



Practice Consolidation, Aggregation and Joint Ventures

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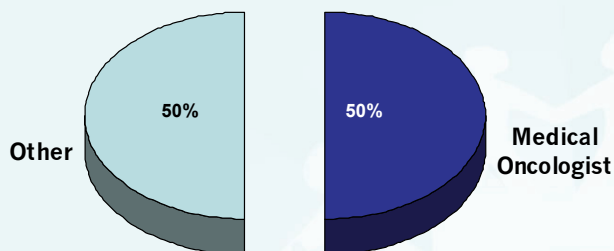
Select Market Factors

- Declining real wages
- Increasing practice costs/costs of living
- New technology costs to remain state-of-art
- Payor Pressures
 - Lower rates (drugs, drug administration, radiology)
- More competition for ancillary, outpatient, and ambulatory surgical services
- Administrative burdens
- Regulatory burdens
- Need for capital



Why Integrate?

Percentage Radiation Oncologist Referrals by Physician Specialty



Source: The Advisory Board



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Why Integrate? (cont'd)

1. Number of new cancer cases per medical oncologist
2. 60% of new cancer patients will receive RT
3. 50% of RT referrals come from medical oncologists
4. Average of 23 treatments per RT course
5. Convert treatments per year into patients per day

TYPICAL MEDICAL ONCOLOGIST

$$\begin{aligned}
 &250 \text{ new cancer cases per year} \\
 &\quad \times 60\% \\
 &= 150 \text{ RT patients per year} \\
 &\quad \times 50\% \\
 &= 75 \text{ RT referrals per year} \\
 &\quad \times 23 \\
 &= 1,725 \text{ RT treatments per year} \\
 &\quad \div 250 \text{ working days per year} \\
 &= 7 \text{ RT patients per day}
 \end{aligned}$$

Bottom Line: Two to three medical oncologists support a linear accelerator



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Why Integrate? (cont'd)

- Revenue enhancements
- Bargaining power with payors and vendors
- Access to clinical trials
- Access to capital/capital reserves
- Economies of scale
- Technology deployment and ancillaries
- Quality improvement
- Quality of life
- Affiliations and joint ventures
- Captive insurance arrangements

Integration Partners

- Physicians/Medical Groups
- Hospitals
- MSOs/Practice Management Organizations
- Developers
- Insurers

Case Report: Market Factors in New York City

Background – URORAD

Integrated urology practice Long Island 2005

- MSO Managed
- Centralized office overhead
- Negotiated insurance/procedure rates

Ancillary Services

- Lithotripsy
- Pathology
- Radiology
- Radiation oncology



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NYC Multispeciality Group Practice

- Freestanding Manhattan Radiotherapy facility
- Pressure from Urology
- Proposal to form an integrated group



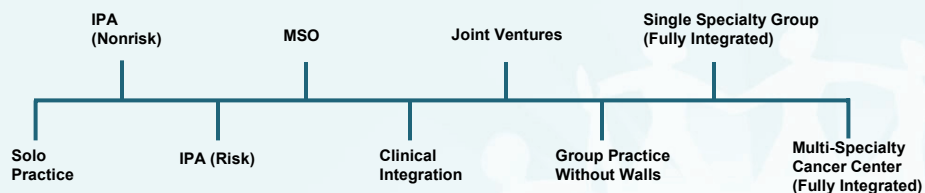
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Physician Issues for Integrated Practice

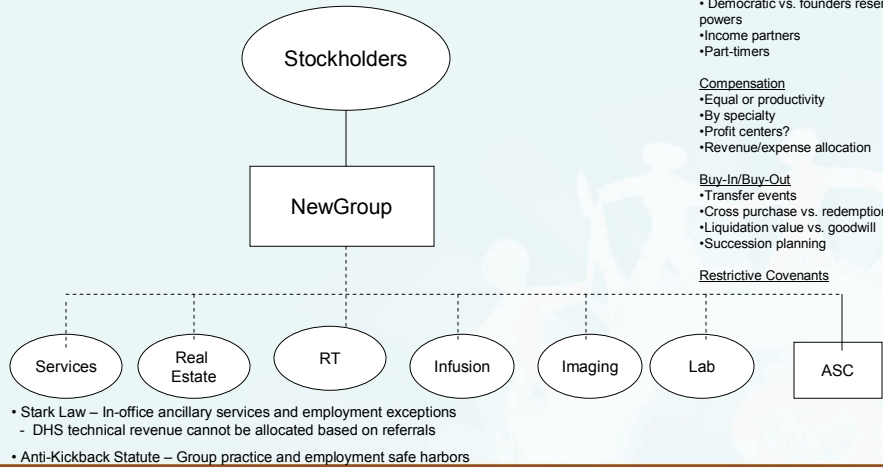
- Legal
- Governance
- Operational
- Finance
- Clinical
- Contracting
- Billing
- Practical: autonomy, trust, leadership

Integration Continuum

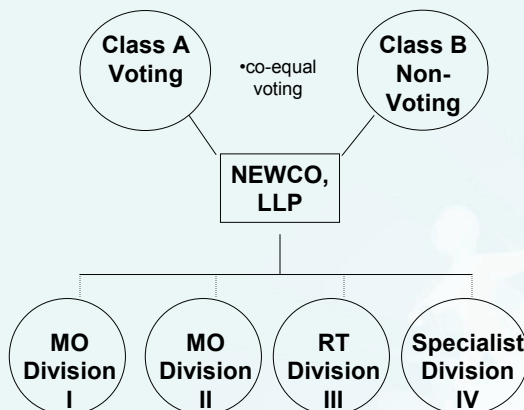
Physician - Physician



Fully Integrated Group



Group Practice Without Walls



Members

- Each Member receives 1 Class A Unit; Class B Units based on relative value of contributed practice

Member Actions

- Supermajority voting

Board

- Representative of constituent interests

Central authority

Board Voting

- Routine - majority
- Major Actions - supermajority

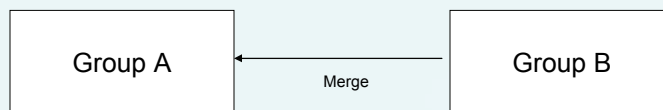
Divisions

- Profit center accounting
- Delegated authority for day-to-day operations
- Cross-indemnity for divisional deficits?
- Departing physicians responsible for guaranteeing pro rata share of divisional long term debt?

Transactional Structures

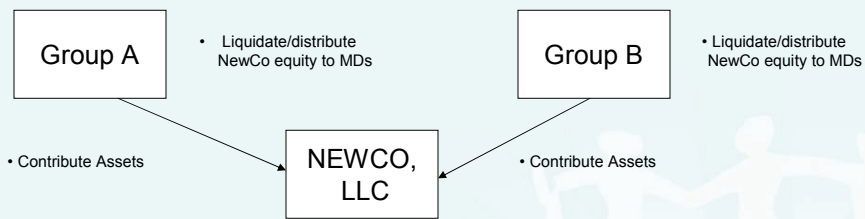
- Merger
- Asset contribution
- Asset sale

Practice Merger



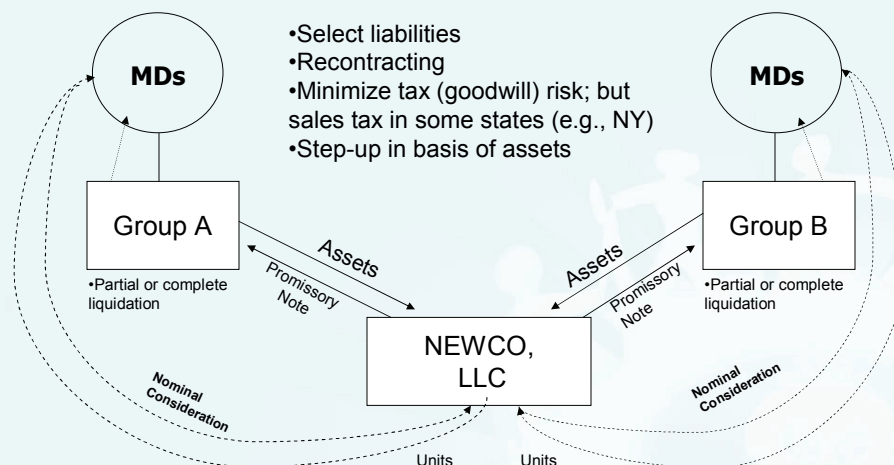
- Liabilities assumed
- Group A/B contracts retained
 - Group A provider numbers
- Tax-free reorganization
- No goodwill issue
- Carry-over basis in assets

Asset Contribution



- No assumption of liabilities
- Recontracting
- Tax-free contributions
- Deemed distribution of goodwill?
- Carry-over basis in assets

Asset Sale



Legal Considerations

- Stark II Phase III Rules – In-Office Ancillary Services Exception
 - Single legal entity
 - Range of care – substantially full range of services physician routinely performs
 - Joint use of shared office space, facilities, equipment, personnel
 - Unified business test - - Permits profit center accounting
 - Centralized decision making by a body representative of the group that maintains effective control over the group's assets and liabilities
 - Consolidated billing, accounting, and financial reporting
 - Centralized utilization review
 - Common billing number

Legal Considerations (cont'd)

- Stark II Rules – In-Office Ancillary Services
 - Methods of compensation set in advance
 - Profit distributions and productivity bonus
 - Cannot distribute technical component of DHS based on referrals
 - 5%/5% rule
 - Productivity bonus - personally performed (including "incident" to services) directly related to DHS referrals, or based on patient encounters, RVUs
 - Profit distributions generated by 5 or more physicians distributed per capita, or based on non-DHS productivity
 - Other reasonable and verifiable methods not directly related to DHS referrals
 - Ancillaries in same building/centralized building
 - Same building (same postal address) at which group provides substantially full range of services
 - Centralized building used exclusively by group

Legal Considerations (cont'd)

- Anti-Kickback Statute
 - Group Practice Safe Harbor/Unified Business Test
 - Equity must be in the practice or group itself, and not some subdivision of the practice or group
 - Meet Stark Bill definition of group practice
 - Unified business with centralized decision-making, pooling of expenses and revenues, and a compensation/profit distribution system that is not based on satellite offices operating substantially as if they were separate enterprises or profit centers

Legal Considerations (cont'd)

- Antitrust
 - Price fixing/boycott
 - Adequate financial, clinical and administrative integration
 - Monopoly
 - Physician Network Joint Venture Safety Zone
 - 20% exclusive
 - 30% non-exclusive
 - Precedents – 45-55%
- Tax
 - Tax free reorg rules
 - State sale tax issues
- Securities offering/exemption?

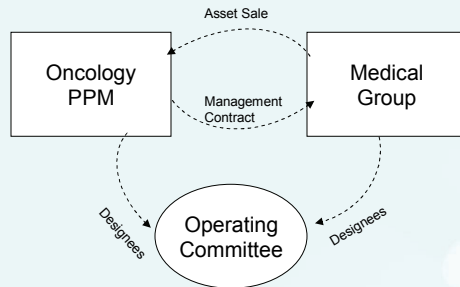
Other Key Integration Issues

- Divisions
 - Credentialing
 - Allocation of central/divisional revenues and expenses
 - Divisional compensation methods?
 - Divisional buy-sell?
 - Divisional restrictive covenants?
 - Embedded physicians/expense sharing arrangements
- Buy-sell provisions
- Commitment window?
 - Vesting of redemption price/deferred compensation?
 - Unwind rights?
- Practice protections
 - External and internal competition

Other Key Integration Issues (cont'd)

- Debt consolidation
- Common benefits
 - Work force salary differentials
- Payor rate differentials
- Inter-divisional liabilities
- Terminating physicians
- Dispute resolution

Practice Management Arrangements



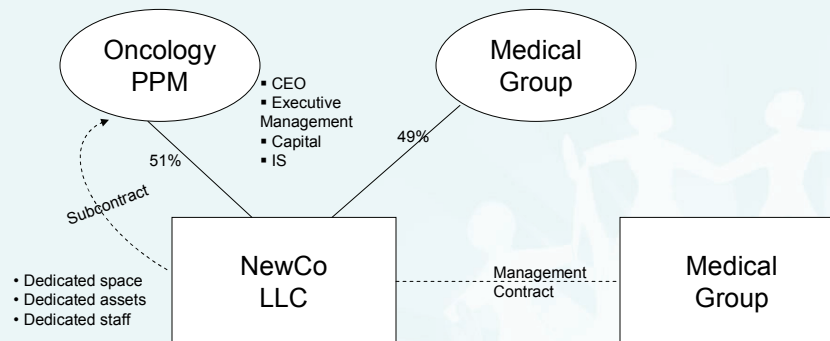
Business Issues

- Management contract vs. Captive PC
- Management services
- GPO services
- IS/EMR
- Recruitment
- Business expansion
- Ancillary care facility development
- Access to clinical trials
- Capital partner
 - Exclusive?
 - Cost of capital
 - Depreciation
- Budget process
- A/R pledge and lockbox
- Accrual accounting issues
- Transparency
- Term/Termination
- Dispute resolution
- Unwind
- Succession

Management fee issues

- Aligned vs. nonaligned incentives
- Avoiding corporate practice of medicine and fee-splitting
- Percentage based management fees coupled with marketing/business expansion = arranging for referrals? (OIG Adv. Opinion 98-4; [Bakarania](#))
- State anti-solicitation statutes
- State clinic licensure issues

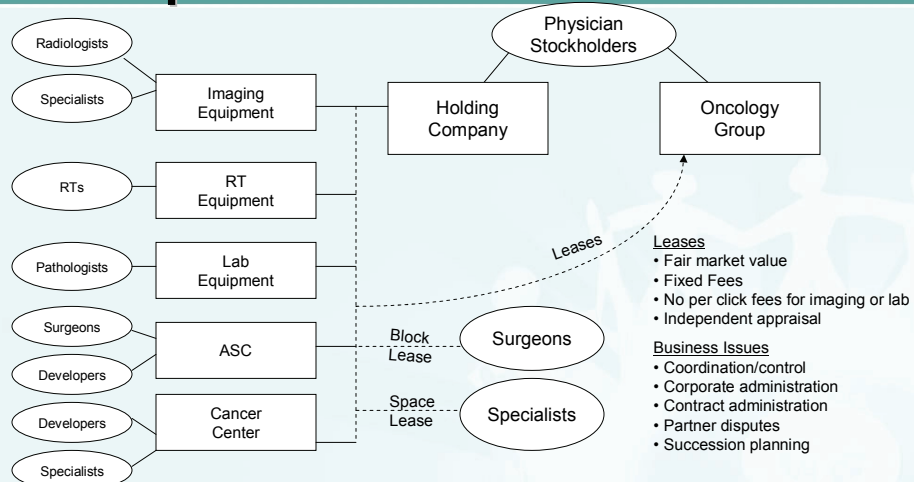
Equity Model MSO



Other Joint Ventures

- Same models as hospital-physician joint ventures
 - Block lease to medical group
 - Same building imaging ventures
 - Equipment/technology JV leasing companies
 - Real estate JVs
 - Under arrangements to medical group
 - Whole hospital ventures
 - Participating bond transactions

Joint Venture Leasing Companies



Preliminary Considerations

- Common vision
- Physician leadership
- Common will
- Trust
- Build trust

Planning Phases

- Pre-Development Phase
- Design Phase
- Documentation Phase
- Implementation Phase

Planning Phases (cont'd)

- Pre-Development Phase
 - Select physicians
 - Form Steering Committee
 - Agree on goals
 - Select consultants
 - Confidentiality agreement
 - Pre-development commitment

Planning Phases (cont'd)

- Design Phase
 - Develop governance structure
 - Develop transactional structure
 - Develop operational plan
 - Develop financial plan
 - Present and approve/refine structure and plans

Planning Phases (cont'd)

- Documentation Phase
 - Prepare legal documents
 - Select vendors/suppliers
 - Line-up financing
 - Recruit, as necessary
 - Technical review by personal lawyers/consultants

Planning Phases (cont'd)

- Implementation Phase
 - Sign documents
 - Consummate financing
 - Start-up operations

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