



Andrew Rogerson

Presents

Health Quest Therapeutic Massage

Los Angeles, CA
(East Bay Area)

\$159,000 for practice only

Rogerson Business Services,
Telephone (916) 570-2674 **Fax** (916) 473-8655
5150 Fair Oaks Blvd. #101-198, Carmichael, CA, 95608

Information provided by Seller and other sources, and is not warranted by Broker.

Health Quest Therapeutic Massage

LOCATION:

Los Angeles, CA

ASKING PRICE:

Practice	\$159,000
Real Estate	N/A
Bring Offers	\$

SELECTED DATA POINTS:

- 5000+ active clients
- 5 - 15 new clients/week
- Medical massage therapy
- Insurance reimbursed services

EMPLOYEES:

10	Licensed massage therapists
1	Office Manager
2	Part time Reception

FINANCIAL:

	Gross Sales	% Growth
2010	\$224K	--
2011	\$288K	+28.6%
2012	\$335K	+16.3%
2013 projected	\$371K	+10.7%

REASON FOR SALE:

Personal reasons, moving from area.

FACILITY:

- Professional Office Building
- 2,000 SF
- 4 treatment rooms
- waiting area
- Business office
- Opportunity to sublease or add services (e.g., chiropractic)

OVERVIEW

Health Quest Therapeutic Massage (HQTM) is a therapeutic massage practice with 10 different licensed massage therapists, located in Los Angeles, CA. Most of the work is reimbursed through insurance for therapeutic procedures. The practice is the only medical massage practice open 7 days/weeks with multiple massage practitioners.

The practice was established in 1998 and moved to its present location in 2005. The practice is located in a 2000 SF leasehold space in a professional office building. The facility has 4 treatment rooms, 1 private office, and waiting area. HQTM has a philosophy of providing excellent patient care, and its staff has a commitment to continuing medical education and professional growth. The practice has over 5,000 patients on file, of which 3182 active patients in 2012. The practice has between 90-100 patient encounters/week. HQTM is open 7 days per week. The average appointment length is 60-90 minutes. About 5% of new patients derive from yellow pages, 24% from Provider/HMO/PPO referral, and 70% from direct patient referral. The owner practitioner works a schedule of about 25 hours/week. Practice fees are considered average with respect to the competition.

HQTM accepts all types of patients: female, male, and children. The practice uses several modalities and techniques:

- Deep Tissue
- Energy Work
- Geriatric Massage
- Lymphatic Drainage
- Chair/Seated Massage
- Oriental Bodywork
- Pregnancy Massage
- Pressure Point Therapy
- Sports Massage
- Thai Massage

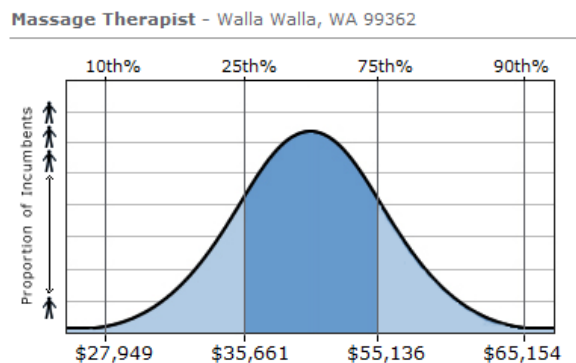
Summary Snapshot of Practice:

Practice Type: Therapeutic massage	2012 data
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Category	Factor	Qualitative Desirability Assessment
Annual Gross Collections	\$335K	
Profit Margin	20%	
Rent/Facility Expense	5.7%	
Owner Discretionary Earnings	\$66K	
Owner Provider Hours Worked	25 hrs/wk	
# Provider / Goodwill transfer	8 LMTs	
Facility	Prof Office Bldg	
Location	Suburban	
Overall Salability / Desirability	Med - High	

Select Practice Characteristics:

- **Practice Type.** The practice is 8 FTE practitioner therapeutic massage practice providing a variety of medical massage services.
- **Payer Mix.** Based on the payer mix information provided, HQTM works with a wide variety of insurance payers.
- **Owner Hours.** The owner averages 25 hours/week practicing medicine and performing administrative duties. This is slightly above the average number of hours worked for this specialty.
- **Practice Stability.** The practice has been operating since 2005 in the current location since 2005 and is well established in the area.
- **Demand for Services.** HQTM is a full service therapeutic massage offering a wide range of therapeutic massage modalities and procedures.
- **Facility.** The practice is located in a 2000 SF facility in a professional building, with 7 parking spots. The facility has 4 treatment rooms, 1 private office, loft, and waiting area. The facility is nice, modern, and well designed. It also has room to support more growth.
- **Transferability of Goodwill.** Transferability of goodwill is considered good as there are multiple providers, the practice takes insurance, and has relatively little competition.
- **Historical Growth Patterns.** HQTM gross revenue has been stable with steady growth from 2010 to 2012, and is trending +11% in 2013.
- **Income to New Buyer.** The current and anticipated cash flow to the owners represents an important aspect for a new buyer. 2012 sellers' discretionary earnings is about \$66K (including rent income). 2013 income is trending higher. We'd expect a new buyer in an area with a Cost of Living Index of 93 to want after debt service compensation to be \$43K - \$45K or higher. Based on the aforementioned expense adjustments this leaves potentially about \$21K available for practice debt service. At a practice sales price of \$160K a new buyer will have about \$21K in debt service, leaving a new buyer cash flow of about \$45K based on 2012 data. Most likely higher with trends in 2010. Below are typical compensation patterns for this specialty:

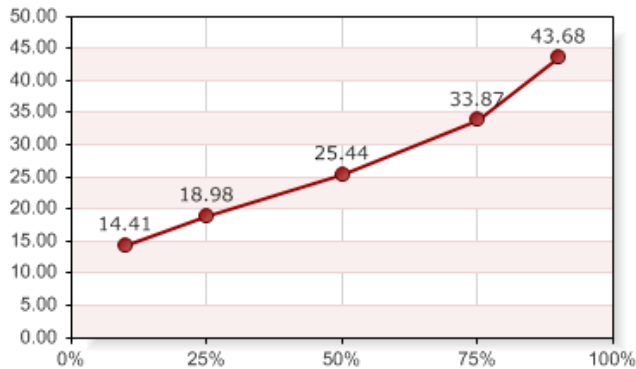


Source: HR Reported
data as of April 2010

Hourly Rate Range

My What-if: Licensed Massage Therapist

Average = \$25.93



Massage Therapy Salary Data:

Lowest Salaries	\$16,670
Average Salaries	\$34,900
Highest Salaries	\$69,620

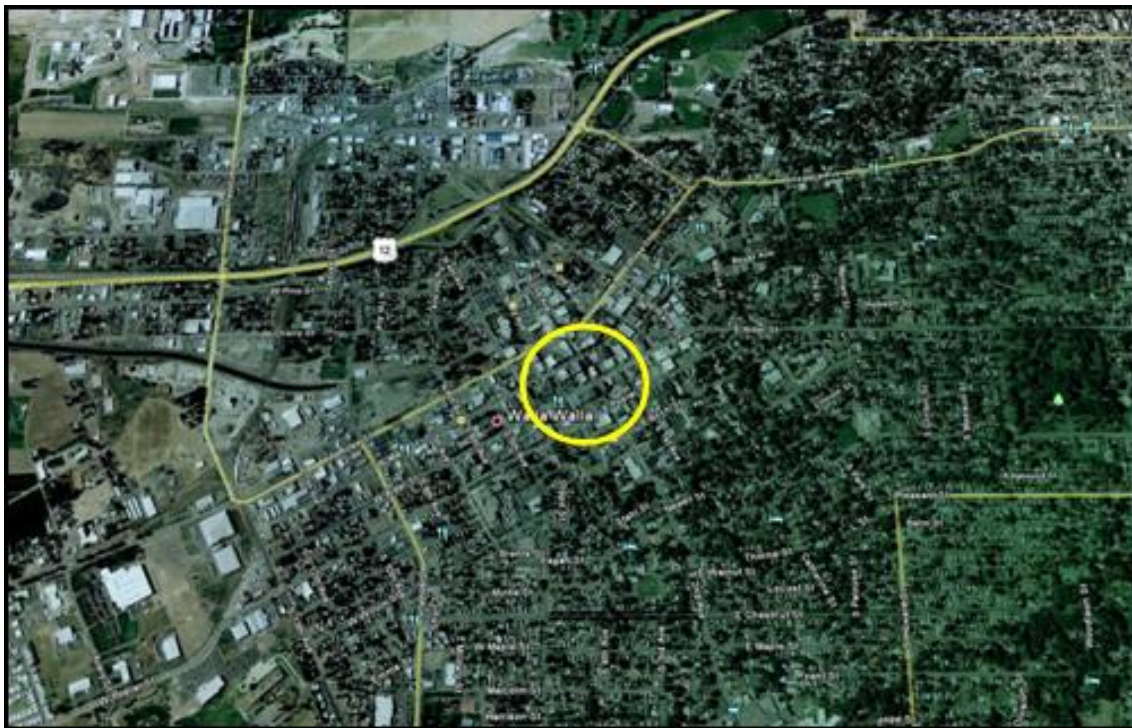
Massage Therapy Salaries by Industry:

Personal Care Service	\$37,230
Travel Accommodations	\$36,520
Recreation Industries	\$41,430
Physician Offices	\$43,350

Salary data as shown by the Occupational Employment Statistics (OES) Survey Program (2008).

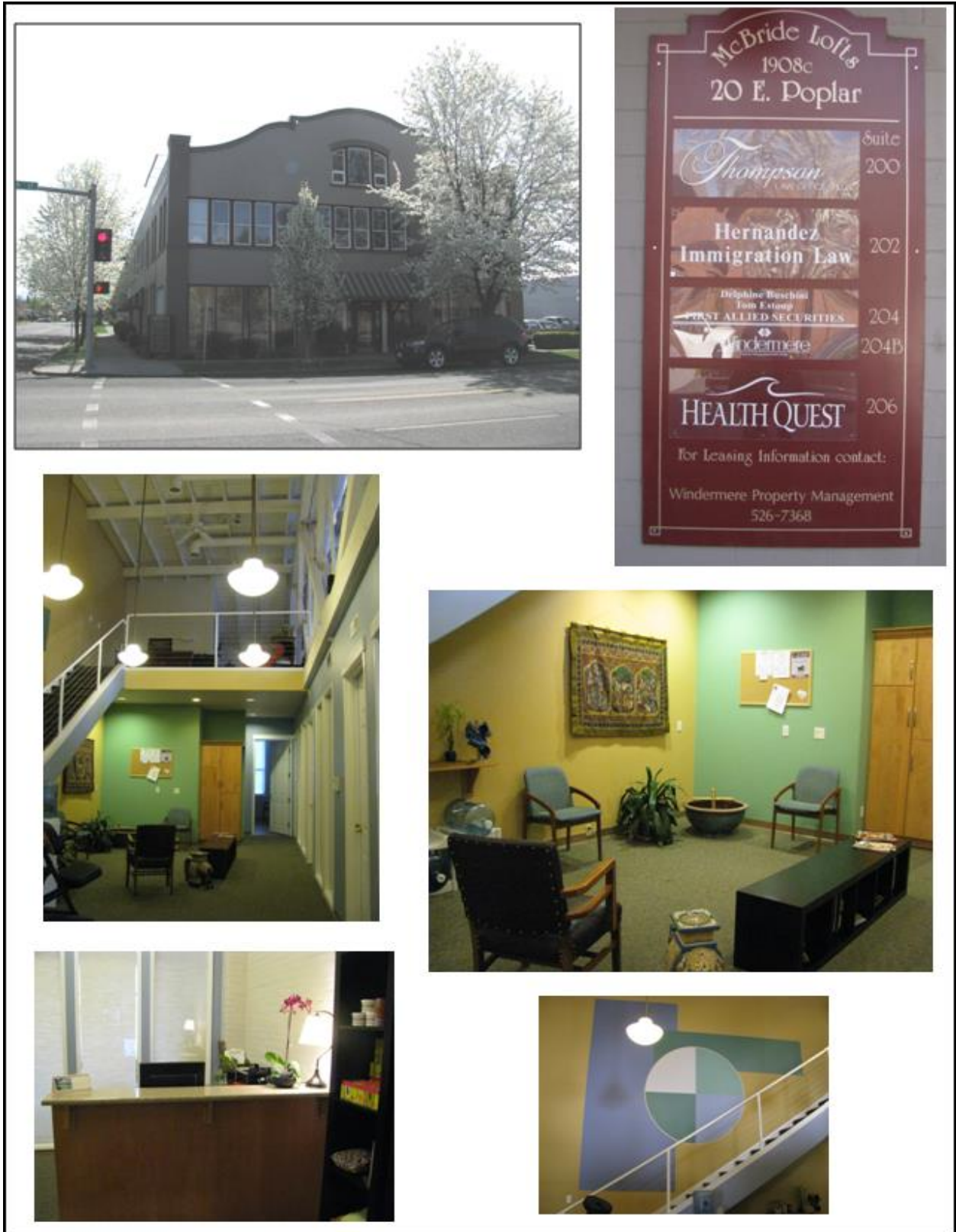
- **Growth Potential.** HQTM could potentially increase revenue in different ways: longer office hours, maximizing loft area, adding product lines, adding additional medical services, or adding staff.
- **Furniture, Fixtures, and Equipment:** The practice is relatively well equipped. Equipment/furniture are upgraded on a regular basis.
- **Staffing Quality.** Staff members are considered to have a very high level of competency, and receive ongoing professional training.
- **Location.** HQTM's located in a desirable downtown location and neighborhood of Los Angeles, CA. Nearby senior housing is under construction.
- **Competition:** Overall, competition is light. Relatively few competitors relative to available client base. A moderate number of therapeutic massages in the major market radius.

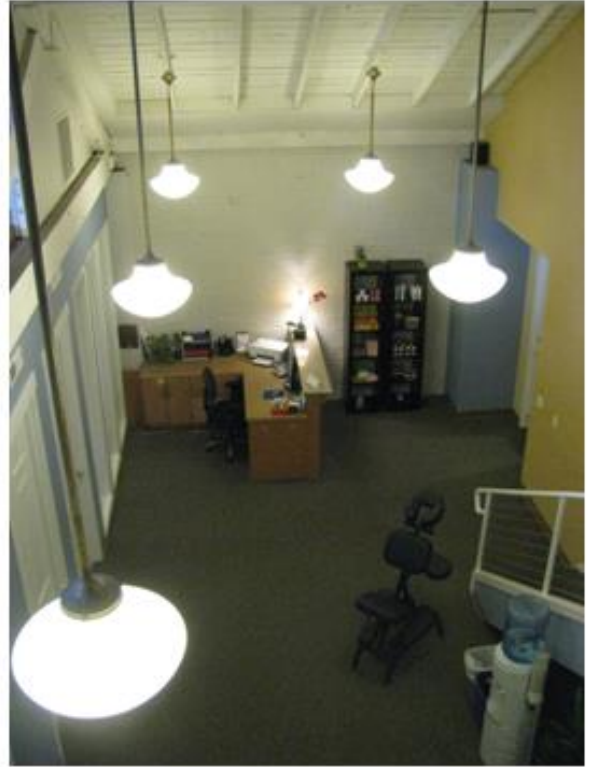
Overhead Photos of Practice:



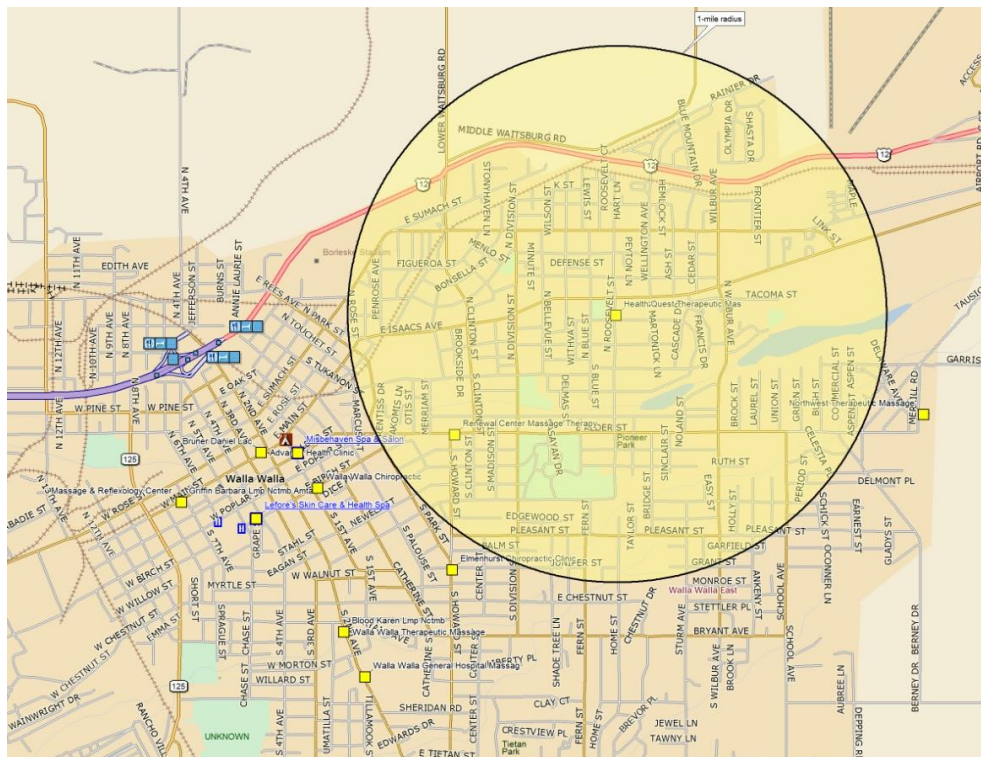
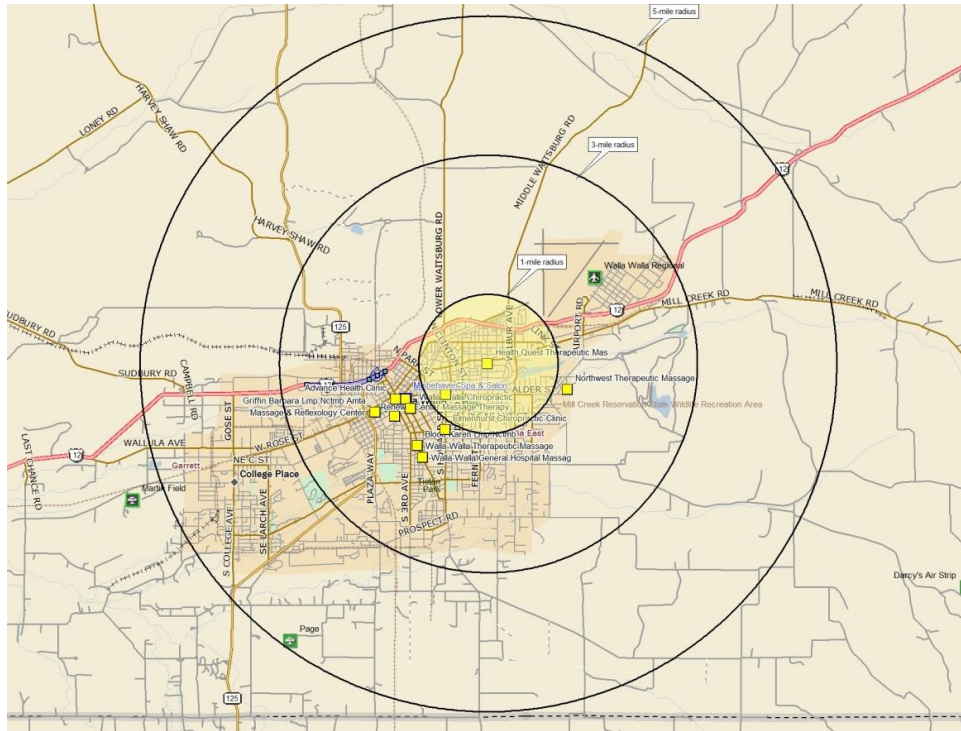
Facility:

Bunch of photos





Practice Location and Competition:



Information provided by Seller and other sources, and is not warranted by Broker.

Area Information

Walla Walla Neighborhood Profile [\(change location\)](#)

Quick Glance

Population:	30,794
Population Growth:	0.9%
Population Density:	2,792
Median Age:	35 years
Median Income:	\$37,162
Cost of Living Index:	93

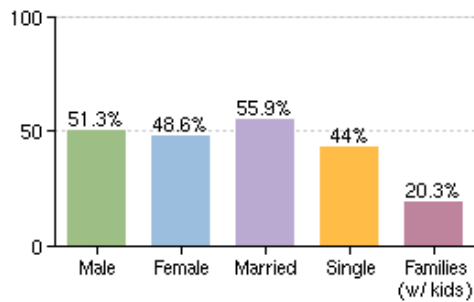
Weather

Today: Fair
82°F / 55°F



January Avg Temp:	28°F
July Avg Temp:	89°F
Sunny Days:	188
Precipitation Days:	107
Rainfall (inches):	17
Snowfall (inches):	19

Walla Walla Demographics



Walla Walla Jobs and Politics

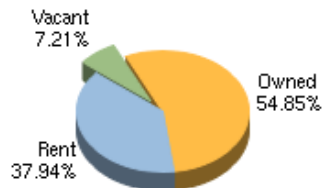
Unemployment Rate:	5.4%
Recent Job Growth:	1.4%
Future Job Growth:	16.5%
Democrat:	36%
Republican:	62.4%
Independent (others):	1.5%

Walla Walla Housing Statistics

Median Home Age:	49 years
Median Home Value:	\$203,859

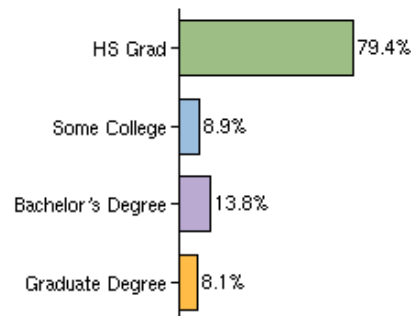
Renter v. Owner

Market Value



Walla Walla Education Statistics

School Expenditures:	\$4,939
Pupil/Teacher Ratio:	23
Students/Librarian:	416
Students/Counselor:	686



Health Quest Therapeutic Massage

Congratulations on your decision to consider buying a practice. Tens of thousands of fellow practitioners are practice owners. If you desire higher income potential and desire the opportunity to be “captain of your own ship” and practice medicine the way you want—then practice ownership is for you. This document is designed to help you decide if the purchase of Health Quest Therapeutic Massage (HQTM) may be the right choice for you.

Why Buy a Practice?

Every buyer has their own needs and motivations for buying a practice. Some of the more common reasons include:

- Job security
- Control of life goals
- Control of medical policies
- Make more money
- Build towards retirement
- Pride of ownership
- Freedom
- Prestige
- Be captain of your own ship (instead of 1st mate)

How Much Money can I Make if I Buy this Practice?

How much money a new buyer will make is ultimately dependent upon the buyer. Different people have different strengths, weaknesses, work ethics, productivity levels, skill sets, business acumen, management skills, client relationship skills, and so forth. As a new buyer, you may choose to add or reduce office hours, or add or reduce profit centers or services, change the fee structure, or alter the expense structure to suit your needs.

Additionally, interest rates and loan programs may change over time. Different purchase scenarios are possible with different types of funding and down payment which will change expected cash flow. For example, a buyer might wish to pay more or less of a down payment; or loan interest rates may go up or down due to economic conditions, or a different sales price may be agreed upon. For each buyer, it is important to determine projected cash flow based on your particular situation. Your broker or other advisors can assist with performing some ‘what if’ scenarios based on your situation.

How Much Should I Offer?

There are many complicated formulas and methods to determine practice value. But ultimately, a practice is worth whatever a buyer is willing and can afford to pay. Most buyers are in essence buying themselves a job. More often than not if a buyer can afford the practice (based on down payment and loan availability) and still make a “decent” salary that is what a buyer will pay. And that’s a perfectly okay reason to pay a certain amount.

Another factor to consider is whether or not you plan to make any significant changes to the practice operation. Will you change the number of physicians, either adding to or removing from a physician from the practice? Will you be significantly changing the expense structure? What will be happening with demographics or competition in the near future?

One buyer will pay \$XXX for a practice, while another buyer will pay \$YYY for a practice. There is no right answer. Some buyers will say "I must make at least \$XX,000" while another buyer won't be happy with less than \$YYY,000 income. Other buyers will find factors other than income to be important in their purchase decision. It may be the community offers a unique lifestyle, or the practice will allow for a reduced work schedule to allow more time with the family.

Market demand and transactions can be an indicator of what a practice might be worth to you. Do you consider this opportunity to be "above average," "average," or "below average?" A little bit above/below, or a lot? If you pay \$XXX can you still pay the bills and meet your lifestyle demands?

Also, don't focus exclusively on price. Purchase terms are important too. What is included or excluded from the deal? Are accounts receivable included? Is it a stock sale or asset sale? What about covenant not to compete duration/radius? Is the seller helping with financing at below market rates or more favorable qualification terms?

Sometimes a commercial lender can be an indicator of an upper limit that a buyer might want to pay for a practice. Lenders tend to be an advocate for the buyer in that they want the buyer to be successful (so you can pay back the loan). However, just because a lender won't loan a certain amount doesn't mean that the problem is with the practice. The problem could be due to buyer experience or credit history or criminal history (even DUI convictions), or past bankruptcy, or other factors.

How do I know if this is the right practice for me?

The *perfect* practice doesn't exist; but that doesn't stop a lot of want-to-be-owners from looking for it. If you wait for the perfect practice you will still be looking (and working as an associate) years from now. Even if you could find the perfect practice, chances are some of the things important to you now will not have the same importance after you have owned the practice for a while. Ownership changes your perspective. So what is perfect today, may not be perfect tomorrow.

The real question you should be asking is, "what is the right practice for me?" What makes up the right practice? Well, it is different for every person. The right practice is a practice that meets 80% - 90% of your goals. My recommendation is that you make a list with two categories: MUST HAVE and NICE TO HAVE.

1. MUST HAVES tend to be things that cannot be practically changed. For example, if you are looking for a small animal practice you can't change a large food animal practice into a dog/cat practice. Practice location can't be easily moved to another location. If you have no money for down payment, then that

is a reality you must deal with. It is crucial that you limit yourself to only 3 MUST HAVEs. A common mistake for first time buyers is to have a long list of MUST HAVEs, which severely limits your options and chances of successfully buying a practice.

2. Then make a list of NICE TO HAVEs. These are things that can be changed. Fees too low? You can raise them. The practice lacks an endoscope? Well, you can buy one. Don't like the décor? You can repaint and remodel. Don't like the old x-ray machine in the practice now? That can be replaced? Make this list as long as you like. But remember, your expectation should be to satisfy only a few of these immediately. Other NICE TO HAVEs can come later.

When you find a practice that meets all three of your MUST HAVEs and four or five of your NICE TO HAVEs: **then you have found the Right Practice!**

The table below shows sample items that buyers often cite as issues important to them. Your needs and issues may be different—that's okay.

1. Sit down and make a written list that is personalized to you.
2. Take your list with you to every practice you visit.
3. Look at it in private before going in to look at the practice. This will help focus your visit.

If you follow these guidelines, chances are that you'll find a practice that will make you happy.

Must Have (Limit to ONLY 3)	Nice to Have (Limit to 4 or 5)
<ul style="list-style-type: none"> • Income 	<ul style="list-style-type: none"> • Equipment
<ul style="list-style-type: none"> • Location 	<ul style="list-style-type: none"> • Décor
<ul style="list-style-type: none"> • Affordability/down payment 	<ul style="list-style-type: none"> • Hours
<ul style="list-style-type: none"> • Practice type 	<ul style="list-style-type: none"> • Staffing
	<ul style="list-style-type: none"> • AAHA accreditation
	<ul style="list-style-type: none"> • Own vs. rent
	<ul style="list-style-type: none"> • Computer system/software
	<ul style="list-style-type: none"> • Client demographics
	<ul style="list-style-type: none"> • Near skiing, ocean, resort
	<ul style="list-style-type: none"> • Nearby ER clinic
	<ul style="list-style-type: none"> • Fees
	<ul style="list-style-type: none"> • Commute time/distance
	<ul style="list-style-type: none"> • Growth potential
	<ul style="list-style-type: none"> • Distressed practice / buy on the cheap

Visiting the Practice

If after reviewing the preliminary practice information provided by the Broker you decide that this practice has the potential to be the right practice—it is time to visit the practice.

Your Broker will arrange a practice visit if you decide you'd like to take the next step to see the practice/Seller in person. Evenings and weekends tend to be a good time to visit the practice. You want to choose a time when the practice is closed and the staff is gone so you can look around, ask questions, and talk with the Seller in private and without interruptions.

The purpose of the practice visit is for you to gain familiarity with practice operations, history, and condition. The practice visit is NOT the place or time to negotiate price or terms.

RULE #1: You should neither ask, nor answer, any questions about price, terms, contingencies, motivations, or what the Buyer or Seller would or would not be willing to do. If asked about one of these issues then

your only response is "Let me think about it."

Because, you do want to think about it. It is easy to agree to something. It can be very difficult to back out of even a verbal agreement and cause hard feelings that will hurt your position later.

RULE #2: Your visit and the fact the practice is for sale is confidential. Do not contact the seller directly. Usually the Seller's staff (and sometimes even family members) is not aware that the practice is for sale. A misplaced comment or voicemail heard by the wrong person could make the Seller refuse to deal with you.

RULE #3: Feel free to ask any questions around practice operations, protocols, procedures, staffing, practice history, trends, community, competitors, local humane society, use of specialists and referrals, etc. Look at the appointment book to get a feel for how busy the practice is and how they schedule procedures. Spot check several patient records. Open up cabinets and look at drug and supplies inventories. Ask for a demonstration of the practice management software and a summary of the features used in the practice. Ask about their philosophy about treating patients and educating clients. Ask about staff tenure, quality, and effectiveness. Ask the seller what they like about the practice, and what they would like to change about the practice.

RULE #4: Start with a tour of the facility. This is a good ice breaker. Let the seller talk. Most sellers enjoy talking about their practice and its history. Most will volunteer a lot of information without prompting.

RULE #5: Enjoy yourself. Don't worry about "missing something" or "forgetting" to ask a question. You'll have plenty of opportunities to ask later. The purchase process provides lots of opportunity to get all your questions answered. Buying a practice is like peeling back an onion layer by layer. You are not expected to understand it all in one visit.

Negotiating the Deal

Congratulations! You now think that this is the right practice for you. Most buyers (if they like the practice) will make a purchase offer within 1-2 days after visiting the practice. But before you make an offer you need to decide for yourself the price and terms that work for you. As mentioned elsewhere, price and terms go hand-in-hand. Terms can affect price and vice versa.

To simplify things let's make some assumptions about the practice purchase. Your Broker can answer your questions and help you understand tradeoffs and what is normal and customary. Most purchases will have the following characteristics:

- **It will be an asset sale and not a stock sale.** Most buyers don't buy the corporation shares due to liability and tax reasons. This means you are buying "stuff" such as equipment, inventory, telephone numbers, business name, goodwill, records, client lists, seller's covenant not to compete, etc.
- **You'll be getting a bank loan to buy the practice.** Most sellers prefer to cash out and not carry a loan. Some seller's simply are not in a position to finance the deal even if they wanted. If the seller is able/willing to carry a note you'll generally know before the practice visit.
- **The seller will provide a non-compete agreement.** You'll want this for your protection and banks will require one as a condition of funding the loan. You'll want the non-compete to be broad enough to protect the client base. But not too broad making it unenforceable in court. For practices in a large metropolitan area a 5 – 10 mile radius may be sufficient. Most metropolitan practices draw 80%-90% of their client base from a two to four mile radius. So 5 – 10 miles is often sufficient. Rural practices may need to cover the entire town, or county, or a 25 – 100 mile radius. Look at the client demographics and market radius to determine what you need to protect yourself. For a duration, 3- 5 years is fairly common in sale transactions.
- **Sales Price.** When doing your analysis start with the Seller's asking price. Can the practice generate enough income to pay back the loan and still make you happy? At current terms (10 year loan at 7.75% interest) you'll owe about \$15K in annual principal and interest payments for each \$100K borrowed. Figure out based on your needs the maximum amount you can afford to pay/finance. This amount may be above or below the seller's asking price.
- **Down Payment.** The first question is how much money do you have to apply towards a down payment? Acceptable sources of down payment can be

money from savings or pension plans, home equity loans, even credit card cash advance. Next how much money do you want to pay? Some buyers elect to finance 100% of the purchase when possible—and pay no down payment. No money down is possible for many practice purchase situations—but not all. In general seller's like to see some amount of down payment to show earnestness. When calculating your down payment potential, remember to reserve \$3K - \$10K for out of pocket expenses (e.g., lawyer, accountant, inspections).

- **Closing Date.** When can you close? Do you have to relocate? Do you have to give profession notice to your current employer? The loan process normally takes 3 weeks to 8 weeks. For most buyers selecting a closing date 4-6 weeks out is safe for practices in leaseholds; 6-8 weeks for practice where the real estate will be purchased too.
- **Contingencies.** Most transactions will have a number of contingencies. You may have unique contingencies. But typical contingencies include:
 1. Getting a loan
 2. Seller's non-compete agreement
 3. Assignment of lease (if renting) or purchase of real estate
 4. Buyer getting necessary licenses to practice medicine/run business
 5. Review of books/records buy buyer
 6. Inspection of equipment/inventory
 7. If buying real estate: building inspection, survey, title insurance
 8. Sale of the buyer's practice
 9. Sale of the buyer's house if relocating
 10. Interviewing staff.

Letter of Intent

Work with your Broker to draft the purchase offer. Usually, the initial purchase offer will be drafted by the Broker per your request of specific price and terms. The document drafted by the Broker is called the **Letter of Intent (LOI)**. The Broker will draft what is called a non-binding LOI.

The purpose of the LOI is to provide a formal written mechanism to negotiate the major terms of the transaction between the buyer and seller. It provides a way for buyer and seller to go back and forth in a fairly streamlined manner. The document is short—often only one or two pages. You want to avoid verbal back and forth negotiations. Putting it in writing let's both sides consider all the relevant issues, and prevents “foggy memory” down the road.

The buyer will make the first draft and sign the offer. The seller has three options:

- Accept (okay as is)
- Reject (just say no)
- Counteroffer (the usual case)

If the seller counters, the seller will have the Broker make a revised draft. The seller will sign it and the Broker will present to the buyer for consideration. The buyer then has the same three options:

- Accept (okay as is)
- Reject (just say no)
- Counteroffer (the usual case)

It is normal for there to be one, two, or three back-and-forth rounds of the LOI. All offers are subject to the seller accepting your price and terms; and your contingencies removed.

It is normal and customary to make an offer without seeing ALL the information. That is what Due Diligence is for. A business offer to purchase (LOI) simply says, "If everything I assume about the practice proves to be true, then I'm willing to buy under these conditions." You'll have the chance to verify all of your assumptions and questions before closing. But, not before Buyer and Seller come to a basic meeting of the minds. It makes no sense for either Buyer or Seller to spend lots of time and money investigating every last detail, paying for lawyers and accountants if you can't even get in the ballpark on price and terms.

After the Letter of Intent is Accepted

After the LOI has been finalized and signed by both buyer and seller, we move into the next phase of the purchase. This phase will start with three simultaneous activities:

Apply for a loan:

You should contact a couple of different lenders experienced in funding practice acquisitions. Your Broker can provide contacts of experienced lenders. The loan offer will be able to explain various lending options/programs and provide you with a written Loan Proposal.

A *Loan Proposal* is a lender's expression of interest in further exploring practice lending opportunity subject to further review of your loan request and financial information. Most lenders will issue a *Loan Proposal* with minimal information on borrower and practice. *Loan Proposals* allow lenders to gain their borrower's commitment to borrowing from them before spending too much time processing their loan application. A *Loan Proposal* may be issued upon lender's review of loan application and borrower's personal credit history. Acceptance of a *Loan Proposal* will require borrower's signature and commitment fee to move forward to loan analysis and underwriting.

A *Loan Commitment* is only issued once the lender has a complete application package, financial information on both buyer and seller such as personal and business tax returns, practice appraisal and other pertinent information. Now how do you

compare loans from different lenders? It is critical that you pay attention to all terms and conditions not just the interest rate.

Here are our suggestions when you are comparing loans:

1. Loan Term- Most professional practices need 7 to 10 years to repay the loan. In some cases a 15 year loan may be appropriate. Is the loan fully amortized or is there a balloon payment
2. Loan Rate- What is the rate, is it fixed or adjustable
3. Loan Fee – Are there any origination fees, points, documentation fee, closing costs, attorney fee
4. Borrower Equity Injection – How much do you have contribute towards the purchase price 0%,10% or 20%
5. Collateral – What will the lender require for collateral? Most lenders will take the practice for collateral of their loan; some may require additional collateral such as your home or deposit accounts.
6. Future Borrowing Limits – Is lender limiting your ability to borrow any additional dollars
7. Owners Compensation Limits – Are there any maximum limits to owner's compensation
8. Prepayment Penalties – How many years, prepayment penalties should be limited to the first one to four years.

If all other considerations are equal, make sure you can comply with other terms and conditions of the Loan Commitment before choosing your lender. Consider your lenders experience in financing professional practices

Draft binding purchase contracts:

You will have one or possibly two purchase contracts: one to purchase the practice business, and one to purchase the practice real estate. The seller's or buyer's attorney will draft the first version of the business purchase contract called the **Asset Purchase Agreement** (APA). This document will typically be 20-40 pages long and will use the LOI as the basis. The LOI only summarizes the major terms of the transaction. The APA will detail the terms and include detail about other issues such as warranties and representations, how to handle employees at closing, how work-in-progress is addressed, etc. Whichever attorney makes the first draft tends to "set the tone" for the document, but most attorneys will charge \$1000 - \$3000 to draft the first version.

If real estate is being purchased, the Broker will normally draft the contract on State approved real estate forms. The broker does this free of charge.

Perform due diligence:

The whole point of due diligence is to satisfy yourself that you have a comfortable understanding of the practice and the potential risks/rewards. Ask your advisors, CPA, attorney, broker, and search Internet articles for advice as to the type of information many buyers often use in their decision making process.

Ultimately, the responsibility of investigating the practice and confirming the owner's claims belongs to the buyer. Don't depend on anyone else to make the purchase decision for you. It is you that will be working in the practice day-to-day and living with the results of your decisions.

Understand that in looking at practices and making a purchase decision, you will have to analyze a lot of information. Practice owners often aren't the best record keepers. So look at lots of different information and cross check documentation to look for inconsistencies or red flags. In some cases your own instinct may guide you. If you have a question – ASK. Ask the seller, ask the broker, ask your attorney, ask your accountant. In many cases one of these advisors can help put the issue into perspective. But understand that most outside advisors will not tell you to buy XYZ practice, and you shouldn't expect them to.

How much to do and when? Like most endeavors there is a point of diminishing returns where the level of effort exceeds the results. So satisfy yourself that you understand the practice and have reasonable documentation to support your understanding.

It is the Buyer's sole responsibility to verify all information, and to perform adequate and independent due diligence prior to making any purchase decision.

A Word about Contracts/Paperwork

During the purchase process you will be reading and signing many, many documents. Just take your time and go through them one at a time. Follow these rules when presented with a document for signature:

- ✓ Read it. Yes, actually read it and be comfortable with it. You'd be surprised how many people don't do this. It will come back to bite you later.
- ✓ If you don't understand something, ask before signing. It is normal and customary to ask questions. It is expected.
- ✓ If the Seller signs, you cannot make ANY changes and sign it too. If you change the document it becomes invalid thereby making the version the seller signs invalid as well. If you want to change something, there is a need to draft a new version that both parties sign.

Would you pay \$200,000 for a Practice with No Clients?

Looking to buy a practice? How about great practice for only \$200,000? Everything is new. Fresh paint, shiny floors, the latest computers, brand new equipment, well stocked drug inventory. The décor is modern and appealing. Everything is *exactly* the way you want it, no compromises.

How much does it gross? Well nothing. How many clients does it have? Well...none, since you're asking. This is called a startup practice.

But, don't worry...it does have plenty of expenses. Let's see. There's rent to pay, telephone bill, utilities, trash service, yellow pages ads, receptionist salary, technician salary, payroll taxes, medical supplies, legal and accounting expenses, etc. Oh, of

course there is a nice loan/lease payment on the money borrowed to buy the equipment and start the practice. And the working capital loan to cover the business expenses.

And the best part is you get to work for free! Oh, you'd like to have some money to spend on personal 'luxuries' like food, rent, car payment, student loan payment, clothing. No problem, just borrow more money to cover your living expenses for 6-12 months while the practice is running in the red.

Clients? Don't worry, clients love to change doctors. They can't wait to leave their current practitioner and start seeing someone new. Why buy an established practice when you could start your own new practice? You don't want used equipment do you? You want to do it 'your way' right? Did you pick the right location?

Clients are overrated anyway. Sure, with an established practice you can make money from the very first day of ownership; and you can plan and budget how much you can expect to make with an established practice. Sure, you'll know about how many hours/week you'll need to work to make a planned income. Sure, most risk is eliminated. Yes, you'll probably make lots more money over a 5-10 year period by buying an existing practice. Yes, you can often buy an existing practice with less money for down payment than with a startup.

But you won't have the joys that a startup gives you. Joys like wondering how to pay the bills, or playing computer solitaire while waiting for a new client to call in during an otherwise unscheduled afternoon, setting up the management systems, finding/hiring/training all the staff, working with architects and construction crews, finding the right location, studying demographic reports, etc.

Startups can be successful. But don't underestimate the cost, effort, and increased risk associated with startups. According to recent data, total first year costs of the typical startup practice is often \$50K - \$150K, plus another \$50K - \$100K of working capital in reserve.

Buying is a Team Effort

Buying a practice is a team effort and you'll want help from the following:

1. **Broker:** Use the Broker to help negotiate the terms of the transaction: purchase price, what is included/excluded, contingencies, time line. Use the Broker as a conduit for information requests about the practice. The broker can also answer questions about market conditions and normal/customary terms or contingencies. The broker can also assist with the purchase offer (Letter of Intent) and real estate purchase contracts.
2. **Accountant/CPA:** Use your accountant for advice on tax implications of the purchase. They will normally assist in reviewing the purchase "allocation of assets" which chunks the purchase price into categories for tax purposes. They can also

assist in decisions as to how to take ownership of the practice and real estate (i.e. business entity such as corporation, LLC, PC, etc.).

3. Attorney: Your attorney is a key advisor in the transaction. It would be foolhardy not to have legal representation in the transaction. The will draft/review the actual purchase contracts; advise on business entity selection; and in some cases tax issues. Your attorney works for you and at your direction. It is perfectly fine to tell the attorney that you have a budget that you'd like them to stay within. The attorney should help you meet your goal of successfully completing the transaction at the price/terms jointly agreed to by you the Buyer, and the Seller. It is not the attorney's job to renegotiate the deal after you and Seller have come to a meeting of the minds. Doing so will cost you more money and likely make the Seller angry and kill the deal. In general, seek out attorneys whose practice primarily consists of business transactions. In general avoid attorneys that who a primarily litigators (e.g., divorce attorneys). They have a different skill set and way of dealing with the seller's attorneys that will cost you more money.
4. Lender: As almost every buyer needs a loan to buy a practice the lender is key. Talk with at least of couple of different lenders. Your broker can provide you with referrals to lenders that have experience in successfully funding practice loans. In general, avoid lenders that do not primarily fund practice acquisitions. Even within large banks (e.g., Wachovia, CIT, Wells Fargo) they have departments that specialize in practice loans. You want that department/person and not the "local guy" that does home loans.