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Section 179 Deduction makes 2011 the year to Purchase your TBS FCE Equipment

In these difficult and challenging economic times, many businesses have made decisions to cut spending as much as possible to conserve cash. Quest Medical Group, Inc. (QMGI) understands the importance of helping businesses improve their revenue cycles to boost the bottom lines. As part of the economic and job development incentive legislation passed by the Congress to include the Hire Act, the Jobs Act and the Tax Relief Act of 2010, one specific part of the legislation will help physical therapists, occupational therapists and rehabilitation specialists purchase the equipment needed to add new testing capabilities and therefore, revenue streams to their practices. Under these Acts, in 2011 Section 179 of the tax code allows 100% write-off of qualifying equipment and software purchased during the year. In addition, the amount eligible for write-off increased in 2011 to \$500,000 from \$250,000 in 2010. Additional amounts for writing-off equipment and software of up to \$2,000,000 may qualify under a Bonus Depreciation clause in Section 179.

As a result, 2011 is a banner year for professionals who are looking to expand their procedure testing capabilities and broaden their revenue streams. To show the benefits of electing to use the Section 179 deduction, we will present a simplified case. We will use the TBS Premier FCE System which is the most comprehensive FCE testing packages available in the market today. The TBS Premier FCE System has a retail price of \$48,670. It includes all the equipment necessary to per-

form comprehensive FCE testing on patients to include the AcuLift System which is the most accurate and objective method of determining a worker's ability to lift in the "real world". The AcuLift System adds a degree of credibility that no other FCE Center in your area can match and it gives your center powerful marketing opportunities for your FCE and Pre Placement Screening programs. Pictures of the TBS Premier FCE System with AcuLift System are shown below.

Figure 1: TBS Premier FCE System (Top); AcuLift System (Below)



An example of applying the Section 179 Guidelines to the purchase of the TBS Premier FCE System results in the following tax savings and equipment costs for a practice purchasing the Premier System:

To perform a breakeven analysis, the price per test or procedure and the fixed and variable costs of the procedure must be known. We will use an example of a PT clinic that has space available for performing FCE tests and has the necessary staff trained

Table 1: Section 179 Deduction Example (Demonstration Purposes Only)

2011 Purchase of the Premier FCE System	\$48,670
First Year Write-off:	\$48,670
Normal First Year Depreciation Deduction (normally 20%/ year (\$9,734) but full amount taken above under Section 179)	\$0
Total First Year Deduction	\$48,670
Tax Savings (Assume 35% Tax Bracket)	\$17,035
Total Equipment Costs	\$31,635

As shown above, the tax savings that occur due to the Section 179 deduction, assuming a 35% tax bracket, is over \$17,000.

In addition to the tax savings, since depreciation is a non-cash expense, that is taken on the income statement to account for the use on the equipment, adding back depreciation to net income results in an increase in cash flow to the business. Yes, the money must be paid out but the tax and cash flow benefits from the accelerated depreciation can provide a positive benefit to a practice considering expanding its services.

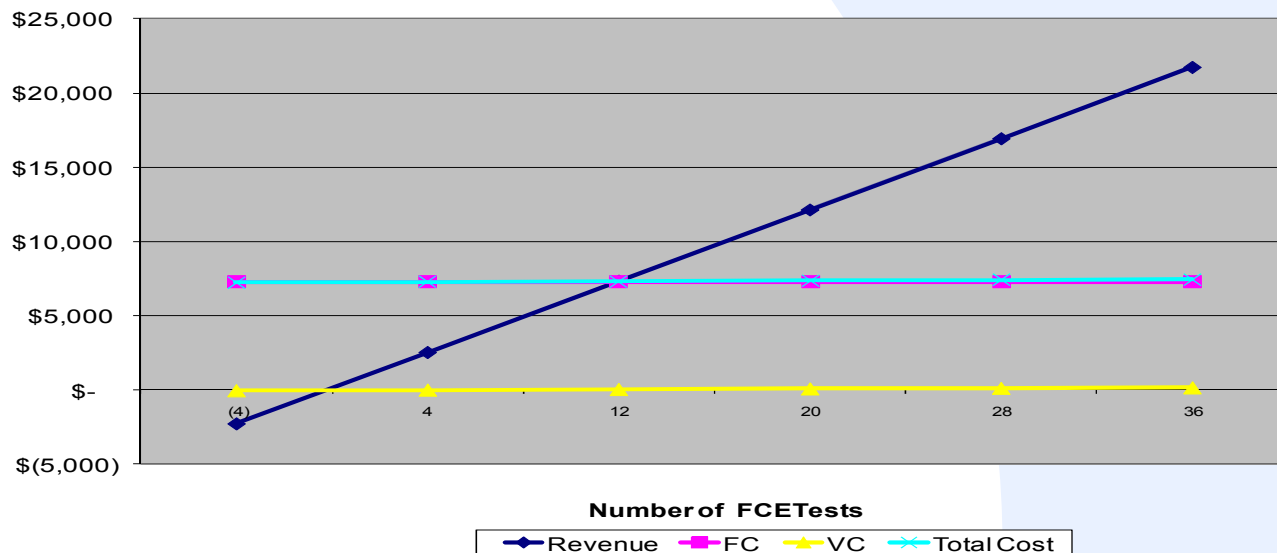
BREAK-EVEN ANALYSIS

An important consideration that should be made when purchasing new equipment is the break-even volume that is required to make an investment in equipment profitable. If the break-even volume is too high and can't be supported by market conditions, investment in the equipment or service isn't feasible. However, if the volume required to break-even on an investment in equipment is small and can be met by local market potential, the investment becomes feasible.

and certified to perform the FCE tests. FCE Revenue is projected at \$600 per test. Variable costs for the FCE include the costs associated with report generation to include paper and printer supplies. We'll assume \$5.00 per report. The fixed costs would include the costs of financing the new TBS FCE Premier Equipment (\$48,670) which we have projected at 7.5% interest over a two year period which results in a monthly payment of \$2,190 assuming 100% financing. Adding in \$3,000 in marketing expenses to promote the new service offerings and taking into account the full deduction of \$48,670 in depreciation as an operating expense, the monthly breakeven volume is approximately 3 FCE tests per week or 12.2 FCE tests per month as shown in the chart on the next page. Breakeven is where Revenue equals Total Costs.

We can perform the same analysis for a new service that includes PT salaries of \$72,800, benefits at 10% of salary with the same variable and fixed costs included as stated above. Under this scenario, the breakeven increases to approximately 1 FCE tests daily. Under this scenario, all staff, finance, variable and fixed costs associated with performing FCEs are covered. Other less expensive FCE Systems are available through QMGI.

Monthly Breakeven Volumes



Understanding Market Potential versus Market Share

Successful marketing involves understanding the market in which a company operates, identifying a need and successfully filling that need. Millions of dollars are spent by companies to gather market research, crunch the numbers often using expensive consulting firms that have “proprietary algorithms” that they have developed to “solve their clients’ problems”. Problem is with most of these proprietary methods is that consulting firms puts “your problem into their solution” which may or may not provide the desired results but often makes lots of money for the consulting firm. Many companies have little experience with marketing so just getting their name out in the market brings business which the consulting firms then take credit for developing awareness.

QMGI’s experience with market research is that most hospitals, PT, OT and Rehabilitation clinics can research in-house the information they need to effectively position their services in the market. Two of the most important issues to understand when assessing a market is to know the difference between market share and market potential. For example, FCE market share is determined by the proportion of the total number of FCEs performed in a specific market service area

(MSA) by a specific clinic or program. For example, if Clinic A performs 37 FCEs and there is a total of 100 FCEs performed in the MSA, Clinic A has a 37% market share. Market potential however refers to the total potential FCE volume that is available in the MSA. Market share is how big your slice of the existing (accessed) pie is while market potential is the potential size of the pie.

To obtain this Market Potential data, utilization rates for FCEs would need to be applied to the MSA population. For example, if there are 100,000 persons residing in the MSA and the sample utilization rate for FCEs is 2.3 per 1,000 population, we would project that the MSA has a market potential of 230 FCEs of which only 100 are being accessed to the system. Therefore, therapists could expect to grow their share of the pie via branding and concerted marketing efforts.

It doesn’t take an expensive marketing research firm to find this type of information. A little time spent on the internet, making a few simple calculations with the data, and applying the derived information to your market can provide valuable insight at little to no additional cost to the program. Once you understand the market potential, you can begin to target specific market segments within your MSA. QMGI provides marketing assistance to customers. Call for assistance today.



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What's inside:

- **Section 179 Deductions Make 2011 the Year to Purchase your TBS FCE Equipment**
- **TBS FCE Equipment Breakeven Analysis**
- **Understanding Market Share and Market Potential**



FCE Advisor

The Standard of Excellence in FCE & Muscular-Spinal Testing

Today's physical therapy, occupational therapy and rehabilitation programs are sailing in stormy seas while charting new territory. Charting a safe course and monitoring progress along the way can only occur as crew members understand what the destination is, where the potential obstacles along the charted course are and have the necessary skills to set the sails to keep the program heading along the charted course. Maintaining program heading while sailing in the tempest tossed seas of today's healthcare environment requires extensive knowledge, skills and the combined teamwork of all crew members. Gone are the days when these skills could be hoarded or maintained in a few crew members. Today's turbulent healthcare seas require that all crew members be focused on a common purpose or destination for the program. Just as successful mariners monitor their position against the destination, so too do successful physical therapy, occupational therapy and rehabilitation programs monitor their position against the desired destination. Understanding what the purpose or destination is, allows successful mariners and PT, OT and Rehabilita-

“When performance is measured, performance improves. When performance is measured and reported, the rate of improvement accelerates.”

Thomas S. Monson

tion programs to establish key indicators that monitor progress along the charted course. Without a well defined destination or purpose, key indicators cannot be established to maintain the desired heading. Where is your PT Program heading? Have you charted a course that will allow you to effectively and safely navigate the stormy seas that lie ahead? Is the course you've charted appropriate for the knowledge, skills and capabilities of your

crew? Is your ship and crew members able to sail the deep waters or do they need to remain close to the shore? Do the key indicators accurately measured progress towards the destination? QMGI assists PT, OT and Rehabilitation Programs chart safe courses

through the rocky shores and ragged reefs of today's turbulent seas while effectively utilizing the unique knowledge, skills, talents and abilities of the crew members. We have the experience, knowledge and skills to help you safely set sail and to ensure you reach your destination. **Please call us at 801-281-3939** to talk with one of our sales consultants about how QMGI can help you chart a new course to PT, OT and Rehabilitation Program success and viability.