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Newsletter Article Reprint

From Hy's Desk: Stop the Cycle

May 2009

It seems that cycles are a part of our lives. Business cycles, weather cycles, economic cycles all seem to surge and wane. In the past few months I have been dealing with partnership problems. Whether it is the economy or the weather or some mysterious influence from outer space, partnership dissolution is front and center on my desk at the moment.

We have discussed the reasons for partnership failures in past newsletters, but I think it appropriate to provide our readers with ways that can possibly assist in avoiding the pitfalls that seem to lead to partnership problems.

As we have stated before, money issues are the leading cause of divorce and partnership problems. Lack of good communication is the second greatest cause, and the list goes on.

Our first recommendation for successful partnerships is; COMMUNICATE. This does not just mean having conversations, it means having FORMAL, REGULAR meetings where issues are discussed and resolved AND RECORDED. The burr under the saddle that gets ignored causes the sore.

One of these meetings, each year should be to review and evaluate the partnership documents, whether corporate documents, LLC documents or regular partnership documents. This can be done as part of the annual meeting (required by corporations and LLC's). This discussion should include:

1. The employment agreement provisions
2. The compensation agreements
3. A review of the succession provisions in the event of an unexpected departure from the practice by one of the partners due to death or disability
4. Income and Expenses of the practice
5. Budgets and future capital expenditures
6. Review of the life, disability and office overhead insurance policies
7. Exit strategy issues if appropriate
8. Practice Value

Unfortunately, the only time these documents are looked at is when they are removed from a file cabinet somewhere, dusted off and reviewed to determine how to handle the imminent problem that has arisen.

Often the value of the practice at the time of dissolution is required to compensate the departing partner or estate. The provisions governing that value should be updated to reflect the intent of the partners and the value of the practice in order to avoid disputed opinions of value and methods of payment.

Remember, "An ounce of prevention is worth a pound of cure"! Or, in my terms, a few minutes every year assessing your partnership documents will save you many thousands of dollars in consulting, mediating and potentially litigation fees.

A handwritten signature in black ink that reads 'Hy M. Smith'.

Hy Smith, MBA
Managing Member

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