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## **Expanding by Buying Another Practice: What You Should Know**

For some time, you have thought about expanding your practice. However, you haven't taken things much further because the right opportunity hasn't appeared. Now, a nearby practice has been put on the market and it looks like it would fit in perfectly with your plans for expansion. Before you make an offer, though, you need to proceed with care.

### **Consider the Big Picture**

Review the financial projections for the practice you plan on buying. Revisit your assumptions about patient numbers. Determine how long it will be before the practice begins paying for itself. Look into potential staffing issues.

### **Clarify What You Are Buying**

Before considering what may be an appropriate purchase price, other important aspects of the sale -- structure, payment terms, tax allocation, collateral, and post-sale employment of the seller -- must be discussed. Be sure that such items as accounts receivable, deposits on equipment, and property leases are discussed as part of the negotiations. Determining exactly what's included in the sale will minimize potentially costly future disputes.

### **Benchmark the Asking Price**

Work with a professional broker to determine whether the asking price is in line with recent sales of similar-sized medical practices in your region. You have more room to negotiate on the asking price if you have recent sales data for comparison purposes.

### **Determine the Type of Sale**

Will it be an asset sale or stock sale? If it's a stock sale, you generally will not get a tax deduction for any of the purchase price since stock is not a depreciable asset. The seller, however, is happy to pay tax at capital gains rates. An asset sale is much more advantageous for the buyer from a tax perspective. Assets can be depreciated. Depending on the tax allocation of the purchase price among the assets acquired, you may be able to dramatically reduce the after-tax cost of your purchase by taking all the available write-offs from depreciating the assets included in the sale. In addition, an asset sale excludes the practice's liabilities.

### **Select the Method of Financing**

Some lenders are more aggressive in seeking out business, so you should be willing to work with out-of-state and out-of-region lenders to get the best terms.

Have the seller finance part of the sale because it creates an incentive for him or her to cooperate on any of the many issues that may arise after the sale is completed. Just be aware that the seller may expect a security interest in the practice, including its future receivables.

### **Use an Escrow**

The typical sales agreement contains numerous assurances, known as “seller representations and warranties,” promises from the seller that all statements about debts, assets, and tax liabilities are true. However, if the sale is for cash, it may be wise to negotiate to hold back part of the purchase payments in an escrow fund to protect your interest in case any representations turn out to be untrue.

### **Be Aware of Pre-sale Practice Expenses**

All of the practice’s bills should be paid off before the transfer occurs, if practical. Adjustments can be made at the time the sale is closed.

### **Use a Covenant Not to Compete**

If retirement is not the motivation for the sale, it is generally advisable to negotiate a covenant not to compete. The covenant should be reasonable as to the duration of the covenant and any geographic restrictions.

### **We Can Help**

If you are planning the purchase of another medical practice, we strongly recommend that you talk to us first. We can help you review the financials and help protect your interests throughout the process.

An asset sale is much more advantageous for the buyer from a tax perspective.