# The Partnership Agreement, At a Glance

**2026 QUICK REFERENCE** • The ~200 Decisions • Governance Core • Money Provisions • Life Events & Exits • Red Flags

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## 1 | WHY THE DOCUMENT MATTERS

The ~200 decisions a pediatric practice partnership agreement resolves — and what silence costs · current as of August 2026

| | | | | |
|---|---|---|---|---|
| **~200** distinct decisions a complete pediatric partnership agreement resolves | **7.5%** of them concern ownership percentages — 15 of ~200 | **$15,000–$40,000** legal fees to draft a thorough agreement in calm weather | **$150,000–$500,000** combined legal + expert cost of one contested exit with no valuation formula | **3–6 months** to plan for negotiation and drafting |

### THE PRACTICE'S CONSTITUTION

- **Not a description of how partners feel.** The agreement decides whether disagreement is a process or a catastrophe.
- **Life's guaranteed events arrive as triggers or as crises** — death, disability, divorce, retirement, ambition. The document decides which.
- **Roughly 200 distinct decisions** in a complete pediatric partnership agreement. Fewer than a tenth concern ownership percentages: ownership structure is 15 of the ~200, or 7.5%.

### WHERE THE DOCUMENT IS SILENT

- **The state's default statute governs** — the default partnership or professional-entity statute, plus whatever a tribunal reconstructs from testimony, conduct and old email.
- **Default statutes answer generically** — and, for most practices, wrongly.
- **Practical translation.** An unwritten term is decided by whoever remembers it most confidently and can afford to keep arguing.

### FIVE DISPUTES THAT RECUR

- Compensation formulas **only one partner understands**
- **Unequal workloads** at identical pay
- **Unilateral decisions**
- **Exit pricing gaps**
- **Ownership dilution** at admission

Each is a governance failure wearing a financial costume.

### THE TIMING RULE

***"Every provision is easiest to agree on while it is hypothetical. The fairest time to write a rule is while it still describes nobody."***

- **Deadlock reaching judicial dissolution** destroys going-concern value outright — panel, referrals, trained staff.
- **Plan 3–6 months** for negotiation and drafting.

## 2 | THE ~200 DECISIONS BY DOMAIN

Distribution from the PMI 50-article series, article 1 · twelve domains, summing to ~200

| DOMAIN | # | SHARE | ON THIS SHEET | DOMAIN | # | SHARE | ON THIS SHEET |
|---|---|---|---|---|---|---|---|
| **TWELVE DOMAINS · THE COUNTS SUM TO ~200 DECISIONS** | | | | | | | |
| **Clinical, personnel & pediatric-specific operations** | 34 | 17.0% | §6 · the pediatric seven | **Life-event triggers** | 14 | 7.0% | §5 · disability, death, divorce |
| **Governance & voting** | 33 | 16.5% | §3 · three-tier voting | **Compliance** | 12 | 6.0% | — |
| **Compensation & distributions** | 25 | 12.5% | §4 · five models, reserves | **Covenants & intellectual property** | 11 | 5.5% | — |
| **Buy-in & buy-out** | 22 | 11.0% | §4 · four variables | **Exit & dissolution** | 10 | 5.0% | §5 · exits and transfers |
| **Financial controls** | 16 | 8.0% | §3 · capital calls, debt | **Insurance funding** | 5 | 2.5% | §5 · term life, malpractice tail |
| **Ownership structure** | 15 | 7.5% | §1 · fewer than a tenth | **Dispute resolution** | 3 | 1.5% | §3 · mediation, arbitration |

### THE SEVEN PARTS OF THE SERIES — THE WORKING MAP

**1** Partner Foundations **2** Money & Distributions **3** Governance & Decision-Making **4** Protecting the Practice **5** Partner Life Events **6** Exits & Dissolution **7** Advanced & Specialty Topics. **Ownership structure is 15 of the ~200 decisions** — fewer than a tenth of the document is about who owns what percentage.

## 3 | GOVERNANCE CORE

Three-tier voting · managing partner · deadlock · disputes · capital and debt

| | | | | |
|---|---|---|---|---|
| **3 tiers** operational, significant, fundamental — every decision sorted into one of them | **55%** founder in a six-partner practice: a simple majority is one person | **80%** price floor patching the shotgun clause, with a financing window and installments | **90 days** arbitration sized to a practice — one arbitrator | **30–60 days** notice on a capital call, under an annual cap |

### THREE-TIER VOTING

- **Operational** — one partner or the manager has the authority.
- **Significant** — a defined majority.
- **Fundamental** — supermajority: admitting a partner, sale, dissolution, amendment.
- **Dollar bands assign the gray areas.** Define quorum and voting weight before the first contested vote.

In a six-partner practice with a 55% founder, a simple majority is one person.

### MANAGING PARTNER — FOUR ELEMENTS

- **Election to a stated term.**
- **Explicit compensation.**
- **Authority with defined limits.**
- **Removal by supermajority** — separate from expulsion.
- **Around six partners** the individual role gives way to a committee.

"Power without accountability is not leadership."

### DEADLOCK · THE 50/50 TRAP

- **Define it narrowly** — transient deadlock is not terminal deadlock.
- **Escalation ladder:** a noticed re-vote, then mediation, then terminal buyout.
- **Shotgun clause, patched** — financing window, installments, an 80% price floor — or an appraisal-based forced buyout.
- **Statutory endgame without machinery:** judicial dissolution in many states.
- **A 50/50 partnership with no deadlock provision** is one disagreement away from dissolution.

### DISPUTE LADDER

- **Structured written discussion**, then **mandatory mediation**, then **arbitration sized to a practice** — one arbitrator, 90 days.
- **Carve-outs:** licensure and regulatory matters stay in court.

"The cheapest lawsuit is the one that never gets filed. Mediation first."

### CAPITAL CALLS · DEBT AUTHORITY

**Capital calls** sit at the supermajority tier, with 30–60 days notice and an annual cap that turns one demand into planned tranches; a partner-loan path covers frozen liquidity. **Debt authority** is tiered by size and reversibility; guarantees run pro rata with release mechanics; ownership is never pledged as collateral.

## 4 | THE MONEY PROVISIONS

Compensation · distributions · valuation · buy-in · overhead

**5 models**
from straight salary to custom tiered — every partner must be able to recompute the formula

**~45 days**
operating-expense reserve floor, beneath payroll and tax reserves

**0.75–1.5**
ownership-premium multiple on internal transitions

**4 variables**
price, payment structure, timeline, what the percentage includes

**K-1**
income is taxable whether or not the cash followed

### VALUATION, THE INCOME APPROACH

**Total owner earnings – market compensation for the clinical work = ownership premium × 0.75–1.5 + net tangible assets**

The 0.75–1.5 multiple prices internal transitions. Fix the formula while it describes nobody, and re-sign it annually. Same method in and out.

### COMPENSATION — FIVE MODELS

- **Straight salary · salary + bonus · salary-productivity blend · pure productivity · custom tiered.**
- **Two tests.** Work-RVU benchmarks measure the formula against effort; an affordability gate measures it against revenue.
- **The rule:** every partner must be able to recompute the formula.

"A partnership cannot be built on a formula that one partner alone can explain."

### DISTRIBUTIONS — THREE DECISIONS

- **How often money moves.**
- **What number it is computed from.**
- **What the practice holds back first.** Reserves before draws: a ~45-day operating-expense floor beneath payroll and tax reserves.
- **An approval trail on every distribution.**
- **Pass-through tax.** K-1 income is taxable whether or not the cash followed — phantom income lands in April.

### BUY-IN — FOUR VARIABLES

- **Price · payment structure · timeline · what the percentage includes.**
- **Healthy practices price the internal market below an outside sale.**
- **Same method in and out** — the formula that prices a buy-in prices the buy-out.
- **Fix the formula while it describes nobody.** Re-sign it annually.

### OVERHEAD — NOT SELF-DEFINING

- **Three computations** of overhead circulate.
- **Four allocation methods.**
- **Any change of method takes a vote** — with the per-partner effect modeled first.

## 5 | LIFE EVENTS & EXITS

One row per trigger · definition and timing, price and payment, the mechanics named in advance

| TRIGGER | DEFINITION & TIMING | PRICE & PAYMENT | MECHANICS TO NAME IN ADVANCE |
|---|---|---|---|
| **LIFE EVENTS** | | | |
| **Disability** | Definition borrowed from the partners' own long-term disability policies; 90–180 consecutive-day trigger. | Salary continuation bridges the elimination period and stops the day LTD begins. | Coverage mandatory, with an answer for the partner who is declined. Equity redeems at formula value once the absence proves permanent (12–18 months). |
| **Death** | The provision fires automatically on the date of death. | Buy and sell both mandatory at signed formula value; payment on a stated clock. | Term life of ~$500,000–$600,000 per partner (buyout plus ~$150,000 recruitment) funds it. Panel and malpractice tail assigned in advance. |
| **Divorce** | Spousal acknowledgment signed at admission. | A defined divorce buyout at formula value. | Economics separated from governance, so a court divides value without seating a voter. |
| **Retirement** | Defined status; a 12–24 month notice band. | A 25–50% buyout discount prices short notice. | A semi-retirement pathway retains senior physicians. |
| **EXITS · TRANSFERS** | | | |
| **Voluntary exit** | Notice sized to recruiting reality — about 180 days. | Receivables at ~95% of collectible across 60–90 days; promissory note with named offsets and an aggregate cap. | Payout conditioned on charts closed (~14 days) and practice property returned. |
| **For-cause** | Automatic events — license revocation, exclusion, felony — end the partnership by definition. | The bad-leaver discount attaches to this exit alone. | Enumerated conduct needs notice, a hearing, and a supermajority of the other partners. |
| **Forced buyout** | No-fault removal on a supermajority vote. | Formula value plus a premium. | The independent valuation is signed BEFORE the vote — the anti-abuse step. |
| **Transfers** | Restrictions reach sale, gift, pledge, trust, divorce decree, judgment and probate. | A violating transfer is void and triggers repurchase at formula value. | Right-of-first-refusal mechanics run on stated days. |
| **Malpractice tail** | The claims-made versus occurrence gap. | Tail runs about 1.5–2.0 × the annual premium. | Assigned by exit scenario. Pediatric exposure runs long — a minor's limitations period can toll to adulthood. |

## 6 | RED FLAGS | THE ANNUAL AUDIT

RED FLAGS

What silence sounds like · the two-hour annual audit · the 12-dimension scorecard · the pediatric seven

### WHAT SILENCE SOUNDS LIKE

- **"The partners trust each other — it does not need to be in writing."**
- **"That can be dealt with when something comes up."**
- **No defined decision authority** — every question becomes a negotiation.
- **No exit or buyout provisions** — the first departure is priced under duress.
- **No dispute mechanism** — the only forum left has a filing fee.

### THE ONES THAT PRICE THEMSELVES LATER

- **Mutual-consent-only governance** in a 50/50 practice.
- **An unsigned valuation methodology** — worth exactly nothing on the day a partner dies.
- **No tail assignment.**
- **PTO payout at exit unaddressed** — the five-figure surprise.
- **No termination-of-employment buy-out trigger** — it manufactures a non-working owner who still votes.

### THE ANNUAL AUDIT

- **One two-hour meeting**, calendared with the financial rhythm.
- **The same 10 points every year**, so the trend is visible.
- **Highest-yield line:** re-sign the valuation methodology.
- **Rank findings by cost asymmetry** — what failing live would cost — not by ease of repair.

### 12-DIMENSION SCORECARD

- **Each dimension 0–3; total out of 36.**
- **The as-executed rule** scores what the practice does, not what it wrote.
- **The deliverable is a ranked repair list**, not the total.
- **Score maintenance and consistency first** — it predicts how fast the rest decays.

### THE PEDIATRIC SEVEN — WHAT A GENERIC AGREEMENT LEAVES OUT

**1** Vaccine purchasing liability **2** VFC accountability **3** Behavioral health profit sharing **4** Portal-message workload credit **5** School & camp contract revenue **6** After-hours cost allocation **7** Funded vaccine inventory reserve. *"A generic agreement for a pediatric practice is like a generic drug without a pediatric dose."*

Sources: Pediatric Practice Management: The Fundamentals · Partnership Agreement Essentials · PMI Partnership Scorecard. Current as of August 2026. General guidance only — not legal advice; state laws vary and govern. Prepared by Pediatric Management Institute.