



Outline Your Partnership Agreement

Helping Set Your Partnership Up for Success

Your partnership agreement will act as a guide to make sure all partners understand their rights, roles and responsibilities up front.¹ It will also help prevent disputes from happening, and if and when they do happen, your partnership agreement will provide you with guidelines to help address them effectively.

Ideally, you should craft your partnership agreement before you even start doing business with your partner(s)—when everyone’s on good terms and everything is up for discussion and is negotiable.

“Once the business starts gaining value, things start getting touchier. It’s better to do it in the beginning when people are on equal footing.”

–Peri Pakroo, Author of *The Women’s Small Business Start-Up Kit*²

The process of crafting your partnership agreement begins with you and your partner(s) having candid conversations about your business’s needs, your individual needs and how you want to run your business. These conversations will help uncover points of potential disagreement early, before they actually happen. You can then proactively think about, negotiate and document mechanisms and processes to address these issues.

Typically, a partnership agreement covers the following broad elements:

- **Unique elements.** Partnership agreements will vary depending on the type of partnership, the type of business and the specific points of importance for the partners.
- **Standard elements.** There are certain standard/essential elements that every partnership agreement should cover, regardless of the type of partnership.



This tool will cover the standard elements of a partnership agreement, while **you keep track of any unique elements** that you and your partner(s) need to address and include in your agreement.

About This Tool

In this tool, you'll do the following steps:

- ✓ Review a sample partnership agreement draft/outline.
 - This sample includes answers to several guiding questions that will help you outline the standard elements of a partnership agreement.
- ✓ Fill out a partnership agreement template, similar to the sample, for your specific partnership.

Tips:

- Because your partnership agreement is a legal document, you and your partner should work with an attorney to finalize it.³ An attorney will also be familiar with the applicable acts, such as the Uniform Partnership Act (UPA), the Uniform Limited Liability Act, etc., that your state may have adopted.
- You may decide to use an accountant to guide you toward the best tax structure for your partnership needs.⁴ Make sure that you use an accountant with small business experience.

Notes:

- The first step to crafting your partnership agreement is preparing a draft/outline of the information you want to include with your partner. This draft/outline will form a solid foundation for your finalized partnership agreement, and it can also help make your collaboration with the attorney more effective and efficient.⁵ This tool will help you prepare your partnership agreement draft/outline.
- It is important to note that this tool is designed to help familiarize you with the different elements of a partnership agreement. **This is NOT legal advice.**

Sample Partnership Agreement Draft/Outline

A General Information About the Partnership

1. What are the names of each partner?⁶ Are the partners individuals or businesses/companies?⁷

This partnership is between the following individuals:

1. Madison Maddow
2. Andre Anderson

2. What is the purpose of the partnership?⁸

This partnership will fill the need for a chief operating officer (COO) to join the company and work closely with the business owner/founder/chief executive officer (CEO) for the purposes for growing and scaling the business.

3. What is the business/partnership name?⁹

Zambesi Furniture Gallerie

4. What is the primary address/location of the business?¹⁰

1122 Jasmine Rain St., Calabasas, California

5. What is the start date and duration of the partnership?

The partnership will commence on Nov. 15, 2019.¹¹ There is no specified duration for this partnership; the partnership will continue until terminated.¹²

B Contributions and Ownership

1. What will each partner contribute to the business/partnership?¹³

2. What will be each partner's ownership share?¹⁴

Partner Name: Madison Maddow

Cash contribution: \$100,000 for the first phase of growth plans

Other contributions: Office space, intellectual property,¹⁵ benefits and company perks¹⁶

Ownership: 65 percent

Partner Name: Andre Anderson

Cash contribution: N/A

Other contributions: Business development and sales skills, equipment (laptop), professional contacts¹⁷

Ownership: 35 percent

C Business and Partnership Goals

1. What are our plans to grow our business?

We plan to spur growth by implementing the following strategies:

- With our existing products and services, we will branch into a new market.*
- We will also target new customers in our current market.*

2. How will we acquire financing to support our business growth?

In addition to an initial cash contribution from the CEO, the partners will pursue SBA-guaranteed loans and angel investors to support their growth plans.

D Roles and Responsibilities

1. What is the role of each partner?
2. What are the responsibilities within each role?

Partner Name: Madison Maddow

Role: Chief Executive Officer (CEO)

Responsibilities: Develop strategic plans, oversee major finances, attend weekly partnership meetings

Partner Name: Andre Anderson

Role: Chief Operating Officer (COO)

Responsibilities: Oversee day-to-day resource management, achieve sales goals, attend weekly partnership meetings

E Compensation

1. How much salary will each partner draw?

The CEO will draw an annual salary of \$50,000.

The COO will draw an annual salary of \$50,000.

Partner salaries will be paid only after all other payroll responsibilities are met and all business expenses are paid on time.

2. How will profits and losses be allocated?¹⁸

All profits will be retained in the business for the first two years or until the business achieves profitability for six consecutive months. After this requirement is met, the following allocation will be used:

- **Profits:** 50 percent of the profits for each tax year will be distributed equally among the partners, pro rata according to partnership percentage. The remaining 50 percent will be invested back into the business.
- **Losses:** Losses for each tax year will be distributed equally among the partners, pro rata according to partnership percentage.

3. What benefits and perks will be assigned to each partner?¹⁹

- **Work-from-home policy:** Both partners will primarily work from the business office. However, hours before 10 a.m. and after 3 p.m. may be worked from home.
- **Vacation:** Each partner is expected to take 10 vacation days each year for the good of the company. National holidays plus two personal days will be permitted.
- **Health insurance:** Once the business has reached 10 employees, health insurance will be provided (fully paid) for full-time employees. Partners will participate in that program. Until that time, the partners will provide their own health insurance.

F Decision-Making

1. Will partners have sole decision-making power for certain functional areas of the business, without the approval of the other partner?²⁰

CEO's decision-making power: The CEO will make the necessary strategic-level financial decisions (for funds up to \$10,000)—how, when and where to spend funds.

COO's decision-making power: The COO will make the day-to-day management decisions, such as work allocation to meet business needs. The COO may make purchases under \$5,000 on behalf of the business without the approval of other partners.

Joint decision-making: Financial decisions for funds over \$10,000 will be made jointly by the CEO and the COO.

2. In the event of a deadlock, where partners cannot mutually agree on a decision, what process will be used to address the issue?²¹

For dispute resolution, partners agree to hire and work with a neutral third party—an advisor or a business coach.

G Liability

1. What is each partner's liability if another partner makes poor legal decisions while representing the business?²²

Each partner is liable for any losses from business decisions of any type up to the share of their ownership of the business. Responsibility for restitution for any criminal losses will be determined by the courts in the state of California.

H Exit Strategy

1. What happens in the event of death/disability?

2. What happens in the event of partnership dissolution?

3. Will partners need to sign any documentation/agreement if they leave the partnership voluntarily or involuntarily?

Tip: The exit strategy is an important but complex component of a partnership agreement. It will be most beneficial for you and your partner(s) to consult with an attorney when crafting this section. For example, discuss with an attorney what the best options are for your business in terms of partnership dissolution.

Death or disability of a partner. *The death or disability of any partner shall not cause the dissolution of the company. In such event, the company and its business shall be continued by the remaining member(s).*

Dissolution of the company. *In the event of the dissolution of the partnership, assets will be distributed in accordance with sections B2 and E2.*

Other: *Because our business/partnership operates in California, where signing a noncompete is illegal,²³ partners will not be required to sign a noncompete agreement if they leave the partnership. A nondisparagement clause will be required.*

Important note: *Typically, each partner will need to sign a noncompete (and possibly a nondisparagement clause) if exiting the partnership.²⁴ Noncompetes must be legal in the state where the business is operating. California, Montana, North Dakota and Oklahoma ban or prohibit many types of noncompete agreements for employees or prohibit all noncompete agreements except in limited circumstances.*

Disclaimer: *All person and business names appearing in this sample are fictitious. Any resemblance to an actual person or business is purely coincidental.*

My Partnership Agreement Draft/Outline

Now that you've reviewed a sample, sit down with your partner(s) to outline your partnership agreement by answering the questions below.

GENERAL INFORMATION ABOUT THE PARTNERSHIP

1. What are the names of each partner?²⁵ Are the partners individuals or businesses/companies?²⁶

2. What is the purpose of the partnership?²⁷

3. What is the business/partnership name?²⁸

4. What is the primary address/location of the business?²⁹

5. What is the start date and duration of the partnership?

CONTRIBUTIONS AND OWNERSHIP

1. What will each partner contribute to the business/partnership?³⁰

2. What will be each partner's ownership share?³¹

Partner Name: _____

Cash contribution: _____

Other contributions: _____

Ownership: _____

Partner Name: _____

Cash contribution: _____

Other contributions: _____

Ownership: _____

BUSINESS AND PARTNERSHIP GOALS

1. What are our plans to grow our business?

2. How will we acquire financing to support our business growth?

BUSINESS AND PARTNERSHIP GOALS

1. What is the role of each partner?
2. What are the responsibilities within each role?

Partner Name: _____

Role: _____

Responsibilities: _____

Partner Name: _____

Role: _____

Responsibilities: _____

COMPENSATION

1. How much salary will each partner draw?

2. How will profits and losses be allocated?³²

3. What benefits and perks will be assigned to each partner?³³

DECISION-MAKING

1. Will partners have sole decision-making power for certain functional areas of the business, without the approval of the other partner?³⁴

2. In the event of a deadlock, where partners cannot mutually agree on a decision, what process will be used to address the issue?³⁵

LIABILITY

1. What is each partner's liability if another partner makes poor legal decisions while representing the business?³⁶

EXIT STRATEGY

1. What happens in the event of death/disability?

2. What happens in the event of partnership dissolution? How can the partnership be dissolved/ exited?

3. Will partners need to sign any documentation/agreement if they leave the partnership voluntarily or involuntarily?

ADDITIONAL INFORMATION (UNIQUE ELEMENTS)

Are there additional sections and questions you'd like to include in your partnership agreement?

Resources

For more ideas on what to include in your partnership agreement, review the following resources:

- [Partnership Agreement: 50 Questions to Answer](#)
- [Partnership Agreement Checklist](#)
- [Worksheet of Considerations—Partnership Agreements](#)
- [Sample Partnership Agreement](#)
- [Partnership Agreement Example](#)

Conclusion:

In this tool, you reviewed the broad categories that make up a typical partnership agreement. Now, based on the needs of your partnership and the specific issues you anticipate might come up, customize this tool to outline a partnership agreement that'll work for your business.

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- 1 *Keys to a Solid Partnership Agreement*, Accion, <https://us.accion.org/resource/keys-solid-partnership-agreement/> (accessed Aug. 28, 2019).
 - 2 Ann C. Logue, *Bringing on a Business Partner? Avoid This Common Mistake*, Entrepreneur (June 20, 2012), <https://www.entrepreneur.com/article/223652> (accessed Aug. 28, 2019).
 - 3 *Keys to a Solid Partnership Agreement*, Accion, <https://us.accion.org/resource/keys-solid-partnership-agreement/> (accessed Aug. 28, 2019).
 - 4 *Partnership Agreement: 50 Questions to Answer*, SCORE (June 21, 2011), <https://core.score.org/resources/partnership-agreement-50-questions-answer> (accessed Aug. 28, 2019).
 - 5 Ibid.
 - 6 Ibid.
 - 7 Ibid.
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 - 10 Ibid.
 - 11 *Partnership Agreement Template*, UpCounsel, <https://www.upcounsel.com/partnership-agreement> (accessed Aug. 27, 2019).
 - 12 Ibid.
 - 13 *Partnership Agreement: 50 Questions to Answer*, SCORE (June 21, 2011), <https://core.score.org/resources/partnership-agreement-50-questions-answer> (accessed Aug. 27, 2019).
 - 14 Ibid.
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 - 17 Ibid.
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 - 24 *Worksheet of Considerations—Partnership Agreements*, Massachusetts Small Business Development Center Network, https://www.msbdcenter.org/pdf/partnership_worksheet.pdf (accessed Aug. 28, 2019).
 - 25 *Partnership Agreement: 50 Questions to Answer*, SCORE (June 21, 2011), <https://core.score.org/resources/partnership-agreement-50-questions-answer> (accessed Aug. 27, 2019).
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