



## **Merging Two Worlds?: Reston Dental Arts and American Dental Partners Part B**

Reston Dental Arts (RDA) had invited its accounting firm, Smithers & Southerly, Ltd., to attend the May 21, 1998 meeting to decide: accept or reject the American Dental Partners (ADP) offer. When conversation turned to ADP's offer price of \$8.1 million, accountant John Smithers was asked for his opinion. He was known as fiscally conservative, so when he suggested a value 10 percent above the offer on the table, there was silence in the room. Then Dr. Mascia spoke up:

John, for as long as I've known you, you have given us excellent advice, kept our group focused squarely in our practice vision and sleeping soundly at night knowing that we always were in compliance with all reporting accounting rules established by the state and federal government. However, you are also one of the most conservative, least risk-taking people I have ever met. Because of this, whatever you say, I say we as a group place a 20 percent premium on this figure.

With that, the room erupted into comments of "damn right" and other approving remarks. The group sent a counteroffer, increased by 20 percent, to ADP. A few days later, ADP accepted the counteroffer. The transaction took place on June 3, 1998 and ADP came in as owner and manager of the RDA assets. The purchase price came to \$10.3 million.<sup>1</sup> Dr. Thomas Eichler remembers:

They gave us a bundle of money in order to do the deal, a bundle of money. So we got what we thought we'd get for our practice way, way earlier. We thought, we can put up with anything for this money.<sup>2</sup>

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<sup>1</sup> From author's telephone interview with Greg Serrao on April 23, 2014.

<sup>2</sup> Researcher's interview with Dr. Thomas Eichler on January 10, 2014 in Reston, Virginia. All further quotes from Dr. Eichler, unless otherwise attributed, are from this interview.

As ADP assumed control of Reston Dental's administrative matters, much remained constant. The dentists continued to see patients as usual. They continued to accept only the Delta Dental insurance plan. The same staff assisted. But some things changed.. ADP took over equipment purchases. It also insisted the practice seek accreditation, which ADP believed signaled higher quality to patients, from the American Dental Association.

Some felt that dentist-employee relations eroded to some degree. Some staff bristled at the new processes and procedures. Simply the fact that ADP now stood between the dentists and the employees felt like a substantial change. Employees missed the family feeling they had previously enjoyed. As an office manager, Mary Rogers, asks: "Why did they sell something that was working perfectly fine?"<sup>3</sup> ADP also centralized human resources policies; its occasional limits on raises were unwelcome.

But while the dentists may have disliked some of the paperwork associated with the new arrangement, overall they had far fewer administrative worries and could focus on patient care. Financially, the dentists were doing well. However, there was attrition. Dr. Vincent Mascia, the orthodontist, left the practice in October 1998, only months after the deal with ADP. He told his colleagues he no longer wanted to practice dentistry, and moved to Charlottesville, Virginia. Some of the partners, recalls ADP CEO Greg Serrao, tried to oblige Mascia to return his portion of the ADP purchase price—but Serrao refused to back that request. "He had every right to leave. He was not being a jerk about it," he says.<sup>4</sup>

Meanwhile, Reston Dental opened a second office in Ashburn, a Virginia suburb about 14 miles from Reston. The building already held a pediatric medical practice, and RDA hoped for referrals from the pediatricians. Pediatric dentist Dr. Robert Averte agreed to open the new operation. "Our model is, when we open up a new practice for a group, we insist that an owner-doctor leaves the practice to go to the new one so that they bring the clinical standards and everything with them," says Serrao.

Averte, however, did not remain there long. The commute was time consuming, but worse, he wasn't making any money. RDA insisted that the new branch also accept only Delta Dental; patients referred by the pediatricians often had other insurance plans, so they left. Without an established patient base, the practice lost money. Under the 70/30 split after expenses that Dr. Tim Kirkpatrick had insisted on, the doctors now found they had to absorb 70 percent of the losses. Dr. Averte quickly returned to Reston, and a revolving cadre of young dentists were hired to work in Ashburn.

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<sup>3</sup> Researcher's interview with Mary Rogers on January 8, 2014 in Reston, Virginia. All further quotes from Rogers, unless otherwise attributed, are from this interview.

<sup>4</sup> Author's telephone interview with Greg Serrao on April 23, 2014. All other quotes from Serrao, unless otherwise attributed, are from this interview.

But worst, ADP discovered that the RDA Professional Corporation had continued to pay its dentists what they had always earned. Under their June 1998 management contract, the dentists were entitled to 70 percent of revenues after expenses, and ADP took 30 percent. If revenue was a hypothetical \$100, and expenses were \$50, that left \$50 to divide: \$35 dentists/\$15 ADP. However, as ADP reconciled its books month after month, it discovered that the PC was spending more than it was earning, running up debt at an unsustainable pace. “We don’t employ the doctors,” clarifies Serrao.

We can’t hire them, and we can’t fire them. Technically, they can decide what to pay each other... What we do have the power to do is what we did. When we realized that they were paying themselves more than they had the cash to do that with, and we knew they were using our money, we went to them and said hey! this is not sustainable.

In mid-2000, ADP Operations Manager Michael Frisch held a meeting to point out to the dentists that they had been paying themselves the hypothetical full \$50 they had historically earned, even though they had the right only to \$35. “We are no longer going to fund your losses,” Frisch told the group. Kirkpatrick, says Serrao, “went ballistic.” He blamed ADP for failing to collect receivables. But that was not the problem. The problem was the dentists were paying themselves money they did not have and now owed a steep debt to ADP.

Kirkpatrick threatened to quit the practice and take the rest of the group with him. In the end, he and two other dentists, Emilio Canal and Michael Messina, did leave. Serrao decided to release them from the non-compete clause in the contract because, he says, “we’re going to be able to demonstrate that Reston Dental Arts is bigger than any one, two or three doctors... We’re going to take a dip in the business and then it’s going to come back.”

But that left the other six dentists. Doctors Thomas Eichler and Dodrill, the remaining group leaders, were on the verge of panic. They worried, recalls Serrao, that the departing dentists would take a lot of patients with them. How would the practice ever attract new partners after such dissent? What would the practice be worth? Maybe the dentists should simply dissolve the entire enterprise? Serrao quickly set them straight that if they did, ADP would take them to court to recover its \$10 million investment, plus the new debt. “What they wanted was their practice back,” recalls Serrao. “But we told them, unless you give us \$10 million like we gave you, you’re not getting it back. It was very tense.”

Eichler and Dodrill were at a loss. How could they reverse the losses of recent years? How would they reestablish RDA’s reputation as a good place to work? Was ADP an adversary, or an ally? What about the arrangement with ADP was working and what was a problem? They tried to think through their next steps.



## **Merging Two Worlds?: Reston Dental Arts and American Dental Partners Epilogue**

In late 2000, Doctors David Dodrill and Thomas Eichler from Reston Dental Arts (RDA) met with Greg Serrao, CEO of American Dental Partners (ADP) after three other dentists had left the practice. The remaining medical practitioners had multiple concerns. Most pressing was that the defections might affect RDA's ability to attract new partners in the future. Serrao did not share their concern. "We're accustomed to having transitions in our dental groups," he says. "So we're not afraid that we're going to be unable to find doctors to come and doctors to buy in."

However, to allay their worries and to keep the remaining dentists in the practice, ADP offered them a kind of bonus to stay: a pledge that, if they remained for a certain length of time, upon retirement ADP would buy out their shares. The offer, summarizes Serrao, was that "if you can't get a new doctor to come in and buy your shares, we'll buy them. But you have to stay for a period of time."<sup>1</sup> In aggregate, recalls Serrao, ADP's promise amounted to "a couple of million dollars."

The group agreed. Most remained with the practice until 2011, when Dr. Dodrill left and Dr. Eichler retired. Moreover, Serrao persuaded the remaining dentists to adopt a version of the revenue-sharing model that ADP used elsewhere. Starting in 2001, 30 percent of revenue went to the dentists. Then ADP paid expenses. Finally, the remaining profit was split 80/20—80 percent to ADP, and 20 percent to the dentists. ADP also forced RDA to give up the Ashburn satellite office that had been struggling. The Ashburn office joined another ADP affiliate, Greater Maryland

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<sup>1</sup> Author's telephone interview with Greg Serrao on April 23, 2014. All further quotes from Serrao, unless otherwise attributed, are from this interview.

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*This epilogue was written by Kirsten Lundberg for the Case Consortium @ Columbia and the College of Dental Medicine. The faculty sponsor was Prof. Tamar Schiller of the College of Dental Medicine. (0614)*

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Dental Partners. Within three months, in part by accepting a wide range of insurance plans, the Ashburn office was profitable.

In 2002, Dr. Charles Fields left the practice. Dr. Eichler speculates on why he, as well as Doctors Kirkpatrick, Canal and Messina departed: “You can’t pay people enough to make up for not being their own boss.”<sup>2</sup> Dr. Averne adds:

They lost too much control over the management of their practices and just didn’t want a remote corporate group dictating what they felt were essentially areas that they wanted to control themselves. It was never clinical. I mean, ADP never ever interfered in the delivery of dentistry to our patients. That just never happened. So I mean they had shortcomings but not in that area.<sup>3</sup>

Meanwhile, ADP had its own difficulties. In January 2006, ADP affiliate Park Dental in Minnesota sued the firm for actions the doctors alleged interfered with patient care (Park Dental won an award in late 2007).<sup>4</sup> In 2008, ADP shareholders filed a class action lawsuit against the management firm (the parties settled in 2011).<sup>5</sup> In 2011, ADP announced it would again become private.<sup>6</sup>

Reston Dental Arts, meanwhile, in 2011 merged with another ADP affiliate group to form Fusion Dental Group, with offices in Maryland and Virginia. Doctors Eric Forsbergh, Robert Averne and Nicholas Ilchyshyn continued to work as Fusion employees. ADP CEO Serrao still believed the ADP model worked, even if it now carried a new name. He says:

If you go to Reston, everybody’s wearing Fusion Dental uniforms, Fusion Dental nametags. So from a patient perspective, it’s not about the name, it’s about the overall brand and what they know they’re going to receive when they go to a certain location. This practice is so much stronger today than it’s ever been; highly technical, you know, advanced technology.<sup>7</sup>

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<sup>2</sup> Researcher’s interview with Dr. Thomas Eichler on January 10, 2014 in Reston, Virginia. All further quotes from Dr. Eichler, unless otherwise attributed, are from this interview.

<sup>3</sup> Researcher’s interview with Dr. Robert Averne on January 13, 2014 in Reston, Virginia. All further quotes from Averne, unless otherwise attributed, are from this interview.

<sup>4</sup> Freedberg, Sydney P. “Dental Abuse Seen Driven by Private Equity Investments,” *Bloomberg.com*, May 17, 2012.

<sup>5</sup> “Brower Piven Announces the Filing of a Class Action Lawsuit Against American Dental Partners, Inc,” *Reuters*, February 2, 2008.

<sup>6</sup> Donnelly, Julie M. “American Dental Partners to be Acquired for \$398M,” *Boston Business Journal*, November 7, 2011.

<sup>7</sup> Researcher’s interview with Greg Serrao in early 2014.

Corporate dentistry had grown significantly in the first decade of the 21<sup>st</sup> century, in part as a response to increasing numbers of children with access to dental benefits through Medicaid (few fee-for-service dentists would accept government payments). The policy shift to publicly-financed dental care for children was expected to prevent future expensive remedial treatment. With time, policymakers and the industry expected more children to access dental care through public programs, while fewer adults would see dentists under fee-for-service.

More change was expected, thanks to demographic and geographic shifts that could affect patient pool composition and the overall use of dental services in the US. The bright spot in the fee-for-service world was the population of older adults. This group believed firmly in regular dental visits and continued to experience dental problems that originated in childhood. Growing immigrant populations in the US were also expected to influence the volume and type of dental services demanded. Services to this community would likely skew toward urgent, complex procedures.<sup>8</sup>

It was notable that, as the number of dentists continued to rise, dental spending by patients was in decline. A shift was underway from a business model of high volume, private dental insurance, primarily preventive and restorative office visits, and a mainly adult patient base toward a more publicly-oriented, pediatric and urgent care, large-scale model. Moreover, the male-dominated, solo or small group practice was opening its doors to growing numbers of female dentists.<sup>9</sup>

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<sup>8</sup> ADA Health Policy Resources Center, “A Profession in Transition: Key Forces Reshaping the Dental Landscape.” American Dental Association, 2013.

<sup>9</sup> Diringer, Joel, Kathy Phipps and Becca Carsel, *Critical Trends Affecting the Future of Dentistry: Assessing the Shifting Landscape*, Diringer and Associates, May 2013.