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Newsletter Article Reprint

Partnership Peril

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Recent graduates often look to partnership as entry into private practice, citing the opportunity for mentorship. When recent graduates partner though, they usually have other thoughts in mind. Most commonly, they come together as the culmination of their time spent together in dental school, believing that a partnership is less risky than practicing alone.

In each case, the parties both believe that all costs of the office will be equally shared. The lease and the bank loan will both be signed by both partners and therefore each will incur one-half of the financial responsibility. What they don't understand is that belief is usually far from reality.

So what is a partnership? A partnership is a legal relationship between at least two parties, creating a legal responsibility to share liability. It is an agreement to share responsibility, expenses and income.

Agreements to share expenses and income can be negotiated between the parties, but the legal responsibility for the bank loan and lease are not normally negotiable. In order to secure a loan, all parties in the partnership will usually be required to sign and personally guarantee the loan.

What happens when a partnership goes bad? Here's a look at one case:

I started up my own practice in May of 2006. Two months before opening, a friend from dental school asked if I wanted to do a partnership. I thought it was a good idea, I trusted him, so I said yes.

The practice is still barely breaking even, most months negative, some positive. We have a patient base of about 550, (total, not just active). The practice is 100% financed and we are paying on a ten year loan.

We each control 50% of the practice shares. He is ready to give me his 50% stake in the corporation, but he is trying to determine a fair value. I don't think they're worth anything so I told him that I would assume his 50% of the loan liability and he can walk. He says I can go ahead and do that AND he wants compensation on top of that. I am trying to explain that our practice is worth nothing since our liabilities are so high and our assets are so low. I thought that assuming his portion of the loan was a more than generous offer.

This is just a glimpse of what can go wrong – but one of the many challenges of partnerships.

Testimonial from Dental Town

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ADS Florida, LLC | 5100 Tamiami Trail North, Suite 106 | Naples, FL 34103 | <http://www.ADSflorida.com> | (800) 262-4119