SYMBION
HEALTHCARE

17th Annual Improving Profitability, and Business and Legal Issues for ASCs

Partnership Restructuring

A Case Study

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Other Possible Titles

- The best laid plans of mice and men often go astray.

  Robert Burns
- Nothing is as easy as it looks.
- If everything seems to be going well, you have obviously overlooked something.
- If anything can go wrong, it can.

  Murphy's Law
- The light at the end of the tunnel is just the light of an oncoming train.

  Robert Burns

Challenges Facing ASCs

- Decline in growth rate of ASCs
- Increased activity from hospital employment of physicians
- Erosion of independent medical practices
- Shortage of Surgeons
- 50% of ASCs are losing money or breaking even
- Increased pressures on reimbursement by payors

Choices Facing Independent ASCs

- Remain Independent
- Secure corporate partner
  - Minority/Majority Ownership

- Affiliate with Hospital
- HOPD with clinical co-management
- Majority owned to access contracts

- Three way joint venture with Hospital and Corporate partner

Reasons Surgery Centers Fail

- Insufficient case volume from physician partners
- Inability to recruit physicians
- Poor management
- Inadequate contracts with payors
- Overbuilt physical plant
- Excessive debt
- Inequitable ownership structure

Target ASC

Target Surgery Center

Center Characteristics	
Insufficient case volume from Physician Partners	✓
Inability to recruit physicians	✓
Poor management	✓
Inadequate payor contracts	✓
Overbuilt physical plant	✓
Excessive debt	✓
Inequitable ownership structure	✓

Center Advantages

- Beautiful physical plant; favorable lease rate
- Strong growth market with limited competition
- Large number of potential surgeon investors
- Center close to break even point
- High patient care satisfaction
- Low price for market entry

Center Specifics

- Trailing 12 month case volume was 2,126 cases
- Center was generating EBITDA with existing volume of approximately $258,000
- Cash flow issues related to managerial instability and pain stimulator program
- Need to restructure debt of $3.2 million to alleviate immediate cash flow issues
- No physician partners added in last three years
- Managed care contracts had been on automatic rollover for last three years

Target Surgery Center Forecast

	Forecast I		
	Year 1	Year 2	Year 3
Base Cases	2,675	2,938	3,026
Cases Added with Resyndication	0	0	0
Annual Cases	**2,675**	**2,938**	**3,026**
Net Revenue Per Case	**$ 1,166**	**$ 1,189**	**$ 1,213**
Net Revenue	**$ 3,118,509**	**$ 3,493,913**	**$ 3,670,705**
Operating Expenses:			
Salary Related Expenses	$ 975,889	$ 1,105,448	$ 1,138,612
Medical Supplies	569,744	641,458	680,523
Variable Expenses	240,803	246,906	260,826
Bad Debt Expense	56,133	62,890	66,073
Management Fee	122,495	154,396	198,255
Fixed Costs	509,819	526,615	543,991
Total Operating Expense	**$ 2,474,882**	**$ 2,737,714**	**$ 2,888,280**
EBITDA	**$ 643,626**	**$ 756,199**	**$ 782,424**
Distibution Per 1%	**0**	**0**	**470**
Return on Investment	**0.00%**	**0.00%**	**2.70%**

Plan Of Action

Phase One

- Corporate partner provides financial stability
- Recruit, recruit, recruit, recruit
- Aggressively negotiate managed care contracts
- Implementation of group purchasing program
- Add new surgical services/programs
- Redeem inactive partners in conjunction with resyndication

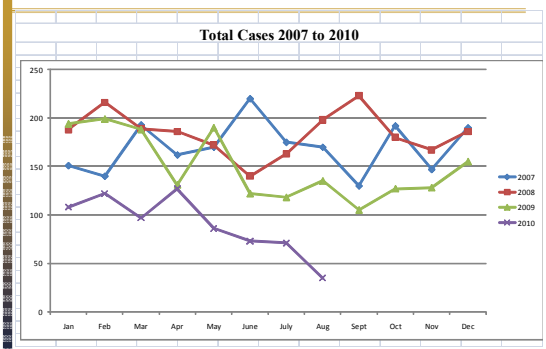
Phase Two

- Refinance/restructure debt which was personally guaranteed by Physicians
- Address ownership inequity

Transaction Steps

- Acquired minority interest with buy up option
- Closed without resyndication contingency
  - Removed market perception of instability
  - Large amount of physician interest
- Implemented operational improvements with benchmarking
- Began management contract negotiations

This is NOT supposed to happen!



If It Could Go Wrong……

- Pain volume transferred to office procedure room without transaction restrictions
- Discovered Primary Pain Physician was on probation by State Medical Board
  - Failed to check NPDB during due diligence
  - Subsequently was prohibited from performing surgical procedures
- Ownership concentration among two shareholders impeded recruitment
- Spine/Orthopedic Physician arrested day before investing
- High volume orthopedic non-owner had irreconcilable business disagreement with GI physician

The result…

- Continued deterioration in monthly case volume to 35 cases from break even point of 225
- Terminated Offering and refunded investor funds
- Stopped making rent payments ($35,000) and debt service ($65,000)
- Working capital advances of $650,000 by corporate partner capped
- Physician shareholders had no funds for capital call
- Still had non-utilizing owners

The Process

- Separate weekly calls with Lenders and Landlord
  - Provide current financial information
  - Devise realistic alternatives
  - Thorough discussion of financial alternatives
  - Establish specific measurable milestones being achieved
  - Honest evaluation of collateral position
  - Cannot be an ostrich
- Communication with existing physician partners
- Communication with staff
  - Obtain buy in to "temporary" operational changes
  - Seek assistance with marketing efforts
- Continue efforts to increase revenue
  - Managed care negotiations
  - Recruiting

The Process

- Seek strategic partner
  - Leverage in managed care contracting
  - Access to physician recruitment base
  - Provided lenders with local market stability
  - Provided Landlord with expectation of center viability
- Develop debt restructure plan
  - Desperate times call for desperate action
  - No credibility is lost by asking
  - Overall plan must have "shared pain"
  - Realism must be the guide post

The New Plan

- Clear the Deck; Eliminate non-utilizers
- Restructure Third Party Lender Debt
- Convert Corporate Partner Debt to Equity
- Secure relationship with Hospital Partner
- Issue Resyndication for recruited Physicians

Clear the Deck

Physician	Specialty	Status	Units	%	Guaranty	
Physician A	General	Active	205	20.81%	$ 750,300	
Physician B	GYN	Inactive	12	1.22%	$ -	Failure to respond to physician certification; Has not done a case at center in over 2 years
Physician C	General	Active	50	5.08%	$ 197,640	
Physician D	Plastic	Active	50	5.08%	$ 183,000	
Physician E	Podiatry	Active	26	2.64%	$ 95,160	
Physician F	Podiatry	Active	5	0.51%	$ 18,300	
Physician G	Pain	Active	204	20.71%	$ 742,980	Failure to maintain medical license; Failed to respond to certification
Physician H	GYN	Active	50	5.08%	$ 183,000	
Physician I	Urology	Active	20	2.03%	$ 80,520	Certified as not meeting 1/3 case volume
Physician J	Urology	Active	65	6.60%	$ 270,840	Failed to respond to certifification; Clearly does not meet 1/3 case volume
Physician K	Relocated	Inactive	10	1.02%	$ 36,600	Relocated to Missouri several years ago
Physician L	Podiatry	Inactive	4	0.41%	$ -	Has not performed 1/3 of cases based on his certification
Symbion Healthcare			284	28.83%		
Developer 1			0		$ 519,720	
Developer 2			0		$ 519,720	
			985	100.00%	$ 3,597,780	

Clear the Deck Guidelines

- Place strict reliance on the Operating Agreement
- Issue Physician Certifications to document the process
- All physicians are treated equally
- Repurchases accomplished at Formula Value or Fair Market Value
- Communicate to Physicians being repurchased to reduce litigation
  - Objectivity trumps emotion
- Document any exceptions

Restructure Third Party Debt

	Debt 9/1/2010	Agreed Amount	Additional Concessions
Bank One	$ 2,828,965	$ 1,131,000	
Bank Two	$ 100,000	$ 70,000	
Realty Company	$ 200,000	$ 200,000	Six months free rent 2010; 3 months amortized over 3 years at no interest
Total	$ 3,128,965	$ 1,401,000	
Symbion	$ 650,000	DTE	Will receive syndication proceeds of ~$225,000
Total	$ 3,778,965	$ 1,401,000	

- Lenders tend to make concessions with complete liquidation of their position
- Out of market lenders do not like to litigate with local physicians
- Lenders must be shown that collateral is illusory and cost/time of litigation is outweighed by an immediate payout
- Must be demonstrated that all creditors are “feeling the pain”

Debt To Equity

Formula

	Number of Units	Times	Value/Unit	Equals	Shareholder Value	Plus	Capital Call Contributed	Equals	Value		New Ownership Percentage
Symbion	284	X	$ 750	=	$ 213,000	+	$ 650,000	=	$ 863,000		74.88069%
										Equals	
	Total Number Of Units	Times	Value/Unit	Equals	Entity Value	Plus	Total Capital Contributed	Equals	Value		
	670	X	$ 750	=	$ 502,500	+	$ 650,000	=	$ 1,152,500		

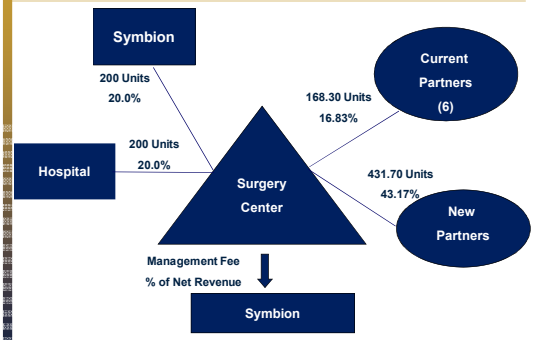
- Lender is essentially buying additional Units
- Must meet regulatory guidelines

Debt To Equity

	Pre Transaction Ownership			EOP Unit Acquisition by GSSC					
Physician	Status	# Of Units	%	Post EOP Units	%	% Post Dilution	Adjusted # Of Units	Proposed Ownership Post Syndication	%
Physician A	Active	205	20.81%	205	30.60%	13.3406%	89.38	89.38	8.9382%
Physician B	Inactive	12	1.22%			0.0000%	0.00	0.00	0.0000%
Physician C	Active	50	5.08%	50	7.46%	3.2538%	21.80	21.80	2.1800%
Physician D	Active	50	5.08%	50	7.46%	3.2538%	21.80	21.80	2.1800%
Physician E	Active	26	2.64%	26	3.88%	1.6920%	11.34	11.34	1.1336%
Physician F	Active	5	0.51%	5	0.75%	0.3254%	2.18	2.18	0.2180%
Physician G	Inactive	204	20.71%			0.0000%	0.00	0.00	0.0000%
Physician H	Active	50	5.08%	50	7.46%	3.2538%	21.80	21.80	2.1800%
Physician I	Inactive	20	2.03%			0.0000%	0.00	0.00	0.0000%
Physician J	Inactive	65	6.60%			0.0000%	0.00	0.00	0.0000%
Physician K	Inactive	10	1.02%			0.0000%	0.00	0.00	0.0000%
Physician L	Inactive	4	0.41%			0.0000%	0.00	0.00	0.0000%
Symbion		284	28.83%	284	42.39%	74.8807%	501.70	200.00	20.0000%
New Physicians								431.70	43.1700%
Hospital Partner								200.00	20.0000%
		985	100.00%	670	100.00%	100.00%	670.00	1,000.00	100.0000%

LLC sells 330 units to physicians	$ 247,500
Total LLC Proceeds	$ 247,500
Symbion sells 101.7 to Drs	$ 76,275
Symbion sells 200 units to Hosp.	$ 150,000
Total Symbion Proceeds	$ 226,275

Post Transaction Ownership Structure



Physician Recruiting

- Sources for Leads
  - Existing Physician owners and utilizers
  - Anesthesia Providers
  - Vendors
  - Employees
  - Recruiting Targets

- Recruiting Points
  - Have physician initiate first contact
  - Recruit the Practice/Office manager
  - Do NOT forget the Scheduler
  - Must provide compelling reason to change practice patterns
  - Concise explanation of ASC ownership and return on investment
  - Avoid complexity
  - LISTEN to physician concerns and address each one
  - Be able to demonstrate how an ASC can positively affect their practice
  - Have direct answers to questions about Center reputation
  - Schedule Center visit