



VETERINARY BUSINESS ADVISORS, INC.  
*Counsel for the Veterinary Profession*

## **14 ISSUES YOUR VETERINARY PRACTICE PARTNERSHIP DOCUMENTS SHOULD (HAVE) ADDRESS(ED)<sup>1</sup>©**

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**1. What happens when you die?** Will your heirs receive a fair price, or *any* price for your investment in the practice? Will they remain locked into that investment forever? Will your heirs collect profits from the practice? What if the other partner (who is getting paid under his practice employment contract) has voting control and decides *not* to distribute profits?

If your heirs are to be bought out, who sets the purchase price? How and by whom is it paid? If part of the purchase price is paid with a promissory note, is same secured? How? What if the practice is not profitable enough to pay the note?

**2. What happens when your partner dies?** Your deceased partner's heirs are now *your* new partners.

Barring a fluke, your new partners will not be veterinarians. Does your State permit non-veterinarian practice owners? Will they want to be bought out or stay and collect profits from the practice? (Without contributing to profit generation of course.) If the deceased partner was a large shareholder, or the majority interest holder, the heirs will also inherit your deceased partner's voting rights. Do you want to share practice management with, or *be managed by*, such persons? What if the heirs squabble among themselves, leading to management paralysis and/or litigation? Do you fancy having the practice run by a court-appointed receiver?

If the heirs are to be bought out, who determines the purchase price? How and by whom is it paid? If there's a note, is it secured? How?

**3. What if you are permanently disabled?** Will you receive a fair price, or *any* price for your investment in the practice? Will you remain locked into your investment forever? Will you collect profits from the practice? What if the remaining partner decides not to distribute profits?

If you are to be bought out, who sets the purchase price? By whom and how is it paid? If there's a note, is it secured? How?

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<sup>1</sup> While we consider a two partner practice; the basic issues are the same no matter how many partners there are. Their resolution just gets more complicated.

**4. What if your partner is permanently disabled?** Will your disabled partner want to be bought out or stay and collect practice profits (without generating any of same)? A disabled partner's interests will be different than yours, so if he was the managing and/or majority partner, how will he run the practice? Will he *be able* to run the practice? What if the disabled partner is mentally disabled?

If your disabled partner is to be bought out, who determines the purchase price? How and by whom is it paid? If there's a note, is it secured? How?

**5. What if your partner goes nuts?** You don't want a mentally unstable person practicing veterinary medicine. But if such partner is the majority partner you can't fire him, because he, not you, controls the practice entity. The same problem arises for equal partners. Sure your mentally disabled partner could voluntarily remove himself, but can you rely on that? What if the majority partner has a guardian? How will the guardian run the practice? What if the majority partner or guardian fires *you*?

**6. What if your partner should be fired as veterinarian-employee?** Suppose your partner becomes lazy or his child becomes ill and decides to work significantly less hours or stop working altogether. Suppose your partner becomes a substance abuser and consequently unfit to practice veterinary medicine. Or he steals from the practice. Or he harasses employees and/or abuses clients and/or patients. The foregoing would be grounds for terminating a veterinarian employee. But if your partner is the majority or an equal partner you can't fire him (as explained in the preceding paragraph).

**7. What if you no longer get along?** Should the practice be dissolved? If not, who should leave? At what price should the departing partner be bought out? How and by whom is it paid? If there's a note, is it secured? How?

**8. In a 50/50 practice how are disagreements handled?** What happens when each party has equal voting/management rights and a serious disagreement arises? How will the resulting deadlock be resolved?

**9. What if your partner wants to drop out, buy a boat and sail around the world?** Should your partner be permitted to withdraw? If not, how do you keep your partner from just resigning as an employee (in light of the constitutional prohibition of involuntary servitude)?

What if your ex-partner discovers he's chronically sea-sick and comes back to set up a veterinary practice next store (using the client list he kept when he left)?

If a partner is permitted to withdraw, who determines the purchase price? By whom and how is it paid? If there's a note, is it secured? How?

**10. What if your partner divorces?** If the divorced spouse has, or is awarded, a portion of your partner's practice equity interest, the divorced spouse becomes a partner. *Ménages à trois* make great literature and film themes but ALWAYS end badly.

**11. What if your partner goes bankrupt?** Do you fancy your partner's creditor as your new partner? It won't be fun to have a bank running, or having a say in running, the practice. Worse, the bank likely will want to sell your partner's share to a competitor.

**12. Who's got the land?** The small animal practice's most valuable asset is its location, because most clients won't travel far for pet treatment. As zoning restrictions get ever tighter, good practice locations become ever rarer (and more expensive). If, as is frequently the case, one partner owns the practice premises, what happens when he dies, is disabled, withdraws, resigns, divorces and/or goes bankrupt?

**13. What if another veterinarian wants to buy your partner's interest in the practice?** Should your partner be allowed to sell without your approval? Should you have a right of first offer? A right of first refusal?

**14. IF YOUR PARTNER IS NOT YOUR RETIREMENT PLAN, THEN WHO IS?** If you don't have a firm agreement with your partner to sell your practice interest to him (or someone else) upon your retirement, then how are you going to retire using your investment in the practice as your nest egg? What if both partners want to retire at the same time?