



Shareholders' Agreement

During your dental career you may get involved with other parties in business activities. For instance, if you are an orthodontist, you may contemplate to bring in a colleague as a shareholder in your orthodontic corporation, or you may team up with another party to purchase the practice real estate, or you may form a corporation with other shareholders to pursue a business opportunity outside dentistry.

The best vehicle to structure a business relationship between two or more parties is definitely the corporation. A corporate structure enables the issue of separate classes of shares, providing different entitlements to various shareholders. For instance, the shares with the voting rights can be issued to the active partners, while, for tax purposes, the non-voting dividend paying shares are issued to family members or other parties who are not actively involved in the operation of the business. Also, the company set-up provides an easy mechanism to transfer ownership by transferring shares.

Before starting a business relationship, it is critical to have a written agreement in place. The most important one is the shareholders' agreement. If this is neglected at the outset, it will never be completed — an oversight that can cause immeasurable grief. The shareholders' agreement forces all parties to examine the many aspects of their relationship. The parties need to predict what might happen in the future, and how to deal with it, by playing "what if?" scenarios in the effort to try and plan in case the contemplated event ever occurs. The shareholders' agreement forces you to plan a course of action if another shareholder exits the relationship, or if something goes wrong with the relationship. The buy-out provisions in the shareholders' agreement are particularly crucial, as it creates a marketability of the shares that would otherwise not be available in a private corporation.

Ingredients for a Successful Business Partnership

Successful partnerships don't necessarily occur naturally. From my dealings with business partnerships, I have observed the following essential ingredients for success.