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SPECIAL REPORT
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Critical lessons to learn from 'The Social Network'

I recently saw "The Social Network," the super-hot movie about how Facebook was created. Significantly, the primary focus of the movie was not just showing how the mega-company came to be but the mega-multiple lawsuits that almost immediately erupted among the partners involved.

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Those lawsuits certainly cost the litigants significant sums of money in legal fees, not to mention the loss of important friendships (one of the lawsuits involved Zuckerberg's "best friend" suing him for $600 million.)

This movie should be required viewing for every real estate investor—in fact, for every entrepreneur. Put aside the fact that this is obviously a dramatization; the movie provides a great case study to see how partnerships can go wrong. (I use the term "partnerships" not in its narrowest sense to refer to just a limited or general partnership but, rather, to mean a joint venture between two or more people for a common business purpose, whether the legal structure is a limited liability company, a corporation or a partnership). Here are just a few of the lessons you can learn from it:

The importance of confidentiality and non-disclosure agreements: One of the key lawsuits involved the claim by three individuals ("Plaintiffs") that Facebook co-founder Mark Zuckerberg stole their idea they had shared with him when they invited him to "join them" and write the computer code for their new computer social network. From the movie, those plaintiffs apparently did not have Mr. Zuckerberg sign a confidentiality and non-disclosure agreement before they shared their idea with him. Whether you're an entrepreneur protecting your next great invention or a real estate investor seeking a partner to help you buy your next great investment property, it is a basic, fundamental given that you must have your future partner sign a confidentiality and non-disclosure agreement before you reveal your hard-earned proprietary information.

The importance of a written partnership agreement: One of the problems that confronted the Plaintiffs was that they apparently had no written agreement with Mr. Zuckerberg that clearly outlined what conduct by him would be a breach. This is Partner Real Estate Investing 101: you simply must have a written agreement that addresses all important issues in the partnership relationship.

The importance of having the right to approve new partners: Another pivotal problem that got Mr. Zuckerberg into the lawsuit with his "best friend" was his unilateral decision to allow a new partner into the business without his partner/friend's approval. That new partner drove a wedge between Mr. Zuckerberg and his partner/friend and tried to strip the partner/friend of virtually 100 percent of his interest in the multi-billion dollar company. A properly drafted partnership agreement would have addressed and prevented such unfair misconduct.

The importance of having your own lawyer review all documents: Another major mistake made by the ex-Mr. Zuckerberg partner/friend that apparently cost him billions of dollars was his failure to have his own lawyer review agreements that Mr. Zuckerberg's angel investor asked him to sign. By the time he realized the impact of that mistake, it was too late. The documents he had signed gave Mr. Zuckerberg the right to dilute his interest from more than 30 percent to less than 1 percent.

These are just a few of the traps for the unwary that are illustrated by this real-world, high-profile case study. There are many more.

Joint ventures can be an immensely powerful strategy to accomplish your business objectives faster, safer and less expensively than you might otherwise be able to do on your own. But whenever money is involved, even best friends can end up as legal enemies. You must be ever-vigilant and on your guard when you embark on these business relationships.

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