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As a physician, you must not only monitor your patients’ needs over time, you must also be aware of business needs and how these may impact the direction, necessary changes, and future of your practice. Oftentimes, new technology plays a role in the business aspect of ophthalmology.

In this issue, Ophthalmology Business contributing writer Vanessa Caceres has highlighted the way a new smartphone app could be useful in ophthalmology (“Eyeing a useful ophthalmic dictionary app,” page 8).

The direction of your practice is a major topic in this issue. Contributor Mark Kropiewnicki touches on the value of a structured and well thought-out business plan within an ophthalmology practice (“Your ophthalmology practice needs a strategic business plan,” page 14). When it comes to the possible sale of a practice, contributor Brad Ruden examines some of “The tax consequences of selling your practice” (page 16).

With the introduction of so many new companies and technologies, contributing writer Maxine Lipner addresses “Pioneering the search for ophthalmic rewards: venturing into new startup territory” (page 10).

We hope you find these articles useful. As always, thank you for reading.

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Eyeing a useful
ophthalmic dictionary app

by Vanessa Caceres Contributing Writer

Publisher of popular dictionary updates for smartphones

Pop quiz:
When people in your office need help spelling or understanding an ophthalmic term, where do you usually direct them? Chances are, “The Little Green Book”—aka, the “Dictionary of Eye Terminology”—is one of your main resources, if not the principal resource. It may even be a staple in some of your lab coats.

Now, you and your office staff can use the “Dictionary of Eye Terminology” as an app on your phone.

Gainesville, Fla.-based Triad Publishing released its Eye Terms app for the Android in December and the iPhone shortly before that, said Michael Rubin, the San Francisco-based product developer who designed the app.

“For almost a decade, users of the ‘Dictionary of Eye Terminology’ were asking us for a version they could use on their smartphones,” said Donna Hamon, who works in customer service for Triad Publishing. “Earlier technologies didn’t make this feasible. In 2012, Triad was able to create the Eye Terms app, an interactive and fully searchable version of the sixth edition of the dictionary.”

Handy and useful
The idea behind the app was similar to the idea behind the dictionary, Mr. Rubin said—to make it handy, simple, and useful for anyone in the ophthalmic industry.

“Everyone’s got a phone, so you make the dictionary into an app, add all the words in, and you can add great digital features like a history file when you look something up or links inside a word,” Mr. Rubin said.

The app sells for $21.99 (the print version of the book is $36.95, according to Triad’s website). The app includes 5,000 of the most frequently used words and phrases affiliated with the eye and vision. It also includes more than 1,000 abbreviations and acronyms. As with the dictionary, the definitions are in English that is easy for non-physicians to understand—an important point considering that many people who use the dictionary are techs, administrative staff, and others, Mr. Rubin said.

Considering that medical terms are not always easy to spell, the app accounts for misspellings, so you do not have to correctly spell a word to find it.

The app will be updated from time to time as new terms are added or even deleted. This kind of updating is much simpler with an app compared with a book, Mr. Rubin said.

Eye Terms has already had “brisk sales” from word-of-mouth via LinkedIn’s professional ophthalmology groups, Ms. Hamon said.

One ophthalmologist who has found the app handy is William T. Driebe, M.D., Department of Ophthalmology, University of Florida, Gainesville. “This makes the dictionary more usable,” he said. “It’s easier to find terms via the app and is user friendly.” Dr. Driebe noted that the original dictionary had been a constant companion for secretaries, technicians, students, and residents in his department. It now has more utility because of search tools available with the app, he explained. OB

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Pioneering the search for ophthalmic rewards

by Maxine Lipner Senior Contributing Writer
Venturing into new startup territory

These days many are panning for ophthalmic gold in the form of the next great startup with answers for any of a number of widespread ocular conditions. Bill J. Link, Ph.D., managing director, Versant Ventures, Menlo Park, Calif., sees the ophthalmic sector as a highly attractive one for investors. “The market is big, the physicians, researchers, and clinical specialists are open-minded, and they’re receptive to new technology,” Dr. Link said. He pointed out that ophthalmology has enjoyed a series of startup successes over the last decade or so, validating the idea that the market will reward innovation.

Tracking successful footsteps

One ophthalmic company already glinting brightly in the sights of many is AcuFocus (Irvine, Calif.). This company offers the KAMRA corneal inlay, designed to restore near vision in presbyopic patients. Founded in 2001, AcuFocus has drawn over $125 million from investors over the years. The KAMRA corneal inlay is currently approved in 47 countries, according to Edward Peterson, CEO, AcuFocus.

There has been ample opportunity for the KAMRA inlay to make inroads thanks to the huge presbyopic market. “Nearly everyone over the age of 40 will become presbyopic and it is expected that by the year 2020 this will represent 2.1 billion people worldwide,” Mr. Peterson said.

While there are other solutions to presbyopia, these have not satisfied many presbyopes due to the necessary tradeoffs in distance vision. The difference with the KAMRA inlay is that patients get improved near and intermediate vision, without compromising distance vision, Mr. Peterson said.

Timing has also been favorable for the company. Mr. Peterson pointed to the rapid adoption of personal electronics that has further driven the market. “If you stop and think about what has happened in our world, the tools we now use daily have put a greater demand on reading vision,” he said. “Our iPad, our iPhone, our computer—all of these are devices that we now carry with us to communicate with the rest of the world.” This heightened reliance on near and intermediate vision make correction with the KAMRA inlay invaluable.

One of the things Mr. Peterson thinks has helped to set AcuFocus apart from other young companies is the way it approaches data. Garnering input from an expert he brought to the company from the semiconductor field, who went on to become his COO, Mr. Peterson gained new insight on this. “He had never been in the medical business, and he said, ‘The way you guys look at data is archaic,’” Mr. Peterson said.

He further pointed out that the traditional data analysis methodology and data management systems limited the ability of a company to fully understand how its product works and the major external factors influencing outcomes. Offering an analogy, he urged Mr. Peterson to “walk around the statue”; it isn’t enough to simply look at the front if you are going to fully understand what is before you. He recommended the company enlist an electronic data process used in his prior field that allowed for rapid multivariate analysis. The AcuFocus team has since applied this system to both its clinical trial and commercial data analysis programs in order to examine every point. “Anyone that comes to the company can sit there and ask obscure questions of this data and receive an immediate answer,” he said. “This approach has also made it possible for us to release a vetted product to the marketplace where other companies rely upon commercial use to refine results.” In his view, this novel approach brought the data to life, making the KAMRA inlay’s capabilities clear.

AcuFocus also gained traction by selling the inlay outside of the U.S. while simultaneously pursuing the FDA process. This has helped to provide the company with a commercial revenue stream in addition to early venture capital and strategic money. “You can’t continue to finance these companies with venture cash alone because the timelines have gotten so much longer,” Mr. Peterson said. “So going outside of the U.S. and starting to sell your product offsets this.”

Mr. Peterson urged others who would like to follow this blueprint to get the CE mark as early as possible to clear the way for sales to countries adhering to this standard. However, this step alone is not sufficient; it is still necessary to register in every country. “In order to reach markets that depend on a certificate of free sale, U.S. companies should consider ways to manage their supply chain to allow access to markets like China,” he explained.

While AcuFocus launched its international efforts initially in Europe, Mr. Peterson recommended that others take this further. “The Asian countries and some of the South American countries have the ability to reach more people more quickly,” he said.

Mr. Peterson urged other new CEOs to keep in mind the overall journey as part of the goal. “If you go in with the idea that you’re going to focus on selling the company, I continued on page 12
think you’ll fail,” he said. However, if the focus is on building a great company, great technology, and great outcomes, then chances are someone will want to acquire it.

**New investment territory**

The corneal inlay sector is only one of many trending high for investors in ophthalmology. Dr. Link sees companies emphasizing the posterior segment and drug delivery to the back of the eye for retinal disease as remaining a keen interest for investors. “The fact that Lucentis [ranibizumab, Genentech, San Francisco] and other products are so successful financially and clinically has attracted continued attention here,” Dr. Link said.

Another area of importance, he thinks, is the glaucoma space. “There’s a combination of surgical approaches with sophisticated miniaturized technology such as the minimally invasive glaucoma surgery that’s evolving. Thanks to the recent FDA approval of the iStent [Glaukos Corp., Laguna Hills, Calif.], the company has become the leader there.” Other companies pursuing such glaucoma innovations will likewise be rewarded. Drug delivery in this sector will also be important, Dr. Link believes.

Another possible higher priority investment category is dry eye. “It’s a sizeable market that’s not fully served, so I would expect to see some continued investment and innovation in that space as well,” Dr. Link said.

Meanwhile, Emmett T. Cunningham Jr., M.D., Clarus Ventures LLC, Cambridge, Mass.; adjunct clinical professor of ophthalmology, Stanford University; and attending, California Pacific Medical Center, San Francisco, views the biggest markets on the drug side as macular degeneration, diabetic macular edema, glaucoma, and dry eye. “On the device side they are looking at glaucoma devices, so-called ab interno like the Glaukos device,” he said. “There are also some companies that are looking at devices for neovascular AMD.” As examples, he cited NeoVista (Newark, Calif.) and Oraya Therapeutics Inc. (Newark, Calif.). Also, the femtosecond laser companies have garnered their share of interest.

He pegs corneal inlays as another hot target. Besides AcuFocus, other companies in this sector include Presbia (Los Angeles) and ReVision Optics (Lake Forest, Calif.). “The biggest drivers to investor returns are size of the market and unmet need,” Dr. Cunningham said. “Presbyopia is a huge market—right now the need is met by glasses, but people often don’t like glasses.” Likewise, with AMD and dry eyes, he sees a fair amount of unmet need.

All the news in the ophthalmic sector, however, is not glowing. “It costs a lot of money and takes a lot of time, and there’s a lot of risk—FDA risk and reimbursement risk—to get to an exit,” Dr. Cunningham said.

Also, there’s a perception of ophthalmology being a hotter sector because the AMD market has exploded. “There was the introduction of VEGF inhibitors and then the creation of this massive ophthalmic market that pulled people into ophthalmology as an investment class,” he said. “But really it has yet to be replicated in any major way.” Still, people hope for a billion dollar drug such as one that can best latanoprost in the glaucoma sector or Restasis (cyclosporine ophthalmic emulsion, Allergan, Irvine, Calif.) in the dry eye market.

Despite the current challenges, Dr. Cunningham remains optimistic about future innovation. In particular he holds hope for the “rho-kinase inhibitors” for glaucoma, now being studied by Aerie Pharmaceutical (Bridgewater, N.J.), Amakem Therapeutics (Dipelbeek, Belgium), and Altheos (San Francisco). Approved dry eye compounds being investigated by SARcode Biosciences (Brisbane, Calif.) and Eleven Biotherapeutics (Cambridge, Mass.) could be huge wins for investors and big milestones in the field. In addition, he views Ophthotech (Princeton, N.J.) as having promising data as an adjunct to VEGF inhibition.

“I think there are some kind of near to mid-term milestones that could transform those aspects of ophthalmology and ophthalmology investing,” Dr. Cunningham said. **OB**

**Editors’ note:** Dr. Cunningham has financial interests with Clarus Ventures, which has financial interests with Aerie Pharmaceuticals, SARcode Biosciences, and Ophthotech. Dr. Link has financial interests with Versant Ventures, AcuFocus, Bausch + Lomb (Rochester, N.Y.), ForSight Labs (Menlo Park, Calif.), Glaukos, Abbott Medical Optics (Santa Ana, Calif.), Alcon (Fort Worth, Texas), NeoVista, Neurotech (Cumberland, R.I.), Ocular Therapeutix (Bedford, Mass.), Second Sight (Sylmar, Calif.), and WaveTec Vision (Aliso Viejo, Calif.). Mr. Peterson has financial interests with AcuFocus.

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Your ophthalmology practice needs a strategic business plan

by Mark E. Kropiewnicki, JD, LLM

When was the last time your ophthalmology practice revised its strategic business plan? If your answer is “years ago,” or “what business plan?” your practice is either standing still or losing ground as others progress toward the future.

A good strategic business plan assesses the current practice situation, enumerates issues to be addressed, determines a course of action, provides for monitoring of progress, and leaves room for adjustments to cover otherwise “unforeseen” circumstances or complications.

With all the changes occasioned by healthcare reform, accountable care organizations (ACOs), aging patients, more physicians being employed by large healthcare entities, and other changes, some foreseeable, some not, now more than ever before it is essential for ophthalmology practices to seek whatever advantages they can and to differentiate themselves to retain and attract patients.

Real world business owners devote much time and energy to structuring and planning the direction of their companies. Ophthalmology practice owners would be wise to do the same. It makes good business sense.

Here are some useful thoughts to help ophthalmology practice owners revise or develop a viable strategic business plan to better run their practices and contend with all the coming changes.

What is a strategic business plan?
A strategic business plan is an internal practice document that:

• outlines the ophthalmology practice’s overall direction, philosophy, and purpose;
• examines and evaluates the practice’s current situation in terms of its strengths, weaknesses, opportunities, and threats (classic SWOT analysis);
• establishes long-term objectives or goals for the practice; and
• devises short-term strategies to reach the practice’s long-term objectives/goals.

Without a strategic business plan, you will either be forced to take a reactive stance, responding ad hoc to developments and overtures generated by other entities, or you will forge ahead proactively, but virtually blindly, guided by instinct alone.

On the other hand, with a well thought-out strategic business plan, your practice will approach the future proactively and according to a measured set of actions. The principal issue is simple, but vital: Who will control your future? The answer should be “you.”

The typical strategic business plan lays out, step by step, the process by which a practice achieves its goals, whether dealing with expanding the practice, increasing revenues, improving patient care, merging practices together, joining an ACO, going to work for a hospital, simply keeping the practice functioning, or whatever goals you establish.

If your practice does not have such a plan, institute one. A comprehensive strategic business plan cannot guarantee success, but having one—assuming that it is well thought-out, flexible, implemented faithfully, and adjusted correctly when necessary—definitely improves your chances of future success.
Basics of strategic business planning

In virtually every type of business endeavor, the strategic business plan is the business’s blueprint for success. It is a fact of business life, in practically every business in the country, except it appears, among ophthalmology and other medical practices.

Most ophthalmologists fail to realize or refuse to recognize that their ophthalmology practice is a business, in competition not only with other, similar ophthalmology practices, but also any other large medical practice or hospital capable of developing its own ophthalmology practice.

Simply put, ophthalmology practices that are run like businesses are those that will achieve the most success in this shifting, increasingly changing healthcare business environment.

Planning is vital. You must treat your practice as if it were a business. Poor business planning is one main reason businesses and practices fail or are forced to enter into ultimately poor arrangements.

Your plan should see into the future. You may not be able to predict specific events, but you should be able to spot trends and prepare for multiple eventualities. Then, when it becomes clear which eventuality will become an actuality, you can make the necessary adjustment without needing to perform a comprehensive analysis, seek funding, and implement change. Preparation is key to a speedy response. If it takes you too long to adjust to a situation, chances are that by the time you do make your move, the situation will have altered, perhaps substantially.

Five-step strategic business plan

1. Analysis: Assess your practice and its environment. Determine, for example, your patient, referral, and payer demographics, the profitability of your services, and your hours of operation. Identify and study your competitors, area hospitals, area ACOs (existing or expected), and the managed care plans in your region. Find out how the practice patterns and standards have changed. Identify current and potential allies, partners, and referrers.

2. Goal formation: Formalize your personal and practice goals for the immediate and long-range future. Discuss these issues with your partners, if you have them; form a consensus on each point. Appropriate matters to discuss include expansion, downsizing, cost control, merger and affiliation options, revenue expansion, income division, services offered, geographic coverage, satellite offices, ancillary services, and practice management, guidance, and autonomy issues.

3. Development: Determine the best way to get from where you are now to where you want to be. Plan for the next year, three years, five years, and beyond. Make sure your plan is a written document, so nothing slips through the cracks or becomes uncertain over time. Start with a vision statement defining what you want your practice to become and how to make it so. Budget every step, including financing options.

4. Implementation: Do it. Ophthalmologists who just file away their strategic business plan almost always become sorely disappointed and confused, as they cannot understand what went wrong. Typically, the answer is simple: Even the best plan will fail if it is executed poorly or not at all.

5. Monitoring and adjustment: The healthcare environment is shifting rapidly; shift with it. Periodically evaluate your plan to make sure it is working well. If you are not fulfilling your goals, find out what is wrong and fix it. If your local market changes, adjust your plan immediately. At least annually, formally measure the plan’s performance relative to steps 1-4. If the plan is not working, make the necessary adjustments.

The above five steps give you a basic idea of the strategic business plan process. Remember to tailor your plan to your specific needs, practice, environment, and goals. If this is your first experience with a strategic business plan, it probably will be necessary to have a professional guide you through the development and implementation of your plan.

Summary

Even if you have no grand and glorious plans for your practice, you should still have a strategic business plan to help you achieve smaller victories and more modest goals more easily and efficiently than you would have otherwise, if at all.

Make sure that you devise a plan that reflects the consensus of your partners, is comprehensive, includes funding options, is flexible, and is implemented. Monitor and adjust it as necessary.

Remember that, all things considered, if you fail to draw up and implement your own strategic business plan, chances are that some other entity will make your practice part of its own plan. In the final analysis, you and your partners can choose to establish and do your best to achieve your own goals, or you may find yourselves working toward achieving someone else’s.

OB

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When selling a practice, one of the most important factors to consider—but often the last one addressed—is the tax consequences resulting from the sale. The taxes owed by a seller can vary substantially depending on whether or not it was a stock or asset transaction.

In this article we are taking a very simple look at both types of transactions and the general tax consequences involved.

**Stock transaction**

In my 22 years in the business, I have only brokered a couple of practice sales that were stock transactions (and those were for unique reasons). The great majority of practice sales are asset sales because when purchasing stock, the buyer assumes all of the liabilities, past and present, known and unknown, of the entity being purchased. Because of this, the great majority of practice sales are asset transactions (where no such liability is assumed).

In a stock sale, the corporation is the legal owner of the business. In most cases, the purchase price may be allocated completely (100%) to the sale of the stock, and the seller is taxed entirely at the capital gains rate, which is typically lower than the ordinary income rate.

Not all stock transactions have a 100% stock allocation. In some cases, the purchase price can be allocated to the company’s stock in addition to post-sale service contracts or a personal non-compete. In instances such as this, the tax ramifications for the seller would be:
When selling a practice, one of the most important factors to consider—but often the last one addressed—is the tax consequences resulting from the sale.

- Covenant not to compete – The value of a non-compete can vary state to state, based on each state’s statutes and enforceability. That aside, when considered personal to the seller, this is taxed at the ordinary income rate.
- Training/consulting agreement – Considered personal to the seller and taxed at the ordinary income rate.
- Tangible property (trade fixtures, furniture, equipment) – Monies first received are considered recaptured depreciation and taxed at the ordinary income rate. Monies received in excess of depreciation are taxed at the capital gains rate.
- Office lease – Assuming the lease is at or below market rate, the allocation would be for the capital gains rate.
- Registered vehicles – If owned more than one year, monies first received are considered recaptured depreciation and taxed at the ordinary income rate. Monies received in excess of depreciation are taxed at the capital gains rate.
- Patient lists/records – Taxed at the ordinary income rate
- Goodwill – The sale of personal goodwill is taxed at the capital gains rate.
- Inventory – Taxed at the ordinary income rate if sold over basis value
- Leasehold improvements – Monies first received are considered recaptured depreciation and taxed at the ordinary income rate. Monies received in excess of depreciation are taxed at the capital gains rate.

Accounts receivable
You may have noticed that accounts receivable were not listed above. Years ago sellers may have included A/R in the sale of their practice. However, the advent of managed care has brought that practice to an end. The reason for this is that the work was performed under the seller’s provider number, not the buyer’s. As such, an insurer is under no obligation to pay the seller’s A/R to a buyer if a buyer tries to collect. Sellers are better off keeping A/R out of the transaction and collecting those monies themselves.

Summary
All doctors need to be aware of the possible tax consequences of selling their practice. All too often, those tax consequences are the last area addressed in a sale, and they can sometimes come with surprising results. A seller should consult his or her accountant and business broker to ensure an allocation that is as favorable as possible, while still being reasonable to a buyer and defendable to the IRS. OB

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