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THE ENTREPRENEUR'S PRENUP

WORKBOOK

How to Choose a Business Partner
Who Won't **[BLEEP]** You

The Entrepreneur's Prenup

Workbook

How to Choose a Business Partner Who Won't **[BLEEP]** You

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CONTENTS

Introduction

How to Use this Workbook..... Page 3

Section One: Entrepreneurial Partnership Issues

Exercise 1: Is the Entrepreneurship Right For You?..... Page 6
Exercise 2: What Do You Want in a Partner?..... Page 8

Section Two: Affinity Factors

Exercise 3: Compatibility Page 11
Exercise 4: Goals..... Page 14
Exercise 5: Culture..... Page 17
Exercise 6: Communication/Navigation..... Page 20

Section Three: Practical Factors

Exercise 7: Money..... Page 24
Exercise 8: Roles..... Page 28
Exercise 9: Accountability..... Page 31
Exercise 10: Exit Strategy..... Page 34

Section Four: Special Factors

Exercise 11: Family Members Page 39
Exercise 12: Investors Page 42

Evaluating the Results..... Page 45
About the Author/Your Free Gift!..... Page 46

Getting the Most Out of *The Entrepreneur's Prenup* . . . And Your Partnership

Welcome to *The Entrepreneur's Prenup* workbook, and congratulations for taking your business partnership so seriously! I commend you for caring enough to want to get it right. I wish I had had this workbook when I made some of my partnership choices . . . it could have saved me a lot of headaches (and heartaches!).

It's my hope that by taking you through these questions, you'll avoid a lot of the "cow pies" that I stepped into with both feet (and see my clients doing all the time).

Here are a few guidelines to help you get the most out of this experience:

1. **Pace Yourself.** Don't try to tackle all of these questions in one sitting – or even two. That's like gorging yourself on multiple Thanksgiving dinners in one evening. There's only just so much turkey (or tofu) and sweet potatoes and green bean casserole with onion crumble and apple pie a la mode you can ingest at once. Plus, the object is not just to answer the questions and then cross that task off your list. You'll want to reflect on the answers you've received to see if you're comfortable with what you're hearing and seeing. That's what the evaluation boxes are for.

2. **Evaluate Responses.** Speaking of evaluation, there isn't a hard and fast rule for the "perfect" partner. That's a hallucination that exists only in romance novels. There are many factors that influence the dynamics of business partnerships. I've found a number of recurring qualities and issues that entrepreneurs seem to care about most, and that strongly influence their choice of business partner. They fall into two categories. The first category, referred to as "affinity factors," relates to issues and feelings of compatibility, goals, company culture, and communication/navigation. The second category, the "practical factors," covers more concrete matters and relates to issues of money, management roles, accountability, and exit strategy. While the workbook helps you address these crucial issues, only *you* can decide which of them carries more weight with you. The good news: there's no wrong answer! The evaluation boxes for each factor will help you decide what's most important to you.

3. **Repurpose Your Responses.** As you've learned (or will learn) in the companion audio files, there's more to this process than just going through the exercises. Some of the exercises will generate responses that can help your professional advisors when guiding you

The Entrepreneur's Prenup
How to Choose a Business Partner Who Won't [BLEEP] You

through a partnership agreement. Or, they may assist you in putting together an “operations manual” for your company. You’ll see the notations on the exercises where that applies.

As to advisors, this is a perfect opportunity to think “bigger” about your advisory team. You want your company to have the best chance possible for growth, don’t you (gee, I hope so)? A business partner is one part; an attorney is another; and an accountant is yet another. Because laws can vary from state to state, you should always confirm your partnership terms with your attorney to make sure that your situation, approach, and decisions generated by these exercises comply with your state’s law. Your accountant will be invaluable in helping you craft the financial, tax, and valuation provisions in your partnership agreement.

4. Finally, realize that **there are no failures from this process**. You can’t lose. If you decide that your “intended” really isn’t the right partner for you and your business, *congratulations!* You’ve just saved tens of thousands of dollars in legal fees that it would take to go through an ugly “business divorce.” You’ve avoided years of an unhappy work environment. Quite possibly, you’ve ensured that a dear friendship continues to enhance your life – rather than having it destroyed through acrimony and resentment because your business relationship isn’t thriving. Far better to know these issues *now*, than become enmeshed in your business and have to root the partner out.

Don’t forget to check out your free gift (certificate on page 46), as my “thank you” for buying this program and making sure you choose a business partner who won’t [BLEEP] you!

Now, let’s get started! Wisdom and wealth,



Entrepreneurial Partnership Issues

The Entrepreneur's Prenup
How to Choose a Business Partner Who Won't [BLEEP] You

6. What are your strengths and weaknesses? Look at important business management skills areas such as:

Sales	Pricing, buying, sales planning, negotiating, direct-selling to buyers, customer service follow-up, managing other sales reps, tracking competitors
Marketing	Advertising/promotion or public relations, media planning, copywriting, marketing strategies/plans, Internet/social media
Financial planning	Cash-flow planning, monthly financial reporting, bank relationships, credit line management
Accounting	Bookkeeping, billing (payables and receivables), monthly profit and loss statements/balance sheets, quarterly/annual tax preparation
Administrative	Scheduling, payroll handling, benefits administration, insurance
Personnel management	Hiring/firing/motivating employees, general management skills
Technology	Word processing, spreadsheet, database, time management software, Internet and other research, computer equipment/other peripherals like PDAs, BlackBerrys, and cell phones
Communication	Oral presentation, written communication, schmoozing/entertainment

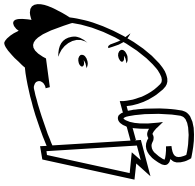
Strengths

- 1)
- 2)
- 3)
- 4)
- 5)
- 6)
- 7)
- 8)

Weaknesses

- 1)
- 2)
- 3)
- 4)
- 5)
- 6)
- 7)
- 8)

Exercise 2: What Do You Want in a Partner?



Food for thought: Do you know and understand why you want a partner in the first place? Are you looking for an active partner, someone with experience and expertise you don't have? Or are you terrified of being alone – or think you can't make it on your own? **[Note to self:** think of the last time you got involved with someone romantically because you were lonely – not necessarily

because they were any great shakes. “Been there, done that,” I say, and it did *not* end well]

Here are some things to consider:

1. **Why do you want a business partner? What can you accomplish with a business partner that you can't do with employees or outsourced help? Are you looking for a “silent” partner, someone to pony up lots of cash to help you build your dream business? (If so, make sure to answer the questions in Exercise 12)**

2. **On a scale of 1 to 10, with 1 being “get outta my way!” and 10 being “Whatever you say, dear,” how would you rate your ability to share control/decision-making? On the same scale, how comfortable are you with sharing the limelight?**

3. **Do you have any fears about working with a business partner? Do you have personal experience with any partnership horror stories? If so, what are they?**

4. **What traits are you looking for in a business partner? Make a list of the skills and qualities you are seeking in your ideal business partner(s), and the possible sources where you might find them.**

The Entrepreneur's Prenup
How to Choose a Business Partner Who Won't [BLEEP] You

5. If you already have someone in mind, make a rough list of what you consider their strengths and weaknesses. As you did for yourself, look at important business management skills areas such as:

Sales	Pricing, buying, sales planning, negotiating, direct-selling to buyers, customer service follow-up, managing other sales reps, tracking competitors
Marketing	Advertising/promotion or public relations, media planning, copywriting, marketing strategies/plans, Internet/social media
Financial planning	Cash-flow planning, monthly financial reporting, bank relationships, credit line management
Accounting	Bookkeeping, billing (payables and receivables), monthly profit and loss statements/balance sheets, quarterly/annual tax preparation
Administrative	Scheduling, payroll handling, benefits administration, insurance
Personnel management	Hiring/firing/motivating employees, general management skills
Technology	Word processing, spreadsheet, database, time management software, Internet and other research, computer equipment/other peripherals like PDAs, BlackBerrys, and cell phones
Communication	Oral presentation, written communication, schmoozing/entertainment

Strengths

- 1)
- 2)
- 3)
- 4)
- 5)
- 6)
- 7)
- 8)

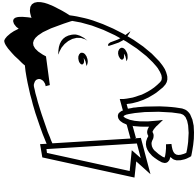
Weaknesses

- 1)
- 2)
- 3)
- 4)
- 5)
- 6)
- 7)
- 8)

6. Is your prospective partner a competing partner -- someone with exactly the same skills as you? Watch out – choosing your “clone” could hamper your business growth.

Affinity Factors

Exercise 3: Compatibility



Food for thought: You know it when you feel it: compatibility. An instinctive sense that you'll get along well. But it can take more than that "first date" to really feel the synergy. What are your (potential) partner's key personality traits and attributes? Look carefully. Like DNA – they're not likely to change. I once entertained the idea of going into business with a colleague. We sat down for what should have been a delightful lunch. But she was so imperious with the wait staff (who was really trying hard), I lost all possible interest in "business nuptials."

Here are some things to consider:

- 1. Is your partner self-motivated? What is her attitude toward "hard work" and risk-taking? Does she have a thick skin to withstand entrepreneurial setbacks?**

- 2. On a scale of 1 to 10, with 10 being the ideal, how would you rate your business partner in the following areas:**
 - Ability to manage risk and stress** _____
 - Strong family support** _____
 - Ability to deal with failure** _____
 - Ability to work alone** _____
 - Ability to work with and manage others?** _____

- 3. Are there significant cultural differences between you? What effect might these have? Cultural differences can engender misunderstandings that easily escalate. What influence do your cultures of origin have on your life outlook?**

8. **Is your partner growing or stagnant? Is he stuck in his ways, or does he take classes to enhance his business education and personal growth? Is he proactive toward life, or stuck in a “woe is me” tape loop? Look at actions, not just words.**
9. **How do you feel when you are with your business partners? Do they make you feel good? Do they gang up on you? Do you feel encouraged to build the business, or do you feel beaten down? Do you like and respect them? Is the feeling mutual?**

Affinity Factors Evaluation
COMPATIBILITY

What's Your Comfort Level?: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Compatibility questions:

- | | | | |
|------------------------------|-------|-------------------------------------|-------|
| 1. Partner's self motivation | _____ | 7. Integrity | _____ |
| 2. Business leadership | _____ | 8. Personal growth | _____ |
| 3. Cultural differences | _____ | 9. Respect | _____ |
| 4. Sense of humor | _____ | Total Compatibility Score: | _____ |
| 5. Social skills | _____ | Average Compatibility Factor | _____ |
| 6. Honoring time/deadlines | _____ | (Score divided by | |
| | | # of questions answered) | |

8. What are your individual expectations of each other? Do you have similar views of what is realistic to ask of each other?

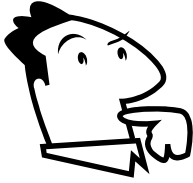
9. How will you measure success? How will you gauge progress?

Affinity Factors Evaluation
GOALS

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Goals questions:

- | | |
|--------------------------------------|-----------------------------------|
| 1. Prior job dissatisfaction _____ | 7. Company earnings _____ |
| 2. Building the company _____ | 8. Expectations _____ |
| 3. Type of business _____ | 9. Measuring success _____ |
| 4. 3/5/10-year vision _____ | Total Goals Score: _____ |
| 5. Personal finances _____ | Average Goals Factor _____ |
| 6. Non-financial opportunities _____ | (Score divided by _____ |
| | # of questions answered) |

Exercise 5: Culture



Food for thought: Company culture. Just like “corporate culture” in large institutions, it stems from a number of influences: the physical environment, responsiveness to personal needs, and flexibility in the face of change. Are you running your company like a drill sergeant, or are you Mother Earth, welcoming all who come to her with open arms?

Here are some things to consider:

- 1. What kind of setup does your business need? What facilities do you require for yourselves and clients? What impression do you want the office to leave on people who visit? How will you achieve that?**

- 2. What’s your ideal working environment? A competitive, energy-filled environment with lots of external stimulation? A quiet environment that fosters concentration and working without interruption? Are your styles the same? If they differ, can both be accommodated in the same space?**

- 3. Are you different in terms of your needs for cleanliness/organization? Is one or both of you neat? Messy? A pack rat? An organizational wizard?**

- 4. What kinds of working hours are you planning to keep? Is one of you 24/7 while the other is 9-5? Are you early birds? Late risers? What kind of hours do you ideally want to work? Outside of the office, how much of your time will you put into work?**

- 5. What is your business style? Military precision, or go-with-the-flow? Do you work better alone or with a team? Are you task-oriented or relationship-oriented? Detail-oriented or big-picture thinker? Do you perform well under pressure or do you fold? Is the other's style one that works for you?**

- 6. Is your idea of a vacation switching from sales to marketing, while your partner's is nine weeks on the Riviera?**

- 7. Working virtually . . . or virtually working? If you work from home, how can you set up an efficient system to keep track of client files or materials? How can you make sure you are accountable to each other (and to the company) for meeting company (and client) needs? Is one of you a Mac person and the other a PC person?**

8. Does either of you -- or do your families -- have health issues that could affect your availability for the business? How will you deal with this situation if they do?

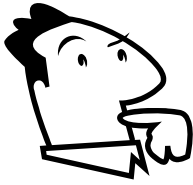
9. Do you have or expect to have children, family, or other lifestyle issues that will make demands on your time? If this reduces availability for work, would this be OK?

Affinity Factors Evaluation
CULTURE

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Culture questions:

- | | |
|-----------------------------------|---|
| 1. Physical environment _____ | 7. Working virtually _____ |
| 2. Working environment _____ | 8. Health issues _____ |
| 3. Cleanliness/organization _____ | 9. Children/family _____ |
| 4. Working hours _____ | Total Culture Score: _____ |
| 5. Business style _____ | Average Culture Factor _____ |
| 6. Vacation _____ | (Score divided by
of questions answered) |

Exercise 6: Communication/Navigation



Food for thought: There are two aspects to staying on an even keel: communication and navigation. I had a business partnership that started well and ended badly, partly because, over time, we grew to act like an old passive-aggressive married couple. We went about our daily business without checking in with each other as a “management team.” Eventually, it was like we were running two separate businesses under the same roof.

Here are some things to consider:

Responses to #s 5-8 are good to share with your attorney for your operations manual and your partnership agreement!

- 1. How would you characterize your communication style? Open? Reserved? Do you prefer to discuss issues informally, or to have an agenda for time to think it through?**

- 2. How do you feel about criticism -- both voicing it and receiving it? How do you express disagreement? Do you take it personally? What is your arguing style? Combative? Withdrawal/silent treatment? Do you have to get your way? Do you capitulate easily? What is your partner's arguing style?**

- 3. How do your partners speak on the telephone to others? How do they speak to their life partners? Do they speak with respect?**

4. **What kind of temper do your partners have? How do they treat their employees? Do they interact well with others?**

5. **How often do you need/want to communicate with each other about what's going on in the business? Throughout the day? Daily? Weekly?**

6. **Do you function well with team meetings? Do you value collaboration? How little is too little? How much is too much?**

7. **Do you have compatible ways of making decisions and solving problems? Are you focused more on the bottom line and striving to be objective or are you focused on trying to achieve consensus and be inclusive? What about your partner? What does it mean if your styles are different?**

8. **How will you handle disagreements on the profound issues facing the company, such as whether to develop multiple streams of business, or what the company's priorities should be? Is there a way to negotiate a solution that meets both needs? Are you/your partner committed to trying to find a solution, or does "winner take all?"**

9. How will decisions be made in the company? Is each of you comfortable with the other's making decisions in areas where you weren't consulted? Do you need 2/3 majority or unanimity on certain issues? If so, which issues?

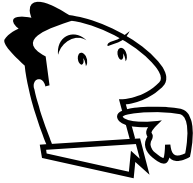
Affinity Factors Evaluation
COMMUNICATION/NAVIGATION

Define Your Comfort Level: On a scale of 1-10, with 1 being "sheer terror" and 10 being "complete trust," rate your comfort level with your discussions and satisfaction with your resolutions on the following Communication/Navigation questions:

- | | |
|----------------------------------|---|
| 1. Communication style _____ | 7. Problem-solving style _____ |
| 2. Criticism _____ | 8. Disagreements _____ |
| 3. Telephone manner _____ | 9. Decision-making _____ |
| 4. Temper _____ | Total Communication Score: _____ |
| 5. Communication frequency _____ | Average Communication Factor _____ |
| 6. Collaboration _____ | (Score divided by
of questions answered) |

Practical Factors

Exercise 7: Money



Food for thought: Money. It's probably the #1 reason business partnerships break up. There's not enough of it to meet your bills. Someone's taking too much of it. Someone else isn't contributing her fair share. Or, you've earned a lot of it and want to cash out. Can you talk about it? If it seems awkward, learn to get comfortable with this thorny subject – money is the lifeblood of your business.

Here are some things to consider:

These responses are good to share with your attorney and your accountant for your partnership agreement!

- 1. Personal financial needs: What are your monthly household expenses? If one partner has a greater financial need, can that partner take a bigger draw from the business? If so, how will that be balanced? What if the business doesn't generate enough income to pay your salaries for a period of time? Can each of you still afford to meet personal expenses? For how long?**

- 2. Company expenses: What are your basic operating expenses? Identify your categories of expense (rent, insurance, utilities, marketing, salaries, etc.)? How much do (or will) you spend monthly, annually, in each category? In one year? Three years? Five years?**

3. Contribution: How much will each partner invest in the business? What will that entitle them to in terms of draws/salary and profit share? How will you value the “intangibles” they bring, like ideas, skills, and customers, as a share of the contribution? Will additional financial contributions be expected? How will you handle a situation where one partner contributes less than another?

4. Management: Who's responsible for day-to-day financial management, including authority to execute legal and financial documents on behalf of the company? Who handles (or oversees) long-range financial planning (such as insurance, retirement)? What's your level of expertise doing this? How will you make spending decisions for the company? What kinds of purchases must be jointly decided upon?

5. Targets: What are your targets for financial performance? How often will you review them? What is your ultimate financial goal regarding annual income and when do you anticipate achieving it?

6. Financial integrity. Do you share attitudes toward money issues, from credit policy to paying bills on time? How do you each respond to the “vendor test” below?

Your company has \$500 in its account right now. You owe a vendor \$500. Do you (1) pay the vendor \$500? (2) Pay the partners \$500? (3) Pay the vendor \$250 and split the rest among the partners? Or (4) something else?

7. Valuation: If the partnership ends, how will you value the business? How will you divide the assets? Can you solve the thorny issue, again, of placing a value on intangibles?

8. Spending habits. What is your partner's spending style and habits? Is she impulsive or inclined to act without consulting others? How does she handle money in her personal life? For that matter, how do you?

9. Do you share similar views and practices regarding accounting and expense control, time-keeping and record-keeping, productivity and efficiency?

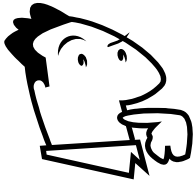
Practical Factors Evaluation

MONEY

Define Your Comfort Level: On a scale of 1-10, with 1 being "sheer terror" and 10 being "complete trust," rate your comfort level with your discussions and satisfaction with your resolutions on the following Money questions:

- | | |
|-------------------------------|---|
| 1. Personal finances _____ | 7. Valuation _____ |
| 2. Company expenses _____ | 8. Spending habits _____ |
| 3. Capital contribution _____ | 9. Record-keeping _____ |
| 4. Financial management _____ | Total Money Score: _____ |
| 5. Performance targets _____ | Average Money Factor _____ |
| 6. Financial integrity _____ | (Score divided by
of questions answered) |

Exercise 8: Roles



Food for thought: In the original *Rocky* film, Rocky Balboa is asked what he sees in his girlfriend, Adrian. He says, “She fills gaps. I got gaps. She got gaps. Together, we fill gaps.” It’s hard for business partners to expertly handle all aspects of starting and growing a business. Do you know what your gaps are and how you’ll fill them?

These responses are good to share with your attorney for your operations manual and your partnership agreement!

Here are some things to consider:

1. **What will each of the partners bring to the business? What assets and resources? Money? Technical expertise? Management talents? Sales skills? Customers/clients? Contacts? Intellectual property?**

2. **Review the strengths and weaknesses you identified in Exercises 1 and 2. What are the gaps left open that your combined skills do not satisfy? Areas to consider:**

	Who's Strong?	Who's Not?	Gaps?
Sales			
Marketing			
Financial planning			
Accounting			
Administrative			
Personnel management			
Technology			
Communication			

The Entrepreneur's Prenup

How to Choose a Business Partner Who Won't [BLEEP] You

3. Think carefully about the gaps you've identified in Question #2. Is the "strong" person *really* strong in that area, or is she only minimally more proficient than the other? Is that enough for the business to run smoothly (and avoid pitfalls)? If not, consider how you will fill the gaps. Go through training, mentor each other, bring in outside expertise or staffing (short or long term)?

	How we'll fill the gaps
Sales	
Marketing	
Financial planning	
Accounting	
Administrative	
Personnel management	
Technology	
Communication	

4. Which tasks would each partner *prefer* to do? What do you like to do least? Can you work out a division of labor (both the drudge-work and the fun tasks) that's *fair*?

5. What positions/titles will each owner hold? What will your roles in the business be? Will one person have the ultimate decision-making capacity?

6. Is there a need for one of us to actually be a leader? How will it be, and in which contexts? Will leadership vary, depending on the context? What will we do if we disagree with the way the other is leading?

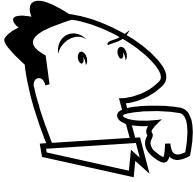
Practical Factors Evaluation

ROLES

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Roles questions:

- | | |
|-------------------------------------|--|
| 1. Non-financial contribution _____ | 5. Titles _____ |
| 2. Gaps _____ | 6. Leadership _____ |
| 3. Filling gaps _____ | Total Roles Score: _____ |
| 4. Preferred tasks _____ | Average Roles Factor _____
(Score divided by
of questions answered) |

Exercise 9: Accountability



Food for thought: “Actions speak louder than words,” goes the old adage. If you’ve made it this far through the exercises, you’ve both been doing a lot of talking. Now it’s time to see if the words and actions are congruent. I had a colleague who thought she was *so* clever every time she said, “I’m so broke, I can’t pay attention.” No surprise, she had debt collectors hounding her . . . but somehow, the situation was always someone else’s fault. It’s “due diligence” time. Are your partners as responsible as they say they are?

Here are some things to consider:

- 1. Background checks. Are there any criminal convictions on your partner’s record? Did your partner volunteer this information or did you have to dig it up?**

- 2. Lawsuit filings. Has your partner been involved in any lawsuits? If so, what was the dispute about? Are there any complaints with the Better Business Bureau or other business monitors? What explanations does your partner give for them?**

- 3. Bankruptcy petitions. Has your partner ever filed for bankruptcy protection? If so, when? If the petition was filed within the last 7-10 years, you may find that that has a negative effect on your company’s ability to obtain credit.**

8. Does your partner take responsibility for her actions and mistakes? Can you come up with two or three examples?

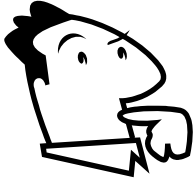
9. How do you view leadership and accountability—especially if you are coming into an already-ongoing business? Is leadership about rubber-stamping the decisions that have already been made or holding those decisions up to scrutiny? Is accountability an accepted factor or a sign of mistrust?

Practical Factors Evaluation
ACCOUNTABILITY

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Accountability questions:

- | | |
|---------------------------------|---|
| 1. Background checks _____ | 7. Current business activities _____ |
| 2. Lawsuit filings _____ | 8. Taking responsibility _____ |
| 3. Bankruptcy petitions _____ | 9. Accountability attitudes _____ |
| 4. References _____ | Total Accountability Score: _____ |
| 5. Google® search results _____ | Average Accountability Factor _____ |
| 6. Prior businesses _____ | (Score divided by
of questions answered) |

Exercise 10: Exit Strategy



Food for thought: There's an old Native American phrase: "Nothing lasts forever, but the rocks." All partnerships come to an end . . . even if the only reason for the demise is death of one of the partners (sorry to be morbid, but it's true). Exit strategy, or "buyout," provisions remind you of how you agreed to handle matters fairly, when cooler heads prevailed. Otherwise, you run the risk that a "business divorce" could destroy all you've worked so hard to achieve. There are a number of reasons that a business partner might need or want to leave the company. With the help of your attorney, you'll want to identify:

- Trigger events when a partner needs/wants to leave
- Who gets to buy the partner's interest in the company
- How much she gets paid
- Any exceptions? Penalties?

These responses are good to share with your attorney for your partnership agreement! Speak to your financial advisor about sound planning for these events.

Here are some things to consider:

1. **Death.** Who gets the right to buy a partner's interest if one of the partner's should die? Do the remaining partners get first dibs? Or does the right go to a surviving spouse?

2. **Disability/Incompetence.** What if a partner gets sick or is temporarily (less than six months) disabled? Will she be paid a regular salary? For how long? What about a longer-term disability? How long can the business afford to pay the salary, benefits and profits of a partner who is too sick to work or contribute to the company?

- 3. Resignation/Retirement.** If a partner needs to make a lifestyle change (new baby, ailing parent) that temporarily reduces his ability to work, would that be OK? For what period of time? At what point would this situation make you want to revisit how you have structured ownership and control of the company? If a partner is retiring, is there a retirement plan in place?

- 4. Divorce.** Depending on the state, a divorcing business owner's spouse might claim a portion of the owner's interest in the company. Do you want to be in business with your partner's spouse?

- 5. Expulsion.** What kind of conduct would make you want to get rid of a partner? Company theft? Illegal substance use? Sexual harassment of employees or vendors? Laziness?

- 6. Mutual agreement.** Sometimes partnerships just run their course. They run out of steam. The partners share a feeling that it's time to do something different, separately. This should be an amicable split -- but only if your agreement already covers the valuation and sharing of the assets.

- 7. Disputes.** You may experience repeated deadlocks and differences that point towards business dissolution. How will you recognize this situation and deal with it?
- 8. Valuation.** If you haven't already addressed this issue in Exercise 7, now's the time. How will you split up ownership? How will you divide profits and losses? How (and when) will you be paid? Review these issues with your attorney, accountant, and financial advisors to make sure the valuation formulas make sense for your kind of business.
- 9. Commitment.** How long do you expect, or would you like, your partnership to last? Are all partners willing to commit to the business for a certain minimum amount of time? What if one of the partners leaves before that time frame?

10. Outside Businesses. May the partners have outside business interests or other employment while owning the company? May partners work for a competing business after they leave the company?

11. Outside Offers. What if a partner gets an outside offer to purchase her ownership interest in the company? Should she let the company get the first opportunity to match the offer (called “right of first refusal”)?

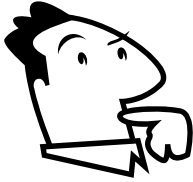
Practical Factors Evaluation
EXIT STRATEGY

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Exit Strategy questions:

- | | |
|---------------------------|---|
| 1. Death of partner _____ | 8. Valuation _____ |
| 2. Disability _____ | 9. Commitment _____ |
| 3. Resignation _____ | 10. Outside businesses _____ |
| 4. Divorce _____ | 11. Outside offers _____ |
| 5. Expulsion _____ | Total Exit Strategy Score: _____ |
| 6. Mutual agreement _____ | Average Exit Strategy Factor _____ |
| 7. Disputes _____ | (Score divided by
of questions answered) |

Special Factors

Exercise 11: Family Members



Food for thought: Going into business with a close friend or family member brings up its own set of considerations, in addition to all of the basic business partnership issues you've seen in the previous exercises. You bring a special asset to the table: your relationship. And that relationship has to be protected. Otherwise, you'll be staring daggers at each other during Thanksgiving dinner. Long-standing family feuds have been based on less.

Here are some things to consider:

- 1. What are the benefits to choosing this friend/family member as a business partner?**

- 2. What are the drawbacks to choosing this friend/family member as a business partner?**

- 3. How will working together affect your family finances, if at all?**

- 4. How will your working together affect estate planning (if at all)? For example, if it's a parent-child partnership, how will the other children in the family (who aren't going to be involved in the business) be "handled"/told that this is happening? How will the parent's estate be divided?**

8. How will you handle final decision-making and chain of authority? Can you handle these dynamics with grace?

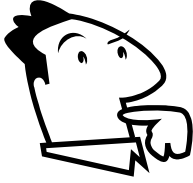
9. What are your personal goals and financial goals? At what point would it no longer make sense to be in business together? Can you agree on those situations?

Special Factors Evaluation
FAMILY MEMBERS

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Family Members questions:

- | | |
|---------------------------------------|---|
| 1. Partner benefits _____ | 7. Business/personal life _____ |
| 2. Partner detriments _____ | 8. Chain of authority _____ |
| 3. Affect on family finances _____ | 9. Personal/financial goals _____ |
| 4. Affect on estate planning _____ | Total Family Members Score: _____ |
| 5. Credentials (see Exercise 9) _____ | Average Family Members Factor _____ |
| 6. Disagreements _____ | (Score divided by
of questions answered) |

Exercise 12: Investors



Food for thought: “Fools rush in where angels fear to tread,” and it’s wise not to rush into an angel investor deal. Yes, they can provide access to capital (when capital is scarce), expertise, and contacts . . . but they will exact a price. Not unfairly, necessarily – they’re taking a huge risk in your company. But you’ll have higher standards and expectations to meet than you might with an active business partner. Angels may request the right to control restrict future capital raising or management operations. Before you sign on the dotted line, make sure you can meet their expectations.

Speak to an attorney experienced in angel investor deals – there are special documents and disclosures to have in place that protect you.

Here are some things to consider:

- 1. Can you welcome outside ownership from an investor? Can you accept the possible loss of management control? How “silent” will this silent partner be?**

- 2. Have you put together a business plan with enough detail and forethought to even pique an investor’s interest? (In other words, more than just a doodle on the back of a cocktail napkin).**

- 3. What kind of return on investment do you reasonably think you can generate?**

8. What degree of contact do they want from you and in what form (e.g., email, telephone, face-to-face meetings)?

9. Suppose there are other working partners in the company and you disagree on the need for a silent partner. How will you deal with this?

Special Factors Evaluation
INVESTORS

Define Your Comfort Level: On a scale of 1-10, with 1 being “sheer terror” and 10 being “complete trust,” rate your comfort level with your discussions and satisfaction with your resolutions on the following Investors questions:

- | | |
|-------------------------------|---|
| 1. Outside ownership _____ | 7. Other deal success _____ |
| 2. Business plan _____ | 8. Extent of contact _____ |
| 3. Return on investment _____ | 9. Need for silent partner _____ |
| 4. Giving to angel _____ | Total Investors Score: _____ |
| 5. Getting from angel _____ | Average Investors Factor _____ |
| 6. Investor background _____ | (Score divided by
of questions answered) |

The Entrepreneur's Prenup
How to Choose a Business Partner Who Won't [BLEEP] You

Evaluating the Results

You've taken the time to answer a lot of questions and do a lot of digging. While that isn't an iron-clad guarantee that you'll live "happily ever after" forever and ever with this business partner, you've done significant due diligence to make sure your decision has a solid foundation.

Take a moment to evaluate your overall comfort level with this business partner. Insert the average number you calculated for each factor into the chart below. For factors that are not applicable (e.g., your business partner is not a friend or family member), just leave that area blank. Divide the Total Score by the number of factors you completed. Like Olympic athletes, you'll end up with an overall average score that you can use as a gauge. Is your partner a 2? You may want to look for another. Is your partner a 10? Get that prenup signed, pronto! ☺

Where do you stand? Are you happy with what the numbers tell you? Again, only you can determine how much weight to give to these different factors.

FACTOR	SCORE	FACTOR	SCORE
<i>Affinity Factors</i>		<i>Practical Factors</i>	
Compatibility Score	_____	Money Score	_____
Goals Score	_____	Roles Score	_____
Culture Score	_____	Accountability Score	_____
Navigation Score	_____	Exit Score	_____
<i>Special Factors</i>			
Family Members	_____		
Investors	_____		
Total Score	_____	Total Factors Completed	_____
Final Average Score (= Total Score / Total Factors Completed): [_____]			

The Entrepreneur's Prenup

How to Choose a Business Partner Who Won't [BLEEP] You

About the Author

Nina Kaufman demystifies legal mumbo-jumbo to save small businesses time, money, and aggravation. She's also an award-winning business attorney, speaker, and columnist/blogger for Entrepreneur Magazine online.

For over fifteen years, she has successfully navigated thousands of small businesses through the legal hurdles they face in starting and running their companies.

In addition to her work for Entrepreneur, she publishes BusinessPartnershipCentral.com, and serves on Forbes.com's Ask The Expert panel for small businesses. Nina is a media resource and frequent contributor on a wide range of legal topics to other publications and media outlets including Enterprising Women, The E-Myth Insider, WomenandBiz.com, the American Bar Association's GP/Solo Magazine, the New York Enterprise Report, DivineCaroline, and MyVenturePad,

With skills honed on the stand-up comedy stage, Nina is a sought-after professional speaker. She gives seminars, workshops, teleclasses, and presentations for numerous organizations in the New York area. Her hot topics include building business partnerships and collaborative alliances that work, protecting your business on the Internet, and training clients to pay on time.

For more information, visit www.AskTheBusinessLawyer.com.

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US\$147.00
ISBN 978-098414446-4
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