The First in a Series of **Partner Compensation Structures**
"The Monarch"

I. Introduction

This is the first in a series of articles describing the most common structures law firms use for partner or shareholder compensation. For simplicity, the article refers to partnerships, but similar compensation models can be used in professional corporations or professional limited liability companies. The articles also point out the situations in which each structure works well and when it doesn't work well. Appendix A (which will appear in the seventh post of this series) provides some sample language for a Modified Lock Step structure, which is one of the more complex structures to draft.

The first structure mentioned is labeled as the "monarch" structure due to its prevalence in firms where one attorney tends to rule over all the others.

II. Monarch

A. Description

One lawyer sets the compensation for all of the lawyers in the firm, each year. This format usually emerges when one lawyer is or originally was the primary rainmaker for the firm. Usually the other lawyers are making more money than they would be making if they had to survive on only the business they themselves originated, so they tolerate the Monarch style. The format usually involves prospectively setting a salary or draw. It may also include a discretionary bonus determined at the end of the year when profits are known.

B. When It Works Well

This format can work quite well if the monarch is generally a benevolent and fair-minded ruler whom the subjects trust. It can be quite an efficient system with only one decision-maker involved. The system works best if the subjects have the opportunity to engage in conversation with the monarch (whether formally or informally) about their accomplishments and contributions to the firm, as well as their hopes and expectations with regard to compensation and privileges. It also helps if the monarch communicates well about her expectations and decision criteria throughout the year, then appears to make decisions in accordance with what she has communicated. When subjects don't receive the compensation they expected, the monarch should be able to set forth her rationale for the decisions made, and let them know what they can do to get a preferable outcome next year.

C. When It Works Poorly

The wheels often begin to fall off the cart when other lawyers in the firm develop into significant rainmakers, if the monarch is not scrupulous about communication and fairness. In other words, if the other lawyers don't trust the monarch, when they become capable of feeding themselves, they will cause internal strife or depart the kingdom entirely.

This happens quite frequently when a senior lawyer tends to view the law firm as *his* firm instead of *our* firm. Perhaps without knowing it, with that attitude he increasingly becomes a despot. Those firms are marked by high turnover rates and little loyalty or teamwork. If a number of lawyers mature into rainmakers around the same time, there may be a coup in which the monarch is forced to retire or share the power. At that time the firm adopts a new compensation system.

in Part 2 of this series, we'll discuss the Parity structure.

The *Second* in a Series of **Partner Compensation Structures**
"Parity"
by Debra L. Bruce, JD, PCC

This is the 2nd article in a series of 7 discussing the different kinds of partnership compensation structures that law firms tend to adopt. In Part 1 we discussed the Monarch structure which involves one partner who rules over the others on compensation issues.

Parity

Description

All of the partners split the profits of the firm evenly. This format usually comes out of a situation where two or three lawyers of similar vintage are friends and decide to form a partnership.

When It Works Well

When the lawyers have roughly equivalent abilities to generate business and compatible values and work ethic, they may be comfortable with this format. Frequently they have the same or similar practice areas, so changes in the economy, or other factors outside their control, affect their revenue generation capabilities similarly. They also usually share management and administrative duties fairly evenly.

The format has the virtue of simplicity. It is easy to calculate and avoids arguments over nuances. It supports teamwork and cross-selling because "a rising tide lifts all boats."

If the lawyers have significantly different practice areas, such as litigation and transactional practices, it can have the benefit of sharing the risks of economic cycles. Usually transactional practices surge during a strong economy and litigation wanes. Then when the economy takes a downturn, deals drop off. Litigation experiences an uptick as more conflict arises over money. The temporarily prosperous lawyers should maintain a long-term view, however, and remember that in a new cycle their positions will likely flip.

When It Works Poorly

This format is not very common because it usually doesn't work well beyond the early years of a law firm, when two or three lawyers are united against the world for survival. Unlike a professional services organization, in a small business that sells a product, it is not easy to ascertain whose efforts brought in what revenues. The great salesperson can't function without the person who manufactures the product, and vice versa. In that kind of business, sharing the revenues evenly among the partners doesn’t create so much controversy. In a professional services firm, however, often the salesperson also produces the service he sells. Therefore, the partners can more readily claim credit for specific revenues. If the amount of revenue generated by the different owners does not roughly coincide, friction develops.

Friction also develops if the management and administrative duties are not shared evenly, because time spent on such duties takes away from time available for billable work or business generation. If one partner spends a greater amount of time on management duties, the more easily measurable statistics – billable hours – will not properly reflect his contribution to the success of the firm.

This format also works poorly if the partners do not share the same values or have similar life styles. For example, the workaholic may resent splitting profits evenly with the lawyer who leaves early to attend t-ball games and piano recitals, and otherwise strives to maintain work/life balance.

Next: Part 3: Executive Monarchy

The *Third* in a Series of Partner Compensation Structures
"Executive Committee Monarchy"

by Debra L. Bruce, JD, PCC

This is the 3rd article in a series of 7 discussing the different kinds of partnership compensation structures that law firms tend to adopt. Part 1 discussed the Monarch structure, which involves one partner who rules over the others on compensation issues. Part 2 described the Parity structure, in which the partners share the partnership profits evenly.

Executive Committee Monarchy

Description

Both of the prior structures are usually only found in small firms of ten partners or fewer. In a larger firm, the Monarch structure may be expanded to a ruling executive committee. In this situation a rather stable and predictable executive committee functions like a single monarch. Usually they are the founding partners or otherwise the most experienced and successful lawyers in the firm.

When It Works Well

This structure works when the executive committee, as a body, has the same attributes as the type of single monarch that functions well in this system. They are fair-minded and communicate expectations clearly. In addition, the members of the executive committee must have values and priorities compatible with each other. That enhances their ability to come to a consensus about the compensation to be paid to themselves and other lawyers. In this highly subjective structure, the more lawyers in the firm, the more important the role trust plays among the lawyers.

When It Works Poorly

The committee approach can have all of the failures of the single monarch. This tends to occur if the executive committee engages in "group think," telling each other what they all want to hear. They must stay in touch with the other partners, have the ability to respond to their concerns, and recognize their contributions for this structure to be successful.

This structure tends to crumble as larger numbers of lawyers mature in their rainmaking capability and begin to challenge the "Junta." The senior partners may wane in their productivity and business development capability as they age and their contacts start retiring. Their willingness to cede more of the profits and power to younger lawyers often lags behind the reality of the numbers, however.

To keep this structure from failing, the senior partners will need to induct particularly effective younger partners into the ruling committee.

Next in Part 4: Lockstep

The *Fourth* in a Series of **Partner Compensation Structures**
"Lockstep"

by Debra L. Bruce, JD, PCC

This is the 4th article in a series of 7 discussing structures that law firms tend to adopt for partner compensation. In Part 1 we discussed the Monarch structure, in Part 2 the Parity structure, and in Part 3 the Executive Committee Monarchy.

Lock Step

Description

This model is used mainly in large, stable, well-established firms that have a lot of institutional clients. It rewards seniority. Usually, all of the lawyers who become partners in the same year are in a class, and make the same compensation. The class as a whole receives an increase in points, which are the basis of allocating profit distributions, when they are elevated to the next level. Typically, the spread between the salary of the highest paid partners and the lowest paid partners is not that large – 3 or 4 to 1 is not uncommon.

When It Works Well

The firm that has existed for decades and serves many clients that need multiple areas of legal expertise, and therefore the clients have strong relationships with many lawyers in the firm, can function well with the lock step system. Often the firm has served Fortune 500 companies longer than the career of any lawyer who could claim origination credit for bringing in the client.

Today the law firm must be highly successful for the system to work, thus most of the ones using this old-fashioned model are in the AmLaw 100. When everyone makes a lot of money, fewer partners quibble about differences.

Proponents of the system claim that, like the parity system, it facilitates teamwork and collegiality by rewarding the group as a whole instead of highlighting a few stars. The system eliminates conflict over credit for bringing in business, billable hours, management time invested, relationship to clients, and other such issues used to differentiate lawyers. That, and the simplicity of calculation, saves a lot of administrative time.

When It Works Poorly

This system can result in "brain drain" when the firm as a whole is not highly successful. In a highly successful firm, the firm superstars may be content with making just a few million, and enjoying relative collegiality among partners. (I say "relative" because lawyers tend to be a competitive bunch, and will still find ways to struggle over pecking order.) When the firm profits per partner (PPP) drop significantly, however, or just fail to keep pace with the published PPP of similar firms, the firm superstars may be lured away for "the big bucks." If their clients have not become sufficiently institutionalized, they will take significant clients with them.

By the same token, if the firm needs to recruit lawyers with a strong reputation and a good book of business to build up a practice area, this system doesn't have the flexibility to mold the compensation to fit the situation.

The lock step system may also tend to reward complacency. Without incentives for change, people tend to do what they have been doing, or perhaps a little less. Most lawyers would rather focus on practicing law than business development, particularly when they haven't been taught the necessary skills for rainmaking. In today's market, however, law firms can't afford to just wait for the phone to ring based on their reputation.

A number of lock step firms find it necessary to invite low-performing partners to leave. This drastic measure erodes trust, morale and collegiality. In a differentiated system, the low-performing partner could be compensated in relation to performance, and might be content with that trade off.

Next: Part 5 Modified Lock Step

The *Fifth* in a Series of **Partner Compensation Structures**
"Modified Lockstep"
by Debra L. Bruce, JD, PCC

This is the 5th article in a series of 7 discussing structures that law firms tend to adopt for partner compensation.

Modified Lock Step

Description

Many firms have modified the lock step model to allow a committee to subjectively reward or punish behavior. The modification helps the firm to encourage essential behaviors such as business development, high productivity, recruiting, training and mentoring associates, management, and client relationship maintenance. It also provides the flexibility to bring underperforming partners into line, without having to completely expel a partner.

Some of the modifications may include the ability to promote a partner to a higher level earlier than the other classmate partners or demote a partner to a lower level. There may also be a "slush fund" for allocating bonuses to reward desired behavior. Appendix A (published as the 7th article in this series) contains an example of provisions that might be included in a modified lock step compensation plan. The author extends her gratitude to Bill McDonald, a partner at Thompson & Knight LLP, whose practice includes advice on law firm formation, for the provisions included in Appendix A.

In Appendix A, the agreement provides for seven lock step levels, but permits the management committee to assign each partner to the appropriate level annually. It also provides that a certain percentage of profit distributions, say 75%, will be made in accordance with the points assigned in each level. The remaining 25% of profits are allocated to the "slush fund" that is distributed by the management committee in its discretion. Thus, there are two mechanisms for modifying the lock step profits and loss allocation: level movement and discretionary distributions.

When It Works Well

As always, whenever the partnership compensation plan involves a subjective element, successful implementation of the plan depends upon trust in the fairness of the persons who make the allocation decisions. The compensation committee must not only signal its expectations and criteria in advance, they must maintain communications with the partners throughout the year. This will allow them to be aware of star performance in valuable areas not easily measured or reflected in monthly reports. It will also help them differentiate "slackers" from solid performers temporarily experiencing a bad year due to health or other personal issues, or a downturn in the client industry served.

This system allows the compensation committee to steer the firm in the desired directions by rewarding necessary new behaviors. If the firm needs to develop new practice areas or open an office in a new market to remain competitive, or experiment with innovative client service techniques, the management has the ability to protect or even reward the lawyers who take those risks for the betterment of the whole law firm. This structure also provides some flexibility in recruiting lateral hires of partners with essential skills or a good book of business. The firm can take more risk in offering an attractive compensation package when it has the ability to make adjustments if the lateral partner doesn't meet performance expectations.

When It Works Poorly

When the compensation committee consists of a homogenous group, they may fail to appreciate the performance challenges faced by lawyers in situations different from theirs. Often the committee consists of the most powerful veteran lawyers, who may have developed their client base in an earlier era when "the rules" were different. They may not recognize the tremendous efforts exerted by women and minorities to overcome obstacles to bring in business, or the competing demands on the time of younger lawyers. Often the biggest practice groups in the firm may get more attention (and therefore more rewards) than smaller practice groups. Being human, their judgment may also be swayed by personal friendships and animosities.

Compensation committees often tend to focus on easily measured metrics like billable hours and collections. They may fail to adequately reward or punish less quantifiable behaviors that impact the sustainability of the firm. The committee should have written criteria that include associate mentoring, management and firm administration, and business development and community service on the positive side. They should also evaluate attrition of subordinates, lone wolf tactics and irascibility as factors that negatively impact the sustainability of the firm.

The modified lock step may not work well when there are widely divergent values and profitability levels among attorneys, including highly competitive "rock stars." The rock stars may insist upon compensation so far above that of other attorneys that it doesn't fit in the formula.

Often lawyers take a short-term view, expect great leaps in compensation after a good year, and resent "carrying" the practice groups on the other side of the seesaw, whose earnings have declined. This natural conflict puts a lot of pressure on the compensation committee.

Next: Part 6 Eat What You Kill

The *Sixth* in a Series of Partner Compensation Structures
"Eat What You Kill"
by Debra L. Bruce, JD, PCC

This is the 6th article in a series of 7 discussing structures that law firms tend to adopt for partner compensation.

Eat What You Kill (EWYK)

Description

Each lawyer's compensation is based on the revenues she generates. Usually there is some kind of formula that attempts to account for overhead, and then distributes all remaining profits to the lawyers based on their collections. In some systems a flat dollar amount is determined for overhead per lawyer, by dividing up the sum of fixed and predictable expenses, such as rent and shared staff salaries. Everything the lawyer bills and collects in excess of the fixed overhead figure gets paid to that lawyer after subtracting certain firm expenses directly associated with that lawyer such as business development expenses, retirement plan contributions, and salaries of staff or associates who work mostly for that attorney. In that model the firm is more akin to an office sharing arrangement than a partnership.

A variation of the EWYK model does provide for sharing of risk. The firm's profits are determined, and distributed in accordance with a formula that averages the collected revenues attributable to a partner over multiple years (usually two to four). The averaging slightly shaves off peaks in income, to provide support from partners on the upside of the seesaw to partners on the downside, during cyclical downturns or temporary crises. The income levels remain largely tied to billable hours produced, however.

When It Works Well

This system may be the only system that will work for fiercely independent, maverick or egocentric attorneys. It also rewards super high achievers. Even the lower achievers can benefit from this system because the high achievers tend to enhance the reputation and marketability of the whole firm and contribute to the financial stability of the firm with their high earnings.

This system is very common in small firms that have a low associate to partner ratio. In such firms, each lawyer basically keeps herself busy.

The EWYK system also works better than the lock step system in large firms with rock stars or lots of lateral partners. The rock stars who gravitate to this system may not share well, or may not recognize the value of less quantifiable contributions. The lateral partners don’t have lengthy partner relationships in which trust has built up among partners. It does foster retention of the high producers. Where lawyers have difficulty resolving conflict within the firm, the formulaic system attempts to avoid conflict in the most dispute prone area.

It can work well in firms that have “young prodigy” partners whose revenue generation would quickly outpace their level even in a modified lock step arrangement.

When It Works Poorly

The pure EWYK system does not encourage cross-selling because intra-firm referrals aren’t compensated. In a modified EWYK system, attorneys get origination credit for bringing in new business even if they don’t actually work on it. Conflicts often develop, however, over who gets origination credit when multiple lawyers have contacts with the new client.

The EWYK system doesn’t have a mechanism for punishing bad behavior by high revenue lawyers, and therefore tends to reward egocentric behavior. It also financially punishes lawyers who engage in behavior for the common good, such as training associates and attending to management of the firm, because there is no mechanism for compensating those behaviors.

Some firms try to address the management issues by including a stipend in the compensation of managing partners and practice group leaders. The culture of EWYK firms tends to devalue management activity, however, so managers rarely receive sufficient compensation, and must perennially defend what they do receive.

I have seen small firms self-destruct over the issue of compensation for management. In large EWYK firms, with revolving management teams, the managing partner whose term ends often cannot financially survive the return to full-time practice. After two to five years of neglecting client relationship activities or business development efforts in favor of tending to the needs of the firm, he takes a significant hit if he must eat only what he kills. Even a stipend during a two-year grace period that some firms offer when a managing partner returns to full-time practice, is not enough.

Summary

Every law firm compensation plan has its flaws. The plan chosen is largely determined by the culture of the firm. The plan will tend to reinforce the culture by attracting those who like the plan and running off those who don’t. In the increasingly competitive legal market, law firms must be careful not to get so caught up in compensating productivity that they fail to reward behaviors that contribute to the longevity and sustainability of the firm, such as client care, associate training and mentoring, management and administration, talent retention, and strategic planning.

Next: Appendix A – Sample Modified Lockstep Language

The *Seventh* in a Series of **Partner Compensation Structure Articles**

By Debra L. Bruce, JD, PCC

This is the Appendix A mentioned in the previous articles in this series discussing structures that law firms commonly adopt for partner compensation.

APPENDIX A
Sample Partnership Agreement Provisions Respecting Compensation

Selected Provisions Of
Agreement of Limited Liability Partnership
Of
A & B, L.L.P.
[*not intended as a complete partnership agreement*]

This AGREEMENT OF LIMITED LIABILITY PARTNERSHIP of A & B, L.L.P. is entered into to be effective as of the __ day of ___, 20__ by and among A ("A") and B ("B") (collectively, the "Partners") pursuant to the provisions of the [State] [Partnership Law], and according to the terms and conditions set forth herein.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Section I
THE PARTNERSHIP

1.A *Statutory Compliance*. * The Partnership shall qualify as a registered limited liability partnership in all applicable jurisdictions.

1.B *Noncompetition*. * [“In term” competition is forbidden]

1.C *Definitions*. Capitalized words and phrases used in this Agreement have the following meanings:

(a) "Bonus Distribution" has the meaning set forth in Section 3.A hereof.

(b) "Draw" has the meaning set forth in Section 3.A herein.

(c) "Equity Partner" means a Partner admitted as an Equity Partner pursuant to this Agreement and holding a Capital Account.

(d) "Management Committee" means the committee described on Schedule 4.A.

(e) "Normal Retirement" has the meaning set forth in Section 7.A.

(f) "Partnership Level" has the meaning set forth in Section 9.1 herein.

(g) "Points" means the basis upon which the Management Committee allocates Partnership Profits and Losses pursuant to Section 2.A and distributes liquid funds pursuant to Section 3.A.

(h) "Buy-Back Price" has the meaning set forth in Section 12.2.

(i) "Responsible Collections" means, for any Retiring Equity Partner, any amounts received by the Partnership following such Partner's Retirement that, immediately prior to the Retirement Event of such Partner, shall be reflected as "work-in-process" or accounts receivable of the Partnership and for which the Retiring Equity Partner shall be the designated responsible attorney according to the books and records of the Partnership.

(j) "Working Collections" means, for any Retiring Equity Partner, any amounts received by the Partnership following such Partner's Retirement attributable to the hourly billings of the Retiring Equity Partner prior to such Retirement.

Section 2
ALLOCATIONS

2.A *Profits and Losses*. [*]% of the Profits and Losses for any Fiscal Year shall be allocated among the Equity Partners in proportion to the number of Points each Equity Partner holds as of the first day of the Fiscal Year and [*]% of the Profits and Losses shall be allocated among the Equity Partners as determined by a simple majority of the Management Committee.

2.B *No Allocation to Partners Other than Equity Partners*. No profits or losses shall be allocated to Partners other than Equity Partners.

Section 3
DISTRIBUTIONS

3.A *Monthly Distributions*. Except as provided in Section 13.2 hereof, on or before the fifth day of each month, the Equity Partners shall receive draws equal to the amount specified on Schedule 3.A ("Draws"). Cash distributions in excess of the Draws ("Bonus Distributions") shall be paid on a periodic basis as determined by a simple majority of the Management Committee and shall not exceed the amount by which the liquid funds of the Partnership as of the last day of the preceding month exceed the Reserve Amount. Prior to December 31, [20__], the "Reserve Amount" at any particular time shall be a dollar amount equal to the average of the twelve previous months' Partnership operating expenses including Equity Partners' Draws (but excluding distributions to Equity Partners in excess of Draws). Beginning January 1, 20[__], and continuing through December 31, 20[__], the "Reserve Amount" shall equal 200% of the average of the twelve previous months' Partnership operating expenses. Beginning

January 1, 20[__] and continuing thereafter through the term, the "Reserve Amount" shall equal 300% of the average of the twelve previous months' Partnership operating expenses. Notwithstanding the foregoing, a simple majority of the Management Committee may, from time to time in its discretion, specify any such other amount as the "Reserve Amount." [*]% of Bonus Distributions to the Equity Partners pursuant to this Section 3.A shall be divided among them such that the aggregate of the Draws and such [*]% of Bonus Distributions shall be allocated in proportion to the number of Points held by each as of the first day of the month during which the distribution occurs. Except as may be otherwise determined by unanimous decision of the Management Committee, the remaining [*]% of Bonus Distributions shall be distributed among the Equity Partners (including members of the Management Committee) as determined by a simple majority of the Management Committee in its sole discretion.

3.B *Annual Distributions*. Except as provided in Section 13.2 hereof, within seventy-five (75) days after the end of each Fiscal Year, a simple majority of the Management Committee shall recommend to the Equity Partners for their approval the amount of capital contribution required for the operation of the Partnership (the "Required Capital") for the next Fiscal Year, which shall be $X each Equity Partner until, acting at the recommendation of a simple majority of the Management Committee, the Equity Partners determine that a different amount is appropriate.

3.C *No Distributions to Partners Other than Equity Partners*. No distributions shall be made to Partners other than Equity Partners; rather, such other Partners shall be compensated by salary by mutual agreement of each Partner in question and a simple majority of the Management Committee.

Section 4
MANAGEMENT

4.A *General*. The day-to-day management of the Partnership shall be conducted by the Management Committee described on Schedule 4.A. The Management Committee shall have the power to adopt and enforce policies and concerning the management of the Partnership.

4.B *Equity Partner's Obligation to Pay Claims*. To the extent that the Partnership's policy or policies of insurance covering errors, omissions or legal malpractice of the Partners and those under the control of a Partner provide for a deductible per claim or occurrence, the Partnership shall pay such deductible if the Partnership is named as a defendant in a suit based upon a claim covered by such insurance, but if a claim is made solely against a Partner, then such Partner shall pay the deductible.

4.C *Loans to Partnership*. Any Person may, with the consent of the Management Committee, acting unanimously, lend or advance money to the Partnership. If any Partner shall make any loan or loans to the Partnership or advance money on its behalf, the amount of any such loan or advance shall not be treated as a Capital Contribution but shall be a debt due from the Partnership. The amount of any such loan or advance by a lending Partner or such Partner's Affiliate shall be repayable out of the Partnership's cash and shall bear interest at such rate as the Management Committee and the lending Partner or such Partner's Affiliate shall agree but not in excess of the maximum rate permitted by law. With respect to any loan to the Partnership from a Partner or any Partner's Affiliate, the rate of interest shall be determined by the Management Committee taking into consideration, without limitation, prevailing interest rates and the interest rates the lender is required to pay in the event such lender has itself borrowed funds to loan or advance to the Partnership, and the terms and conditions of any such loan, including the rate of interest, shall be no less favorable to the Partnership than if the lender had been an independent third party. None of the Partners or their Affiliates shall be obligated to make any loans or advances to the Partnership, except as may otherwise be agreed in writing and signed by the Partnership, the affected Partner(s) and any applicable Affiliates of the Partner(s).

Section 5
NEW PARTNERS

5.A *Admission of Partners Other Than Equity Partners*. An affirmative vote of a simple majority of the members of the Management Committee and of at least two thirds of the Partners (voting in number and not by Points) is required to admit a new Partner who is not being admitted as an Equity Partner, upon such terms as shall be established by the Management Committee.

5.B *Admission of New Equity Partners; Capital Contributions*. The Management Committee shall determine the number of Points to be awarded to such new Equity Partner, the initial Capital Contribution to be made by such new Equity Partner, and the terms and conditions of such payment. The Management Committee shall recommend such new Equity Partner to the Equity Partners. An affirmative vote of two-thirds of the members of the Management Committee and of at least two thirds of the Equity Partners (voting by Points and not in number) is required to admit a new Equity Partner under the recommended terms and conditions.

Section 6
DISTRIBUTION LEVELS

6.A *Partnership Levels*. The Equity Partners shall be classified by the Management Committee among seven (7) partnership levels ("Partnership Levels") and awarded Points based on such Partnership Levels, as more specifically set forth on Schedule 6.A.

6.B *Annual Adjustment*. Within thirty (30) days prior to the beginning of each Fiscal Year of the Partnership, the Management Committee shall meet for the purpose of reviewing the performance and contribution to the Partnership of each Equity Partner relative to the Partnership Level of each Equity Partner. At each such meeting, the

Management Committee may elect by a two-thirds majority to raise, lower or not change the Partnership Level of any Equity Partner. Upon any change of Partnership Level, the Points for any affected Equity Partner will be changed to reflect the Points for the resulting Partnership Level.

Section 7
EXITING THE PARTNERSHIP

7.A *Equity Partner's Buy-Back Price*. Subject to the terms of Section 7.B, the Buy-Back Price of a Retiring Equity Partner's Partnership interest shall be equal to the Interest Value of the Retiring Equity Partner's interest as of [A DATE], less any Partnership distributions to, or payments on behalf of, the Retiring Equity Partner after such day.

7.B *Closing Date; Payment of the Buy-Back Price*. The closing of the redemption of the Retiring Equity Partner's interest shall occur on a date and time mutually convenient to the Partnership and the Retiring Equity Partner; provided that the closing date shall occur no later than the sixtieth day following [A DATE].

The Buy-Back Price for the Retiring Equity Partner's interest shall be paid in installments without interest ("Buy-Back Payments") as follows -

(A) The Buy-Back Price attributable to the Capital Account of the Retiring Equity Partner shall be paid in 24 equal consecutive monthly Buy-Back Payments beginning on the closing date; and

(B) The remainder of the Buy-Back Price shall be paid Buy-Back Payments each month following such Partner’s Retirement in amounts equal to 15% of the Responsible Collections and 35% of the Working Collections for such Retiring Equity Partner collected by the Partnership during each then immediately preceding month.

Notwithstanding any other provision of this Agreement to the contrary, in no event shall aggregate Buy-Back Payments made to a Retiring Equity Partner exceed his or her Buy-Back Price.

Any credits determined under Section 7.F shall be applied to the next succeeding payments otherwise due pursuant to the terms of this Section.

7.C *Retirement*. A Partner shall be permitted to retire under this Section 12 on the December 31 next following his or her [___] birthday by giving written notice of his or her intention to retire as a Partner at least sixty (60) days before the day of such retirement, which notice shall state the date upon which such retirement is to occur. A Partner may retire at any other time with the affirmative approval of Partners holding more than two-thirds (2/3) of the total number of Points then held by all Partners (other than such Partner). A Partner shall retire on the December 31 next following his or her [___] birthday, unless he or she is permitted to continue to be a partner by the affirmative vote of Partners holding more than one-half of the total number of Points then held by all Partners (other than such Partner). The day designated hereunder for the retirement of a Partner pursuant to this Section 7.C shall be the day of such Partner's "Normal Retirement."

7.D *Expulsion*.

(a) *For Cause*. (i) Any Partner who is not an Equity Partner may be expelled immediately for cause upon the affirmative vote of two thirds of the Partners (voting in number and not by Points) at a duly constituted meeting of the Partners specifically noticed for such purpose, and (ii) any Equity Partner may be expelled immediately for cause upon the affirmative vote of two thirds of the Equity Partners (voting by Points and not in number) at a duly constituted meeting of the Equity Partners specifically noticed for such purpose, that any of the following reasons for expulsion exist: ___.

(b) *Without Cause*. A Partner who is not an Equity Partner may be expelled immediately and without determination of cause upon the affirmative vote of three fourths of the Partners (voting in number and not by Points) at a duly constituted meeting of the Partners specifically noticed for this purpose. An Equity Partner may be expelled immediately and without determination of cause upon the affirmative vote of three fourths of the Equity Partners (voting by Points and not in number) at a duly constituted meeting of the Equity Partners specifically noticed for this purpose. This method of expulsion may be employed notwithstanding the fact that grounds may exist for expulsion for cause.

7.E *Withdrawal*. A Partner may withdraw voluntarily from the Partnership as of any December 31 by giving written notice of his or her intention to withdraw at least sixty (60) days before the day of such withdrawal, which notice shall state the date upon which such withdrawal is to occur.

7.F *Value; Credit for Uncollectible Amounts and Assignment Thereof; Contingent Fee Matters*. The "Interest Value" of an Equity Partner's interest, as of any day, shall (subject to the further terms of this Agreement) equal the sum of

(I) 100% of the Retiring Equity Partner's Capital Account as of the end of the month in which the Retirement Event occurs, plus

(II) The sum of (A) 15% of the sum of "work-in-process" and accounts receivable of the Partnership for which the Retiring Equity Partner shall be the designated responsible attorney according to the books and records of the Partnership immediately prior to such Partner’s Retirement and (B) 35% of the sum of "work-in-process" and accounts receivable of the Partnership attributable to the hourly billings of the Retiring Equity Partner prior to such Retirement, less (C) reductions and credits as provided in the further terms of this Section 12.9.

Notwithstanding any other terms of this Agreement, the Interest Value of a Retiring Equity Partner shall be reduced, and the Partnership shall be entitled to a credit against its obligation to pay the Buy-Back Price for any Retiring Equity Partner, to the extent amounts otherwise included in Interest Value under item (II) above are not collected by the Partnership. Any "work-in-progress" or accounts receivable resulting in a credit under the preceding sentence shall be assigned to the responsible Retiring Equity Partner. If a Retiring Equity Partner shared responsibility for such "work-in-progress" or accounts receivable prior to the Retirement Event with any other Partner (Retiring or otherwise), then such items shall reduce the Partnership's obligations to Retiring Equity Partner and shall be assigned to the Retiring Equity Partner on an equitable basis as determined by the Management Committee acting in good faith.

Subject to the last sentence of this paragraph, the Interest Value of a Retiring Equity Partner's interest attributable to the Retiring Equity Partner’s Capital Account shall be determined by the Management Committee based on the federal income tax returns of the Partnership for the year in which the Retirement Event occurs. The Management Committee shall forward copies of the federal income tax return and the amount of such Interest Value to the Partnership and each of the Equity Partners by written notice. For purposes of this Section 12.9, billed, unbilled or billable attorneys' fees and unreimbursed advances relating to contingent fee work undertaken by the Partnership shall not be considered "work-in-progress" or accounts receivable for purposes of any Interest Value, Buy-Back Price or Buy-Back Payment calculations and shall be excluded from any such calculation.

Section 8
MISCELLANEOUS

8.A *Arbitration*. If a dispute arises with respect to any term of this Agreement, any party to the dispute may request arbitration to resolve the dispute by notifying the other parties to the dispute in writing that arbitration is desired. In such event, the dispute shall be submitted to binding arbitration in City2, [State2] in accordance with the commercial arbitration rules of the American Arbitration Association and the further terms of this section on or before the expiration of 60 days following such notice before a single arbitrator. Judgment on any award resulting from such arbitration may be entered by any court having jurisdiction over the dispute. The arbitrator shall not limit, expand or modify the terms of this Agreement and shall not award damages in excess of compensatory damages, and each Partner waives any claim to any damages in excess of compensatory damages. The content and result of the arbitration shall be held in confidence by all participants and Partners.

Schedule 4.A

Management Committee

The Management Committee shall be initially constituted of A and B. Membership and operation of the Management Committee shall be determined in the manner set forth in policies set forth by the Management Committee from time to time. The Management Committee shall select a member to chair and preside over its meetings, which member shall serve in such capacity for a term ending on the next succeeding December 31. The Management Committee shall have the power to delegate to Partners, employees or other representatives of the Partnership any responsibility or responsibilities which the Management Committee shall from time to time deem appropriate or necessary. The Management Committee hereby irrevocably delegates its authority to manage the day-to-day affairs of the City1 office to A and its authority to manage the City2 office to B. Such delegation shall continue until changed in accordance with Section 5.2 of the Partnership Agreement.

Schedule 6.A

Partnership Levels

Level	Points	Monthly Draws
1	175	$22,000
2	135	$18,000
3	100	$15,000
4	70	$13,000
5	55	$12,000
6	45	$10,000
7	30	$ 9,000