OPHTHALMOLOGY PRACTICE
BUY-INS: FROM THE AUTHORS
OF THE BOOK

Mark E. Kropiewnicki, Esquire, LLM*
Daniel M. Bernick, Esquire, MBA*

The Health Care Group ®
Plymouth Meeting, PA

www.healthcaregroup.com

* Financial Interest

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Who We Are

• Business and legal advisors to physicians
• Publishers of the Goodwill Registry, used in valuation of ophthalmology and other medical practices
• Handle and advise re: practice buy-ins, buy-outs, sales, mergers and valuations
Buy-in Planning

• Plan ideally begins prior to first employment agreement
• Set expectations, outline terms
• But, no promises
• Critical evaluation, feedback, notice of problems
• Firing associates vs. divorcing a partner

More Than a Buy-in

• Four things happening simultaneously
  • Buy-in
  • Governance / Decision Making
  • Income Division
  • Pay-out

Formal Valuation of Practice?

• Not strictly necessary
• Review financials
• Ball park values usually involved
• Evaluate financial feasibility
Method and Structure for the Buy-in

- For the ease of understanding and illustration, assume the practice entity is a professional corporation
- But, the same basic principles apply to other types of practice entities

Method and Structure for the Buy-in

- Two part process
  - Stock purchase (equipment)
  - Income discounting (accounts receivable, goodwill)
- Tax considerations
  - Capital Gains vs. Ordinary Income
- Financial affordability issue

Other Entities

- Optical
- ASC
- Equipment leasing company
- Real estate company
- Management Services Organization (MSO)
- Other?
Buy-Into Other Entities

- Timing
- Funding
- Date of valuation
- Methods of valuing each related entity
- Payment terms
- Critical contractual elements for each entity
- Federal / State Anti-kickback or Stark implications

Values Involved in Buy-in

- The "big three"
  - "Hard assets" (equipment, other tangible assets)
  - Accounts receivable
  - Goodwill

"Hard Assets"

- Modified net book value
  - Eliminate assets no longer in use
  - Section 179 assets
  - Restate depreciation
    - Straight-line depreciation over 8 - 10 years
    - 20% floor
  - Capitalized leases
  - Exclude personal items
  - Possible appraisal of "major" ophthalmic equipment
"Hard Assets"

- Modified net book value
- Less debt and other liabilities
- Examples

Other Values

- Inventories / Supplies
- Leasehold interests and improvements
- Contractual arrangements

Accounts Receivable

- Include associate's accounts receivable?
- As of when?
- How to value them?
- Example
Goodwill Value

• What is it? Does it exist?
• Date of valuation
• Include associate's revenue?
• Guidelines for ophthalmology

Co-ownership

• 51%/49%? 50/50?
  • Financial issues
  • Control issues
  • Psychological issues
• What impact on compensation?
• Consider equal ownership, with senior doctor protection

The Stock Purchase

• Equal stock at once?
• "Hard assets" value only
• Measure as of year-end / month-end
• Spread payment over time with interest
  • Down payment
  • Interest rate
Senior Partner's Protection - Stock Option

- Trade-off for (early) equal ownership
- Limited time period
- Is it fair to the associate?
- Is it fair to the practice not to have it?
- Are there alternatives?

Income Discounting

Defining "net income"
- Salary and bonuses
- Retirement contributions
- Fringe benefits
- "Semi-personal" business expenses
- Practice profit or loss
- Examples

Income Discounting

- Two ways to "discount"
  - Exact method
  - Inexact method
- How should the discount be reallocated among the other practice owners?
- Viability in a changing health care environment
### Income Discounting

**Inexact Method**

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**Examples**

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