

Keys to Successful Partnerships

A Planning Checklist

Partnerships don't work . . . in 90% of the cases. Many people, however, seem to like "partnering up". If you are one of those who wants to go against the odds, you may want to address the following 54 issues before you can count on having a successful partnership. Following the 54 issues are three notes you will always want to consider.

- 1. Name of the partnership?
- 2. Names of the partners?
- 3. Effective dates of Partnership Contract?
- 4. Duration of the partnership—number of years or "until dissolved?"
- 5. Nature of the business, now and three years from now?
- 6. How will you decide...majority, unanimity, consensus, or dictatorship?
- 7. Authority—who has it? The individual partner authority in conduct of business.
- 8. Separate debts?
- 9. Characteristics of partners (General or Limited, active or silent). How would it change?
- 10. Location of office.
- 11. Place of business operations.
- 12. Capital contribution by each partner (at inception, at later date).
- 13. Valuation of each asset contributed by each partner and date the evaluation was made.
- 14. Whether partners may make additional contributions and who decides.
- 15. Minimum capital investments for each partner.
- 16. The level at which capital accounts of the partners must be maintained.
- 17. Participation of each partner in profits and losses.

- 18. A formula for the distribution of and timing of, net income to each partner.
- 19. Business expenses incurred by partners and their spouses or agents. How is this handled?
- 20. Salaries, if any, to be paid to partners and whether or not these salaries are to be treated as expenses in determining distributable profits.
- 21. The amounts of any regular drawings against profits.
- 22. Rules regarding drawing of capital by partners.
- 23. Penalties of violations of any aspect of the agreement.
- 24. Duties, rights, responsibilities and sphere of activities of each partner, now and a year from now, with/without disability of any partner.
- 25. Amount of time to be contributed by each partner.
- 26. Prohibition of outside business activities by partners that would be (or may not be) in competition with the partnership business.
- 27. Who is to be the managing partner and whose decision will prevail in case of a tie or a dispute? How can this be changed?
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- 29. Procedure for admitting new partners.
- 30. Methods of admitting Junior partners, without capital, if such a procedure is to be considered desirable.
- 31. Procedures in the event of death, retirement, absence, disability or incapacity of partners.
- 32. Method of determining the value of goodwill in the business, in case of death, incompetence, or withdrawal of a partner or dissolution of the partnership for any other reason.
- 33. Method of liquidating the interest of deceased or retiring partner.
- 34. Age at which a partner must withdraw from active participation, and arrangements for adjusting his salary and equity.
- 35. Whether or not surviving partners shall have the right to continue using the name of a deceased partner in the partnership name.
- 36. Period of time in which retiring or withdrawing partners may not engage in a competing business.
- 37. Basis for expulsion of a partner, method of notification of expulsion, and the disposition of any losses that arise from the delinquency of such a partner.

- 38. How will the event of protracted disability of a partner be handled?
- 39. Whether the accounts are to be kept on a Cash or Accrual basis, and if on the Cash basis, the method of compensating partners who withdraw or retire for income realized on services rendered, but not invoiced, at the time of their withdrawal or retirement.
- 40. The Fiscal Year of the partnership.
- 41. Dates of partnership accounting period.
- 42. Whether or not interest is to be paid on the debit and credit balances in the partner's accounts.
- 43. Where the partnership cash is to be deposited and who may sign checks.
- 44. Whether or not all partners shall have access to the Books of Account.
- 45. Under what conditions Limited partners may be accepted into the firm, and, if so, who shall be designated as the General partner.
- 46. Prohibition of the partners pledging, selling, hypothecating, or in any manner transferring their interest in the partnership, except to other partners.
- 47. Identification of material contracts or agreements affecting the liability or operation of the partnership.
- 48. Release of debts.
- 49. Sale of partnership interest voluntarily or requested by partners.
- 50. Additions, alterations or modifications of the Partnership Agreement.
- 51. Required and prohibited Acts.
- 52. Provision for arbitration and settlement of disputes.
- 53. Rights and responsibilities upon dissolution and penalties for failing to comply.
- 54. Employee Management: who does it, with what level of authority?

NOTE 1: For all partnership meetings: Have an agenda and have all partners sign off on the list of things that you have discussed and decided at the meeting.

NOTE 2: Run a credit check on all partners periodically.

NOTE 3: Consider that your partner's spouse is your partner too.