ORTHOPEDIC PRACTICE BUY-INS ARE UNIQUE

An orthopedic practice with a terrific associate will likely want to offer "partnership" to the doctor at some point (usually two to four years). Owner issues tend to be--

1. Protection for the founders;
2. Ensuring some degree of operational control; and
3. Pricing the buy in.

These are common issues for any medical practice considering offering partnership to an employed physician. Founder protection issues tend to center at a minimum on (a) control (at least their approval on core issue), and (b) protection of the practice name and phone number. Operational control usually shows up at the Board level, where certain issues require majority approval and some require either supermajority approval or approval by the founders. Practice buy-ins in most practices consist of the allocable share (net book value) of the fixes assets and the employed doctor's collectible receivables.

But orthopedic practices have some unique features that need to be considered. For instance, the mere addition of ancillary services like PT, DME and diagnostic imaging are game changers because they can create substantial "passive revenue." How does this affect the purchase price? What does the Stark Law allow in terms of profit sharing for designated health services (DHS)? What does Florida law say about sharing ancillary profits (including DHS)? All of these issues need to be explored and cleared before papering things up.

Ancillary profits are especially interesting in orthopedic practices because they often do in fact impact the purchase price in one of two ways--by increasing the buy in or by deferring profits sharing for a period of time to "pay" for that right. And they should cause the existing owners to question "Does it make sense to increase the buy-out formula to adjust for the ancillary profits?" In other words, should the buy-out consist of only the allocable share of the fixed assets, plus receivables attributable to the orthopedist? Or should the amount be increased to account for the loss of passive revenue associated with those profits? These are issues orthopedic practices in particular need to discuss.

Once those discussions take place, here's how the transaction typically goes--

Step 1. Meet informally with the employed doctor to verbally discuss the opportunity;

Step 2. Make sure to make any changes to the corporate documents that need to be made in light of the issues above; otherwise, the amendment process will be complicated by having the input of the new owner (and his/her lawyer and accountant!);

Step 3. Provide the buy in documents that "all the other owners have already signed."

A buy in can be an exciting and stabilizing time for an orthopedic practice. And seeing the unique opportunities for the practice is a great way to make things better than before!

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