

## Law Firm Partnership Agreements

by Arthur G. Greene

Healthy partner relationships are based on both mutual respect and a comprehensive written agreement. Firms change and what may have been adequate in the past may not now serve the firm well. Eventually a controversy will emerge that can sap the vitality and success of the firm, or worse. If your firm does not have an agreement, or does not have a comprehensive one, don't wait for trouble to strike. Now is the time to act.

The partnership agreement should provide flexibility, meaning it should be a living document that will provide guidance under inevitable changing circumstances in the years ahead. For example, the agreement should anticipate all of the events involved in the admission of new partners, even if that does not seem to be a priority at the moment.

In addition to its flexibility, the agreement should address the partners' rights and responsibilities in a variety of circumstances. The partners need to think about the unthinkable, that is: death, disability, withdrawal, termination, and dissolution. These possibilities are important, even if they don't naturally occur to lawyers caught up in the enthusiasm of starting or operating their own business.

Let's take a look at ten critical topics that should be addressed in every agreement:

- **Partners** -- What is the process for inviting lawyers to become partners? Will there be a buy-in?
- **Capital** -- What is the amount of startup capital contributed by each of the original partners? What capital contribution, if any, will be expected of new partners?
- **Voting** -- What are the partners' voting rights? In what circumstances will a majority vote or a supermajority be required?

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### If Walls Could Talk



If the walls of your firm could talk, what would they say about the security of your partnership?

One old adage is that lawyers are the ones who never have their Last Will and Testament written and in place. This is not the only thing that can be forgotten. Lawyers often don't have their affairs in proper order, when it comes to their own professional partnership. Like the Last Will, there is a natural tendency to wait, to put doing it someday on the back burner.

Think of the necessity of the agreement like an insurance policy. It requires some work to get your coverage all lined up, but once it's done, isn't there a sense of relief and a sense of security that you are covered, should the unforeseen happen? Law firms without the assurances of a partnership agreement are at risk of facing crisis one day. Something can happen at any moment. No matter how stable the partnership may seem, no firm is immune from change that comes along, most times unexpectedly. The modest effort involved in developing an agreement is beneficial to everyone. Why wait to address it later, when later could be too late?

Kathy Fortin

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- **Profits** -- How are the profits to be divided among the partners? Is the system an effective management tool, rewarding desired behaviors and penalizing unwanted behaviors?
- **Management** -- How is the firm managed? Are duties delegated to a management committee or a managing partner?
- **Retirement** -- What are the rights and obligations involved when a partner elects to retire? Does the firm need to get out from under the liability of unfunded retirement benefits?
- **Disability** -- What is the meaning of disability? How will compensation be paid? How does one define the difference between a temporary disability and a permanent disability?
- **Death** -- What happens if a partner dies? Are there any death benefits? How does the return of capital take place? Does the estate of the deceased partner have a right to a payment of the deceased's ownership interest in the firm? How is the interest of a deceased partner valued for these purposes?
- **Withdrawal** -- What happens when a partner decides to withdraw from the firm? How is the firm's interest protected? What monies is the withdrawing partner entitled to receive? What is the process for notifying clients of the intended withdrawal?

- **Expulsion** -- What are the grounds to terminate a partner? Disbarment? Suspension? What behaviors would represent cause for discretionary termination?
- **Liquidation** -- What are the rights and responsibilities of the partners after a vote to liquidate?

Many lawyers have experienced the unwanted dilemma that comes from facing these issues unprepared. Now is the time to get a comprehensive agreement in place *before* a problem arises.

### *Services Rendered: Partnership Agreements*



We are prepared to help you develop a written Partnership Agreement that will properly reflect the arrangement between the partners, will accommodate growth, and will protect the firm in the event of unexpected developments. The process will involve:

- A meeting to review the law firm's history and make-up and to review any existing agreement;
- Discussion of the goals of the agreement and the essential provisions to be contained in the agreement; and
- Review and discussion of the draft agreement, including presentation to the partnership, prior to finalization.

The fee is charged at a rate of \$250.00 per hour or by the project, depending on the firm size and variations in the scope of work involved, which ranges from \$2,000 to \$4,000. Generally, within a thirty to sixty day time period, you can have an agreement in place.

### **Activities**

- The 2nd Edition of "Increasing Revenue: Unlocking the Profit Potential of Your Firm," first published in 2005, has been released by the American Bar Association.
- In November, Arthur conducted a teleconference for Legus International Network of Leading Law Firms on "Shaping Partner Buyouts."
- Arthur co-authored, with CPA Bill Howell, a two-part article about Succession Planning. Part 1 has appeared in the NH Bar News. The articles have been accepted for publication by several other State Bar Associations.
- Come visit us at the New Hampshire and Maine Winter Bar Association Meetings.
- Arthur is a principal in Boyer Greene, LLC, located in Ann Arbor Michigan, serving the consulting needs of law firms outside of New England.

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**Contact Us To Discuss your Partnership Agreement**

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