

Law Firm Partnership Agreement?

Can anyone share a partnership agreement for a law firm?

I'm glad someone started this conversation. This has been on my mind as well recently. Before we give a cookie-cutter partnership agreement, what is it that you (we) are trying to accomplish?

Recently, I was asked to join a very small firm. Quite frankly, I didn't like their partnership model whatsoever. I respect the attorneys very much. Essentially, the entire model was more of a cost-sharing agreement. There was absolutely ZERO incentive to market or push the firm. Each and every lawyer for themselves. You keep all the income from your billable hours. Client files left with you the moment you quit.

Point is, there are many, many models of ways you could structure this. How would you create incentives for building the brand of the firm while also ensuring that everyone is pulling their own weight? - I don't have the answer to that and I'm hoping to start a discussion. It's been a topic front and center recently for me.

Ryan C. Young, Virginia

Ryan, did you get any response to this? I'm interested in see what some other's models are.

Jeff Taylor, Oklahoma

Jeff, nope. I would very much like to learn more about this. I've drafted agreements for other professional service organizations, but never law firms. I want to know the best model for ensuring 1) team play (we're all in this together to advance the firm) and 2) making sure everyone is bringing in new business. I don't really have the answer to that. I know that I would not feel comfortable with "keep all that you make." Might as well stay a solo at that point.

Ryan Young

That's my opinion, too. I've heard of some firms using a split model (70/30%), and that seems to take into account the financial aspects needed to operate the firm, as well as incentives for being a partner.

Jeff Taylor

That's sort of what I was envisioning. I would also want to see clear parameters regarding the amount of marketing expected from each attorney. It would need to be clearly defined what is expected from each attorney. Example: Each attorney shall spend X hours month on client development, marketing, etc...

Also, the biggest question that needs to be answered is who keeps the file? Is there a non-compete clause if a partner leaves? Obviously, this is more of a case-by-case determination. The fee sharing is the largest consideration.

If you run across any articles regarding the split model, please share.

Ryan Young

Many firm payment arrangements are set up to give at least some incentive for sharing work as appropriate. For example some firms will take a percentage of billable for overhead, and then the partners can share revenue for work they do for each other's clients. So, if Attorney X brings in a case and attorney Y works it, Attorney Y keeps 2/3 of net billables received for work he does, but Attorney X gets 1/3 as the originating attorney. That gives the attorneys an incentive to move the work around to another attorney with more expertise in a given subject area, and it also allows some partners who are better at marketing to bring in work that they don't necessarily want to do but still get some compensation for having brought in the work.

Kevin W. Grierson, Virginia

SoloSez Popular Threads, March 2013

In most states, lawyers cannot be subject to noncompetes if they leave, although the firm can assert a lien for time/costs/etc. against files that leave with him.

As for who keeps the file, that is up to the client, who must generally be given a choice between leaving with the departing attorney, staying with the firm, or having the file transferred to another firm entirely. Too many lawyers think that they get to decide where (or whether) the client goes, but the truth is that the client is the one who decides. I actually ran into this when I departed my last firm--the firm refused to send letters out to certain of the clients I had worked with giving the choice because they were "firm" clients. I spoke to bar counsel and was told I could send the letters myself if the firm wouldn't, and most of those clients came with me.

Kevin W. Grierson

I have done a couple of partnership agreements for medical professionals and they are rather similar. It did get hairy when one of my clients left his group and they refused to send out notices to patients. In regards to non-compete, I was thinking more of a radius in which you could not open a new office within X amount of years after leaving the firm.

Ryan Young

Again, Ryan, I don't think you can stop a lawyer from leaving a firm and opening up his own firm right next door the very next day. Most states' ethical rules prohibit it. There's an interesting discussion (based on an episode of Suits) here:

<http://writereport.blogspot.com/2012/08/suits-gaffe-lawyer-noncompetes-are-big.html>

There are a limited number of things a firm can do to stop competition. For example, if there are severance packages (as when a lawyer retires) that permits the lawyer to keep drawing a salary for a limited period of time, the firm can require an agreement that such payments stop if the lawyer goes back to work for another firm.

Kevin W. Grierson

SoloSez Popular Threads, March 2013

I have not seen any law firm partnership agreements, so I don't know what is included or how detailed they get. What I envisioned was an arrangement where two attorneys would own the firm. Each would receive a salary and a percentage of profits. Each would perform according to his or her strengths. In my vision, one would focus on marketing. The other would focus on work flow and production. I would have to think about what would happen if someone left.

Ron Zack, Arizona

The ABA has a book on partnership agreements for lawyers. Several attorneys I know have used the suggestions productively.

Darrell G. Stewart. Texas

Back when I had a partner, for many years we used a compensation formula - a modified eat what you kill formula - which was entirely objective assuming reasonable time recording practices were followed. This objectivity eliminated end of year divide the pie disputes and hurt feelings or disputes if someone had an off year or took time off from work and if someone was not diligent about collections. It also proactively addressed how we would value non-revenue generating but important professional activities. Each year prospectively we would agree on the \$ per hour value of work on contingent fee cases (\$C) and \$ per hour value for admin/marketing (\$A). Billed hour (\$B) used for hourly billable cases plus 0.2 X \$B for origination credit if someone else (e.g. another partner or a legal assistant) billed the time. The formula, as I recall, was: all partners shared overhead costs equally among the partners. Then a partner's share of net profits before taxes was a formula: numerator= individual partner's annual total of \$A + \$B + \$C minus that partner's bad debt write offs for that year. The denominator = all partners' total \$A + \$B + \$C. We multiplied the resulting fraction by the net profit.

Michael L. Boli, California
