multiple sources to feel a sense of trust. Lastly, there are the "laggards." These are the patients typically most likely to be the hardest to attract into the practice. They typically are mistrusting and skeptics by nature.

## Market Segmentation

There are many variables that play a role in market segmentation, but they generally fall into 3 distinct categories; Geographic, Demographic and Psychographic. We'll explore these elements in more detail.

### Geographic

There are a number of patients to whom distance is important. Simply, these are the patient who, by dint of their proximity to your office, will present themselves for care should the need arise. Insurance plans notwithstanding, often these patients highly value their time and may elect to see your practice over another based solely on distance. This is great for the practice in a prime location as well as for patents that

would stand to have to spend toll dollars instead of just going down the street to see you. Marketing to patients in this segment relate to their desire to save time without sacrificing the quality of their care.

## Demographic

This category of patients are delineated based on age, sex, income, gender, religion, country of origin, social class, nationality, etc… Patients who select your practice based on these criteria do so because they identify with certain unique characteristics of you, your practice and your staff. Do not minimize the impact of your staff in this regard. Often patients live near, associate with and know personally, members of your staff or their families. These individuals are a rich source of potential referrals to your practice and this attribute should be exploited early and often. This will come up again as we discuss profit sharing as an incentive to staff to create a successful atmosphere for all concerned.

## Psychographic

Patient in this category are segmented by lifestyle and personality. The patient to whom marketing is successful in this category relates to identification with an attribute your practice offers that provides for a value-added element to their lifestyle. An example might be attracting patients to whom exercise is, or is going to be, important. Patients may relate to your practice's ability to enhance their ability to walk, run, lose weight, etc.

It is important to find out why patients selected your practice. Surveys and questionnaires should be designed to generate this information so that future growth can be achieved by understanding why patients seem to be coming in and finding out about what went right about their selection criteria that resulted in their placing their trust in you and your practice for their health care needs.

Critical information to be ascertained from your existing patient population is:

- Why did the patient decide to call you when they needed care?
- On what criteria did the patient select your practice once their needs influenced their behavior?
- What, if anything, about your practice location, influenced their decision to select your practice from among others in the area?
- Was there a temporal attribute to their decision to select your practice (i.e. practice hours, practice days of the week, beginning of school, home from camp, etc?)

## Patient "Creation"

The mechanism which connects advertising to a response is well postulated and argued by a number of different behavioral authorities, but all of the models demonstrate a hierarchy, migration or stage progression whereby the prospective patient, once determining there is a need for the service you provide, goes through before acting on their need.

There are three primary stages a prospective patient goes through; a Cognitive Stage, Affective Stage and lastly a Behavioral Stage. Each of these will be discussed as they relate to different hypothesized models.

## Cognitive Stage

Patients at this level have no emotional response to the need, just an understanding of their desire to consider changing something about themselves or their surroundings. It is at this stage where patients are exploring their options and developing a cognitive awareness about the services you provide. This could be as simple as reading and internalizing the message you convey as part of your advertising campaign, or through the word of mouth of a friend or colleague.

## Affective Stage

Once a patient has learned all they're going to learn, or care to learn, from the information they are exposed to at the Cognitive Stage, patients begin to develop some basic emotion, (good or bad) regarding the information. They have processed the information and have come to some basic decision as to whether the services you provide are worth pursuing, or at the very least, impact them in some way. Positive affects are described as a moving toward deciding to use your services, negative affects, moving away.

## Behavioral Stage

The final stage a patient experiences on their path to your door is called the behavioral stage. There is a critical point that the consumer of medical services, the patient, having learned about your service, developed a positive feeling about it and then acts on it. The action could even be a simple as calling your office to inquire about your hours or accepted insurances. The spark that ignites the movement into the behavior stage is what marketers and marketing managers attempt to tap. Often this is the result of the patient's interpretation of the marketing message you have conveyed. It may be more important to market to whom the patient wants to be, or wants to feel, than to market to who they currently are. This is something that each practice will have to decide as to what works best.

## Getting the Message Out

Determining how the message is transmitted to the prospective recipient is clearly a function of who you are looking to target as your patient. Does your prospective patient demographic read newspapers or weekly television directories? Do they listen to radio? Do they frequent the local food store where shopping cart advertisements are available? Questions such as these will become more important once you have established exactly who you are looking to target. Again – the more focused your message is to your market, the better the message is received and the higher your chances of that prospective patient acting on your message. Not everyone buys the timeshare when presented one, but rest assured that if you've been invited to a sales meeting, and go, you're in the marketer's sights as being in the targeted demographic market!

There are 2 types of appeals generated from the outbound message, Informational or Rational Appeals and Emotional Appeals.

As the name implies, Informational or Rational Appeals contain a message which would typically contain elements pertaining to:

- Competitive Advantage Appeals – information relating to a direct or indirect superiority when compared to others providing the same service
    - Board Certification
    - National Recognition
    - Better trained
- Benefits – information relating to the direct or indirect information relating to things like
    - Better availability
        - Longer hours
        - More Days
        - More Staff
        - More Locations
    - Multilingual office
    - Insurance Company panel participation
- News Appeals – information relating to an announcement of some new development
    - A new associate or office manager
    - Recent CME seminar attendance
    - New Office or Satellite location
- Product or Service Appeal – information relating to availability of a certain treatment modality (i.e. diagnostic ultrasound, ultrasound guided injection therapy, etc)

Emotional appeals, on the other hand, direct a message more inclined to evoke some response by tapping into an emotional response familiar to the patient. This will typically include things like:

- Humor
- Animations
- Fear

Measuring the outcome of your advertising campaign is critical! Avoid wasting precious financial resources on dead-ends. Unless you're measuring the dollars received and patient volume derived, you're missing the boat on valuable information. This cannot be stressed enough.

# Chapter 4: Microeconomics

This section will deal the understanding of how a free market system functions as it pertains to the maximization of profits and minimization of expenses. When dealing with the theories of microeconomics one has to understand that there are many assumptions made with respect to conclusions derived. Brevity forces these assumptions for the purposes of illustrating the points. While an argument could be made that outcomes are not exact, the basis upon which these theoretical assumptions are made are sound.

## General Microeconomic Theory

Economics is a discipline less about money than it is about limited resources. In a world with no limits, there really is no need to manage trade-offs of one item against another. In the real world however, there are real limits on resources. The resource could be any combination money, time, manpower or space. No discussion of economics would be complete without some brief mention of supply and demand. The concepts which follow examine what happens when a resource, numbers of patients, for instance, is held constant as other variables (i.e. numbers of medical providers) increases.

### Demand

In a free economy, a law of supply and demand exists. For any service provided, there is a curve that can be graphed which represents a relationship between the numbers of a type of service (i.e. x-rays) provided and the amount charged. Demand is represented by a downward sloping line indicating that as the price of a specific service rises, the number of occurrences of a specific service decreases. For instance, if $100 supports a sales volume of 25 units, should the price rise to $150, only 6 insoles are sold.

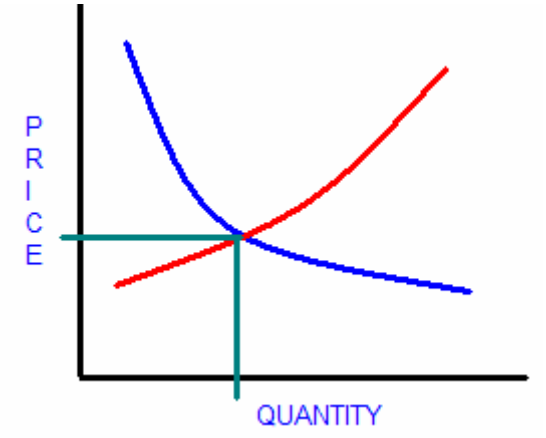

### Supply

The other curve we'll examine is the Supply Curve. This curve is an upward sloping curve representing a positive relationship between the price a product or service sells for, and the quantity supplied of that service or product at that price. For instance, as the price of a good or service rises, more and more providers of that product or service enter the marketplace. At $100 there may only be 10 providers of this service, but if the price goes up to $1000, many more people will enter the marketplace to tap into the

income derived from selling that product or service, thus increasing the number of that good or service in the marketplace.


## Equilibrium

In a free-market economy, equilibrium exists when these 2 curves, the demand curve and supply curve intersect.




The point at the intersection represents a market price represented by a balance between the numbers of people seeking a good or service and the availability of that good or service in the marketplace.

You may be asking why this is important. This will set the foundation for any of the other discussions related to microeconomics. The concept of applying this to the medical professions is often difficult. The existence of insurance and copayments changes dramatically the relationship between doctor and patient, and consequently, between the supply and demand for the services provided. Nonetheless, one cannot deny that a relationship of sorts exists. Assuming there is a current equilibrium of the numbers of doctors and numbers of patients, adding more doctors in a given area, keeping the numbers of patients fixed, each doctor will see fewer patients resulting in some impact on the income derived from the same patient population.

## Law of Diminishing Returns

The next concept I would like to introduce is called the "Law of Diminishing Returns." Logic dictates that in a world where the numbers of patients is unchanged, adding an additional doctor to the staff reduces the number of patients each of the providers handle. While the total practice revenue may rise (at least for a while), the productivity of each of the providers decreases with each additional provider added to the staff.

# Applied Microeconomics

## Minimum Cost Output

How does one determine how and when to add an additional doctor (or other staff member) to the ranks? Are there an optimal number of doctors that yields the highest profit potential? In fact there is, however in order derive the answer to that question we have to develop a few other ideas. Let us look at the graph below.

| Number of Doctors | Total Doctor Salary | Practice Revenue | Avg Doctor Salary | Marginal Salary | Marginal Practice Income |
|---|---|---|---|---|---|
| 0 | $ - | $ - | $ - | $ - | $ - |
| 1 | $ 100,000.00 | $ 250,000.00 | $ 100,000.00 | $ 100,000.00 | $ 250,000.00 |
| 2 | $ 200,000.00 | $ 400,000.00 | $ 100,000.00 | $ 100,000.00 | $ 150,000.00 |
| **3** | **$ 300,000.00** | **$ 500,000.00** | **$ 100,000.00** | **$ 100,000.00** | **$ 100,000.00** |
| 4 | $ 400,000.00 | $ 575,000.00 | $ 100,000.00 | $ 100,000.00 | $ 75,000.00 |
| 5 | $ 500,000.00 | $ 625,000.00 | $ 100,000.00 | $ 100,000.00 | $ 50,000.00 |

As additional members are added, each of the pre-existing staff members will handle fewer and fewer patients. The relationship is often not linear. By that I mean that if 3 office staff members are capable of each handling 12 patients per day, adding an additional members of the staff might yield fewer and fewer income opportunities for each respective member.

## Maximizing Economic Profit

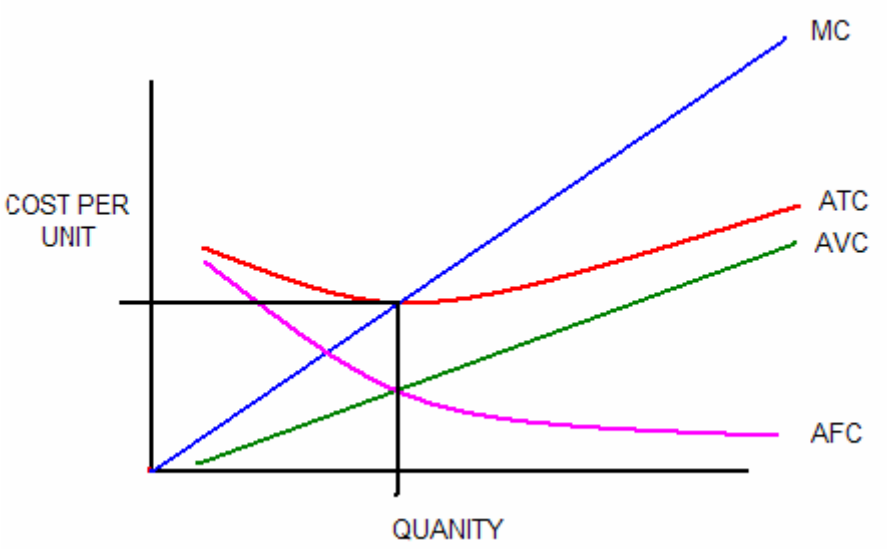
Microeconomic theory dictates an optimal profit potential exists where Marginal Revenue is equal to Marginal Cost. So – in the above example, even though the practice revenue continues to rise as more and more providers are added to the practice, the optimal profit potential from EACH provider is achieved when there are 3 providers. This is the point where Marginal Income, the added income derived solely from adding the addition (in this case third) provider, matches marginal cost, $100,000.00. Let's examine why. If we consider the fact that PROFIT = INCOME – COST, then we see the following pattern emerging from our example:

| Number of Doctors | Total Doctor Salary | Practice Revenue | PROFIT (Revenue- Cost) |
|---|---|---|---|
| 0 | $ - | $ - | $ - |
| 1 | $ 100,000.00 | $ 250,000.00 | $ 150,000.00 |
| 2 | $ 200,000.00 | $ 400,000.00 | $ 200,000.00 |
| **3** | **$ 300,000.00** | **$ 500,000.00** | **$ 200,000.00** |
| 4 | $ 400,000.00 | $ 575,000.00 | $ 175,000.00 |
| 5 | $ 500,000.00 | $ 625,000.00 | $ 125,000.00 |

In our example, we see that with 3 providers, our profit is $200,000.00. Once we add a fourth provider, the profit to the practice begins to fall off. You might then ask why should we add the additional third provider if two providers yields the same value. The reason is because we are able to generate a larger total PRACTICE revenue while not decreasing profit. So, simply put, we want to engage the services of the greatest numbers of providers where Marginal Cost = Marginal Revenue.

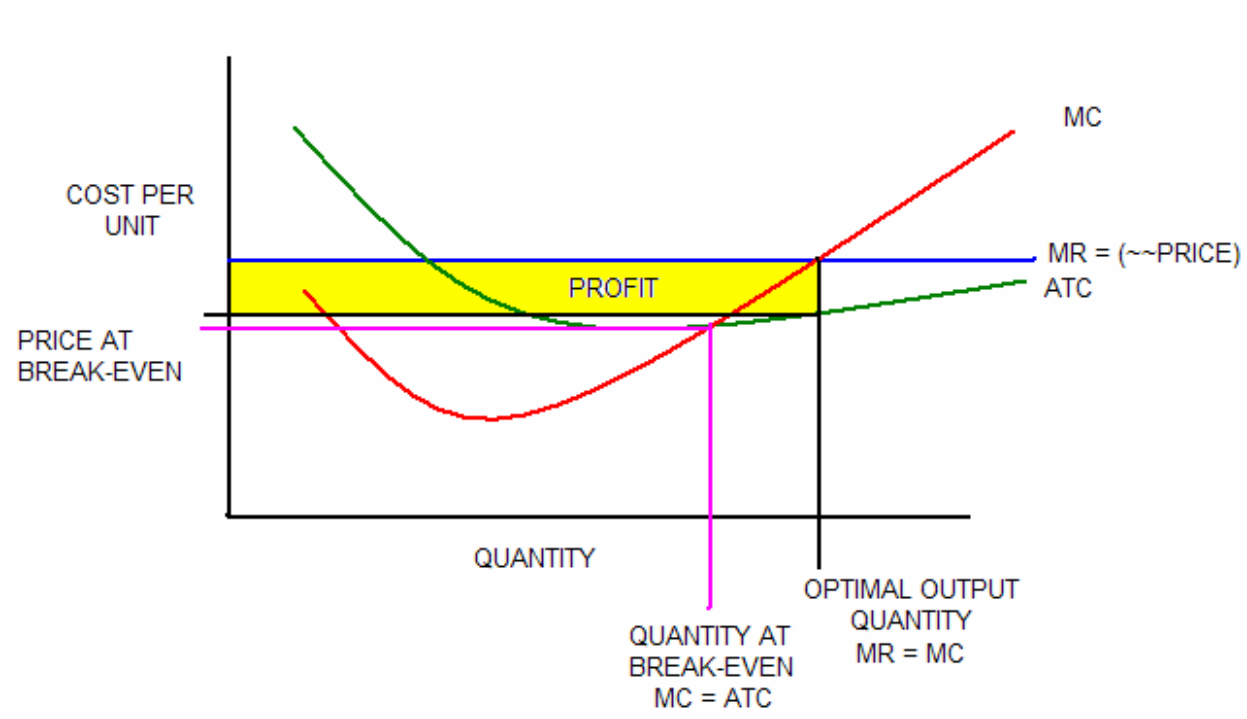
The same concept could be applied to clerical staff as well. It's just a bit harder to quantify the income derived from the addition of a billing clerk. You have to possess the ability to quantitatively measure the income generated from each billing clerk and work the numbers applying the same concept.

## Break-Even




Break even occurs where Profit, earlier defined as Total Revenue – Total Costs, is equal to zero. This is also called the "minimum cost output". Graphically, this occurs when the Marginal Cost (MC) = Average Total Cost (ATC).

## The Profit Picture



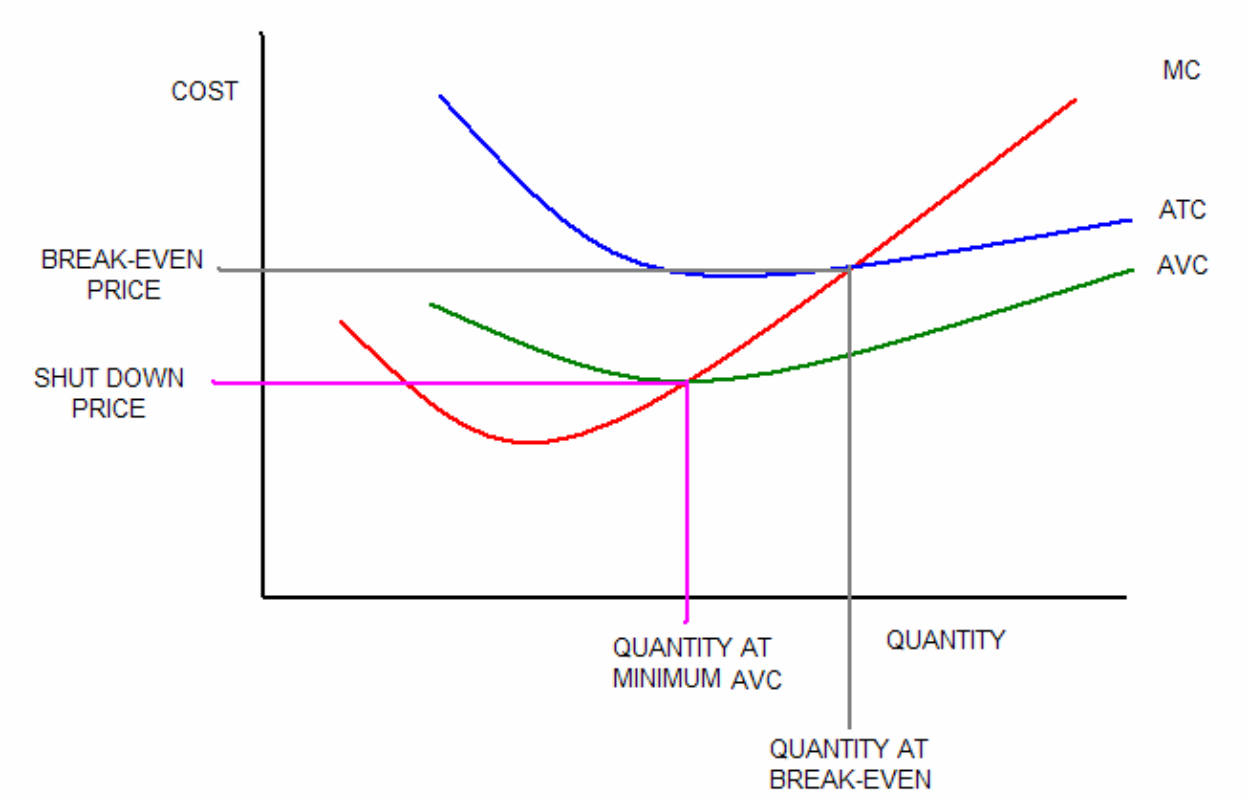

Further building on information related to Average Total Cost, earlier defined as Total Fixed Costs + Total Variable Costs / Quantity from Chapter 1, another useful and handy formula to consider is:

Profit = (Price – Average Total Cost) x Quantity Produced

What this formula says is for any given price, profit is calculated by multiplying the quantity by the difference between price and ATC at that price.

## Stay or Go?

There are occasions, hopefully rare, when a practice, despite its best efforts, has to decide whether a situation is profitable enough to continue or consider closing down. How does a practice decide when it's time to shut the doors or sever the relationship with an insurance carrier?




The graph above illustrates a relationship between the cost of producing a product (x-ray) and the quantity produced. On this particular graph the Average Variable Cost (AVC) bottoms out at a certain point which crosses the Marginal Cost (MC) curve. If the reimbursement income from a service approaches and/or reaches the AVC to produce the product, the practice should strongly consider ceasing activity related to that service. In a practical example, if the minimum AVC for producing an x-ray is $26, then the relationship with any insurance company reimbursing $26 or less for the x-ray should be examined for viability.

## Managerial Economics

### Max/Min Analysis

To follow is a discussion less about economics, and more about the math. However with it, truly understanding the concept of maximizing revenue and minimizing expenses cannot be best handled. In order to truly grasp the following passages, I will have to touch briefly on the subject of basic calculus. Calculus helps us understand what happens to the changes resulting from 2 variables, an independent variable and a dependant variable. Of particular interest are 2 specific points of change both of which occur as the slope of a tangent to a curve (or the derivative of the equation) is zero. At that point, we are at either a MAXIMUM or a MINIMUM. The number of polynomials in the equation tells you how many times the curve bends. If an equation looks like $10x^2 + 6x + 7$, we know the curve bends once. If it looks like $0.4x^3 + 10x^2 + 6x + 7$, the curve bends two times.

Unfortunately there's no way of knowing in advance which of the points on the curve is a point where the curve is bending upward or downward. The technique will describe the steps to resolve this uncertainty.

Let's say, for example, the expected derived revenue for imaging is represented by the formula:

$$\text{Total X-ray Revenue} = -0.10x^2 + 6x + 7$$

where "x" represents the number of x-rays taken per month. In order to calculate at what point the curve generated from this equation bends we look at the first derivative of this equation which is represented by:

$$\partial_x / \partial_y = -2 * (0.1) * x + 6$$

We then set this equation equal to zero and then solve for "x" as demonstrated below:

$$\begin{aligned} 0 &= -2 * (0.1) * x + 6 \\ 0 &= -.2x + 6 \\ -6.0 &= -6 \\ \underline{-6.0} &= \underline{-.2x} \\ -0.2 &= -0.2 \\ 30 &= x \end{aligned}$$

What this means is the **slope** of the curve represented in the equation for revenue drops to zero when the number of monthly x-rays taken is 30. We take 30 and plug it back into the original equation. This yields the following:

$$\text{X-ray Revenue} = -0.10x^2 + 6x + 7$$

$$\text{X-ray Revenue} = -0.1*30^2 + 6*(30) + 7$$

$$\text{X-ray Revenue} = \$97.00$$

All we know so far is that at 30 x-rays and Revenue of $97.00 we have no slope to the represented curve. Now we test to see if 30 x-rays represent a minimum or a maximum. We do this by testing the revenue at 29 and 31 for the quantity of x-rays in the original equation to see what happens. Does the revenue go up or go down before and then after 30?

At 29 x-rays, our Revenue is:

$$\text{Total X-ray Revenue} = -0.1*29^2 + 6*(30) + 7$$

$$\text{Total X-ray Revenue} = \$96.90$$

At 31 x-rays, our Revenue is:

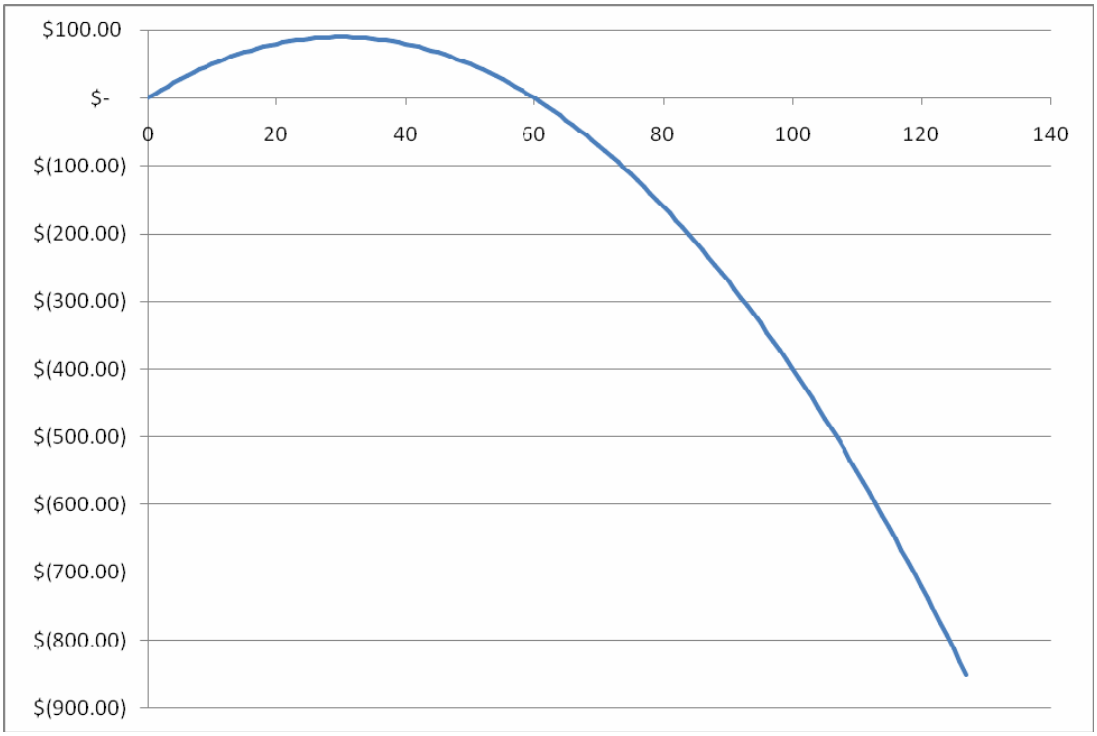
Total X-ray Revenue = $- 0.1*31^2 + 6*(31) + 7$

Total X-ray Revenue = $96.90

What this tells us is as the number of x-rays increases just around our confirmed zero slope of 30, the Revenue of the x-rays is increasing from $96.90, to a MAXIMUM of $97.00, and then begins to drop again at 31 x-rays to $96.90. As the number PEAKS at 30 x-rays, this represents the MAXIMUM optimal quantity representing the solution we're looking for.

Our optimal volume of x-rays given our revenue history is then 30 x-rays!

This is graphically represented in the figure below in the plot of Total X-ray Revenue ( $- 0.10x^2 + 6x + 7$). As you can see, the curve climbs to a PEAK at 30 x-rays and then declines thereafter.



# Chapter 5: Business Law

By no means is this chapter going to provide the depth or breadth of knowledge sufficient to replace the services of an attorney. It should however, provide a basis for understanding the advice your attorney will provide.

Of the entire domain of non-malpractice legal topics important to a health care professional, I believe the area of employment law is the most relevant. It is this area that I will talk about most. For the sake of brevity, this section cannot encompass all of the issues related to employment law; however I will cover topics that I believe everyone running a practice should have some exposure to.

The areas I will touch upon will be the following:

- Definitions and Vocabulary terminology
- Selecting an employee
- Physical Safety in the workplace
- Discrimination
- Restrictive Covenants
- Termination of Employment

These areas will provide for a broad overview for the purposes of a brief reference text. Again, I cannot stress enough the value of appropriate legal consultation when issues related to employment arise in the context of your practice.

## Selecting an Employee

Anti-discriminatory laws apply as much to the pre-employment process as it does to existing employees. Often the easiest way to prevent discrimination in the workplace is to have appropriate and fair recruitment processes. The recruitment process should ideally have two parts. First, to publicize the available position to a population large enough to provide a reasonable number of qualified applicants and second, encouraging qualified people to apply for the available position.

Questions related to the pre-employment interview process should have one specific purpose. All questions should pass the following simple test. All questions should all serve a job-related purpose. The following basic information is “fair game” for any job application:

- Name, address, telephone number and social security number
- Emergency contacts
- Status of citizenship or legal employment status

- Statement why the applicant would be a "good fit" for the vacant position
- Previous employment history and highest wages earned during the course of prior employment
- Previous training or experience related to the position vacancy
- Credentials (i.e. Board Cerifications)
- Availability to work (full-time, part-time, per-diem)
- Permission to contact previous employer
- Disclosure of any responsibilities or situations that would preclude the applicant from performing all of the duties of the position
- Time at present address
- Physical difficulties performing the duties of the vacant position
- Status of available and adequate transportation to work.
- Disclosure of any medical concerns which would preclude the applicant from being able to perform the tasks of the job
- Criminal convictions
- Educational background

## Definitions and Vocabulary Terminology

There are a number of working relationships. There are independent contractors and employees. How does one determine which classification defines their respective work relationship? This is important because the protections afforded to employees are not necessarily the same as those afforded to independent contractors. This is a bit of an oversimplification, but an independent contractor typically defines for themselves the scope and details of the work to be done as well as the number of hours of association. Essentially, the question to be answered is "How detailed are the performance instructions or directions?" A simple test would be whether your boss tells you *how* to do your job, or whether you're hired just to do a job for which very little direction is provided (i.e. a painter, gardener, and electrician).

Now, let's define who are the plaintiff and defendant. A plaintiff is one who has been damaged and brings a legal action against another individual or entity, the defendant.

## Burden of Proof

There are different levels or "burdens" of proof that must be offered depending the type of case brought that often dictates the outcome. Often the burden is borne by the defendant in the employer and often the by the employee. The diversity of cases makes for an extremely complex discipline of the legal world and as

such, I'll only highlight some salient points regarding just some of the issues facing practice managers today. Not only does the burden change from employer to employee, but the level of proof necessary to prevail in an action can change. There are five levels of proof. These levels dictate the level of certainty needed to establish one's case. A practical example is one that was not exactly in the arena of employment law, but in criminal law. O.J. Simpson was found innocent by a jury of his peers in the murder trial because the burden of proof in murder cases is the "beyond a reasonable doubt" level of proof, whereas in the civil case, the burden of proof was only 75% certain and it was here that he was found liable for the death of his wife. The higher level of burden means that there must be different established levels of certainty for the arbiter of the case to decide in favor of the plaintiff in the action. These burdens of proof are as follows:

- Beyond a Reasonable Doubt 90% certainty
- Clear and Convincing Evidence 75% certainty
- Preponderance of the evidence 51% certainty
- Balance of Probabilities 51% certainty
- Probable Cause 25% certainty
- Reasonable Suspicion 10% certainty

## At-Will

One of the most commonly used terms in employment law is the "at-will" employee. Simply put, absent any other arrangement (contract) to the contrary, every hired employee is an "at-will" employee and can be fired and released even without cause. The burden to enumerate and articulate the actual circumstances surrounding the release by the employer is not necessary. From the standpoint of contracts, judges have been very clear that the burden for doubt and ambiguity falls upon the employer because the employee is always perceived as the "weaker" of the parties.

## Torts

Another term you should be familiar with and one that applies to malpractice as well, "torts." Tort law deals with the protected rights and interests that the law should protect. This is afforded to every individual. When the interests of one party are intruded upon by another, the damaged party may seek some action to recover a financial remuneration sufficient to make one "whole." The burden of proof must establish a number of elements in order to prevail, and all relate to the fact that the wrongdoer acted intentionally and with disregard for the damaged party. These elements are:

- A duty of care owed by the defendant to the plaintiff.
- A breach of that duty by a defendant.
- Injury to the plaintiff.

A practical example of this would be the employer hires and employee and has some duty to insure a safe work environment for the employee. If the employee is injured during the course of their employment (i.e. needle stick), the employer may be liable for negligence. There are a number of ways an employer may have exposure to such issues.

- Invasion of privacy – Employees are afforded some rights with respect to their privacy in the workplace, although this right is admittedly decreasing almost to the point so as to assume the expectation none really exists.

- Defamation – Harm to an employees character or reputation due to false representations on the part of the employer. This issue relates most commonly to recommendation letters sent on behalf of a former employee. In the case of *Bolton v. Minnesota Department of Human Services* (Minn. Court of Appeals 1995), the employees supervisor accompanied to a dismissed employee to his desk and "stood guard" while the employee packed his personal belongings from his desk, and then followed him out the door implying the dismissed employee could not be trusted.

- Intentional infliction of emotional distress – This requires a number of elements in order to sustain an action against an employer:

    - The employers conduct was extreme

    - The employer acted with intent to inflict emotional distress and,

    - Severe emotional distress resulted from the employer's actions

- Fraudulent misrepresentations – This occurs when an employer represents by facts, intention or law for the purpose of inducing an employee to act. An example related to this would be inducing an employee to join your practice and promising them a health insurance policy which the employer fails to deliver, or worse, terminates the employee when enforcement of the conditions of employment have not been met.

- Blacklisting – This also directly relates to an employer's misrepresentations of a dismissed employee's reputation to another potential employer. Again, this relates to letters of recommendation provided to employees following their termination of employment sufficient enough to impede further employment for the terminated employee. Interestingly enough, in order to prevail in such an action, the terminated employee would have to prove that the information released by the terminating employer was false and defamatory.

## Physical Safety in the Workplace

No discussion of safety in the workplace would be complete without covering the elements of the Occupational Safety and Health Act (OSHA) of 1970. The scope of this act provided for employers, those persons engaged in business affecting commerce, to be held responsible for the safety and health of their employees. For the purposes of our discussion, a hazard would be defined as anything the employer should

be aware of as a known hazard and something that would reasonably be appreciated and well known to be a hazard within the industry. An example here would be dirty gauze or used needles.

An employer must:

- Provide for a work environment free of any recognized hazards that are likely to cause death or serious injury.
- Section 8(c) of OSHA, 29 U.S.C.A. Section 657(c), provides for rules related to an employer's responsibility to report any such injuries and maintain any such records related to any employment injury (applies to businesses with 11 or more employees)

OSHA grants employees certain rights including:

- To question potentially hazardous work conditions and request federal inspection of any potentially unsafe work environment.
- Assist OSHA inspectors
- To bring action against and employer for the purposes of seeking relief in work related safety injuries.
- To gain access to his/her health records stemming from exposure to work related hazards.
- To refuse to perform any work related activity which any *reasonable* employee would deem hazardous and likely to result in injury or death where there is no time to make administrative inquiry for direction.

## Discrimination

The term is rooted in having a stereotype or bias with no reasonable basis. Suffice it to say that the Federal Statutes and Laws are replete with rules and regulations surrounding mistreatment based on discriminatory practices. The federal government has delineated a number of groups of "protected" classes specifically identified as offered special treatment with regard to issues related to disparate treatment. Those classes are age (> 40 years of age), ethnicity, race, gender, national origin and disability. This has been expanded by the NLRB (National Labor Relations Board) to include union membership as additional protected class. Membership in a union has been included under the theory of religious affiliation.

The concept is simple. A member of one of the groups of individuals mentioned above is treated differently based solely on one of the attributes mentioned. In order to prevail in a legal action, an individual has to prove three things:

- That the individual bringing the action is a member of one of the protected classes mentioned above.

- That the individual is qualified to perform the duties required by the employer in the fulfillment of the job, and
- That the job was either left open or given to someone else who was either a member of different class or of none of the classes.

There is a concept in employment law referred to as "mixed motive". This is where an employee is treated differently for more than one reason, typically for a mixture of legitimate and illegal reasons. For instance, an employee in the protected class abuses sick leave and is discharged. The former reason, being totally legitimate, shifts the burden of proof onto the defendant. The employee must prove by a preponderance of the evidence that the employer acted for reasons more related to the protected class than to the employee's behavior or actions.

## Age

The rules pertaining to the principles of age discrimination are covered under the ADEA (Age Discrimination Employment Act) and relate only to practices employing greater than 20 people over the course of at least 20 weeks in the calendar year.

## Sexual Harassment

There are two established types of sexual harassment that the courts recognize. There is the "quid pro quo" which links creating a condition of continued employment to sexual favors, and there is the "hostile work environment." The latter deals with innuendoes, touching, fondling, leering and unwanted, continued sexual advances. Both conditions are actionable and employers must foster an environment free of these behaviors. Racial and ethnic harassments are covered under the "hostile work environment" conditions as well.

## Pregnancy

Women who become pregnant during the course of their employment cannot be discriminated against based on sex. Women affected by pregnancy must be treated the same as any other persons with respect to their ability (or inability) to work.

## Disability

First and foremost, the laws pertaining to ADA (American Disability Act) only impact on practices that employ greater than 15 individuals who work more than 20 weeks per year. Employers need **not** make every possible accommodation for an individual with a disability. Employers need only create reasonable accommodations and ones that do not impose an undue hardship of the employer. For instance, an employee may feel they are suffering from allergies and need to be near a window. It would not be a problem attempting to accommodate such an individual if a window was available. It would not be expected to force the employer to move his office to a location where exterior walls exist where none did before.

## Defenses Against Discrimination

There are a number of established and legitimate defenses that can be mounted against cases brought alleging discrimination. Once again I reiterate that this is merely a brief overview and legal counsel should be consulted for specific issues related to these matters.

### Business Necessity

An employer may discriminate against an employee if it is deemed for the purposes of being "reasonably necessary to the safe and efficient operation of the business." Take, for instance, a situation where a radiology office discriminates against a pregnant employee technician fearful that the exposure can harm the employees unborn fetus.

### Bona Fide Occupational Qualification (BFOQ)

Essentially this covers situations where a person is hired specifically because he/she is of a certain type of ethnicity, race or sex. It can easily be argued that someone who is not of Asian descent is turned down for employment as a waiter in a Chinese restaurant because the establishment wishes to present a dining experience that is more authentic to the patron. A bar hires only thin, attractive women to serve their mostly male clientele, and does so because the women are hired primarily as "female models" that also have some food service responsibilities.

### Pay for Performance

It is not unlawful to base pay office staff based on performance. It is however, unlawful to only assign the good job prospects to men.

### Non-Discriminatory Reason for the Decision

The employer can argue a factual basis for the apparent discrimination based on the low numbers of qualified minority candidates applying for a position, thereby explaining for the few numbers of minority employees.

## Restrictive Covenants

The concept of restrictive covenants as it applies to the practice of medicine is not new. Generally speaking, upon leaving a practice in which good will and proximity are potential issues, it is not uncommon for the pre-employment contract to include a restrictive covenant. The rules governing restrictive covenants control one's ability to compete against the practice he or she is leaving. The rules often specify a distance within which the departing physician cannot solicit patients or practice. This is done to protect the employing practice from income and patient loss after a physician employee has either left or has been terminated.

These contractual clauses will often contain language that:

- Prohibits the departing provider from applying, using or disclosing confidential or business practice information about the former employment practice,

- Not to take on patients who would, by virtue of the former employment, have known or been seen by the provider and,
- A duty not to compete with the former employee for a specified time and distance.

There are a number of very specific rules that govern the actual enforceability of these agreements:

- It must be designed to specifically protect the interests of the former employer
- Supported by consideration and,
- Reasonable in scope.
    - Geographic limits
    - Time limits
    - Activity limits

The third bullet is often the one that presents the most challenges. The courts are very cautious when the possibility of restricting legitimate business practices. Challenges to restrictive covenants will examine:

- Whether the restriction is excessive with that which would ordinarily protect the interests of the former employer.
- Whether the covenant is so restrictive so as to prohibit the departing provider from reasonable employment within the context of that individuals scope of business and experience, and,
- Is the restriction detrimental to the wellbeing of the general public.

## Termination of Employment

Although unpleasant, there are times when an employee's services are no longer needed. It is essential that each office create and publish its own version of a termination policy. It is the contents of the document that can mean the difference between smooth separations of the parties or face a potentially painful litigation process.

# Chapter 6: Business Plan

A well defined Business Plan can make the difference between a successful application for financing and endless frustrations with dead-end meetings and early business failure. The business plan should be designed to convey a clear message to the reader recipient. The message should be apparent. It should state unequivocally that the entrepreneur's concept is well thought out, has a realistic goal and a method to achieve that goal.

The business plan has a specific design and format. It presents the information to potential financiers or venture capitalists in an organized fashion, something they are typically used to seeing.

There sections of a complete business plan are as follows:

- Table of Contents
- Executive Summary
  - An overview presented in bullet format of the major sections of the plan. Highlighted are the bullets pertaining to the Marketing, Financial and Operational sections of the plan.
- Mission Statement
  - A single paragraph which articulates the reason your practice exists
- Concept Statement
  - This should be no more than a single page and present in prose form the completion to the statement "My practice is different from the surrounding practices and people want to see me because……"
- Marketing Plan
  - This is where the different market segments are analyzed and the relevant data which provides for the calculations of Total Population, Potential Market, Available Market, etc….
  - Assumptions related to Optimistic, Realistic and Pessimistic estimates are illustrated to provide the financiers or venture capitalists with a graphical presentation of possible outcomes of market penetration.
  - Highlight any barriers to entry into the field, like zoning restriction, licensing, Board Certifications, etc…
  - Details of Market Penetration and an analysis of the competition. BE SURE TO INCLUDE ALL PRACTICES IN PROXIMITY WHICH ARE POTENTIAL COMPETITION. Banks assume

there are competitors. Do not oversimplify or underestimate this assumption. Doing so with light a red flag with banks as they know there have got to be competitors!

- Financial Plan
    - This section highlights the financial assumptions used in order to reach the profit/loss conclusions
    - It is best to provide graphs which provide for a representation of the associated data.
    - Pro-forma projections of accounting statements are provided showing when the practice is anticipated to show a profit.
        - Balance Sheet
        - Income Statement
    - A Sensitivity Analysis once again illustrating how a pessimistic, realistic and optimistic assumptions will influence the potential for the practice's anticipated income and financial health
- Operational Plan
    - This section highlights exactly how you plan to achieve the marketing and financial objectives.
    - Detail a Table of Organization
    - Provide a realistic time line of events showing when landmark events are to take place. Give this a lot of thought. You cannot hire employees before interviewing them for example.
    - Start-up staffing, policies and procedures are provided as well as critical procedural flow maps to illustrate and demonstrate a well thought out method.
- Include all relevant appendices. They say "The devil is in the details". This is where all of the data making up the charts and graphs is placed to allow the reviewer to look at how the data conclusions were assembled.
- Paginated Index

To follow is an actual business plan for a start-up venture that provides answering and virtual front office services to medical offices. This can be used for guidance and format so that you too can construct such a document representing the elements of your venture.

# FŌCuS

***"Your Practice - In Focus***

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## Front Office Customer Service

A Confidential Business Plan

Dated: May 29, 2007

Steven Goldman, DPM, MBA

# Executive Summary

We recommend approval of the proposal to create Front Office Customer Service, Inc. to serve the medical community's need for a more efficient management process that deals with many essential front office services that do not require an in-office presence.

Total start-up costs are calculated to be 2.8 million dollars. Cash outlays are estimated to be repaid within the first four (4) years of operation which will establish the service's profitability. Recruitment of key personnel to function in the day-to-day operations to manage the service should begin immediately following the approval of this proposal.

We have developed a comprehensive business plan that details our recommended marketing strategy, illustrates the service's financial feasibility and establishes its operational structure and design. A summary of our proposal is outlined as follows:

*Marketing Plan*

- Doctors talk to doctors. FŌCuS is managed by doctors with personal experience in medical office management and who have direct access to doctors wanting to improve their customer service.
- The sales strategy will focus on the value added features of our service to the medical office.
- The potential market of office based physicians within the designated geographic area who possess some interest in the service we provide is estimated to be 39,104.
- The available market of physicians in a busy office-based medical practice is equal to 25,105 physicians.
- The target market consisting of those offices with 2 or more physicians ranges from 5,370 and 7,158.
- The served market, the segment of the market that our business will actually pursue will approach 40% of the qualified market which is 2,148 medical offices and 10,042 physicians.
- Our goal will be to achieve a 6% penetration of the served market within the first 3 years of operations which means which is 128 medical offices.
- The Medical Call Center Industry is a cottage industry and so the competition is with the majority of small companies that handle less than 50 physicians.
- The barriers to entry are the initial capital investment, an understanding of the needs and physicians, knowledge of HIPAA regulations and expertise in the management of the required technology.
- The sales force will consist of the doctors in the company and two additional sales people.
- A web site will be created to provide medical office solutions and serve as a resource for medical practices to improve their efficiency and educate them on the benefits of FŌCuS

*Financial Plan*

- FŌCuS will become profitable in year 2 of operations netting $520,280 after cumulative losses of $1,571,918 in years 0 and 1.
- As a service industry, the gross margin on revenues is in excess of 90% and will continue to increase as the company matures.
- Despite small increases in market shares, revenues are projected to triple in year 2 and double in year 3.
- Cash expenditures will be concentrated in payroll. Rent, telephone and computer equipment and service and debt repayment comprise the bulk of the remaining share.
- Start up costs will be 2.8 Million. An investment of 1.5 million will be required.
- Break Even is projected to occur in mid-year 2.
- Sensitivity analysis demonstrates that the company is still viable given a pessimistic scenario.

*Operational Plan*

- FŌCuS will exist as a Subchapter S Corporation. It will provide essential front-office services to large group practices that demand a remedy to an ever growing need to manage telephone support.
- Our proposal will create and foster an atmosphere of reliability and value by providing high quality, reliable multilingual front office services that promote and assist in the further growth of large successful medical practices.
- FŌCuS will recruit highly skilled computer programming and technical support personnel to create a custom software package that will serve the needs of the corporation.
- FŌCuS will also recruit and train an effective sales force as well as multilingual telephone operator staff to promote and serve the needs our clients.
- FŌCuS will also engage the services of skilled customer service supervisory personnel to manage an anticipated growing telephone operator corps.
- With the start up staffing, FŌCuS's capacity will initially be able to handle 672 incoming telephone calls per day. Additional FTEE staff will be added as shift demand approaches shift capacity.
- FŌCuS will promote a culture of high quality and performance by providing regular and ongoing feedback to all of its employees.
- Above all else, FŌCuS will respect the needs of its customer clients, the patients we collectively serve and relationships that have been created as a result of our interactions.

# Mission Statement

Our mission is to facilitate courteous, knowledgeable and professional customer service to the medical community by providing high quality, multilingual and efficient telephone and front office solutions. We promote office efficiency and revenue growth by fortifying office telephone call answering procedures, utilizing secure on-line scheduling software, and maximizing the utilization of the data compiled from our interventions.

# Concept Statement

Busy medical offices and the patients they serve demand the finest in customer service. The first professional a prospective patient speaks to can make the difference between the patient who makes an appointment, and the one who moves down their list in search of other participating providers. In today's competitive environment missed opportunities, in the form of lost appointments, translates into significant lost revenue to the medical practice. Front Office Customer Service, Inc. serves to prevent the lost appointment by providing fast, friendly, knowledgeable, courteous and professional interactive front office patient services.

Front Office Customer Service, Inc. or FŌCuS (pronounced ***focus***) offers telephone and front office support to the busy medical practice by intercepting incoming calls and thus freeing up the in-office staff to ***focus*** on the tasks at hand, to assist in other more important patient flow activities. Customized to the individual office or practice, redirected incoming calls will be answered on 3 rings or less by specially trained, courteous and caring Front Office Customer Service professionals who are prepared to perform any one of a number of everyday front office tasks in a multitude of commonly used languages. Front Office Customer Service, Inc. handles everything from simply answering incoming calls, to fielding questions related to office policy, patching calls, appointment scheduling, insurance pre-authorizations, patient reminder calls, and verification of referral authorizations. Additionally, we provide thorough, clear, concise practice management productivity reports detailing numbers of incoming calls, sources of referrals, numbers of appointments kept and missed, and others based on patient demographic analysis compiled from incoming calls. A secure user-friendly online scheduling software package would provide our service, as well as the busy office, with real time appointment access enabling all authorized parties to easily find, make, confirm, revise or cancel existing appointments.

Front Office Customer Service, Inc. does not replace the front office, we make the in-office staff more productive; and we do it cheaper than hiring that "extra" person who might ultimately participate in the office's profit sharing or health insurance plans just to sit there between calls perhaps doing nothing, or worse, take off at the last minute leaving the office to deal with the chaos that follows. We are the ultimate cooperative employee sharing service. Why should any practice have to pay for wasted employee time?

# Markets and Marketing Plan for FŌCuS

Background

Today's healthcare environment requires that physicians excel in providing exceptional customer service as well as delivering extraordinary medical care. The management of the modern medical practice has gradually evolved from external pressures ex\erted by market demands and expectations of well informed patients.

A significant external factor prompting the transformation is the diminishing reimbursement by insurers. This has resulted in physicians needing to see more patients to ensure their own financial health. The initial resistance to incorporate advanced administrative services has dissipated as physicians now reach out for better ways of becoming more efficient at managing their busy offices.

Patients seek out doctors who they can trust. When they call their doctor's office they want the person on the other end of the phone to be compassionate, knowledgeable and concerned about their needs. This personal contact is a vital component in how patients evaluate the overall quality of care they receive in a doctor's office. This is because it is much easier for a patient to evaluate the quality of the service than the quality of medical care. In fact, physicians whose patients perceive a high level of personal attention are more likely to increase their patient panel from word of mouth referrals[1]. Physicians realize that the first contact by a patient with their medical office must project an image of providing the highest quality care. FŌCuS provides consistent courteous telephone answering services to busy offices that is a basis patient satisfaction.

Target Medical Practice

Front Office Customer Service, Inc. (FŌCuS) provides the busy medical office with advanced electronic patient-relations front office support. FŌCuS is customized to the client's needs, enhancing medical practices operations by allowing the medical practice to outsource those office functions that do not require in-office staff. The busy practice can then more appropriately utilize in-office staff to perform personal interactive functions and patient flow activities. We stress the value added to the available in-office staff by

allowing them to focus on those activities that require a face to face encounter. FŌCuS is transparent to the patient whose call is answered by a highly trained professional FŌCuS operator answering the phone with the name of medical practice.

The target medical practice will be a high volume office consisting of at least two physicians who schedule a large number of daily real time appointments FŌCuS enables all authorized parties to easily locate, create, confirm, revise or cancel existing appointments. The FŌCuS staff is on duty 24 hours a day, seven days a week, so that the medical practice never misses a call. In addition, patients will appreciate speaking to real people rather than an answering machine.

Market Definitions

Our market includes those practices with high volumes of ambulatory visits. We converted the available population statistics to estimate the number of ambulatory care visits. The data was obtained from the National Ambulatory Medical Care Surveys (NAMCS) from surveys conducted 2003-04, and includes a national probability sample of nonfederal office-based physicians who saw patients in an office setting.[2] The information includes utilization of ambulatory medical care services provided by office-based physicians and describes characteristics of the physicians providing care. The salient data includes physician practice characteristics with regard to size of practice, ownership, revenue sources, use of information technology, and weekly workload.

At start-up the Primary Market will included the Tri-State Region. This will allow greater focus of the sales force and advertising dollars to select medical groups. It also permits personalized service and at site instruction to multiple offices as necessary.

<u>Population</u>

From the U.S. Census Bureau[3], The total combined population of New York, New Jersey and Connecticut is 31,535,552 (NY: 19,306,183; **NJ: 8,724,560; CN:** 3,504,809)

*Potential Market*

The potential market consists of the number of office based physicians within the designated geographic area who possess some interest in the service we provide. During the 2003-04, the supply of nonfederal office-based physicians per populations was 108.4 per 100,000 persons[2]. Specifically for the Northeast the supply of office based physicians was 124 visits per 100,000 persons. (See Table 1)

**Table 1.**

| Physican specialty[1] | Total | Geographic region | | | | Metropolitan status | |
|---|---|---|---|---|---|---|---|
| | | Northeast | Midwest | South | West | MSA[2] | Not MSA[2] |
| | | Number of physicians per 100,000 population[3] | | | | | |
| All specialties | 108.4 | 124.0 | 107.5 | 102.0 | 106.7 | 114.2 | 78.4 |
| General and family practice | 19.1 | 15.9 | 22.8 | 17.5 | 20.6 | 18.5 | 22.0 |
| Internal medicine | 16.9 | 23.5 | 15.8 | 15.2 | 15.2 | 16.9 | 16.6 |
| Pediatrics | 9.8 | 13.3 | 8.4 | 8.7 | 10.1 | 11.0 | * |
| Obstetrics and gynecology | 8.4 | 9.5 | 8.0 | 8.8 | 7.5 | 9.2 | * |
| Psychiatry | 6.3 | 8.3 | 5.2 | 5.7 | 6.5 | 6.8 | * |
| Orthopedic surgery | 5.4 | 5.8 | 5.4 | 5.0 | 5.6 | 5.3 | 5.8 |
| Cardiovascular diseases | 4.9 | 5.7 | 4.3 | 5.1 | 4.4 | 5.6 | * |
| Ophthalmology | 4.4 | 5.3 | 4.1 | 4.1 | 4.6 | 4.8 | * |
| General surgery | 4.3 | 4.5 | 4.8 | 4.2 | 3.6 | 4.0 | 5.5 |
| Dermatology | 2.4 | 3.0 | 2.2 | 2.0 | 2.5 | 2.6 | * |
| Urology | 2.4 | 2.7 | 2.4 | 2.4 | 2.0 | 2.5 | * |
| Otolaryngology | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.4 | * |
| Neurology | 2.1 | 2.5 | 2.0 | 2.1 | 2.0 | 2.4 | * |
| All other specialties | 19.9 | 21.8 | 19.8 | 19.1 | 19.8 | 22.1 | 8.8 |

**Number of physicians per 100,000 population by physician specialty and geographic characteristics of physicians: United States, 2003-04**

The expected number of physicians for the Tri-State area is then equal to the total population of the targeted area (NY, NJ, CN) divided by the supply base (100,000) and then multiplied by the number of physicians per 100,000 persons (124). The expected number of physicians is then equal to 39,104. This targeted physician total is 59% of physicians in the Northeast (39,104/66,600) . See Table 2.

**Table 2.**

| Geographic characteristic | Specialty type[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | All specialties | Primary care | Surgical | Medical | All specialties | Primary care | Surgical | Medical |
| | Number of physicians | | | | Standard error | | | |
| Total | 311,200 | 153,900 | 70,600 | 86,600 | 8,000 | 4,600 | 3,400 | 4,400 |
| Geographic region | | | | | | | | |
| Northeast | 66,600 | 33,500 | 14,900 | 18,100 | 4,000 | 1,900 | 1,500 | 1,700 |
| Midwest | 69,400 | 35,200 | 15,800 | 18,300 | 3,300 | 2,800 | 1,900 | 1,700 |
| South | 105,000 | 50,200 | 24,400 | 30,400 | 5,600 | 3,000 | 1,900 | 3,100 |
| West | 70,200 | 34,900 | 15,500 | 19,800 | 2,300 | 1,600 | 1,200 | 1,700 |
| Metropolitan status | | | | | | | | |
| MSA[2] | 275,000 | 132,200 | 61,900 | 80,900 | 7,600 | 4,000 | 3,000 | 4,400 |
| Non-MSA[2] | 36,200 | 21,700 | 8,800 | 5,700 | 5,100 | 3,000 | 1,900 | 1,300 |

**Number of office-based physicians by specialty and geographic location:**

**United States, 2003-04**

*Available Market*

Within the context of our practice parameters, a busy medical practice, those with interest and who possess enough income and greater need for the service we provide, is defined as having more than one medical practitioner within an office-based setting. The (NAMCS) data indicates that 64.2 percent of all office-based physicians fit within this designation.(see Table 3.)

**Table 3.**

| Practice characteristics | Specialty type[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | All specialties | Primary care | Surgical | Medical | All specialties | Primary care | Surgical | Medical |
| | Average number of physicians | | | | Standard error | | | |
| All office-based physicians | 311,200 | 153,900 | 70,600 | 86,600 | 8,000 | 4,600 | 3,400 | 4,400 |
| | Percent distribution | | | | | | | |
| All office-based physicians | 100.0 | 100.0 | 100.0 | 100.0 | ... | ... | ... | ... |
| Number of in-scope office locations | | | | | | | | |
| 1 | 85.6 | 91.1 | 78.6 | 81.6 | 1.0 | 1.3 | 2.0 | 1.8 |
| 2 or more | 14.4 | 8.9 | 21.4 | 18.4 | 1.0 | 1.3 | 2.0 | 1.8 |
| Practice size[2] | | | | | | | | |
| Solo | 35.8 | 33.4 | 34.0 | 41.6 | 1.4 | 2.1 | 2.4 | 2.2 |
| Partner | 11.8 | 12.9 | 11.7 | 10.0 | 0.9 | 1.5 | 1.5 | 1.4 |
| 3–5 | 26.9 | 28.5 | 29.3 | 21.9 | 1.4 | 2.0 | 2.2 | 2.2 |
| 6–10 | 14.8 | 14.9 | 14.0 | 15.3 | 0.9 | 1.5 | 1.7 | 1.9 |
| 11 or more | 10.7 | 10.3 | 11.0 | 11.1 | 0.9 | 1.4 | 1.6 | 1.5 |
| Solo and group practice | | | | | | | | |
| Solo | 35.8 | 33.4 | 34.0 | 41.6 | 1.4 | 2.1 | 2.4 | 2.2 |
| Group practice: | | | | | | | | |
| Single-specialty practice | 43.1 | 41.8 | 48.5 | 40.9 | 1.7 | 2.3 | 2.6 | 2.8 |
| Multispecialty practice | 21.1 | 24.8 | 17.5 | 17.5 | 1.3 | 1.9 | 1.9 | 2.0 |

**Number, percent distribution of office-based physicians by select practice characteristics.**

**United States, 2003-04**

The number of physicians in a busy office-based medical practice is then equal to the 64.2 percent of physicians within the designated geographic location of 39,104 physicians or 25,105 physicians.

*Qualified Market*

The qualified market consists of the number of medical offices in which the physicians work. Physicians who are employed by a hospital are excluded from the calculations. (see Table 4)

**Table 4.**

| Practice | % | Number of | Number of groups | Number of groups |
|---|---|---|---|---|

| Type | | Physicians | Low # physicians | High # physicians |
|---|---|---|---|---|
| Solo | 35.8 | 13,999 | 13999 | 13999 |
| Partner | 11.8 | 4,614 | 2,307 | 2,307 |
| 3-5 | 26.9 | 10,519 | 3,506 | 2,104 |
| 6-10 | 14.8 | 5,787 | 965 | 579 |
| 11+ | 10.7 | 4,184 | 380 | 380 |
| Total | 100% | 39,103 | 21,157 | 19,369 |

The target market consists of those offices with 2 or more physicians. Although solo practitioners may have a need for our services, they will not be considered for inclusion at start up because of insufficient daily patient calls. (see table 5)

**Table 5.**

| Practice Type | % | Number of Physicians | Number of groups<br>Low # physicians | Number of groups<br>High # physicians |
|---|---|---|---|---|
| | | | | |
| Partner (2) | 11.8 | 4,614 | 2,307 | 2,307 |
| 3-5 | 26.9 | 10,519 | 3,506 | 2,104 |
| 6-10 | 14.8 | 5,787 | 965 | 579 |
| 11+ | 10.7 | 4,184 | 380 | 380 |
| Total | 100% | 25,104 | **7,158** | **5,370** |

The number of medical offices in the qualified market is therefore between 5,370 and 7,158.

*Served Market*

The segment of the market that our business will actually pursue will approach 40% of the qualified market or 2,148 (40% of 5,370) medical offices and 10,042 (40% of 25,104) physicians. (see Table 6.)

**Table 6.**

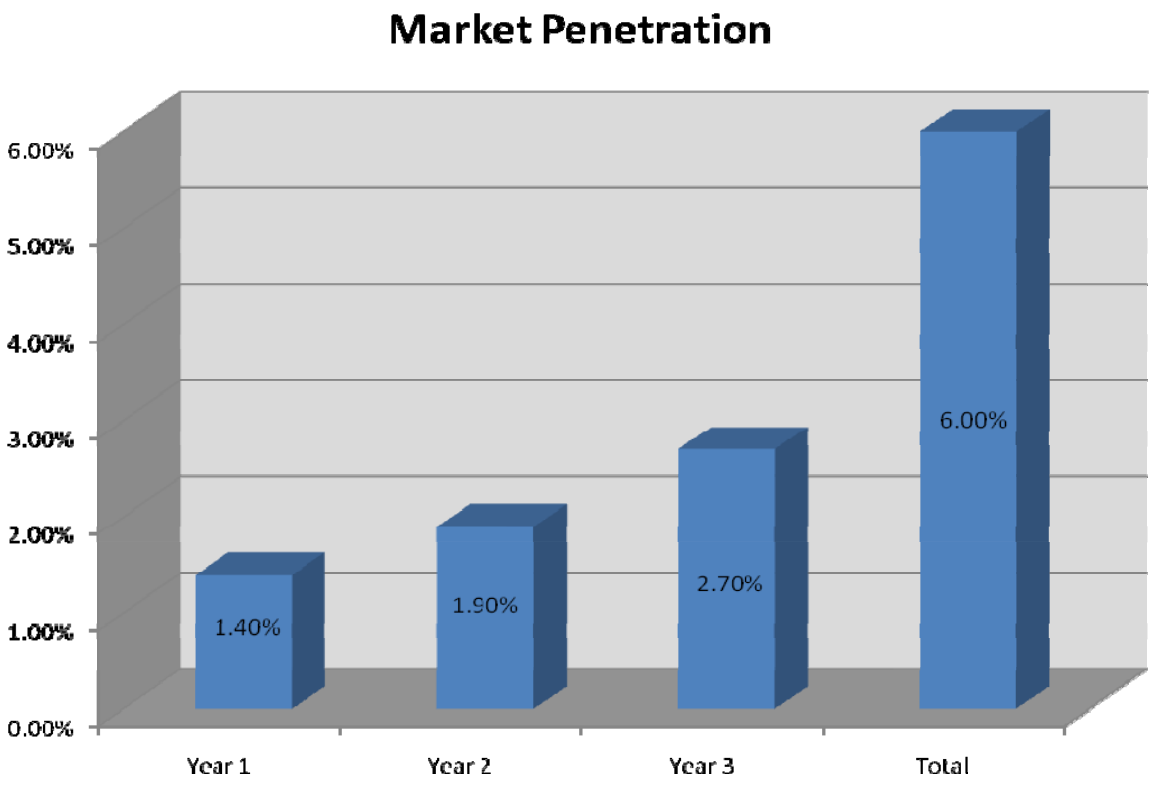
| Medical Offices | Physician/Office | Total Physicians |
|---|---|---|
| 2,307 | 2 | 4,614 |
| 2,104 | 5 | 10,520 |
| 579 | 10 | 5,790 |
| 380 | 11 | 4,180 |
| **5,370** | | **25,104** |

Market Penetration

Our goal will be to achieve a 6% penetration of the served market within the first 3 years of operations. This allows us to focus our attention on the 129 medical offices (6% of 2148) or approximately 603 physicians (6% of 10,042) that would provide us with enough profit to grow the business. We plan to achieve an incremental increase in new medical office service contracts within the designated geographic boundary.

We project a 1.4%, 1.9% and 2.7% growth per year respectfully for medical office enrollment in the first three years of operation (Figure1). Data for this graph is presented in Appendix A.

**Figure 1. Market Growth Potential (% Market Penetration)**




Secondary Market

It is conceivable that large office-based medical practices may be operated by management groups that would want to use our service outside the designated geographic area. These additional contracts will be considered our secondary market and conservatively represent 2.5% of our total service contracts

Market Positioning

Our target market will be those high volume office-based medical groups that have information technology (IT). Surveys conducted by the Center for Studying Health System Change have reported that 65% of medical practice respondents have access to IT. [4] Based on our goal to achieve a 6% penetration of the served market, we foresee no difficulty in reaching at least 129 medical offices having information technology.

Competition

We provide a unique service that is managed by doctors with personal experience in medical office management for doctors wanting to improve their customer service. Competitors without our specialty knowledge may not understand the intricacies in the operation of the medical office.

Even though we do compete with the current office staff on a limited number of office functions, our approach is to redirect the focus of the office staff to areas that they will be most productive. Our service enhances the office staff's value by making them more available for direct patient interaction.

An external scan of the environment for direct and indirect competitors was performed by reviewing Trade Magazines such as ANSWERStat and online web sites such as Connections.com as well as through telephone interviews of CEOs, COOs or Vice Presidents of companies that market themselves as medical call centers. The central premise from these resources is that the potential market for medical centers is tremendous and that individual companies are not as yet a competitive threat to one another.

It is the opinion of Brian Richardson, Vice President of Doctor's Exchange Inc., that there are a handful of companies that handle 400 or more clients (Full Time Equivalent physicians) and the medical call center industry is currently a cottage industry with the majority of companies handling less than 50 physicians, more on the order of mom and pop business. The competition is therefore not amongst medical call centers.

Barriers to Entry

The primary barrier to entry is the investment capital and expertise needed to support the technology and manage the personnel required at startup. The cost of labor is the largest single expense to the business. A medical call center provides a service that is dependent on well trained personnel using the latest technology to communicate with the patients of a medical practice. In addition, information technologists are required to write and then maintain equipment.

The apprehension of medical liability is concern for lay entrepreneurs considering creating medical call centers. The business requires knowledge of governmental regulations protecting private health care information. One of the founders FŌCuS is a lawyer who has extensively studied health care law and the HIPAA regulations.

The secondary barrier to entry is lack of understanding of the needs of medical practices by laypeople wanting to start call centers. FŌCuS is unique in that it is managed by physicians with private practice experience who have an understanding of the needs of a busy medical practice.

Marketing Plan

Our goal is to gain access to office-based medical practices by offering a service that enhances efficiency, facilitates patient access and satisfaction. We will promote ourselves as a value added service that will either reduce the need for additional physical office staff or supplement the productivity of an office's present staff with 24 hour availability and unquestionable reliability.

Promotion and Strategy

The sales strategy will focus on the value added features of our service to the medical office.

**Sales Force**: Two full time sales people will set up appointments and visit high volume medical practices. The initial meeting would be to educate and promote the service and to determine the likelihood that the office would be able to successfully incorporate FŌCuS. Follow-up visits would be scheduled to provide a tailored package of services FŌCuS would be able to offer the medical office.

*Promotional Material*

**Brochures**: Brochures describing the financial benefits to the medical office as well as increased patient satisfaction will be prepared. The brochure will include the scope of the services provided and stress how FŌCuS will be seamlessly integrated into the medical office.

**Direct Mailings**: Direct mailings to the targeted medical practices will serve to introduce FŌCuS and encourage medical practices to call for more information.

*Advertisements*

**Journal Advertisements**: Advertisement in local medical journals and medical executive journals will serve to increase name recognition and encourage medical executives to call for additional information concerning our services.

**Conferences**: We will participate in local conferences to display the advantages of FŌCuS. A sales person will be present to for direct customer interaction.

**CME**: We will sponsor executive medical director conferences and offer CME credit for participants.

*Publicity*

**Web site**: Dedicated to providing medical office solutions. Provides a resource for medical practices to improve their efficiency and educate them on the benefits of FŌCuS

Marketing Budget

In the first two years of operations we will allocate 5 percent of Operating Expenses on marketing.

The average weekly encounter volume per physician in all specialties is 73.8 visits per physician. (see Table 7)

**Table 7 Average number of weekly consultations per physician**

| Type of patient encounter | Specialty type[1] | | | | Specialty type[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | All specialties | Primary care | Surgical | Medical | All specialties | Primary care | Surgical | Medical |
| | Mean number in week[2] | | | | Standard error | | | |
| Volume of office visits last full week . . | 73.8 | 84.9 | 66.9 | 59.6 | 1.3 | 1.8 | 2.3 | 2.6 |

For our geographic targeted area the visit load per physician was 2,699 visits per physician/ (Figure 2)

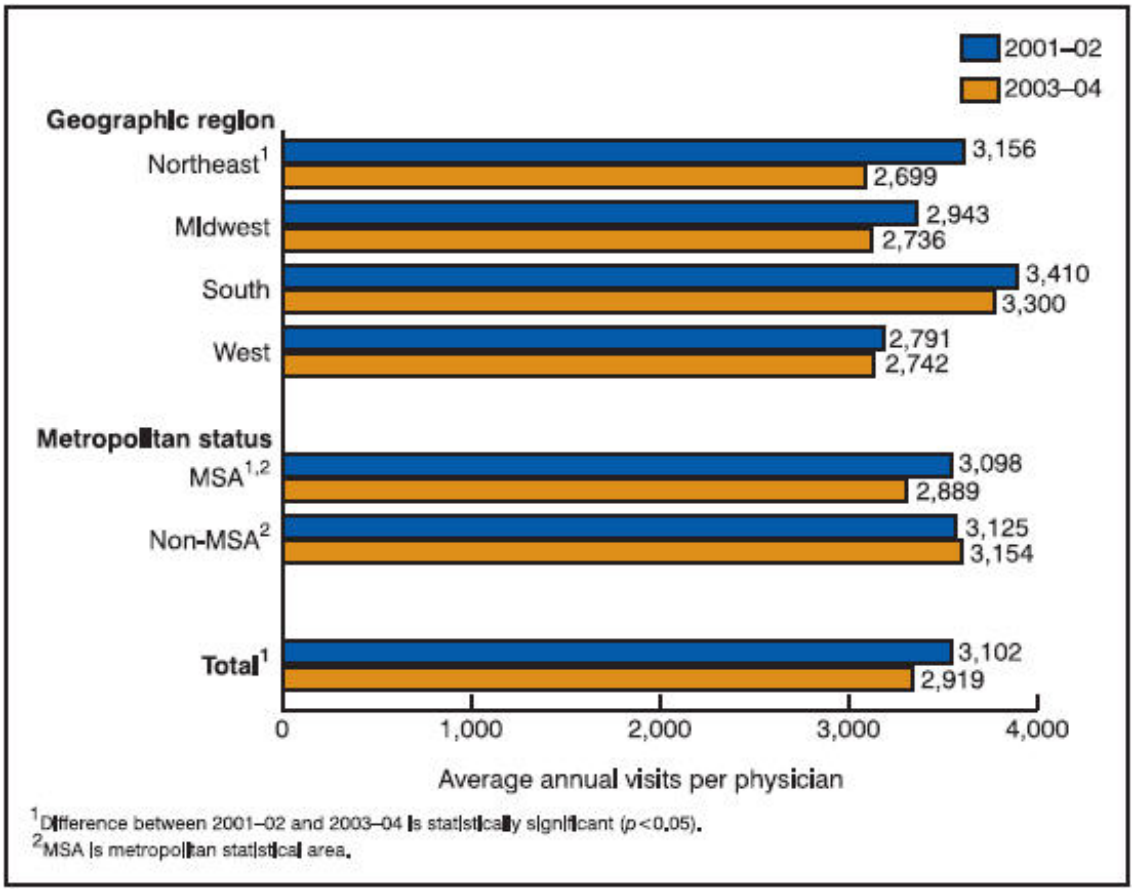



**Figure 2**

Average annual number of visits per physician, by location

United State, 2001-02 and 2003-04

1. http://www.aafp.org/fpm/980700fm/keane.html
2. http://www.cdc.gov/nchs/data/series/sr_13/sr13_164.pdf
3. http://www.census.gov/

4. http://www.medicalnewstoday.com/medicalnews.php?newsid=44800

# Financial Plan for FŌCuS

Operating Status and Assumptions

The financial analysis which follows is based on several key assumptions. These assumptions are listed below.

*Market Assumptions*

- The Potential Market shall consist of all practices consisting of 2 or more physicians in the tri-state area
- The number of possible practices is defined by utilizing the maximum possible number of physicians organized within a practice within the respective data range
- There is a weighted average of 4.67 physicians per practice
- Physicians average 2699 patient visits per year
- Each patient visit generates an average of 1.25 phone calls
- The average call length is 4.8 minutes (as reported by industry publications in 2006)
- Predictions for growth are based on industry standards for the telecommunications services market.

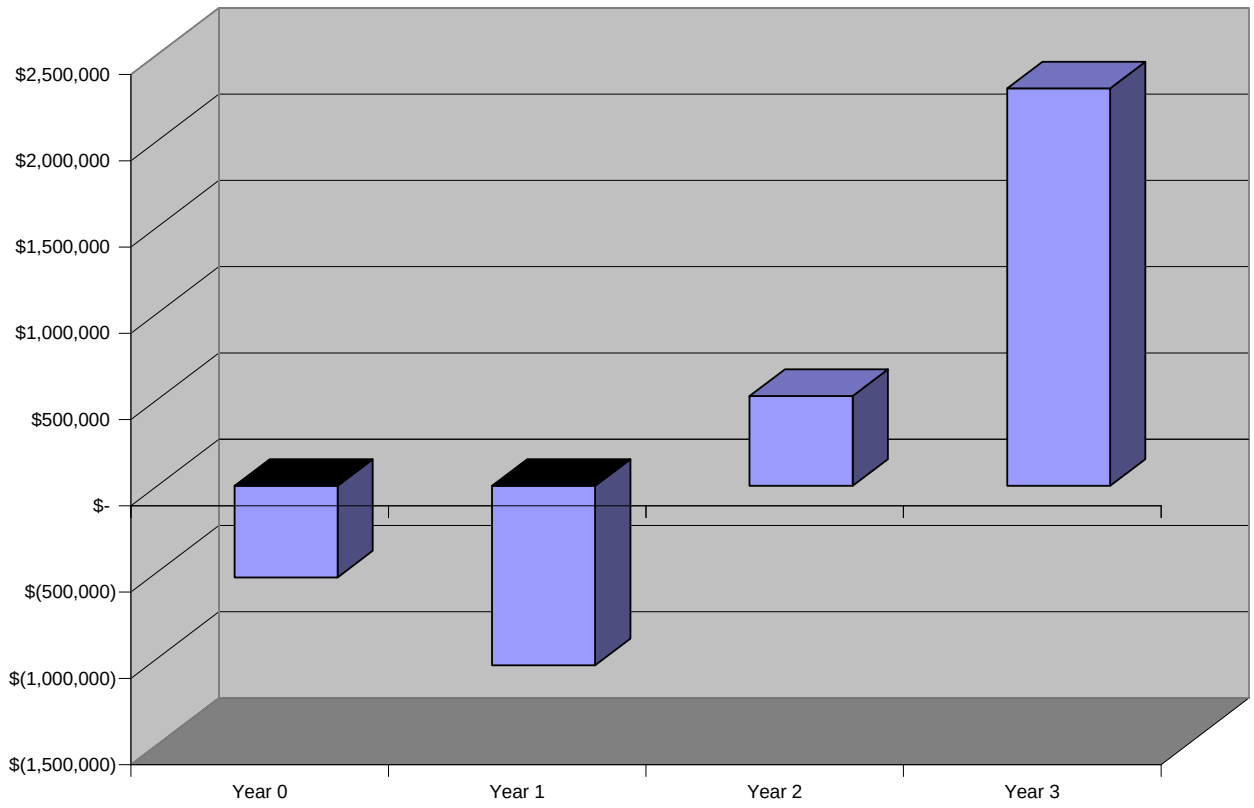
*Financial Assumptions*

- The interest rate for long term debt shall be set at 8% and is based upon the average interest rate for small business loans as reported by Federal Reserve's Survey of Terms of Business Lending, released February 2006.
- Dividends will be paid out at 2% of net income after company breaks even. The bulk of earnings will be retained in order to grow the business.
- Fringe Benefits are approximated at 20% of salaries
- Payroll Taxes are approximated at 7.8% of salaries
- Federal, State and Local tax are estimated at 35% of Net Profit
- Accounts Receivables will be collected within 45 days
- Negligible Client attrition / Near 100% Client retention

FŌCuS *Projected Profit (Loss)*

We expect a profit (loss) of ($531,322) in year 0, ($1,040,595) in year 1, $520,280 in year 2 and $2,303,960 in year 3. The fiscal year of FŌCuS runs 1 January to 31 December; however FŌCuS will begin revenue generating activities in January 2008, six months after starting operations in July 2007. Year 0 revenues and expenses have been appropriately annualized for this late start date. A detailed Profit (Loss) data presentation may be found in Appendix D.

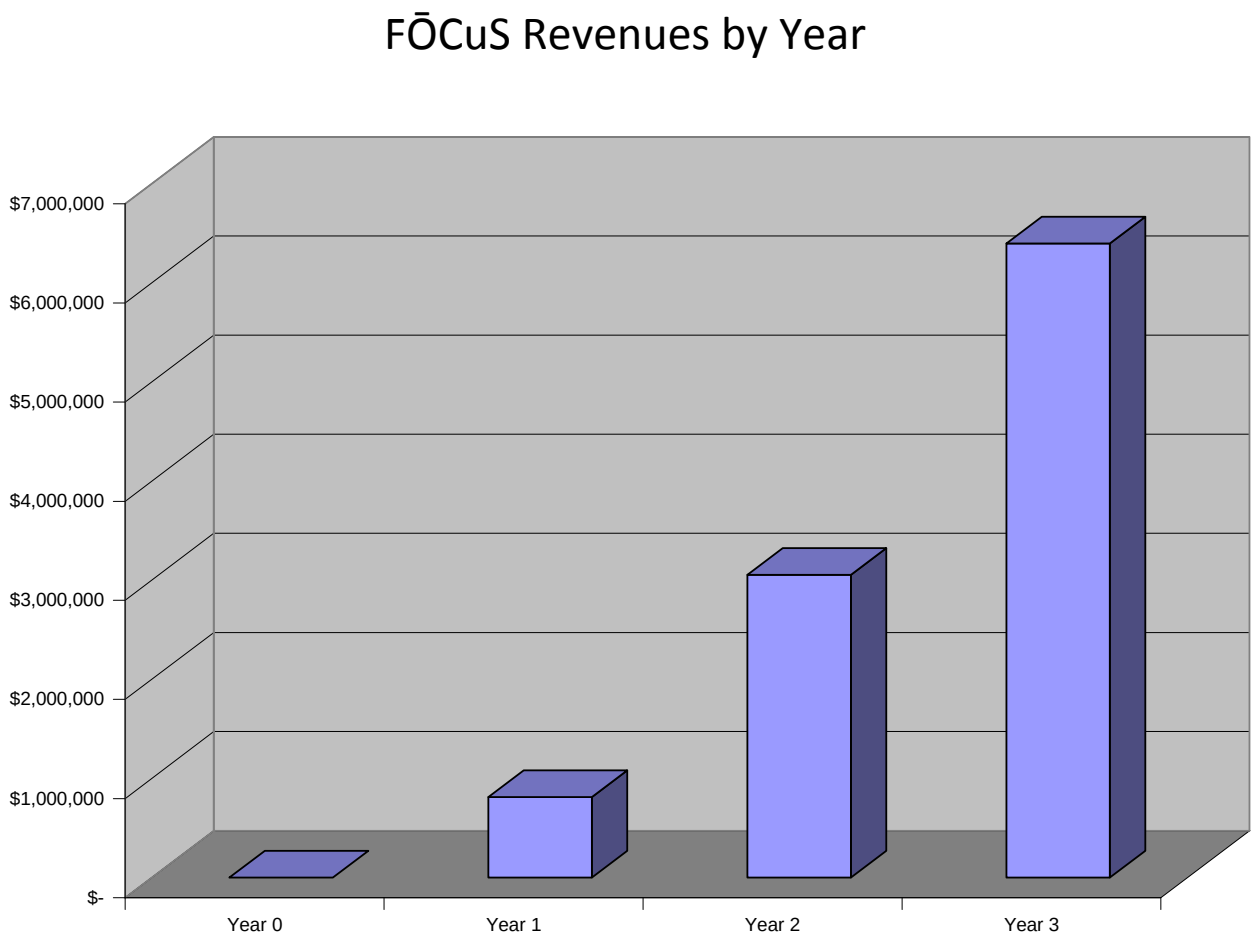
FŌCuS Pro Forma Profit (Loss) Graph



*Projected Revenue by Year*

Revenues will be generated from each client via two sources. The first is a monthly base rate of $500 which includes subscription to FŌCuS inclusive of full customization of services as well as 350 operator minutes and access to all data reports. The second source of revenue will be a $0.95 per minute charge for every minute of calls fielded above 350 minutes. Call based revenue was calculated based on the average number of physicians per practice, patient visits per physician and call length.

Since FŌCuS will offer new clients a promotional package including the first month of service for free, revenues will not be generated until February 2008. We project FŌCuS will collect $0 in Year 0, $ 813,242 in Year 1, $3,054,826 in Year 2 and $6,397,031 in Year 3. The details supporting this graph are provided in Appendix D.



Our projections assume a 1.4% market penetration in year 1, an additional 1.9% in year 2 and another 2.7% increase in year 3 amounting to a total of 6% market penetration in 3 years. We feel that these growth assumptions are not an overly aggressive projection given the performance of similar corporations in the telecommunications industry.

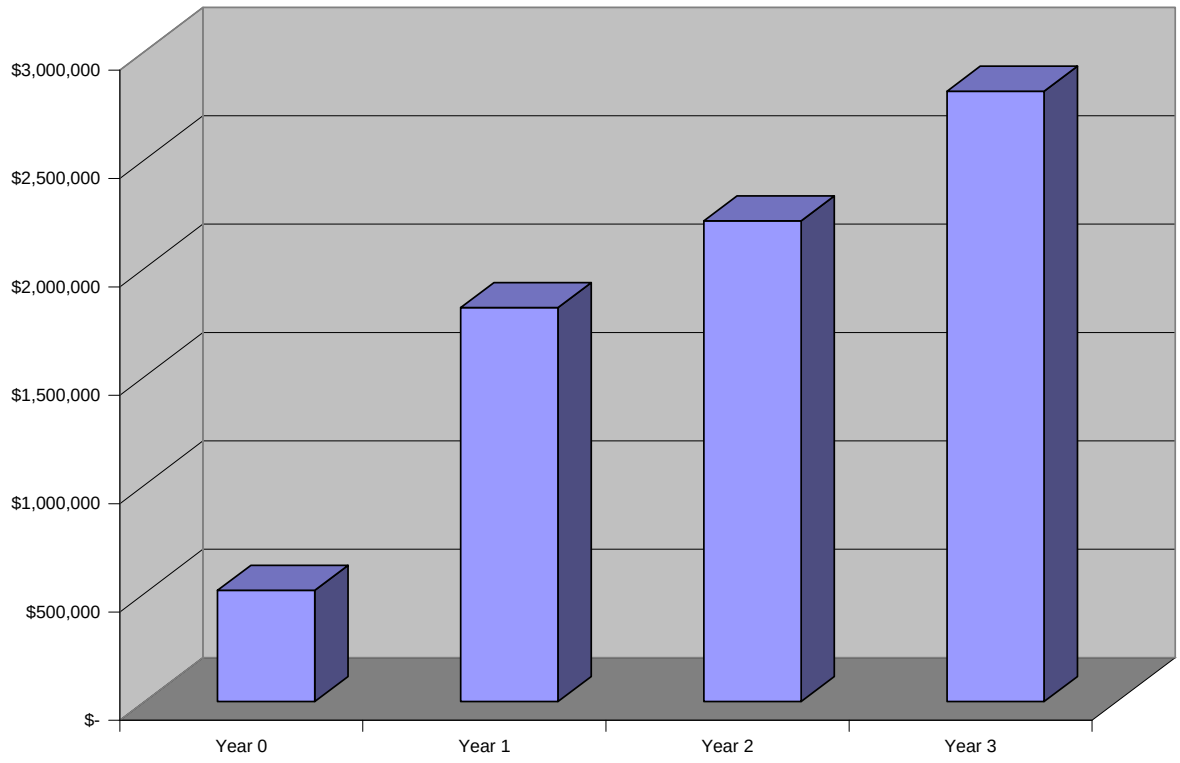
*Projected Expenditures by Year*

Routine operational expenses include Sales and Marketing as well as General and Administrative Expenses. Sales and Marketing Expense include salaries for salespersons, promotional and marketing expense which is set at 5% of sales, travel and entertainment.

General and Administrative expenses are varied and account for the majority of expenditures. The bulk of ongoing fixed expense can be attributed to the payroll. A detailed description of salaries is included in Appendix G. As FŌCuS gains market share, additional operators will be added to the payroll in order to handle the associated increase in call volume. We have allocated an addition of two operators in year 2 and five operators in year 3, bringing the total operator number to 15. We will also budget for the addition of sales staff in year 2 and 3.

Additional fixed expenses are remarkable for the cost of leasing telephone and computer equipment and associated service, rent, as well as the repayment of long term debt. In addition, the direct cost of sales is a variable expense which is attributed to the provision of commissions for the sales staff. Commissions are calculated as 10% of call-based revenue for new clients in any given year. We project FŌCuS will incur $513,067 in expenditures in Year 0, $1,817,325 in Year 1, $2,217,884 in Year 2 and $2,815,965 in Year 3. . The details supporting this graph are also provided in Appendix D.

# FŌCuS Expenditures by Year Graph



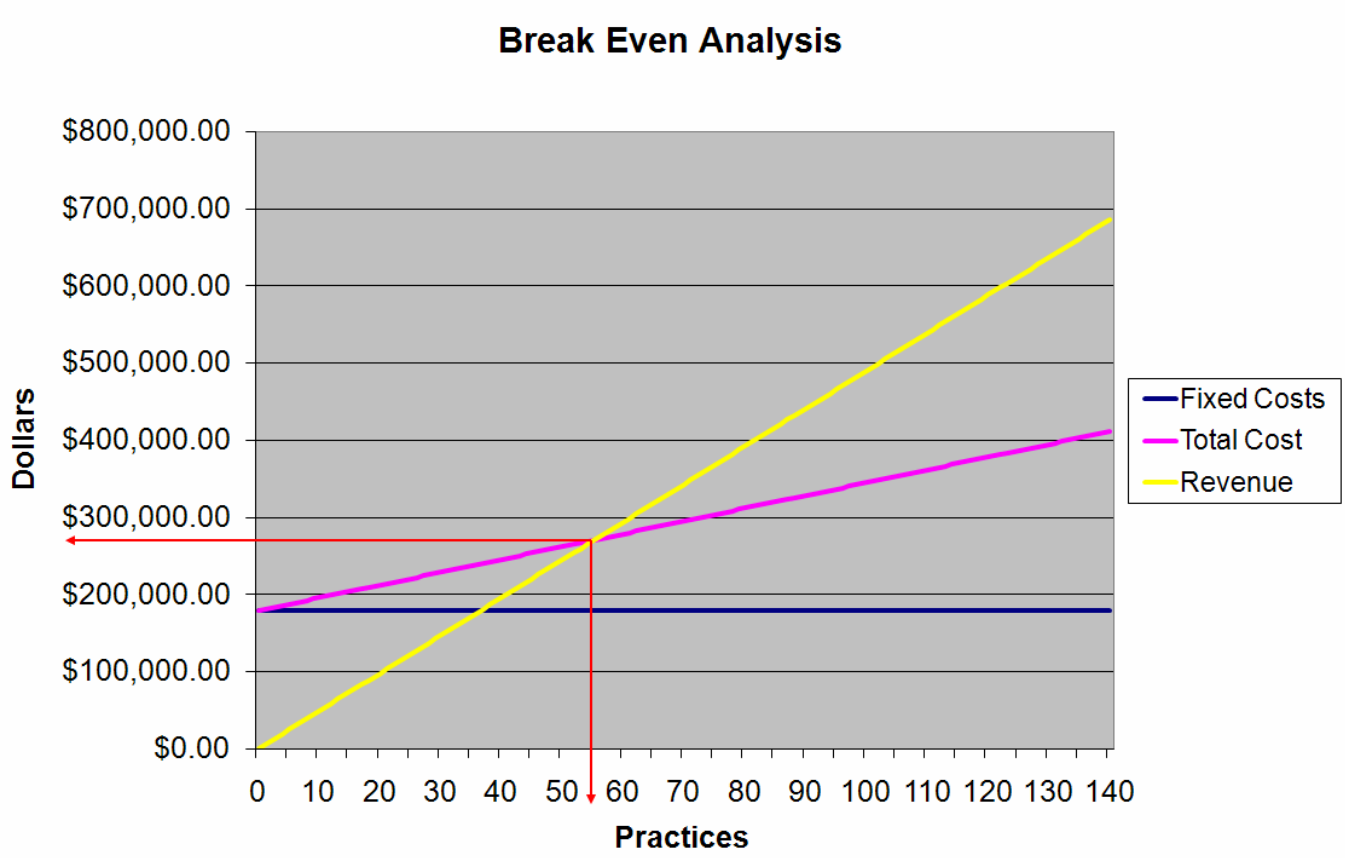

*Start-Up Summary*

Anticipated capital needs before we reach breakeven are 2.8 million dollars. The managing directors have committed themselves to an initial investment of $150,000 each. A loan in the amount of 850,000 will be obtained at a projected 8% interest rate over a four year term. We are seeking an additional investment of 1.5 million dollars to fund the company. A detailed summary of cash flows is presented in Appendix E. Return on investment will begin in year 2. Subsequent to break even, dividends will be paid out at 2% of net earnings. The company will retain the bulk of the earnings in order to grow the business.

*Break Even Analysis*

A break even analysis was performed for projected operations starting from Year 0. The purpose of the analysis was to determine the client enrollment volume necessary to support all fixed and variable costs for FŌCuS' operations. Total fixed costs include all sales and marketing as well as general and administrative expenses. Variable cost is composed of the cost of providing sales commissions. The breakeven point was

found to occur at approximately 55 practices, and at FŌCuS revenue of $269,586. We expect to achieve this number of client enrollments and associated revenue in May of Year 2. The analysis shows a good balance of fixed and variable cost which should allow FŌCuS to grow its profitability once break-even is achieved. . The details supporting this graph are provided in Appendix E.

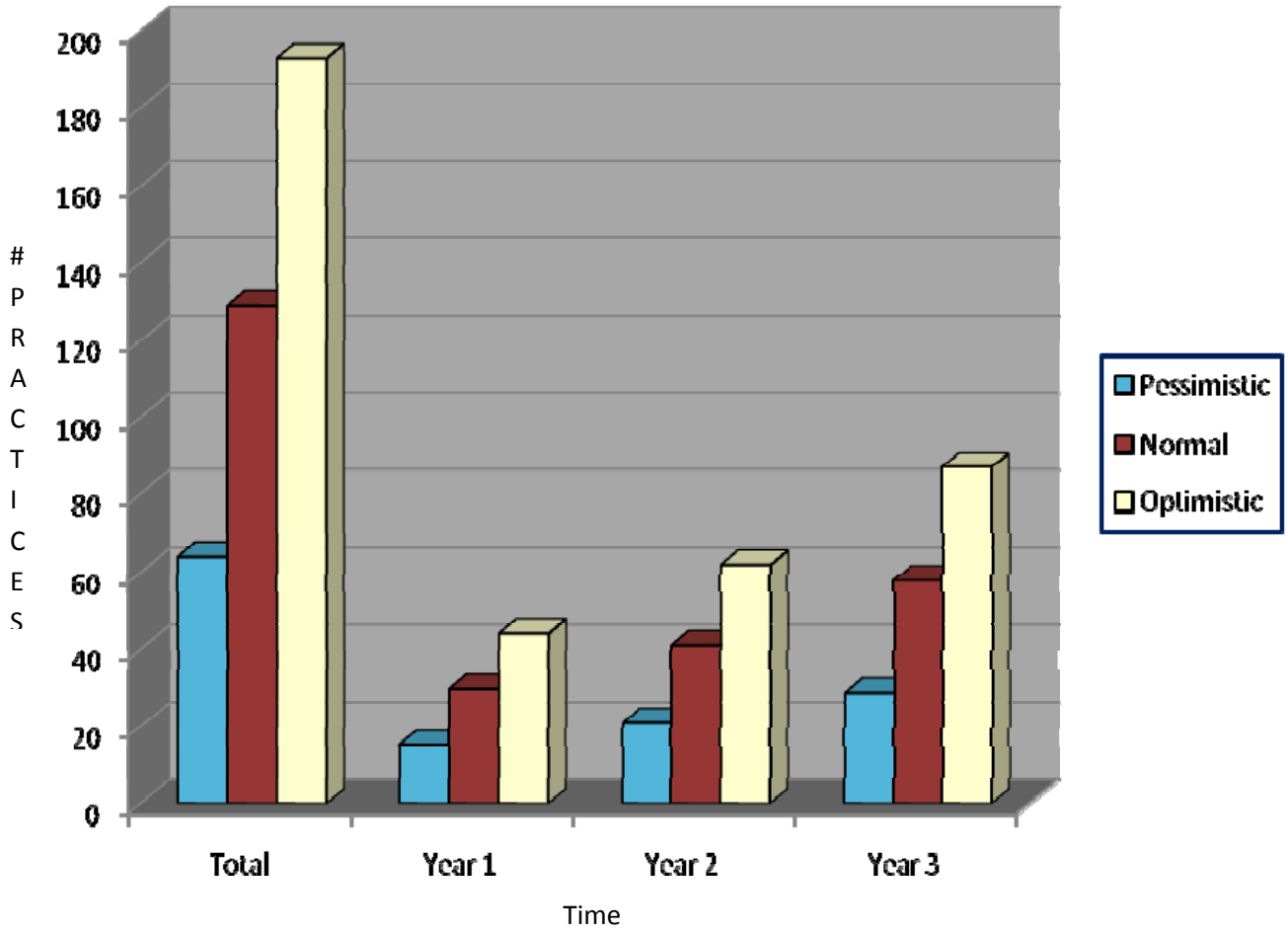



*Sensitivity Analysis*

*Analysis by Number of Medical Office Clients Served*

Under normal circumstances, FŌCuS expects to enroll 129 practices by the end of year 3. However, a sensitivity analysis shows projections for an optimistic scenario and a pessimistic scenario at 3% above and below the expected market penetration of 6%. A detail of the data relevant to the Sensitivity Analysis is presented in Appendix C, D and I.

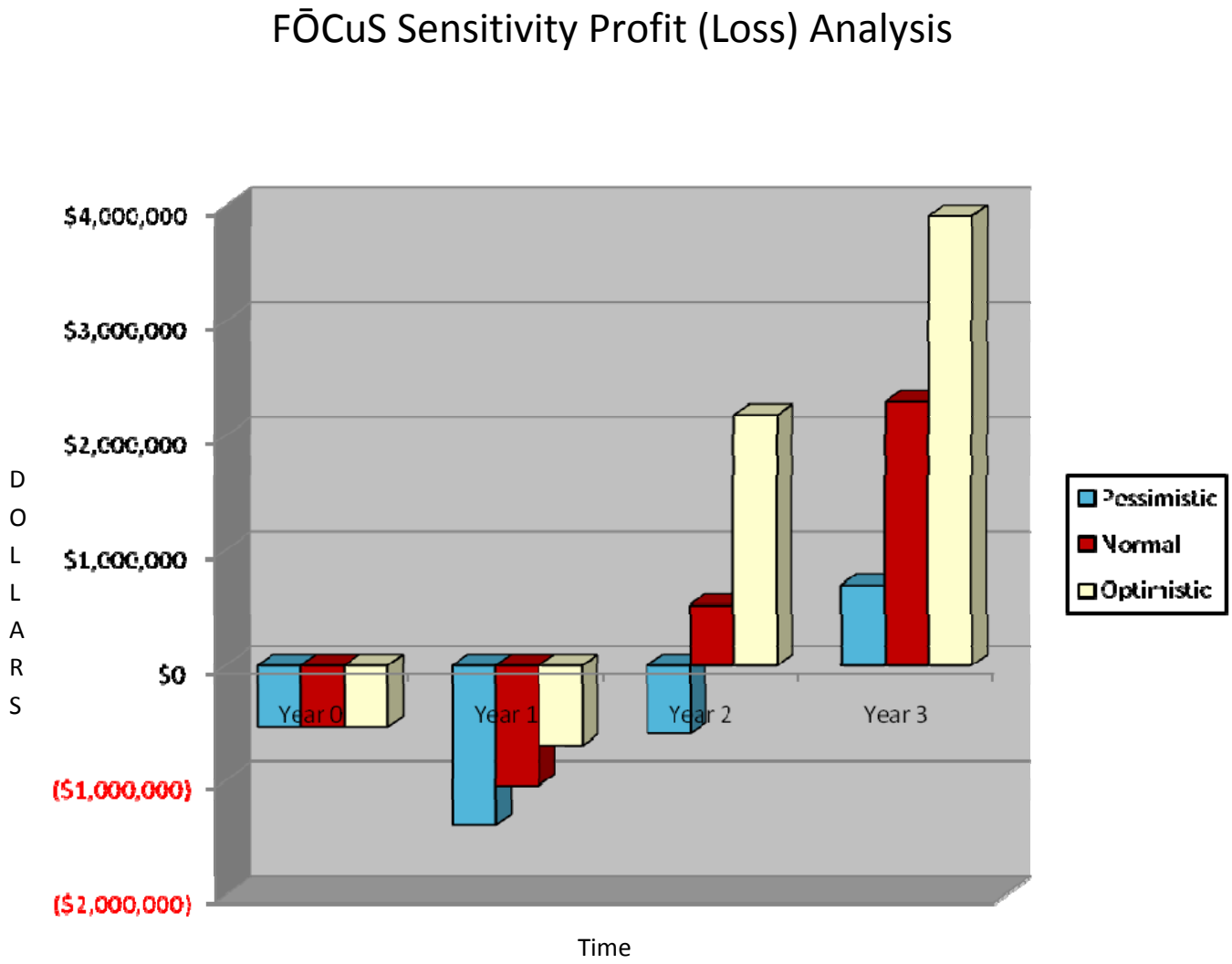
# FŌCuS Client Sensitivity Analysis



*Sensitivity Analysis*

*Analysis by Profit (Loss)*

A change in projections alters FŌCuS' financials significantly. A detail of anticipated profit and loss statements as well as balance sheets for each scenario is presented in Appendix I. The analysis of these fluctuations demonstrated that even given the pessimistic 3% of projected market share client enrollment, FŌCuS would still achieve break-even in year 3. A detail of the data relevant to the Sensitivity Analysis is in Appendix C, D and I.



# Operational Plan for FŌCuS

*The Telecommunications Industry*

In 1996 with the passage of the Telecommunications Act, the telephone service industry changed dramatically. Functionally breaking up the monopolistic "Ma – Bell" Telephone Company, the Telecommunications Act allowed for the creation of CLEC (Competitive Local Exchange Carrier) status for telecommunications companies. Once obtained, The Act states that telecommunications services must be offered at a wholesale discount to all telecommunications companies. This saves the CLEC from having to make a major investment in the infrastructure including switches, fiber optic transmission facilities or other co-location arrangements. The presence of the CLEC significantly reduces the cost of interacting with telecommunications companies thereby reducing the cost of national toll-free telephone services. The CLEC removed all barriers to entry via cheap voice technologies with highly competitive national rates. To follow is an excerpt from promotional literature by one of the largest CLECs.

*Best In-Class IP Integrated Access Service Provider: CBeyond*

Founded in 1999, CBeyond is a privately held company focused on delivering integrated voice and broadband internet access service over IP. The company has CLEC status and provisions T1s on a UNE basis from the ILECs. CBeyond has stuck to its strategy of offering voice (local and long distance) and high-speed data at the same price points that clients typically pay for voice services alone. Its mission is to provide "big business" communications tools to small businesses at prices they can afford and that CBeyond can deliver profitability. CBeyond's strategy from the beginning has been to replace existing services rather than change customer behavior and does not require customers to purchase new phones of phone systems. CBeyond's IP integrated access service, BeyondVoice™, includes high-speed Internet access, local phone service, and long distance/toll-free services as the core of its service packages. Three bundles are available based on Internet speed, number of phone lines, and long distance minutes. Customers can opt to add on data or voice upgrades, and extra blocks of discounted long distance minutes to the base packages. The CBeyond model, if replicated by other companies has the potential to become a significant competitive threat to larger, nationwide service provider. Its strategy works because it is focused on a part of the market, small companies with 4 - 100 employees, with a price competitive service coupled with high touch service and support. CBeyond has an opportunity to generate additional revenue by developing and deploying enhanced call feature / applications. (*Verizon Promotional Literature)*

*Service Industry Organizations*

Founded in 1942, the Association of TeleServices International (ATSI) represents 800 of the most sophisticated TeleService agencies in the world. With over 350,000 customers in the U.S. alone, the members generate revenue in excess of $1 billion. It is the trade association leader in this industry.

*The Changing Climate of the Medical Community*

Much has been written lately about the concept of Patient Centered Scheduling. This concept is specifically designed to better provide timely access to medical care to those most in need. Patient Centered Scheduling is predicated on the assumption that patients will call for appointments when they need it as opposed to being provided a fixed appointment upon exiting the office. Doing this typically results in fewer no-show appointments because an appointment not made is one that cannot be forgotten.

This dynamic change in the paradigm of appointment scheduling dramatically shifts the burden of responsibility of making appointments to the patient. This change in procedure results in a larger number of patients scheduling appointments via a telephone interaction instead of making it in the office. This will result in a larger potential population of offices becoming overwhelmed with their demand to manage this front office task.

*Typical Office Problem -- and the* FŌCuS *Solution*

*BEFORE:*

Imagine the scene at the intake desk of a high traffic medical office or hospital outpatient clinic. Telephones are ringing, patients are calling, people are waiting at the front desk waiting to pay their co-payments or to get their referrals or prescriptions and all the while the front office personnel is torn between quieting the background din of the ringing telephones and answering the question of the patient at the front window. Maybe they *do* answer the telephone and put that patient on an extended hold while they address the concerns of the patient in front of them, or maybe they don't. Now add to that the fact that the in-office staff

member who normally would answer the telephone at the front desk had called in sick this morning.

*AFTER:*

Now imagine the same scene playing out without the telephone ringing incessantly in the background. Suddenly the chaos of the office becomes simply addressing the immediate concern of the patient at the window and providing them the necessary service. This will improve patient flow both into and out of the office and allow staff to concentrate on vital administrative tasks, thus decreasing costly errors which are a primary source of insurance reimbursement denials.

*Overview*

The goal of Front Office Customer Service is to reduce the burden on busy group practices by providing virtual front office services allowing in-office staff to provide more proximate needed assistance to patients thereby and resulting in their being available for improved patient flow activities. Although these services and processes currently exist within the confines of the existing office, typically they distract the in-office clerical staff from other, perhaps more important, tasks resulting in needless waits and delays for the in-office patient as well as to the incoming call that has to be put on hold. In-office staff may continue to provide some duplicity of these services, but the reduced numbers of such encounters will permit for an enhanced in-office patient experience.

FŌCuS, Inc. (pronounced ***focus***) a Subchapter S Corporation entity, will operate as an independent agency acting on behalf of large group practices as the initial telephone point of contact providing a myriad of services in a manner consistent with the high quality, high volume practices they represent.

FŌCuS, Inc. will provide the following services to its clients:

- Personal, multilingual, courteous telephone answering service 24/7/365
- Medical Office Patch through
- Appointment scheduling
- Appointment confirmation calls
- Obtain basic new patient demographic data
- Incoming medical referral authentication and authorization
- Answer basic office policy questions (i.e. Insurances accepted, office hours, cancellation policy, etc.)
- Daily, weekly and monthly email reports detailing, by group provider:
    - Appointments kept
    - Future Appointments

- Next Available 3 appointments
- No-shows
- No-show rates
- Number of call received
- Total call time
- Average call duration
- Number of messages taken

*Location and Facilities*

FŌCuS will occupy leased commercial space in a suburban community in Suffolk County New York. Melville, Long Island is adjacent to a number of local Hispanic neighborhoods where large populations of qualified bilingual New Yorkers reside. This large population will serve to provide for a diverse community able to provide FŌCuS with ample support personnel resources in close proximity in the local commuting area.

The building services commercial businesses in a predominantly office park type setting managed by Reckson Associates. A lease was negotiated which provides for an initial 10 year term with a 5 year renewal option. Rents will accelerate by 3% per year. New construction will provide for modern, well equipped, and technologically advanced office space. Partitioning of the space was negotiated as part of the lease. The 2684 sq ft facility would be divided to accommodate telephone operators in cubical type desk arrangements placed in a large central space of approximately 900 sq ft. There will be 780 sq ft of surrounding administrative office space, a 120 sq ft. kitchen, a 120 sq ft file/copy/utility room, 100 sq ft of closet space and a 210 sq ft conference room. Interior hallways, interior closets, outer shared common areas and outer hallways account for the remaining square footage. Lavatories facilities are common to all the suites on the floor via private key access.

A physical location for the headquarters of operations of FŌCuS will be essential to provide for the need to have a physical address to receive mail, collect checks, conduct professional meetings and provide a training site for future employees. The large 900 sq ft central space will eventually become a training center as more and more operators begin to provide services as telecommuters.

Office expansions will most likely be unnecessary. Future FŌCuS “offices” will be virtual as telephony and VoIP technology enables future telephone operator hires to conduct telecommuting services while being completely accountable and responsible to both FŌCuS and the clients they serve.

**Plan for Start-up**

*Start-Up Staffing Requirements*

FŌCuS utilizes the following full time equivalent personnel to conduct its operations and to meet the initial needs of its market:

| Job Position | FTEE | Tour |
|---|---|---|
| **Telephone Operators** | | |
| Telephone Operators | 3.0 | 8:00 am - 4:00 pm |
| Telephone Operators | 3.0 | 4:00 pm - 12:00 midnight |
| Telephone Operators | 2.0 | 12:00 midnight - 8:00 am |
| **Telephone Operator Subtotal** | **8.0** | |
| **Administrative Support** | | |
| Administrative Assistant | 1.0 | 8:00 am - 4:00 pm |
| Telephone Supervisor | 1.0 | 8:00 am - 4:00 pm |
| Telephone Supervisor | 1.0 | 4:00 pm - 12:00 midnight |
| Telephone Supervisor | 1.0 | 12:00 midnight - 8:00 am |
| **Administrative Support Subtotal** | **4.0** | |
| **Sales Support** | | |
| Sales Team Members | 2.0 | 8:00 am - 4:00 pm |
| **Sales Support Subtotal** | **2.0** | |
| **Technology Support** | | |
| Software Programmer(s) | 1.5 | 8:00 am - 4:00 pm |
| **Technology Support Subtotal** | **1.5** | |
| **Total:** | **15.5** | |

*Staff Recruitment*

Except for the President/CEO, CFO and COO who are the principles of the start-up venture, all other staff personnel will be newly hired. Individuals will be hired by open invitation placed in local newspaper classified ads as well as web searches on monster.com, jobs.com and other such web site where resumes are publically posted.

*Initial Capacity*

At the initial staffing level, FŌCuS will be able to accommodate an anticipated rate of 84 incoming calls per Telephone Operator FTEE per day, with Shift Supervisors assisting during unusually busy periods. This number is derived by conservatively assuming the industry average 4.6 minutes per transaction and estimating up to 5 minute transactions. A 5* minute duration leads to 12 potential telephone calls answered per hour. In an 8 hour work day, accounting for 1 hour of scattered break time(s), there are 7 working hours. We conclude therefore, that 12 x 7 = 84 possible transactions per person per day. Extrapolated, this means that capacity is 252 calls for each of the day shifts (a total of 504 calls) plus 168 encounters for the night shift totaling 672 possible telephone calls accepted each day.

*President/CEO*

Acts as chief executive officer and as such is responsible for overall health of FŌCuS, Inc. Under broad operating guidelines from the board of directors assumes the full responsibility for keeping FŌCuS, Inc. a profitable corporation.

The President plans, directs, coordinates, and controls the daily operation of FŌCuS through the CFO and COO. Exercises the responsibility for approval of all FŌCuS budgets, submits these budgets to the board of directors for approval, and monitors expenditures against the budget. Directs the development of and approves standards and procedures. The President is responsible for development of FŌCuS personnel policies and obtaining approval from the board of directors, provides board of directors with monthly status report and detailed quarterly financial reports, assumes responsibility for all aspects of daily operation of FŌCuS including hiring, firing of employees, determination of employees' salaries within salary guidelines approved by the board, organizational structure, staffing within approved budgets, approving expense reports.

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*http://multichannelmerchant.com/mag/benchmark_contact_center_05012006/

Multichannel Merchant Magazine

“Benchmark 2006 on Contact Centers”, May 1, 2006, By Mark Del Franco

*Chief Financial Officer (CFO)*

The Chief Financial Officer is responsible for the business and financial strategy and planning, monitoring, management and reporting, including management and development of policies, systems, processes and personnel involved. Responsibilities also include reporting and accounting as per regulatory and legal requirements including taxation, dividends, annual report and accounts. Other responsibilities involve management of strategy for and liaison with stock market, business press and business analysts community, financial staff management, motivation, training, recruitment and selection, contributing to strategic planning and development as a member of executive team, and probably keeping and distributing notes and records, reports to executive and management team. Other areas of potential responsibility are oversight of company insurance, plant, trading, acquisitions and divestments, disposals), major supplier/customer/partner relationships, regulatory bodies relationships and strategies, approvals and accreditations. Additional responsibilities include IT responsibilities in the absence of the IT staff, environmental responsibilities, quality assurance responsibilities, and health and safety responsibilities. Lastly, the CFO has 'Company Secretary' responsibilities.

*Chief Operating Officer (COO)*

Steven L Goldman, DPM, MBA

The Chief Operating Officer (COO) is responsible for planning, development and implementation strategy for operational management and development so as to meet agreed organizational performance plans within agreed budgets and timescales (covering relevant areas of operation - e.g. manufacturing, distribution, administration, whatever falls within remit according to organization's structure), establish and maintain appropriate systems for measuring necessary aspects of operational management and development, monitor, measure and report on operational issues, opportunities and development plans and achievements within agreed formats and timescales, manage and develop direct reporting staff, manage and control departmental expenditure within agreed budgets, liaise with other functional/departmental managers so as to understand all necessary aspects and needs of operational development, and to ensure they are fully informed of operational objectives, purposes and achievements and maintain awareness and knowledge of contemporary operational development theory and methods and provide suitable interpretation to directors, managers and staff within the organization. The COO must also contribute to the evaluation and development of operational strategy and performance in co-optation with the executive team, ensure activities meet with and integrate with organizational requirements for quality management, health and safety, legal stipulations, environmental policies and general duty of care. In the absence of the President/CEO, execute the responsibilities of a company director according to lawful and ethical standards.

*Telephone Operators*

Telephone Operators are at the core of the operation. These individuals will be screened for their bilingual skills; initially in English and Spanish, expanding to Korean, Chinese, Japanese, Russian and other languages as demand requires. Basic knowledge of medical office management is essential, particularly referral procedures. A minimum of a high school diploma and/or trade school certification in medical office procedures will be a preferred credential as part of job selection. Operator's performance will be assessed, graded and provided feedback by Shift Supervisors and the medical offices they serve.

*Shift Supervisors*

Shift Supervisors are individuals with a rich and diverse background in customer service and a depth of personnel supervision experience. This individual should have sufficient experience to act as a site manager of operations during their tour as well as be able to facilitate and assist during unusually busy call volume periods. A college degree with either a management and/or communications background would be preferred at this level. Shift Supervisors performance will be assessed by the COO.

*Administrative Assistant*

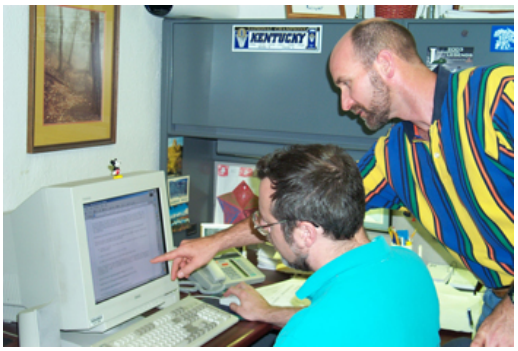
The Administrative Assistant will be an individual experienced in the use of numerous Windows and Microsoft Office® Software packages such as Word, Outlook, and Excel. The Administrative Assistant will perform clerical duties for the President, COO and CFO on an "as-needed" basis as well as act as the Public Relations Representative for the organization. A college degree with a communications background would be

preferred at this level. Administrative Assistant performance will be assessed by the President.

*Sales Staff*

Sales staff will provide client enrollment and should be familiar with the unique demands of the busy, medical group office practice. A degree with a marketing and/or communications background would be preferred at this level. Sales staff performance will be assessed by the COO.

*Information Technology Staff*




Technology staff should be proficient and have a demonstrated level of experience and certifications using Microsoft® Visual Basic, SQL Server, FrontPage, and Crystal Reports®. Other computer programming languages are beneficial but should be augmented by the listed requirements. A Bachelor or Master of Science degree in computer science and/or enriched technology background would be preferred at this level. Technology staff performance will be assessed by the COO.

*Equipment Requirements*

Web site design (www.focus.com) can begin immediately, but its launch will be delayed until salesstaff is on board. Information on the web site will contain detailed descriptions of services as well testimonial and contact information. Forms should be available to permit prospective clients to begin the enrollment process. Web site hosting will be purchased as well as domain and email accounts for staff.

Web based scheduling software will be written in a style of Application Service Provider in order to accommodate the demands of the service and should have the following minimum capabilities:

- 128 bit encryption for HIPAA compliance
- Client / Service securities and logon/password authentications
- Reminders by provider
- Flexible day/week month as well as start/end time by provider
- Multiple appointment types (new, established, procedural, etc)

- Associated Notes and comments
- Complete searchable functionality
- Database queries for patient demographics
- Sophisticated reporting to provide:
    - Appointments kept
    - Future Appointments
    - Next Available 3 appointments
    - No-shows
    - No-show rates
    - Number of call received
    - Total call time
    - Average call duration
    - Number of messages taken
- Caller ID identification from incoming call to the scheduling package
- Autodial a telephone number and provide an automated appointment reminder outgoing message
- Frequent automatic backup

At least 12 Personal Computers, networking, ink jet and laser printing and other related hardware will be purchased to manage the service. It is anticipated that these needs will grow with increased service demand.

*Initial Marketing and Client Recruitment*

FŌCuS will purchase mailing lists of attendees at upcoming medical trade shows and prospective attendees sent informational and promotional literature prior to the conferences. Sales representatives will schedule, in advance of our initial rollout, booth reservations at medical trade shows where promotional literature will also be distributed at the conferences. There is a high degree of decision maker/sales person interaction potential. Close proximity to the decision makers of the practice has outstanding potential for new client enrollment.

**Policies and Procedures**

FŌCuS has established a comprehensive manual covering all business policies. The Policies and Procedures Manual covers all human resources related issues to include procedures for newly hired staff, staff orientation policies, safety, patient privacy, employee evaluation procedures and benefits.

**Licensure and Certificates of Need**

FŌCuS anticipates no expense in this area. No licensure or certificates of need are required to conduct this activity.

**Quality Assurance and Performance Improvement**

FŌCuS will continue to strive toward complete customer satisfaction and will perform periodic reviews and evaluations of its employees in an attempt to maintaining the highest standards of customer service and satisfaction. Call volume benchmarks will be measured relative to operator performance and this measure will be applied as criteria for evaluation. Operators not meeting call targets by 10% or more for 2 consecutive evaluation periods will be counseled to address concerns related to performance and measures will be initiated commensurate with those outlined in the employee handbook. Operators exceeding benchmarks by 10% in an evaluation period will be rewarded with monetary bonuses related to their high achievement.

## Time Line of Significant Events

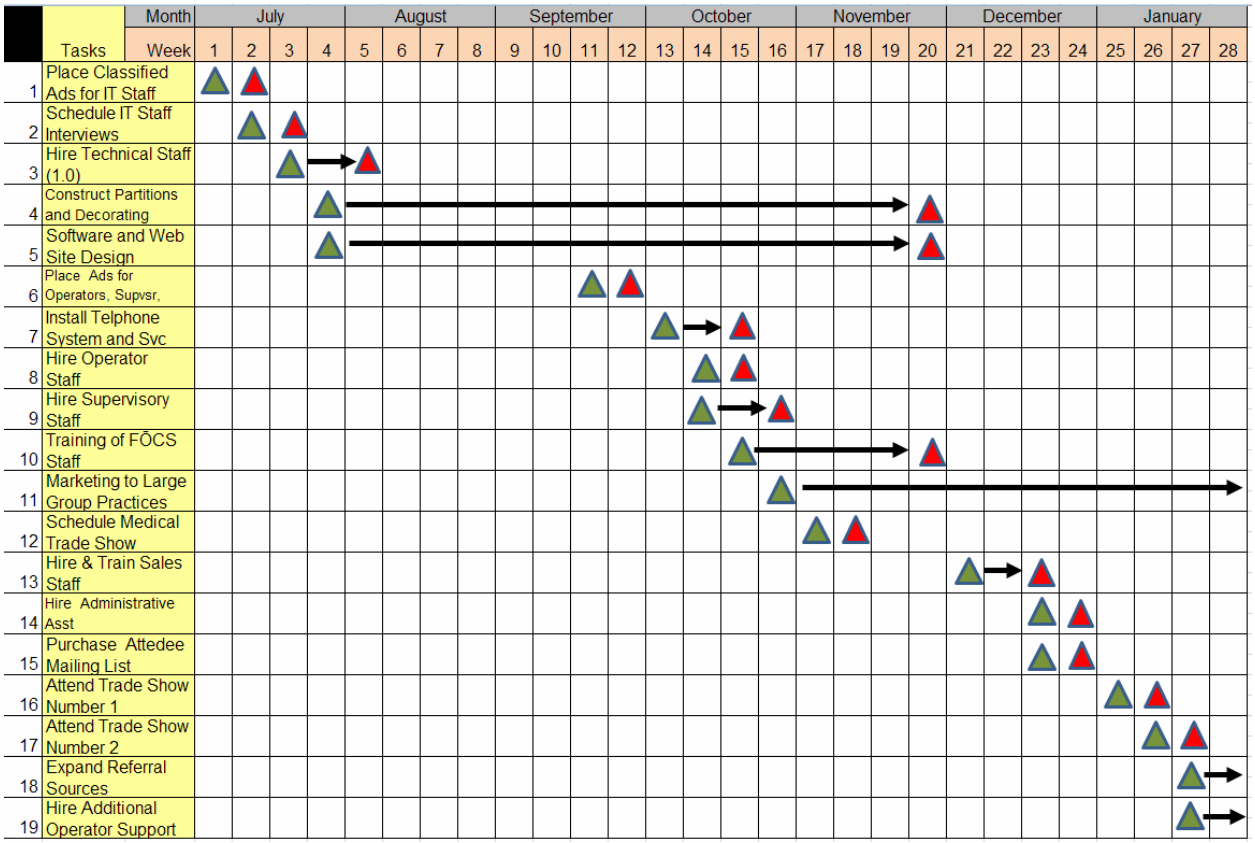
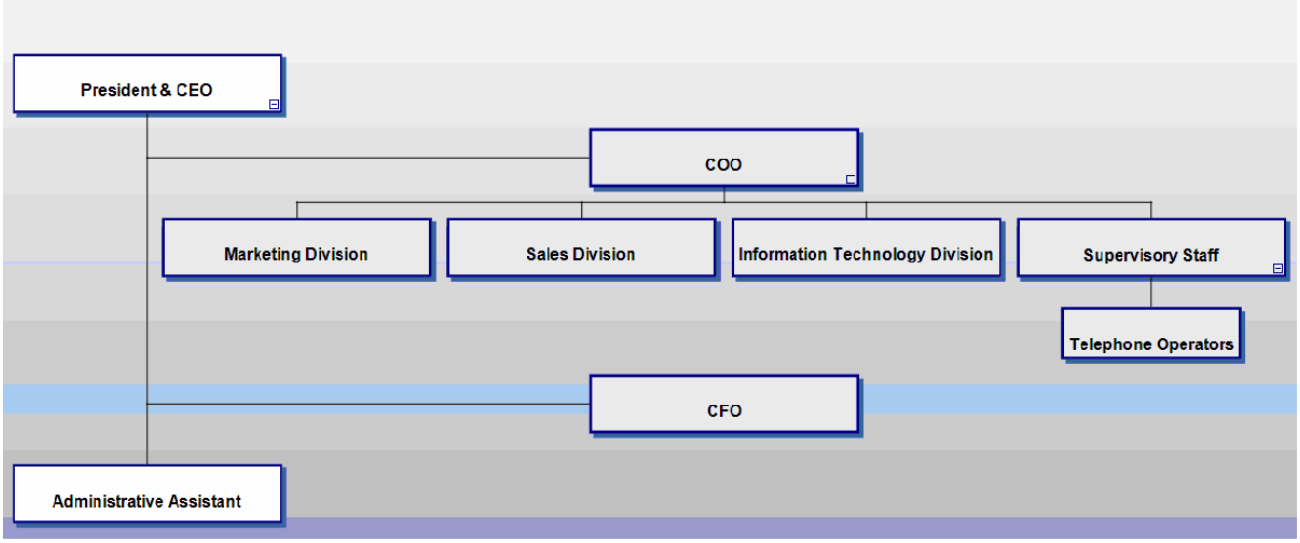


**Table of Organization**



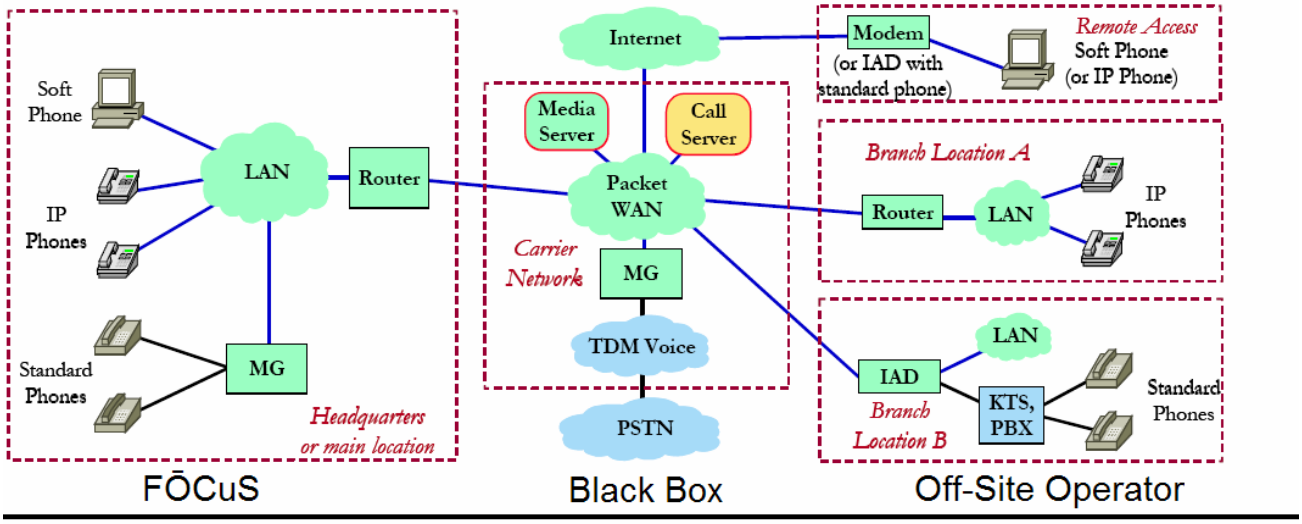

**Strategy for Managing Growth Capacity**

What do JetBlue Airlines and FŌCuS have in common? Well, aside from both companies sharing a vision for a highly profitable long-term future, FŌCuS rips a page out of JetBlue Airline's processes and procedures that allow JetBlue Airlines to continue to remain lean throughout their growth curve. Essentially, when a customer calls JetBlue Airlines and requests to speak to a telephone operator, the call is automatically routed to a remote employee, perhaps sitting in their own living room, den or basement, hooked up to the internet, logged into the JetBlue Airlines system, and able to provide the highly interactive experience the calling customer sees as completely invisible. We know this because the telecommunications company Verizon, the company we have obtained VoIP, networking and hardware estimates from, is the very company that set up JetBlue Airlines with the CBeyond technology architecture illustrated earlier.


Each shift will be viewed as an individual entity for the purposes of establishing the need for increases in staffing. As demand approaches 85% of capacity for any single shift, additional FTEE operator personnel will be hired to accommodate the increase in call volume and to manage any potential erosions of efficiency. Time, call volume studies and other benchmarks will be performed to establish any unique peaks in demand or other anomalies that would require part-time operator additions to any single shift.

Future growth will be managed through currently available inexpensive VoIP technologies and would permit flexible shift full and part time bilingual employees who are dedicated solely to a set panel of medical office clients. The VoIP technology enables off-site employees to be a true "invisible" employee to their paired medical office. These telephone operators would be able to provide the ***exact*** same level service in the privacy of their own homes in their capacity as a telecommuting employee as the conventional in-office FŌCuS telephone operator who provides services within the confines of the Melville office location. This is accomplished utilizing the following telephone network architecture and configuration:

Hosted IP Voice Architecture




The network provides remote telephone service, answered by anyone, anywhere with internet access, to answer a telephone call directed to them via a central router and perform internet tasks like appointment scheduling. The black box technology to manage this activity is inexpensive compared to its equivalent "conventional" telephone technology and is readily available from a number of service providers. The black box technology will also provide FŌCuS with the opportunity to monitor the off-site call routing, duration and volume to a virtually unlimited scalable workforce always at a level sufficient to manage demand.

*Appendix A*

3 Year Projected Targets

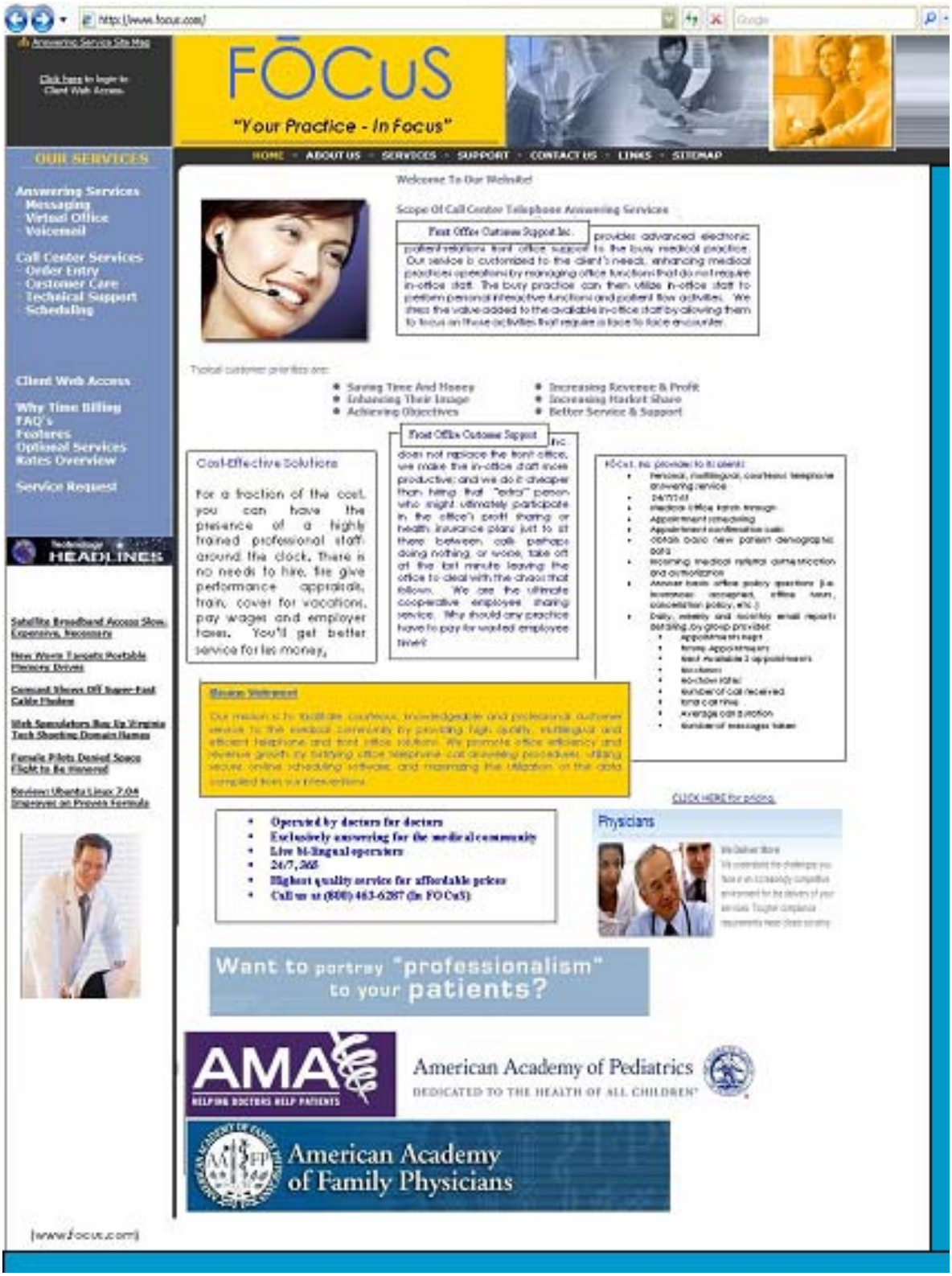
| | Year 1 | Year 2 | Year 3 | Total |
|---|---|---|---|---|
| **Practices Enrolled** | 30 | 41 | 58 | **129** |
| **Physicians Signed** | 139 | 193 | 271 | **602** |
| **Market Penetration** | 1.4% | 1.9% | 2.7% | **6.0%** |
| **Cummulative Penetration** | 1.4% | 3.3% | 6.0% | **6.0%** |

3 Year Projected Ratios

| | Year 1 | Year 2 | Year 3 | Standard |
|---|---|---|---|---|
| **Current** | 18.3 | 6.0 | 3.8 | 1.3 |
| **Total Asset Turnover** | 0.7 | 1.4 | 1.2 | 1.6 |
| **Debt Ratio** | 54.6% | 32.1% | 28.3% | N/A |
| **Basic Earning Power** | -90.8% | 39.0% | 69.1% | N/A |
| **ROA** | -94.1% | 24.2% | 44.5% | N/A |
| **ROE** | -207.2% | 35.7% | 62.0% | N/A |

*Appendix B*

Web Site


FOCuS
"Your Practice - In Focus"
HOME · ABOUT US · SERVICES · SUPPORT · CONTACT US · LINKS · SITEMAP
Welcome To Our Website!
Scope Of Call Center Telephone Answering Services
Front Office Outcome Support Inc.
Cost-Effective Solutions
Physicians
Want to portray "professionalism" to your patients?
AMA
American Academy of Pediatrics
American Academy of Family Physicians

*Appendix C*

Pro Forma Balance Sheet(s)

*Pro Forma Balance Sheet Normal Scenario*

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $2,313,072 | $ 831,854 | $1,453,921 | $3,843,528 |
| Accounts Receivable | $ - | $ 256,513 | $ 677,448 | $1,323,693 |
| Total Current Assets | $2,313,072 | $1,088,367 | $2,131,369 | $5,167,221 |
| Property and Equipment | $ 20,000 | $ 19,000 | $ 17,000 | $ 15,000 |
| Less Accumulated Depreciation | $ 1,000 | $ 2,000 | $ 2,000 | $ 2,000 |
| Net Property and Equipment | $ 19,000 | $ 17,000 | $ 15,000 | $ 13,000 |
| **Total Assets** | **$2,332,072** | **$1,105,367** | **$2,146,369** | **$5,180,221** |
| | | | | |
| **Liabilities and Stockholders' Equity** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ - | $ 9,389 | $ 20,928 | $ 37,054 |
| Salaries Payable | $ 33,061 | $ 50,063 | $ 56,189 | $ 68,090 |
| Accrued Income Taxes Payable | $ - | $ - | $ 280,151 | $1,240,594 |
| Total Current Liabilities | $ 33,061 | $ 59,452 | $ 357,268 | $1,345,738 |
| Long-term Debt | $ 756,250 | $ 543,750 | $ 331,250 | $ 118,750 |

| | | | | |
|---|---|---|---|---|
| Total Liabilities | $ 789,311 | $ 603,202 | $ 688,518 | $1,464,488 |
| | | | | |
| Stockholder's Equity | $1,542,761 | $ 502,166 | $1,457,851 | $3,715,732 |
| **Total Liability and Stockholder's Equity** | **$2,332,072** | **$1,105,367** | **$2,146,369** | **$5,180,221** |

*Pro Forma Balance Sheet Optimistic Scenario*

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $2,413,072 | $1,153,057 | $2,990,261 | $7,890,151 |
| Accounts Receivable | $ - | $ 384,770 | $1,016,172 | $1,879,789 |
| Total Current Assets | $2,413,072 | $1,537,827 | $4,006,433 | $9,769,940 |
| Property and Equipment | $ 20,000 | $ 19,000 | $ 17,000 | $ 15,000 |
| Less Accumulated Depreciation | $ 1,000 | $ 2,000 | $ 2,000 | $ 2,000 |
| Net Property and Equipment | $ 19,000 | $ 17,000 | $ 15,000 | $ 13,000 |
| **Total Assets** | **$2,432,072** | **$1,554,827** | **$4,021,433** | **$9,782,940** |
| | | | | |
| **Liabilities and Stockholders' Equity** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ - | $ 11,083 | $ 27,293 | $ 48,300 |
| Salaries Payable | $ 33,061 | $ 50,180 | $ 56,380 | $ 68,359 |
| Accrued Income Taxes Payable | $ - | $ - | $ - | $2,106,745 |
| Total Current Liabilities | $ 33,061 | $ 61,262 | $ 83,673 | $2,223,405 |
| Long-term Debt | $ 756,250 | $ 543,750 | $ 331,250 | $ 118,750 |
| Total Liabilities | $ 789,311 | $ 605,012 | $ 414,923 | $2,342,155 |
| | | | | |
| Stockholder's Equity | $1,642,761 | $ 949,814 | $3,606,510 | $7,440,785 |
| **Total Liability and Stockholder's Equity** | **$2,432,072** | **$1,554,827** | **$4,021,433** | **$9,782,940** |

*Pro Forma Balance Sheet Pessimistic Scenario*

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $2,413,072 | $710,651 | $ 128,788 | $ 568,412 |
| Accounts Receivable | $ - | $128,257 | $ 338,724 | $ 767,596 |
| Total Current Assets | $2,413,072 | $838,908 | $ 467,511 | $1,336,009 |
| Property and Equipment | $ 20,000 | $ 19,000 | $ 17,000 | $ 15,000 |
| Less Accumulated Depreciation | $ 1,000 | $ 2,000 | $ 2,000 | $ 2,000 |
| Net Property and Equipment | $ 19,000 | $ 17,000 | $ 15,000 | $ 13,000 |
| **Total Assets** | **$2,432,072** | **$855,908** | **$ 482,511** | **$1,349,009** |
| | | | | |
| **Liabilities and Stockholders' Equity** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ - | $ 7,694 | $ 14,564 | $ 25,808 |
| Salaries Payable | $ 33,061 | $ 49,947 | $ 55,997 | $ 67,821 |
| Accrued Income Taxes Payable | $ - | $ - | $ - | $ 374,443 |
| Total Current Liabilities | $ 33,061 | $ 57,641 | $ 70,561 | $ 468,072 |
| Long-term Debt | $ 756,250 | $543,750 | $ 331,250 | $ 118,750 |
| Total Liabilities | $ 789,311 | $601,391 | $ 401,811 | $ 586,822 |
| | | | | |
| Stockholder's Equity | $1,642,761 | $254,517 | $ 80,700 | $ 762,186 |
| **Total Liability and Stockholder's Equity** | **$2,432,072** | **$855,908** | **$ 482,511** | **$1,349,009** |

*Appendix D*

Preliminary Profit (Loss) Statement(s) for FŌCuS

*Preliminary Profit (Loss) Statement Normal Scenario*

| | **Year 0** | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| Sales | $ - | $ 813,242 | $ 3,054,826 | $ 6,397,031 |
| Direct Cost of Sales (INCENTIVES) | $ - | $ 71,690 | $ 117,878 | $ 165,766 |
| **Gross Margin** | **$ -** | **$ 741,551** | **$ 2,936,948** | **$ 6,231,265** |
| Gross Margin % | 0 | 91.18% | 96.14% | 97.41% |
| | | | | |
| **Operating Expenses** | | | | |
| **Sales and Marketing Expenses** | | | | |
| Sales and Marketing Payroll | $ 10,833 | $ 130,000 | $ 198,900 | $ 269,867 |
| Advertising/Promotion | $ 5,000 | $ 40,662 | $ 152,741 | $ 319,852 |
| Travel | $ - | $ 24,000 | $ 36,000 | $ 48,000 |
| Miscellaneous | $ 10,000 | $ 10,000 | $ 15,000 | $ 20,000 |

| | | | | |
|---|---|---|---|---|
| **Total Sales and Marketing** | **$ 25,833** | **$ 204,662** | **$ 402,641** | **$ 657,719** |
| | | | | |
| **General and Administrative Expenses** | | | | |
| General Payroll | $ 221,250 | $ 907,500 | $ 1,004,725 | $ 1,209,867 |
| Rent | $ 27,600 | $ 56,028 | $ 57,709 | $ 59,440 |
| Loan Payment | $ 93,750 | $ 212,500 | $ 212,500 | $ 212,500 |
| Lease (Computers) | $ 3,264 | $ 6,528 | $ 6,528 | $ 6,528 |
| Lease(Telephone | $ 8,350 | $ 33,400 | $ 33,400 | $ 33,400 |
| Software Purchases | $ 30,000 | | | |
| Telephone and Internet | $ 3,000 | $ 24,000 | $ 31,200 | $ 38,400 |
| Payroll Taxes | $ 18,103 | $ 86,517 | $ 103,077 | $ 128,349 |
| Fringe Benefits | $ 46,417 | $ 207,500 | $ 240,725 | $ 295,947 |
| Miscellaneous Start Up Costs | $ 35,000 | | | |
| Miscellaneous Fixed Costs | | $ 5,000 | $ 5,500 | $ 6,050 |
| Depreciation | $ 500 | $ 2,000 | $ 2,000 | $ 2,000 |
| **Total General and Administrative Expenses** | **$ 487,233** | **$ 1,540,973** | **$ 1,697,364** | **$ 1,992,481** |
| | | | | |

| | | | | |
|---|---|---|---|---|
| **Total Operating Expenses** | **$ 513,067** | **$ 1,745,635** | **$ 2,100,005** | **$ 2,650,199** |
| | | | | |
| **Net Income From Operations** | **$ (513,067)** | **$ (1,004,084)** | **$ 836,943** | **$ 3,581,066** |
| Interest Expense | $ 18,256 | $ 36,512 | $ 36,512 | $ 36,512 |
| | | | | |
| **Net profit (Loss) before taxes** | $ (531,322) | $ (1,040,595) | $ 800,431 | $ 3,544,554 |
| Taxes (35%) | $ - | $ - | $ 280,151 | $ 1,240,594 |
| | | | | |
| **Net Profit (Loss) After Taxes** | **$ (531,322)** | **$ (1,040,595)** | **$ 520,280** | **$ 2,303,960** |
| Net Profit % | | -127.96% | 17.03% | 36.02% |

*Preliminary Profit (Loss) Statement Optimistic Scenario*

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Sales | $ - | $ 1,219,863 | $ 4,582,239 | $ 9,096,047 |
| Direct Cost of Sales (INCENTIVES) | $ - | $ 107,536 | $ 176,817 | $ 248,649 |
| **Gross Margin** | **$ -** | **$ 1,112,327** | **$ 4,405,422** | **$ 8,847,398** |
| Gross Margin % | 0 | 91.18% | 96.14% | 97.27% |
| | | | | |
| **Operating Expenses** | | | | |
| **Sales and Marketing Expenses** | | | | |
| Sales and Marketing Payroll | $ 10,833 | $ 130,000 | $ 198,900 | $ 269,867 |
| Advertising/Promotion | $ 5,000 | $ 60,993 | $ 229,112 | $ 454,802 |
| Travel | $ - | $ 24,000 | $ 36,000 | $ 48,000 |
| Miscelaneous | $ 10,000 | $ 10,000 | $ 15,000 | $ 20,000 |
| **Total Sales and Marketing** | **$ 25,833** | **$ 224,993** | **$ 479,012** | **$ 792,669** |
| | | | | |
| **General and Administrative Expenses** | | | | |
| General Payroll | $ 221,250 | $ 907,500 | $ 1,004,725 | $ 1,209,867 |

| | | | | |
|---|---|---|---|---|
| Rent | $ 27,600 | $ 56,028 | $ 57,709 | $ 59,440 |
| Loan Payment | $ 93,750 | $ 212,500 | $ 212,500 | $ 212,500 |
| Lease (Computers) | $ 3,264 | $ 6,528 | $ 6,528 | $ 6,528 |
| Lease(Telephone | $ 8,350 | $ 33,400 | $ 33,400 | $ 33,400 |
| Software Purchases | $ 30,000 | | | |
| Telephone and Internet | $ 3,000 | $ 24,000 | $ 31,200 | $ 38,400 |
| Payroll Taxes | $ 18,103 | $ 89,313 | $ 107,675 | $ 134,814 |
| Fringe Benefits | $ 46,417 | $ 207,500 | $ 240,725 | $ 295,947 |
| Miscellaneous Start Up Costs | $ 35,000 | | | |
| Miscellaneous Fixed Costs | | $ 5,000 | $ 5,500 | $ 6,050 |
| Depreciation | $ 500 | $ 2,000 | $ 2,000 | $ 2,000 |
| **Total General and Administrative Expenses** | **$ 487,233** | **$ 1,543,769** | **$ 1,701,961** | **$ 1,998,945** |
| | | | | |
| **Total Operating Expenses** | **$ 513,067** | **$ 1,768,762** | **$ 2,180,973** | **$ 2,791,615** |
| | | | | |
| **Net Income From Operations** | **$(513,067)** | **$ (656,435)** | **$ 2,224,449** | **$ 6,055,783** |
| Interest Expense | $ 18,256 | $ 36,512 | $ 36,512 | $ 36,512 |
| | | | | |
| **Net profit (Loss) before taxes** | $(531,322) | $ (692,947) | $ 2,187,937 | $ 6,019,271 |

| | | | | |
|---|---|---|---|---|
| Taxes (35%) | $ - | $ - | $ - | $ 2,106,745 |
| | | | | |
| **Net Profit (Loss) After Taxes** | **$(531,322)** | **$ (692,947)** | **$ 2,187,937** | **$ 3,912,526** |
| Net Profit % | | -56.81% | 47.75% | 43.01% |

*Preliminary Profit (Loss) Statement Pessimistic Scenario*

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Sales | $ - | $ 406,621 | $ 1,527,413 | $ 3,698,016 |
| Direct Cost of Sales (INCENTIVES) | $ - | $ 35,845 | $ 58,939 | $ 82,883 |
| **Gross Margin** | **$ -** | **$ 370,776** | **$ 1,468,474** | **$ 3,615,133** |
| Gross Margin % | 0 | 91.18% | 96.14% | 97.76% |
| | | | | |
| **Operating Expenses** | | | | |
| **Sales and Marketing Expenses** | | | | |
| Sales and Marketing Payroll | $ 10,833 | $ 130,000 | $ 198,900 | $ 269,867 |
| Advertising/Promotion | $ 5,000 | $ 20,331 | $ 76,371 | $ 184,901 |
| Travel | $ - | $ 24,000 | $ 36,000 | $ 48,000 |
| Miscelaneous | $ 10,000 | $ 10,000 | $ 15,000 | $ 20,000 |
| **Total Sales and Marketing** | **$ 25,833** | **$ 184,331** | **$ 326,271** | **$ 522,768** |
| | | | | |
| **General and Administrative Expenses** | | | | |
| General Payroll | $ 221,250 | $ 907,500 | $ 1,004,725 | $ 1,209,867 |

| | | | | |
|---|---|---|---|---|
| Rent | $ 27,600 | $ 56,028 | $ 57,709 | $ 59,440 |
| Loan Payment | $ 93,750 | $ 212,500 | $ 212,500 | $ 212,500 |
| Lease (Computers) | $ 3,264 | $ 6,528 | $ 6,528 | $ 6,528 |
| Lease(Telephone | $ 8,350 | $ 33,400 | $ 33,400 | $ 33,400 |
| Software Purchases | $ 30,000 | | | |
| Telephone and Internet | $ 3,000 | $ 24,000 | $ 31,200 | $ 38,400 |
| Payroll Taxes | $ 18,103 | $ 83,721 | $ 98,480 | $ 121,884 |
| Fringe Benefits | $ 46,417 | $ 207,500 | $ 240,725 | $ 295,947 |
| Miscellaneous Start Up Costs | $ 35,000 | | | |
| Miscellaneous Fixed Costs | | $ 5,000 | $ 5,500 | $ 6,050 |
| Depreciation | $ 500 | $ 2,000 | $ 2,000 | $ 2,000 |
| **Total General and Administrative Expenses** | **$ 487,233** | **$ 1,538,177** | **$ 1,692,767** | **$ 1,986,016** |
| | | | | |
| **Total Operating Expenses** | **$ 513,067** | **$ 1,722,508** | **$ 2,019,037** | **$ 2,508,783** |
| | | | | |
| **Net Income From Operations** | **$(513,067)** | **$(1,351,732)** | **$ (550,563)** | **$ 1,106,349** |
| Interest Expense | $ 18,256 | $ 36,512 | $ 36,512 | $ 36,512 |

| | | | | |
|---|---|---|---|---|
| **Net profit (Loss) before taxes** | $(531,322) | $(1,388,244) | $ (587,075) | $ 1,069,837 |
| Taxes (35%) | $ - | $ - | $ - | $ 374,443 |
| | | | | |
| **Net Profit (Loss) After Taxes** | **$(531,322)** | **$(1,388,244)** | **$ (587,075)** | **$ 695,394** |
| Net Profit % | | -341.41% | -38.44% | 18.80% |

*Appendix E*

Break Even Analysis Data

| | | |
|---|---|---|
| **Monthly Revenue Per Practice** | $ 4,897.29 | |
| **Monthly Fixed Costs** | $ 178,043.10 | |
| **Variable Costs per Practice** | $ 1,662.97 | |
| **Unit Contribution Margin** | $ 3,234.31 | |
| **CM Ratio** | 0.66 | |
| | | |
| **Break Even Point** | 55.05 | practices |

| **Practices** | **Fixed Cost** | **Variable Cost** | **Total Cost** | **Revenue** |
|---|---|---|---|---|
| 1 | $ 178,043 | $ 1,663 | $ 179,706 | $ 4,897 |
| 55 | $ 178,043 | $ 91,544 | $ 269,587 | $ 269,587 |
| 129 | $ 178,043 | $ 214,524 | $ 392,567 | $ 631,750 |

*Appendix F*

Expenditures Data

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Operating Expenses** | | | | |
| **Sales and Marketing Expenses** | | | | |
| Sales and Marketing Payroll | $ 10,833 | $ 130,000 | $ 198,900 | $ 269,867 |
| Advertising/Promotion | $ 5,000 | $ 40,662 | $ 152,741 | $ 314,326 |
| Travel | $ - | $ 24,000 | $ 36,000 | $ 48,000 |
| Miscellaneous | $ 10,000 | $ 10,000 | $ 15,000 | $ 20,000 |
| **Total Sales and Marketing** | **$ 25,833** | **$ 204,662** | **$ 402,641** | **$ 652,193** |
| | | | | |
| **General and Administrative Expenses** | | | | |
| General Payroll | $221,250 | $ 907,500 | $1,004,725 | $1,209,867 |
| Rent | $ 27,600 | $ 56,028 | $ 57,709 | $ 59,440 |
| Loan Payment | $ 93,750 | $ 212,500 | $ 212,500 | $ 212,500 |
| Lease (Computers) | $ 3,264 | $ 6,528 | $ 6,528 | $ 6,528 |
| Lease(Telephone | $ 8,350 | $ 33,400 | $ 33,400 | $ 33,400 |
| Software Purchases | $ 30,000 | | | |
| Telephone and Internet | $ 3,000 | $ 24,000 | $ 31,200 | $ 38,400 |
| Payroll Taxes | $ 18,103 | $ 86,517 | $ 103,077 | $ 127,487 |
| Fringe Benefits | $ 46,417 | $ 207,500 | $ 240,725 | $ 295,947 |
| Miscellaneous Start Up Costs | $ 35,000 | | | |
| Miscellaneous Fixed Costs | | $ 5,000 | $ 5,500 | $ 6,050 |

| | | | | |
|---|---|---|---|---|
| Depreciation | $ 500 | $ 2,000 | $ 2,000 | $ 2,000 |
| **Total General and Administrative Expenses** | **$487,233** | **$1,540,973** | **$1,697,364** | **$1,991,619** |
| | | | | |
| **Total Operating Expenses** | **$513,067** | **$1,745,635** | **$2,100,005** | **$2,643,812** |
| Direct Cost of Sales (INCENTIVES) | $ - | $ 71,690 | $ 117,878 | $ 154,715 |
| **Total Expenditures** | **$513,067** | **$1,817,325** | **$2,217,884** | **$2,798,527** |

*Appendix G*

Payroll Detail

| | Base | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| *Sales and Marketing* | | | | | |
| Salesperson | $ 65,000.00 | $ 10,833.00 | $ 130,000.00 | $ 198,900.00 | $ 269,867.00 |
| Comissions | | $ - | $ 86,663.00 | $ 204,840.00 | $ 307,260.00 |
| *General and Administrative* | | | | | |
| President/CEO | $ 120,000.00 | $ 30,000.00 | $ 120,000.00 | $ 123,600.00 | $ 127,308.00 |
| Chief Financial Officer | $ 110,000.00 | $ 27,500.00 | $ 110,000.00 | $ 113,300.00 | $ 116,699.00 |
| Chief Operating Officer | $ 110,000.00 | $ 27,500.00 | $ 110,000.00 | $ 113,300.00 | $ 116,699.00 |
| Technical Support | $ 65,000.00 | $ 27,083.00 | $ 97,500.00 | $ 100,425.00 | $ 103,438.00 |
| Shift Leaders | $ 50,000.00 | $ 37,500.00 | $ 150,000.00 | $ 154,500.00 | $ 159,135.00 |
| Executive Assistant | $ 40,000.00 | $ 1,667.00 | $ 40,000.00 | $ 41,200.00 | $ 42,436.00 |
| Operators | $ 35,000.00 | $ 70,000.00 | $ 280,000.00 | $ 358,400.00 | $ 544,152.00 |

| | | | | | |
|---|---|---|---|---|---|
| Fringe Benefits (20%) | | $ 46,417.00 | $ 207,500.00 | $ 240,725.00 | $ 295,947.00 |
| Payroll Taxes (7.8%) | | $ 18,103.00 | $ 80,925.00 | $ 93,883.00 | $ 115,419.00 |
| | **TOTAL** | **$ 296,603.00** | **$ 1,412,588.00** | **$ 1,743,073.00** | **$ 2,198,360.00** |

*Appendix H*

Projected Cash Flows

| | Projected | Cummulative |
|---|---|---|
| **Year 0** | $ (486,928) | $ (486,928) |
| **Year 1** | $ (1,481,218) | $ (1,968,146) |
| **Year 2** | $ 622,067 | $ (1,346,079) |
| **Year 3** | $ 2,389,606 | $ 1,043,528 |

*Appendix I*

Sensitivity Analysis Data

Projected Client Enrollment By Year

| | Total | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Normal** | 129 | 30 | 41 | 58 |
| **Optimistic** | 193 | 44 | 62 | 87 |
| **Pessimistic** | 64 | 15 | 21 | 29 |

Projected Profit (Loss) By Year

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Normal** | $ (531,322) | $ (1,040,595) | $ 520,280 | $2,303,960 |
| **Optimistic** | $ (531,322) | $ (692,947) | $ 2,187,937 | $3,912,526 |
| **Pessimistic** | $ (531,322) | $ (1,388,244) | $ (587,075) | $ 695,394 |

Break Even Point:

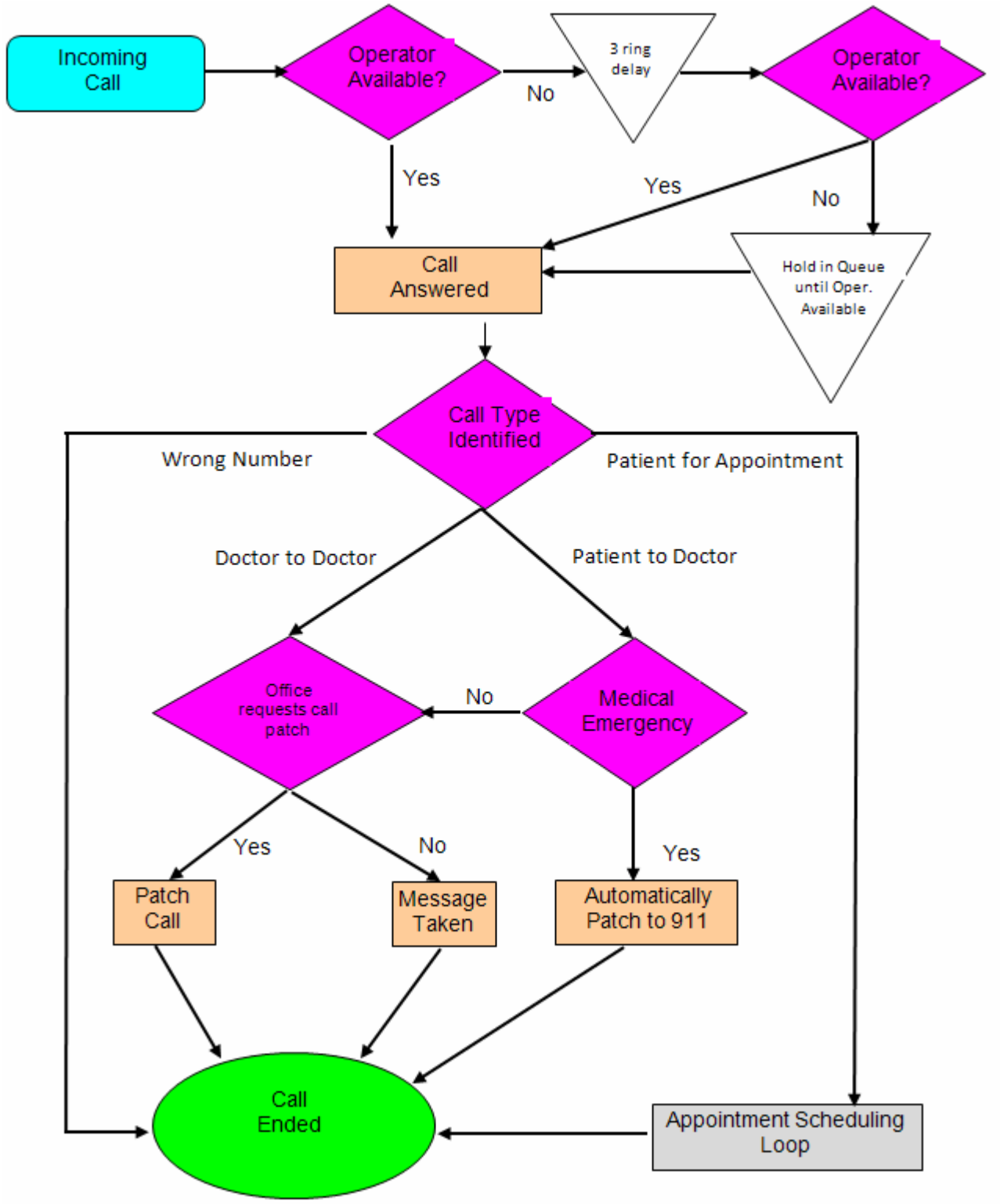
| | # of Clients Needed | Expected Achievement Date |
|---|---|---|

| | | |
|---|---|---|
| **Normal** | 55 | July, Year 2 |
| **Optimistic** | 57 | February, Year 2 |
| **Pesimistic** | 53 | July, Year 3 |

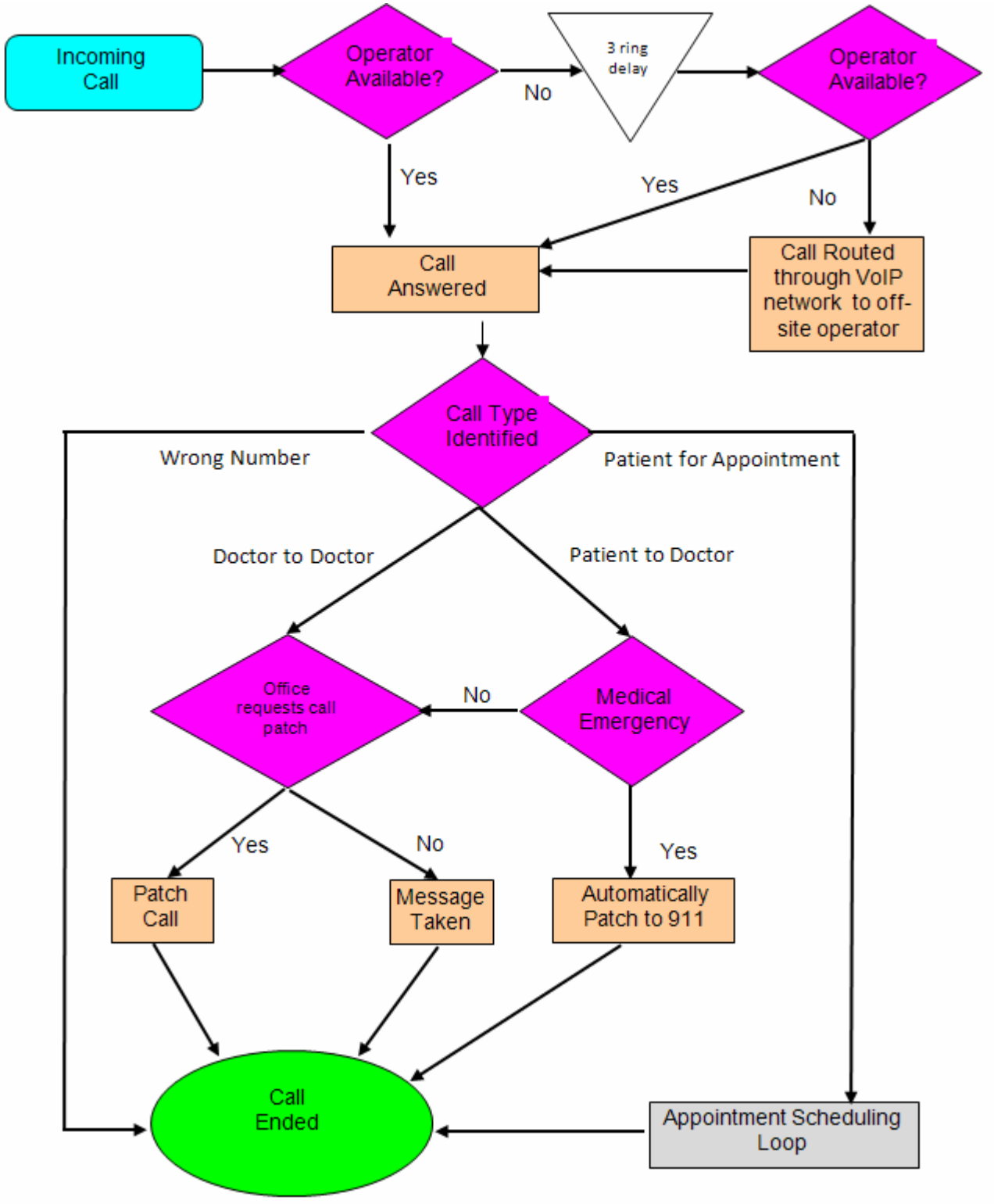
*Appendix J*

Systems Process Maps

*Start-UP Intake Telephone Call Process Mapping*

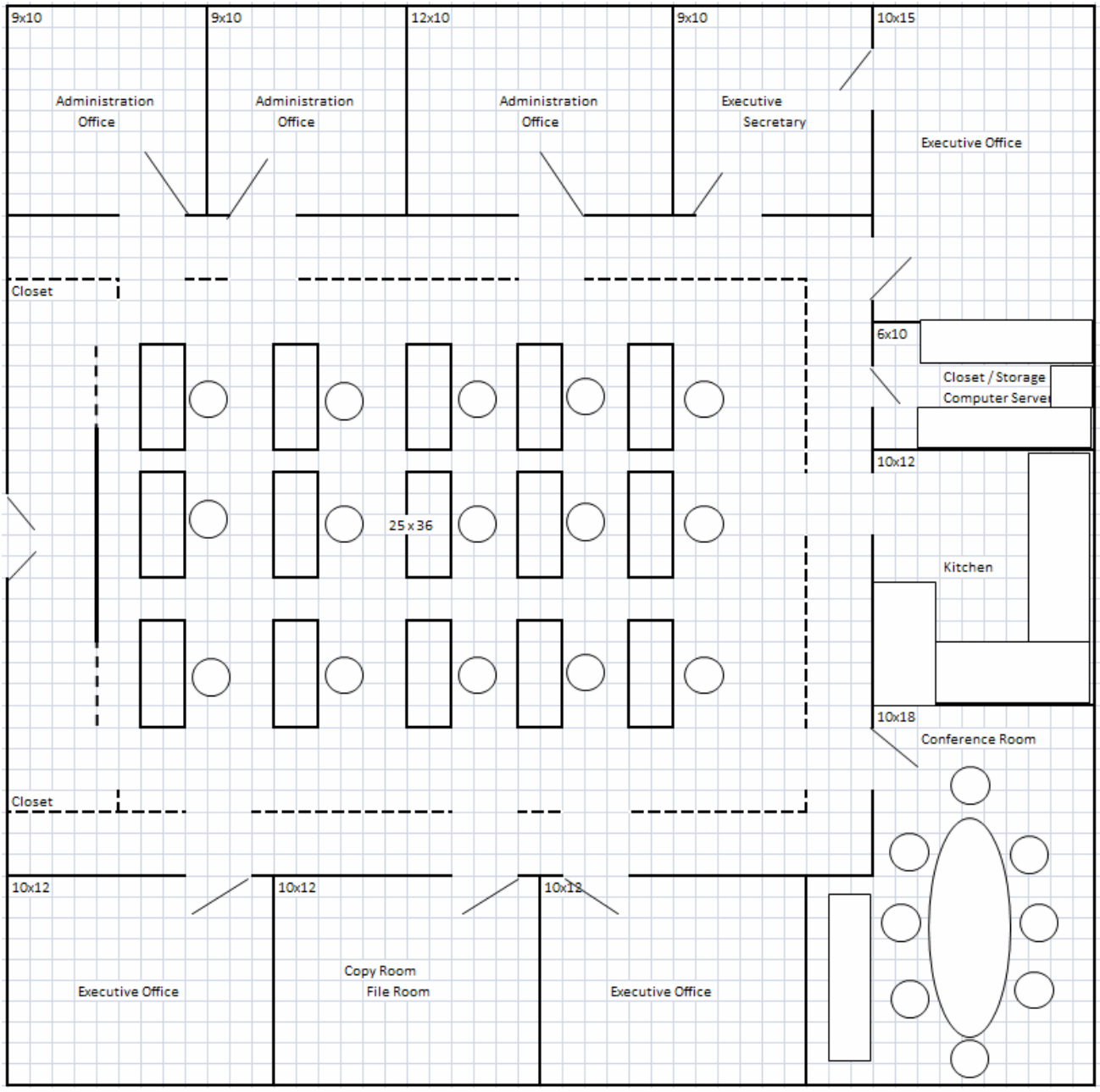

Incoming Call
Operator Available?
No
3 ring delay
Operator Available?
Yes
Yes
No
Call Answered
Hold in Queue until Oper. Available
Call Type Identified
Wrong Number
Patient for Appointment
Doctor to Doctor
Patient to Doctor
Office requests call patch
No
Medical Emergency
Yes
No
Yes
Patch Call
Message Taken
Automatically Patch to 911
Call Ended
Appointment Scheduling Loop

*Fully Operational Scalable Growth Strategy Intake Telephone Call Process Mapping*



*Appendix K*

Floor Plan



*Appendix L*

Client Enrollment Form

# Front Office Customer Service

### New Client Enrollment

| | |
|---|---|
| Practice Name | Date |
| Address | Account Representative |
| City State Zip | |
| Office Telephone ( ) -- | |
| Patch Telephone ( ) -- | |
| Fax ( ) -- | |
| email | |

**Providers:**

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

**In-Office Staff Members:**

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

# PROVIDER ENROLLMENT:_____

**Contact Information:**

Cell :(_____)_____-_____

Email:

_____

**Home Address:**

_____

_____

**Appointment Types to be created:**

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

**Typical Appointment Grid:**

| | FROM | TO |
|---|---|---|
| Monday: | | |
| Monday: | | |
| Monday: | | |
| Monday: | | |
| Monday: | | |
| Tuesday: | | |
| Tuesday: | | |
| Tuesday: | | |
| Tuesday: | | |
| Tuesday: | | |
| Wednesday | | |
| Wednesday | | |

Wednesday

Wednesday

Wednesday

Thursday:

Thursday:

Thursday:

Thursday:

Thursday:

Thursday:

Friday:

Friday:

Friday:

Friday:

Friday:

Saturday:

Saturday:

Saturday:

Sunday:

Sunday:

**Hospital Affiliations:**

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

**Insurances Accepted:**

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

**Specific Office Policies:**

Payment: _____

Cancellation:_____

Other1:_____

Other2:_____

Other3:_____

Other4:_____

Other5:_____

**Payment Methods Accepted:**

_____ Check _____Visa _____MasterCard _____Discover _____AMEX _____Other

**Patients accepted from ages:** _____ to _____-___

**If unavailable, coverage is provided by:**

Name:_____

Address1:_____

Address2:_____

City:_____ State:_____ Zip Code:_____

Telephone: (_____)_____-_____

**Languages with which your office interacts with patients:**

English Spanish Korean Japanese Russian Hebrew

Chinese - Mandarin  Chinese-Cantonese  Other:_____

**OTHER INFORMATION:**

*Appendix M*

Telephone Operator Performance Evaluation Form

# Front Office Customer Service

## Telephone Operator Performance Review

| | |
|---|---|
| Name | Date |
| Department | Supervisor |
| Review Period to | |

| | 1 = Poor | 2 = Fair | 3 = Satisfactory | 4 = Good | 5 = Excellent |
|---|---|---|---|---|---|
| **Job Knowledge** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Work Quality** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Attendance/Punctuality** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Initiative** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Communication/Listening Skills** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Benchmarks for Call Management** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Dependability** | ☐ | ☐ | ☐ | ☐ | ☐ |
| *Comments* | | | | | |
| **Overall Rating** *(average the rating numbers above)* | | | | | |

| |
|---|
| ADDITIONAL COMMENTS |
| GOALS<br>*(as agreed upon by employee and manager)* |

| | |
|---|---|
| Name | Date |
| Department | Supervisor |
| Review Period to | |
| | |

## Verification of Review

*By signing this form, you confirm that you have discussed this review in detail with your supervisor. Signing this form does not necessarily indicate that you agree with this evaluation.*

| | |
|---|---|
| Employee Signature | Date |
| Chief Operating Officer | Date |

*Appendix N*

FŌCuS Sales Team Member Evaluation Form

# Sales Team Member Evaluation

| | |
|---|---|
| **Team Member Name:** | |
| **Supervisor Name:** | |
| **Date of Review:** | |

**Ratings:**
1 = Very proficient: expert or certified
2 = Good: skilled or knowledgeable but not expert or certified
3 = Average: has some skill or knowledge
4 = Below average: has a little skill or knowledge
5 = No skill or knowledge in this area
NA = Not applicable

| Knowledge Area | Score |
|---|---|
| **1. Technical** | |
| 1a. Account management | |
| 1b. Other | |
| | |
| | |
| | |
| | |
| | |
| | |
| **2. Basic Sales Skills** | |
| 2a. Cold calling | |
| 2b. Following up on opportunities | |
| 2c. Customer service/inside sales | |
| 2d. Sales closing | |
| 2e. Negotiation skills | |
| 2f. Account/territory/category planning | |
| 2g. Presentation skills | |
| **3. Motivation and Achievement** | |
| 3a. Ability to hit goals | |
| 3b. Self-motivation | |
| 3c. Aggressiveness with competitors | |
| 3d. Resourcefulness | |
| 3e. High sales | |
| 3f. Consistent performance | |

| Knowledge Area | Score |
|---|---|
| **4. Account Management** | |
| 4a. Executive presentations | |
| 4b. Customer relationships | |
| 4c. Customer communication | |
| 4d. Customer meetings | |
| 4e. Customer business plans | |
| 4f. Customer quarterly reviews | |
| 4g. Customer file maintenance | |
| 4h. Account directory | |
| 4i. Monthly/annual operations reports | |
| 4j. Dispute reconciliation | |
| 4k. Account analysis | |
| 4l. Proposal generation | |
| **5. Work Strengths** | |
| 5a. Planning | |
| 5b. Overall initiative | |
| 5c. Team player | |
| 5d. Managerial ability | |
| **6. Interpersonal Strengths** | |
| 6a. Assertiveness | |
| 6b. Personal diplomacy | |
| 6c. Extroversion | |
| 6d. Cooperativeness | |
| 6e. Relaxed style | |
| 6f. Patience | |
| 6g. Self-confidence | |

**Areas for improvement:**
<List skills required for personal development and career advancement.>

**Action plan:**
<List actions required to increase competency or develop new skills. Establish a time frame for these actions.>

| Supervisor/Manager | Date | Team Member | Date |
|---|---|---|---|
| | | | |

*Appendix O*

FŌCuS / Client Business Agreement Form

# BUSINESS ASSOCIATE AGREEMENT

This Business Associate Agreement ("BAA"), effective _____, ("Effective Date"), is entered into by and between **Front Office Customer Service, Inc.** ( the "Business Associate" ) and with an address of (the "Covered Entity") (each a "Party" and collectively the "Parties"). The Business Associate is a New York Corporation and the Covered Entity is a _____. The Parties have a prior oral or written agreement (the "agreement") under which the Business Associate regularly uses and/or discloses Protected Health Information ("PHI") in its performance of the Services described below. Both Parties are committed to complying with the Standards for Privacy of Individually Identifiable Health Information (the "Privacy Regulation") and the Standards for Security of Individually Identifiable Health Information (the "Security Regulation") under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). This Agreement sets forth the terms and conditions pursuant to which PHI that is provided by, created, received, maintained or transmitted by, the Business Associate from or on behalf of the Covered Entity ("Protected Health Information"), will be handled between the Business Associate and the Covered Entity and with third parties during the term of their agreement and after its termination. The Parties agrees as follows:

**1. PERMITTED USES AND DISCLOSURES OF PROTECTED HEALTH INFORMATION**

1.1 Services. Pursuant to the Agreement, Business Associate provides services ("Services") for the Covered Entity that involve the use and disclosure of Protected Health Information ("PHI"). Except as otherwise specified herein, the Business Associate may make any and all uses of Protected Health Information necessary to perform its obligations under the Agreement. All other uses not authorized by this Agreement are prohibited. Moreover, Business Associate may disclose Protected Health Information for the purposes authorized by this Agreement only, (i) to its employees, subcontractors and agents, in accordance with Section 2.1(e), (ii) as directed by the Covered Entity, or (iii) as otherwise permitted by the terms of this Agreement including, but not limited to, Section 1.2(b) below.

1.2 Business Activities of the Business Associate. Unless otherwise limited herein, the Business Associate may:

a. use the Protected Health Information in its possession for its proper management and administration and to fulfill any present or future legal responsibilities of the Business Associate provided that such uses are permitted under state and federal confidentiality laws.

b. disclose the Protected Health Information in its possession to third parties for the purpose of its proper management and administration or to fulfill any present or future legal responsibilities of the Business

Associate, provided that the Business Associate represents to the Covered Entity, in writing, that (i) the disclosures are required by law, as provided for in 45 C.F.R §164.501 or (ii) the Business Associate has received from the third party written assurances regarding its confidential handling of such Protected Health Information as required under 45 C.F.R. §164.504(e)(4).

1.3 Additional Activities of Business Associate. In addition to using the Protected Health Information to perform the Services set forth in Section 1.1 of this Agreement, Business Associate may:

a. aggregate the Protected Health Information in its possession with the Protected Health Information of other covered entities that the Business Associate has in its possession through its capacity as a business associate to said other covered entities provided that the purpose of such aggregation is to provide the Covered Entity with data analyses relating to the Health Care Operations of the Covered Entity. Under no circumstances may the Business Associate disclose Protected Health Information of one Covered Entity to another Covered Entity absent the explicit authorization of the Covered Entity.

b. de-identify any and all Protected Health Information provided that the de-identification conforms to the requirements of 45 C.F.R §164.514(b), and further provided that the Covered Entity maintains the documentation required by 45 C.F.R. §164.514(b) which may be in the form of a written assurance from the Business Associate. Pursuant to 45 C.F.R. §164.502(d)(2), de-identified information does not constitute Protected Health Information and is not subject to the terms of this Agreement.

**2. RESPONSIBILITIES OF THE PARTIES WITH RESPECT TO PROTECTED HEALTH INFORMATION**

2.1 Responsibilities of the Business Associate. With regard to its use and/or disclosure of PHI, the Business Associate hereby agrees to do the following:

a. use and/or disclose the PHI only as permitted or required by this Agreement or as otherwise required by law.

b. report to the designated Privacy Officer and/or Security Officer of the Covered Entity, in writing, any use and/or disclosure of the PHI that is not permitted or required by this Agreement of which Business Associate becomes aware within fourteen (14) days of the Business Associate's discovery of such unauthorized use and/or disclosure.

c. establish procedures for a mutually satisfactory resolution, regarding any deleterious effects from any improper use and/or disclosure of PHI that the Business Associate reports to the Covered Entity.

d. use commercially reasonable efforts to maintain the security of the PHI and to prevent unauthorized use and/or disclosure of such Protected Health Information.

e. require all of its subcontractors and agents that receive or use, or have access to, PHI under this Agreement to agree, in writing, to adhere to the same restrictions and conditions on the use and/or disclosure of PHI that apply to the Business Associate pursuant to section 2 of this Agreement.

f. make available all records, books, agreements, policies and procedures relating to the use and/or disclosure of Protected Health Information to the Secretary of HHS for purposes of determining the Covered Entity's compliance with the Privacy and/or Security Regulation, subject to attorney-client and other applicable legal privileges.

g. upon prior written request, make available during normal business hours at Business Associate's offices all records, books, agreements, policies and procedures relating to the use and/or disclosure of Protected Health Information to the Covered Entity within fourteen (14) days for purposes of enabling the Covered Entity to determine the Business Associate's compliance with the terms of this Agreement.

h. within fourteen (14) days of receiving a written request from the Covered Entity, provide to the Covered Entity such information as is requested by the Covered Entity to permit the Covered Entity to respond to a request by an individual for an accounting of the disclosures of the individual's Protected Health Information in accordance with 45 C.F.R §164.528.

i. subject to Section 4.5 below, return to the Covered Entity or destroy, within fourteen (14) days of the termination of this Agreement, the Protected Health Information in its possession and retain no copies. This includes, but is not limited to; all media, media backups, and any other files (i.e. sound or .wav files) and/or paper which contains PHI.

2.2 Responsibilities of the Covered Entity. With regard to the use and/or disclosure of Protected Health Information by the Business Associate, the Covered Entity hereby agrees:

a. to inform the Business Associate of any changes in the form of notice of privacy practices (the "Notice") that the Covered Entity provides to individuals pursuant to 45 C.F.R §164.520, and provide the Business Associate a copy of the Notice currently in use.

b. to inform the Business Associate of any changes in, or withdrawal of, the consent or authorization provided to the Covered Entity by individuals pursuant to 45 C.F.R §164.506 or §164.508.

c. to inform the Business Associate of any opt-outs exercised by any individual from marketing and/or fundraising activities of the Covered Entity pursuant to 45 C.F.R §164.514(e).

d. to notify the Business Associate, in writing and in a timely manner, of any arrangements permitted or required of the Covered Entity under 45 C.F.R part 160 and 164 that may impact in any manner the use and/or disclosure of Protected Health Information by the Business Associate under this Agreement, including, but not limited to, restrictions on use and/or disclosure of Protected Health Information as provided for in 45 C.F.R. §164.522 agreed to by the Covered Entity.

e. that Business Associate may make any use and/or disclosure of Protected Health Information permitted under 45 C.F.R §164.512 except uses or disclosure for research are not permitted without prior approval by the covered entity.

**3. REPRESENTATIONS AND WARRANTIES**

3.1 Mutual Representations and Warranties of the Parties. Each Party represents and warrants to the other Party:

a. that it is duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is organized or licensed, it has the full power to enter into this Agreement and to perform its obligations hereunder, and that the performance by it of its obligations under this Agreement have been duly authorized by all necessary corporate or other actions and will not violate any provision of any license, corporate charter or bylaws.

b. that neither the execution of this Agreement, nor its performance hereunder, will directly or indirectly violate or interfere with the terms of another agreement to which it is a party, or give any governmental entity the right to suspend, terminate, or modify any of its governmental authorizations or assets required

for its performance hereunder. Each Party represents and warrants to the other Party that it will not enter into any agreement the execution and/or performance of which would violate or interfere with this Agreement.

c. that it is not currently the subject of a voluntary or involuntary petition in bankruptcy, does not currently contemplate filing any such voluntary petition, and is not aware of any claim for the filing of an involuntary petition.

d. that all of its employees, agents, representatives and members of its workforce, whose services may be used to fulfill obligations under this Agreement are or shall be appropriately informed of the terms of this Agreement and are under legal obligation to each Party, respectively, by contract or otherwise, sufficient to enable each Party to fully comply with all provisions of this Agreement including, without limitation, the requirement that modifications or limitations that the Covered Entity has agreed to adhere to with regards to the use and disclosure of Protected Health Information of any individual that materially affects and/or limits the uses and disclosures that are otherwise permitted under the Standard will be communicated to the Business Associate, in writing, and in a timely fashion.

e. that it will reasonably cooperate with the other Party in the performance of the mutual obligations under this Agreement.

f. that neither the Party, nor its shareholders, members, directors, officers, agents, employees or members of its workforce have been excluded or served a notice of exclusion or have been served with a notice of proposed exclusion, or have committed any acts which are cause for exclusion, from participation in, or had any sanctions, or civil or criminal penalties imposed under, any federal or state program. Each Party further agrees to notify the other Party immediately after the Party becomes aware that any of the foregoing representation and warranties may be inaccurate or may become incorrect.

**4. TERMS AND TERMINATION**

4.1 Term. This Agreement shall become effective on the Effective Date and shall continue in effect until all obligations of the Parties have been met, unless terminated as provided in this Section 4. In addition, certain provisions and requirements of this Agreement shall survive its expiration or other termination in accordance with Section 7.3 herein.

4.2 Termination by the Covered Entity. As provided for under 45 C.F.R § 164.504(e)(2)(iii), the Covered Entity may terminate this Agreement and any related agreements if the Covered Entity makes the determination that the Business Associate has breached a material term of this Agreement.

The Covered Entity must : (i) provide the Business Associate with thirty (30) day's written notice of the existence of an alleged material breach; and (ii) afford the Business Associate an opportunity to cure said alleged material breach upon mutually agreeable terms. Nonetheless, in the event that mutually agreeable terms cannot be achieved within thirty (30) days, Business Associate must cure said breach to the satisfaction of the Covered Entity within thirty (30) days. Failure to cure in the manner set forth in this paragraph is grounds for the immediate termination of this Agreement.

4.3 Termination by Business Associate. If the Business Associate makes the determination that a material condition of performance has changed under this Agreement, or that the Covered Entity has breached a material term of this Agreement, Business Associate may provide thirty (30) days notice of its intention to terminate this Agreement. Business Associate agrees, however, to cooperate with Covered Entity to find a mutually satisfactory resolution to the matter prior to terminating, and further agrees, that notwithstanding this provision, it shall not terminate this Agreement so long as the Agreement is in effect.

4.4 Automatic Termination. This Agreement will automatically terminate without any further action of the Parties upon the termination or expiration of a previous oral or written agreement between the Parties.

4.5 Effect of Termination. Upon the event of termination pursuant to this Section 4, Business Associate agrees to return or destroy all Protected Health Information pursuant to 45 C.F.R §164.504(e)(2)(I), if it is feasible to do so. Prior to doing so, the Business Associate further agrees to recover any Protected Health Information in the possession of its subcontractors or agents. If it is not feasible for the Business Associate to return or destroy said Protected Health Information, the Business Associate will notify the Covered Entity in writing. Said notification shall include: (i) a statement that the Business Associate has determined that it is infeasible to return or destroy the Protected Health Information in its possession, and (ii) the specific reasons for such determination, which reasons the Parties agree may include, but are not limited to, backup media. Business Associate further agrees to extend any and all protections, limitations and restrictions contained in this Agreement to the Business Associate's use and/or disclosure of any Protected Health Information retained after the termination of this Agreement, and to limit any further uses and/or disclosures to the purposes that make the return or destruction of the Protected Health Information infeasible.

**5. CONFIDENTIALITY**

5.1 Confidentiality Obligations. In the course of performing under this Agreement, each Party may receive, be exposed to or acquire the Confidential Information including but not limited to, all information, data, reports,

records, summaries, tables and studies, whether written or oral, fixed in hard copy or contained in any computer data base or computer readable form, as well as any information identified as confidential ("Confidential Information") of the other Party. For purposes of this Agreement, "Confidential Information" shall include Protected Health Information, the security of which is the subject of this Agreement and is provided for elsewhere. The Parties including their employees, agents or representatives (i) shall not disclose to any third party the Confidential Information of the other Party except as otherwise permitted by this Agreement, (ii) only permit use of such Confidential Information by employees, agents and representatives having a need to know in connection with performance under this Agreement, and (iii) advise each of their employees, agents, and representatives of their obligations to keep such Confidential Information confidential. Notwithstanding anything to the contrary herein, each Party shall be free to use, for its own business purposes, any ideas, suggestions, concepts, know-how or techniques contained in information received from each other that directly relates to the performance under this Agreement. This provision shall not apply to Confidential Information: (a) after it becomes publicly available through no fault of either Party; (b) which is later publicly released by either Party in writing; (c) which is lawfully obtained from third parties without restriction; or (d) which can be shown to be previously known or developed by either Party independently of the other Party.

**6. INDEMNIFICATION**

6.1 Indemnification. The Parties agree to indemnify, defend and hold harmless each other and each other's respective employees, directors, officers, subcontractors, agents or other members of its workforce, each of the foregoing hereinafter referred to as "indemnified party," against all actual and direct losses suffered by the indemnified party and all liability to third parties arising from or in connection with any breach of this Agreement or of any warranty hereunder or from any negligence or wrongful acts or omissions, including failure to perform its obligations under the Privacy Regulation, by the indemnifying party or its employees, directors, officers, subcontractors, agents or other members of its workforce. The Parties' obligation to indemnify any indemnified party shall survive the expiration or termination of this Agreement for any reason.

**7. MISCELLANEOUS**

7.1 Covered Entity. For purposes of this Agreement, Covered Entity shall include all entities covered by the joint notice of information practices (or privacy notice), which includes hospitals, laboratories, imaging centers, nursing facilities, and medical offices.

7.2 Business Associate. For purposes of this Agreement, Business Associate shall include the named Business Associate herein. However, in the event that the Business Associate is otherwise a covered entity under the Privacy and/or Security Regulation, that entity may appropriately designate a health care component of the entity, pursuant to 45 C.F.R §164.504(a), as the Business Associate for purposes of this Agreement.

7.3 Survival. The respective rights and obligations of Business Associate and Covered Entity under the provisions of Sections 4.5, 6.1, 7.5, and Section 2.1 solely with respect to Protected Health Information Business Associate retains in accordance with Section 4.5, because it is not feasible to return or destroy such Protected Health Information, shall survive termination of this Agreement indefinitely.

7.4 Amendments; Waiver. This Agreement may not be modified, nor shall any provision hereof be waived or amended, except in a writing duly signed by authorized representatives of the Parties. A waiver with respect to one event shall not be construed as continuing, or as a bar to or waiver of any right or remedy as to subsequent events.

7.5 No Third Party Beneficiaries. Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than the Parties and the respective successors or assigns of the Parties, any rights, remedies, obligations, or liabilities whatsoever.

7.6 Notices. Any notices to be given hereunder to a Party shall be made via U.S. Mail or express courier to such Party's address given below, and/or (other than for the delivery of fees) via facsimile to the facsimile telephone numbers listed below. If to Business Associate to: with a copy (which shall not constitute Notice) to:

Each Party named above may change its address and that of its representative for notice by the giving of notice thereof in the manner hereinabove provided.

7.7 Counterparts; Facsimiles. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original. Facsimile copies hereof shall be deemed to be originals.

7.8 Disputes. If any controversy, dispute, or claim arises between the Parties with respect to this Agreement, the Parties shall be required to meet and seek a negotiated resolution within 30 days after written notice is given by the complaining Party. If no resolution is reached within said 30 day period, the Parties hereby agree to participate in non-binding mediation before a mediator to be jointly selected equally paid by the Parties. Such mediation shall take place within 60 days after the expiration of the 30 day initial negotiation period, unless the Parties agree to an extension. If the mediation does not result in a resolution, then the Parties further agree to enter upon binding arbitration, pursuant to the rules of the American Arbitration Association."

7.9 LIMITATION OF LIABILITY. NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL, OR PUNITIVE DAMAGES OF ANY KIND OR NATURE, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LOSS OR DAMAGES.

**8. DEFINITIONS**.

8.1 Designated Record Set. Designated Record Set shall have the meaning set out in its definition at 45 C.F.R §164.501, as such provision is currently drafted and as it is subsequently updated, amended,

or revised.

8.2 Health Care Operations. Health Care Operations shall have the meaning set out in its definition at 45 C.F.R §164.501, as such provision is currently drafted and as it is subsequently updated, amended or revised.

8.3 Privacy Officer. Privacy Officer shall have the meaning as set out in its definition at 45 C.F.R §164.530 (a)(1) as such provision is currently drafted and as it is subsequently updated, amended or revised.

8.4 Security Officer. Security Officer shall have the meaning as set out in its definition at 45 C.F.R §164.103 as such provision is currently drafted and as it is subsequently updated, amended or revised.

8.5 Protected Health Information. Protected Health Information shall have the meaning as set out in its definition at 45 C.F.R §164.501, as such provision is currently drafted and as it is subsequently updated, amended or revised.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed in its name and on its behalf effective as of.

*Appendix P*

FŌCuS / Reckson Associates Negotiated Commercial Lease

## 35 Pinelawn Road, 2nd Floor, 2684 Total Square Feet
## Melville, New York

**Details** | Contact

**Suite 203**

**Property Features**

- 105,241 total square feet
- Typical floors of 50,000 square feet
- 2 floors
- Attractive curved stair in lobby
- Building energy management system
- Zoned tenant-controlled HVAC and lighting
- High speed broadband Internet connectivity
- 1 passenger elevator
- 24-hour/7-day access
- Cafe available
- Health club
- Located 1/4 mile off LIE
- Hotels, restaurants and retail nearby

For further information please contact

Kenneth Bauer
RexCorp Realty
625 RexCorp Plaza
Uniondale, New York 11556
516.506.6655
Fax:516.506.6814
kbauer@rexcorprealty.com

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**http://www.rexcorprealty.com/cgi-bin/Go.cgi?x_action=spaceSearch&d_id=95&submitted=1&p_sizeMax=2800&p_area=6&p_region=2&p_type_1=1&p_sizeMin=2400**

# Commercial Lease Agreement

This Commercial Lease Agreement ("Lease") is made and effective **July 1, 2007**, by and between **Reckson Associates** ("Landlord") and **Front Office Customer Service, Inc**. ("Tenant").

Landlord is the owner of land and improvements commonly known as **Melville Office Park** and legally described as the "Building" located at **35 Pinelawn Road, Melville, New York 11725**.

Landlord makes available for lease a portion of the Building designated as **Suite 203** (the "Leased Premises").

Landlord desires to lease the Leased Premises to Tenant, and Tenant desires to lease the Leased Premises from Landlord for the term, at the rental and upon the covenants, conditions and provisions herein set forth.

THEREFORE, in consideration of the mutual promises herein, contained and other good and valuable consideration, it is agreed:

1. **Term**.

A. Landlord hereby leases the Leased Premises to Tenant, and Tenant hereby leases the same from Landlord, for an "Initial Term" beginning **July 1, 2007** and ending **June 30, 2017**. Landlord shall use its best efforts to give Tenant possession as nearly as possible at the beginning of the Lease term. If Landlord is unable to timely provide the Leased Premises, rent shall abate for the period of delay. Tenant shall make no other claim against Landlord for any such delay.

B. Tenant may renew the Lease for one extended term of **5** years. Tenant shall exercise such renewal option, if at all, by giving written notice to Landlord not less than ninety (90) days prior to the expiration of the Initial Term. The renewal term shall be at the rental set forth below and otherwise upon the same covenants, conditions and provisions as provided in this Lease.

2. **Rental**.

A. Tenant shall pay to Landlord during the Initial Term rental of **$57,500 per year**, payable in installments of **$4761.67 per month**. The monthly rental is calculated so as to include the square footage of the rental unit, ½ of the square footage of any outer hallway immediately adjacent to the occupied suite as well as ½ of the square footage of the outer perimeter of the occupied suite.

B. Each installment payment shall be due in advance on the first day of each calendar month during the lease term to Landlord at **710 Walt Whitman Road Melville, NY 11725** or at such other place designated by written notice from Landlord or Tenant. The rental payment amount for any partial calendar months included in the lease term shall be prorated on a daily basis. Tenant shall also pay to Landlord a "Security Deposit" in the amount of **$4761.67**.

C. The rental for any renewal lease term, if created as permitted under this Lease, shall be calculated as the current rent plus 3% per year payable in 12 installments per year and due monthly.

3. **Use**

Notwithstanding the forgoing, Tenant shall not use the Leased Premises for the purposes of storing, manufacturing or selling any explosives, flammables or other inherently dangerous substance, chemical, thing or device.

4. **Sublease and Assignment**.

Tenant shall have the right without Landlord's consent, to assign this Lease to a corporation with which Tenant may merge or consolidate, to any subsidiary of Tenant, to any corporation under common control with Tenant, or to a purchaser of substantially all of Tenant's assets. Except as set forth above, Tenant shall not sublease all or any part of the Leased Premises, or assign this Lease in whole or in part without Landlord's consent, such consent not to be unreasonably withheld or delayed.

5. **Repairs**.

During the Lease term, Tenant shall make, at Tenant's expense, all necessary repairs to the Leased Premises. Repairs shall include such items as routine repairs of floors, walls, ceilings, and other parts of the Leased Premises damaged or worn through normal occupancy, except for major mechanical systems or the roof, subject to the obligations of the parties otherwise set forth in this Lease.

6. **Alterations and Improvements**.

Landlord shall make all initial interior revisions per Tenant’s requests provided these modifications conform to Suffolk County Department Building Codes and does not involve any unusually extensive plumbing or electrical demands. Following occupancy, Tenant, at Tenant's expense, shall have the right following Landlord's consent to remodel, redecorate, and make additions, improvements and replacements of and to all or any part of the Leased Premises from time to time as Tenant may deem desirable, provided the same are made in a workmanlike manner and utilizing good quality materials. Tenant shall have the right to place and install personal property, trade fixtures, equipment and other temporary installations in and upon the Leased Premises, and fasten the same to the premises. All personal property, equipment, machinery, trade fixtures and temporary installations, whether acquired by Tenant at the commencement of the Lease term or placed or installed on the Leased Premises by Tenant thereafter, shall remain Tenant's property free and clear of any claim by Landlord. Tenant shall have the right to remove the same at any time during the term of this Lease provided that all damage to the Leased Premises caused by such removal shall be repaired by Tenant at Tenant's expense.

7. **Property Taxes**.

Landlord shall pay, prior to delinquency, all general real estate taxes and installments of special assessments coming due during the Lease term on the Leased Premises, and all personal property taxes with respect to Landlord's personal property, if any, on the Leased Premises. Tenant shall be responsible for paying all personal property taxes with respect to Tenant's personal property at the Leased Premises.

8. **Insurance**.

A. If the Leased Premises or any other part of the Building is damaged by fire or other casualty resulting from any act or negligence of Tenant or any of Tenant's agents, employees or invitees, rent shall not be diminished or abated while such damages are under repair, and Tenant shall be responsible for the costs of repair not covered by insurance.

B. Landlord shall maintain fire and extended coverage insurance on the Building and the Leased Premises in such amounts as Landlord shall deem appropriate. Tenant shall be responsible, at its expense, for fire and extended coverage insurance on all of its personal property, including removable trade fixtures, located in the Leased Premises.

C. Tenant and Landlord shall, each at its own expense, maintain a policy or policies of comprehensive general liability insurance with respect to the respective activities of each in the Building with the premiums thereon fully paid on or before due date, issued by and binding upon some insurance company approved by Landlord, such insurance to afford minimum protection of not less than $1,000,000 combined single limit coverage of bodily injury, property damage or combination thereof. Landlord shall be listed as an additional insured on Tenant's policy or policies of comprehensive general liability insurance, and Tenant shall provide Landlord with current Certificates of Insurance evidencing Tenant's compliance with this Paragraph. Tenant shall obtain the agreement of Tenant's insurers to notify Landlord that a policy is due to expire at least (10) days prior to such expiration. Landlord shall not be required to maintain insurance against thefts within the Leased Premises or the Building.

9. **Utilities.**

Tenant shall pay all charges for telephone and other services and utilities not otherwise specified. Landlord shall pay all charges for water, sewer, gas and electricity, used by Tenant on the Leased Premises during the term of this Lease unless otherwise expressly agreed in writing by Landlord. In the event that any utility or service provided to the Leased Premises is not separately metered, Landlord shall pay the amount due and separately invoice Tenant for Tenant's pro rata share of the charges. Tenant shall pay such amounts within fifteen (15) days of invoice. Tenant acknowledges that the Leased Premises are designed to provide standard office use electrical facilities and standard office lighting. Tenant shall not use any equipment or devices that utilize excessive electrical energy or which may, in Landlord's reasonable opinion, overload the wiring or interfere with electrical services to other tenants.

10. **Signs**

Following Landlord's consent, Tenant shall have the right to place on the Leased Premises, at locations selected by Tenant, any signs which are permitted by applicable zoning ordinances and private restrictions. Landlord may refuse consent to any proposed signage that is in Landlord's opinion too large, deceptive, unattractive or otherwise inconsistent with or inappropriate to the Leased Premises or use of any other tenant. Landlord shall assist and cooperate with Tenant in obtaining any necessary permission from governmental authorities or adjoining owners

and occupants for Tenant to place or construct the foregoing signs. Tenant shall repair all damage to the Leased Premises resulting from the removal of signs installed by Tenant.

11. **Entry**.

Landlord shall have the right to enter upon the Leased Premises at reasonable hours to inspect the same, provided Landlord shall not thereby unreasonably interfere with Tenant's business on the Leased Premises.

12. **Parking**.

During the term of this Lease, Tenant shall have the non-exclusive use in common with Landlord, other tenants of the Building, their guests and invitees, of the non-reserved common automobile parking areas, driveways, and footways, subject to rules and regulations for the use thereof as prescribed from time to time by Landlord. Landlord reserves the right to designate parking areas within the Building or in reasonable proximity thereto, for Tenant and Tenant's agents and employees. Tenant shall provide Landlord with a list of all license numbers for the cars owned by Tenant, its agents and employees. Structured parking separated from, or located about the Building is reserved for tenants of the Building who rent such parking spaces. Tenant hereby leases from Landlord **3 spaces** in such structural parking area, such spaces to be on a first come-first served basis. In consideration of the leasing to Tenant of such spaces, Tenant shall pay a monthly rental of **$0 per space** throughout the term of the Lease. **Additional spaces**, if available, may be rented at a future date prior to the end or termination of the Lease, for the monthly rental of **$250 per space** for the duration of the term of the Lease. Such rental shall be due and payable each month without demand at the time herein set for the payment of other monthly rentals, in addition to such other rentals.

13. **Building Rules.**

Tenant will comply with the rules of the Building adopted and altered by Landlord from time to time and will cause all of its agents, employees, invitees and visitors to do so; all changes to such rules will be sent by Landlord to Tenant in writing. The initial rules for the Building are attached hereto as Exhibit "A" and incorporated herein for all purposes.

14. **Damage and Destruction**.

Subject to Section 8 A. above, if the Leased Premises or any part thereof or any appurtenance thereto is so damaged by fire, casualty or structural defects that the same cannot be used for Tenant's purposes, then Tenant shall have the right within ninety (90) days following damage to elect by notice to Landlord to terminate this Lease as of the date of such damage. In the event of minor damage to any part of the Leased Premises, and if such damage does not render the Leased Premises unusable for Tenant's purposes, Landlord shall promptly repair such damage at the cost of the Landlord. In making the repairs called for in this paragraph, Landlord shall not be liable for any delays resulting from strikes, governmental restrictions, inability to obtain necessary materials or labor or other matters which are beyond the reasonable control of Landlord. Tenant shall be relieved from paying rent and other charges during any portion of the Lease term that the Leased Premises are inoperable or unfit for occupancy, or use, in whole or in part, for Tenant's purposes. Rentals and other charges paid in advance for any such periods shall be credited on the next ensuing payments, if any, but if no further payments are to be made, any such advance payments shall be refunded to Tenant. The provisions of this paragraph extend not only to the matters

aforesaid, but also to any occurrence which is beyond Tenant's reasonable control and which renders the Leased Premises, or any appurtenance thereto, inoperable or unfit for occupancy or use, in whole or in part, for Tenant's purposes.

15. **Default**.

If default shall at any time be made by Tenant in the payment of rent when due to Landlord as herein provided, and if said default shall continue for fifteen (15) days after written notice thereof shall have been given to Tenant by Landlord, or if default shall be made in any of the other covenants or conditions to be kept, observed and performed by Tenant, and such default shall continue for thirty (30) days after notice thereof in writing to Tenant by Landlord without correction thereof then having been commenced and thereafter diligently prosecuted, Landlord may declare the term of this Lease ended and terminated by giving Tenant written notice of such intention, and if possession of the Leased Premises is not surrendered, Landlord may reenter said premises. Landlord shall have, in addition to the remedy above provided, any other right or remedy available to Landlord on account of any Tenant default, either in law or equity. Landlord shall use reasonable efforts to mitigate its damages.

16. **Quiet Possession**.

Landlord covenants and warrants that upon performance by Tenant of its obligations hereunder, Landlord will keep and maintain Tenant in exclusive, quiet, peaceable and undisturbed and uninterrupted possession of the Leased Premises during the term of this Lease.

17. **Condemnation**.

If any legally, constituted authority condemns the Building or such part thereof which shall make the Leased Premises unsuitable for leasing, this Lease shall cease when the public authority takes possession, and Landlord and Tenant shall account for rental as of that date. Such termination shall be without prejudice to the rights of either party to recover compensation from the condemning authority for any loss or damage caused by the condemnation. Neither party shall have any rights in or to any award made to the other by the condemning authority.

18. **Subordination.**

Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust or other lien presently existing or hereafter arising upon the Leased Premises, or upon the Building and to any renewals, refinancing and extensions thereof, but Tenant agrees that any such mortgagee shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Landlord is hereby irrevocably vested with full power and authority to subordinate this Lease to any mortgage, deed of trust or other lien now existing or hereafter placed upon the Leased Premises of the Building, and Tenant agrees upon demand to execute such further instruments subordinating this Lease or attorning to the holder of any such liens as Landlord may request. In the event that Tenant should fail to execute any instrument of subordination herein require d to be executed by Tenant promptly as requested, Tenant hereby irrevocably constitutes Landlord as its attorney-in-fact to execute such instrument in Tenant's name, place and stead, it being agreed that such power is one coupled with an interest. Tenant agrees

that it will from time to time upon request by Landlord execute and deliver to such persons as Landlord shall request a statement in recordable form certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which rent and other charges payable under this Lease have been paid, stating that Landlord is not in default hereunder (or if Tenant alleges a default stating the nature of such alleged default) and further stating such other matters as Landlord shall reasonably require.

19. **Security Deposit**.

The Security Deposit shall be held by Landlord without liability for interest and as security for the performance by Tenant of Tenant's covenants and obligations under this Lease, it being expressly understood that the Security Deposit shall not be considered an advance payment of rental or a measure of Landlord's damages in case of default by Tenant. Unless otherwise provided by mandatory non-waivable law or regulation, Landlord may commingle the Security Deposit with Landlord's other funds. Landlord may, from time to time, without prejudice to any other remedy, use the Security Deposit to the extent necessary to make good any arrearages of rent or to satisfy any other covenant or obligation of Tenant hereunder. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. If Tenant is not in default at the termination of this Lease, the balance of the Security Deposit remaining after any such application shall be returned by Landlord to Tenant. If Landlord transfers its interest in the Premises during the term of this Lease, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of such Security Deposit.

20. **Notice**.

Any notice required or permitted under this Lease shall be deemed sufficiently given or served if sent by United States certified mail, return receipt requested, addressed as follows:

If to Landlord to:

_____

**[Landlord]**

_____

**[Landlord's Address]**

If to Tenant to:

_____

**[Tenant]**

_____

**[Tenant's Address]**

Landlord and Tenant shall each have the right from time to time to change the place notice is to be given under this paragraph by written notice thereof to the other party.

21. **Brokers**.

Tenant represents that Tenant was not shown the Premises by any real estate broker or agent and that Tenant has not otherwise engaged in, any activity which could form the basis for a claim for real estate commission, brokerage fee, finder's fee or other similar charge, in connection with this Lease.

22. **Waiver**.

No waiver of any default of Landlord or Tenant hereunder shall be implied from any omission to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. One or more waivers by Landlord or Tenant shall not be construed as a waiver of a subsequent breach of the same covenant, term or condition.

23. **Memorandum of Lease**.

The parties hereto contemplate that this Lease should not and shall not be filed for record, but in lieu thereof, at the request of either party, Landlord and Tenant shall execute a Memorandum of Lease to be recorded for the purpose of giving record notice of the appropriate provisions of this Lease.

24. **Headings**.

The headings used in this Lease are for convenience of the parties only and shall not be considered in interpreting the meaning of any provision of this Lease.

25. **Successors**.

The provisions of this Lease shall extend to and be binding upon Landlord and Tenant and their respective legal representatives, successors and assigns.

26. **Consent**.

Landlord shall not unreasonably withhold or delay its consent with respect to any matter for which Landlord's consent is required or desirable under this Lease.

27. **Performance**.

If there is a default with respect to any of Landlord's covenants, warranties or representations under this Lease, and if the default continues more than fifteen (15) days after notice in writing from Tenant to Landlord specifying the default, Tenant may, at its option and without affecting any other remedy hereunder, cure such default and deduct the cost thereof from the next accruing installment or installments of rent payable hereunder until Tenant shall have been fully reimbursed for such expenditures, together with interest thereon at a rate equal to the lessor of twelve percent (12%) per annum or the then highest lawful rate. If this Lease terminates prior to Tenant's

receiving full reimbursement, Landlord shall pay the unreimbursed balance plus accrued interest to Tenant on demand.

28. **Compliance with Law**.

Tenant shall comply with all laws, orders, ordinances and other public requirements now or hereafter pertaining to Tenant's use of the Leased Premises. Landlord shall comply with all laws, orders, ordinances and other public requirements now or hereafter affecting the Leased Premises.

29. **Final Agreement**.

This Agreement terminates and supersedes all prior understandings or agreements on the subject matter hereof. This Agreement may be modified only by a further writing that is duly executed by both parties.

30. **Governing Law**.

This Agreement shall be governed, construed and interpreted by, through and under the Laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Lease as of the day and year first above written.

_____

**[Landlord] Signature Block**

_____

**[Tenant] Signature Block**

Appendix A

Pro Forma Balance Sheet (s)

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $2,313,072 | $ 831,854 | $1,453,921 | $3,843,528 |
| Accounts Receivable | $ - | $ 256,513 | $ 677,448 | $1,323,693 |
| Total Current Assets | $2,313,072 | $1,088,367 | $2,131,369 | $5,167,221 |
| Property and Equipment | $ 20,000 | $ 19,000 | $ 17,000 | $ 15,000 |
| Less Accumulated Depreciation | $ 1,000 | $ 2,000 | $ 2,000 | $ 2,000 |
| Net Property and Equipment | $ 19,000 | $ 17,000 | $ 15,000 | $ 13,000 |
| Total Assets | $2,332,072 | $1,105,367 | $2,146,369 | $5,180,221 |
| | | | | |
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ - | $ 9,389 | $ 20,928 | $ 37,054 |
| Salaries Payable | $ 33,061 | $ 50,063 | $ 56,189 | $ 68,090 |
| Accrued Income Taxes Payable | $ - | $ - | $ 280,151 | $1,240,594 |
| Total Current Liabilities | $ 33,061 | $ 59,452 | $ 357,268 | $1,345,738 |
| Long-term Debt | $ 756,250 | $ 543,750 | $ 331,250 | $ 118,750 |
| Total Liabilities | $ 789,311 | $ 603,202 | $ 688,518 | $1,464,488 |

Appendix B

Preliminary Income Statement (Profit/Loss) Statement

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Sales | $ - | $813,242 | $3,054,826 | $6,397,031 |
| Direct Cost of Sales (INCENTIVES) | $ - | $71,690 | $117,878 | $165,766 |
| Gross Margin | $ - | $741,551 | $2,936,948 | $6,231,265 |
| Gross Margin % | 0 | 91.18% | 96.14% | 97.41% |
| | | | | |
| Operating Expenses<br><br>Sales and Marketing Expenses | | | | |
| Sales and Marketing Payroll | $10,833 | $130,000 | $198,900 | $269,867 |
| Advertising/Promotion | $5,000 | $40,662 | $152,741 | $319,852 |
| Travel | $ - | $24,000 | $36,000 | $48,000 |
| Miscellaneous | $10,000 | $10,000 | $15,000 | $20,000 |
| Total Sales and Marketing | $25,833 | $204,662 | $402,641 | $657,719 |
| | | | | |
| General and<br><br>Administrative Expenses | | | | |
| General Payroll | $221,250 | $907,500 | $1,004,725 | $1,209,867 |
| Rent | $27,600 | $56,028 | $57,709 | $59,440 |
| Loan Payment | $93,750 | $212,500 | $212,500 | $212,500 |
| Lease (Computers) | $3,264 | $6,528 | $6,528 | $6,528 |
| Lease (Telephone) | $8,350 | $33,400 | $33,400 | $33,400 |
| Software Purchases | $30,000 | | | |

| | | | | |
|---|---|---|---|---|
| Telephone and Internet | $3,000 | $24,000 | $31,200 | $38,400 |
| Payroll Taxes | $18,103 | $86,517 | $103,077 | $128,349 |
| Fringe Benefits | $46,417 | $207,500 | $240,725 | $295,947 |
| Miscellaneous Start Up Costs | $35,000 | | | |
| Miscellaneous Fixed Costs | | $5,000 | $5,500 | $6,050 |
| Depreciation | $500 | $2,000 | $2,000 | $2,000 |
| Total General and Administrative Expenses | $487,233 | $1,540,973 | $1,697,364 | $1,992,481 |
| | | | | |
| Total Operating Expenses | $513,067 | $1,745,635 | $2,100,005 | $2,650,199 |
| | | | | |
| Net Income From Operations | ($513,067) | ($1,004,084) | $836,943 | $3,581,066 |
| Interest Expense | $18,256 | $36,512 | $36,512 | $36,512 |
| | | | | |
| Net profit (Loss) before taxes | ($531,322) | ($1,040,595) | $800,431 | $3,581,066 |
| Taxes (35%) | $ - | $ - | $280,151 | $1,240,594 |
| | | | | |
| Net Profit (Loss) After Taxes | ($531,322) | ($1,040,595) | $520,280 | $2,303,960 |
| Net Profit % | | -127.96% | 17.03% | 36.02% |

# Index