



The Complete Guide to Buying or Selling Your Practice

Greg Kingsbury

The key ingredient needed for successfully selling or buying a chiropractic practice is money. For the seller, the primary goal is to receive fair market value for the practice, as I've [discussed previously](#); for the buyer, it is acquiring the necessary funds to purchase it. Let's look at the money issue from the perspective of both seller and buyer.

Assume the seller has decided without equivocation they are ready to sell. They have had the practice

appraised by an experienced and competent agent, such as a practice broker fully knowledgeable about chiropractic practices. The fair market value has been determined and will be the suggested sale price.

Most practices can take 1-2 years to sell from the time listing and marketing have begun. Some practices sell faster, under six months, but that is a rarity. This is because there are a lot of moving parts needed, and the process must be coordinated and efficient. One of these



moving parts is for the seller to have the necessary documentation prepared for the buyer to submit to the practice acquisition lender.

Required Seller Information

Lending institutions will require certain items from the seller in order for the buyer to

get initial credit approval and a financing commitment letter. This process alone can take up to 3-4 months, so if time is of the essence, the seller should have the following information available:

1. Last three years of business tax returns, all federal schedules

OPERATE YOUR PRACTICE

CONTINUED FROM PAGE 17

or schedule C for a sole proprietor.

2. Year-to-date income statement and balance sheet no older than 60 days.

3. Copy of current lease or letter of intent from landlord for buyer's rental payment.

4. Seller's signed 4506-T (transcript request) tax form; may be signed blank for the lender to complete.

(Form 4506-T is an Internal Revenue Service (IRS) document used to retrieve past tax returns, W-2 and 1099 transcripts that are on file with the IRS. The document gives permission for a third party to retrieve the taxpayer's data. The taxpayer must sign and date the 4506-T.)

5. Photos of the office, each room, the equipment and furnishings, and an outside view including parking, location and signage.

“ There are many moving parts when it comes to buying or selling your practice, not the least of which is documentation. ”

6. Equipment / asset / inventory list with total estimated market value and make / model / serial # of the items.

7. Current office hours, both when open and doctor's hours if different.

Required Buyer Information

The buyer also must have specific forms and information prepared and ready to submit so the funds can be secured in a reasonable amount of time:

1. A completed buyer application. (SBA forms may be used for conventional loans.)

2. Credit authorization signed by the borrower and spouse if applicable.

3. Small Business Administration (SBA)

personal financial statement (413 form) joint including spouse (even if the spouse is not involved). Please note that even though a bank maybe the lender, it is the SBA that guarantees the loan.)

4. SBA statement of personal history (912 form) for borrower and any guarantor.

5. Resume or curriculum vitae including education, job history, licenses, etc.

6. Current chiropractic license for states currently held.

7. Personal tax returns for three years for principals and guarantors, if any.

8. Business tax returns for three years on current business owned, if applicable.

9. Year-to-date income statement and

balance sheet for current business owned.

10. Recent pay stubs for principal and spouse for current jobs.

11. Purchase agreement or letter of intent for the practice being purchased.

12. Business plan (a format can be provided by lending institution).

13. Projected one-year revenues / expenses (have seller help).

14. Buyer's signed 4506-T (transcript request) tax form; maybe signed blank for lender to complete.

15. Copy of driver's license or ID for borrower and any guarantor (legible photo.)

16. Three months of bank statements to verify equity or working capital injection and reserves; include retirement account and securities.

Other Considerations

Understanding a few other things from



the lender's perspective also will help the buyer secure funding for the practice they are interested in purchasing:

1. If the buyer is looking to attain an unsecured loan (one that doesn't require a guarantor or the pledging of personal assets such as stocks,

bonds, real estate, etc.), it is absolutely essential they have at minimum two years of practice experience. This can be as an associate doctor or practitioner who previously owned and operated their own practice.

If you are a recent graduate, then it is a certainty the bank or

lending institution will require a guarantor or assets to be pledged against the loan. The main consideration for the lender will be the following:

On a monthly basis, will there be enough money left over after all practice overhead expenses are met in addition to the buyer's

personal financial needs to service or pay back the loan?

It is not uncommon that even after all the forms from both the buyer and seller are submitted and reviewed, a practice loan may not be forthcoming.

CONTINUED ON PAGE 21

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This scenario can still work out favorably for both sides. If the seller is certain the buyer is qualified to take over the practice, and at a minimum maintain the current financial and statistical numbers, then seller financing can be the way to go.

In essence, the seller will act as the bank or lender and work out a financial loan requiring the buyer to pay a monthly amount of principal and interest over a period of years until the loan is paid in full. It is highly recommended the seller receive at least a 20 percent down payment and make sure certain security procedures are in place. These procedures would include the following:

- A life insurance policy (decreasing term is cheapest) paid for by the buyer

and having the seller as the beneficiary. In the unlikely and untimely demise of the buyer before the loan is paid in full, the seller would receive the insurance payout.

- A disability policy, paid for by the seller with a monthly benefit (the amount of the loan payable to the seller). Again, in this rare scenario the seller will at least be assured they will have been paid in full for the practice.
- The seller also should have a lien on the equipment and accounts receivable. Should the buyer default, the seller has the right to confiscate these items.
- Finally, the seller also should have a repossession right to take the practice back should the buyer default on their monthly payment.

Buyer Protections

As a buyer making a large financial investment (perhaps the largest in their lifetime along with the purchase of a house) certain protections are also needed. Here are a few of the most important ones to ensure are in place:

- A well-written legal restrictive covenant or non-competition agreement stipulating the seller cannot open, own and/or operate a chiropractic practice within a certain radius of the practice sold. This agreement should include financial penalties if violated by the seller and other items a good business attorney will put in the agreement.
- As part of the asset and purchase agreement, the seller

should be willing to stay during a transition period for 4-8 weeks and make certain all patients (both current and past) are introduced to the buyer in a manner that will assure they continue receiving care at the current practice.

There are other items to consider from both a seller and buyer standpoint and can be further explained by a knowledgeable practice broker as part of their duties. ■

DR. GREG KINGSBURY is the founder of ChiroEquity, a nationwide chiropractic practice brokerage and appraisal service company. With more than 30 years of experience, he has assisted hundreds of chiropractors in the sale and acquisition process. He can be reached at greg@chiroequity.com or 908-419-7510.