

1  **KEYS TO INCLUDE IN YOUR PARTNERSHIP AGREEMENT**

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Accounting Transition Advisors

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About the firm:

- Merger and transition advisors exclusively serving the accounting industry
- Customized solutions
- Over 950 transactions, over 19 years of experience
- Represent the buyer or seller
- Services include:
 - Buyer-seller introductions
 - Merger and acquisition transaction structure
 - Document preparation/review, valuation and due diligence
 - Post-transaction business planning
 - General consulting and coaching

3  **If there are 50 things you need to think about in a transaction.....**

4  **Key elements to a partnership agreement**

5  **Compensation**

6  **Goals of Partner Compensation**

- Motivate partner behavior to achieve desired strategic and financial results
- Create motivation for top performance by rewarding modified behavior
- Build a strong partner team through retention of the best performers, removal of non-performers, and attracting new talent

7  **Types of Compensation Plans**

- 1
- Equal
 - Equity based
 - Pure formula
 - Committee based

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- 2
- Cross evaluation
 - Leader based
 - Lockstep
 - Shared overhead

8  **Types of Compensation Plans**

Equal

- Often used in new partnerships
- Promotes collegiality
- Requires substantially equal contribution to be sustainable
- Long term, often fails to promote high performance

9  **Types of Compensation Plans**

Equity based

- Genesis is often equal in a newly formed partnership
- Promotes a clear return on equity
- Hard to sustain, unfair as contributions change
- No reward for personal performance

10  **Types of Compensation Plans**

Lockstep

- Based on seniority
- Often similar to equity based as equity normally accrues based on seniority
- Disguised as unit based plan where units accumulate over time
- Over time tends to reward for past performance more than current

11  **Types of Compensation Plans**

Pure formula

- An accountant's dream
- Relies mostly on pre-determined, objective measures
- Promotes clarity and certainty
- Leaves out hard to measure, subjective elements of performance
- Can be manipulated in many cases

12  **Types of Compensation Plans**

Cross evaluation

- Relies on each partner to evaluate other partners and allocate compensation
- Has appearance of fairness-democratic
- Requires knowledge by all partners of other partners' contribution
- Tends to lump most partners into an average rating at the expense of recognizing outliers
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13  **Types of Compensation Plans**


Leader driven

- Managing partner decides
- Requires strong managing partner and trust in their decision making ability
- Most flexible and can be very effective
- Often lacks transparency which can lead to mistrust and lack of needed feedback

14  **Types of Compensation Plans**


Committee driven

- Appropriate for large firms
- Works well when knowledge of all partners' contributions is not readily available to each partner or the managing partner
- Allows for flexibility and fair vetting of issues
- Can lack needed transparency
- Can be inefficient

15  **Equity: what does it mean**

- Compensation
- Profit sharing
- Decision making
- Internal buyouts
- External buyouts
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16  **Governance**

17  **Governance**

18  **Retirement**

19  **Retirement**

- Terms
 - Payout periods
 - Retention periods
 - Tax structure
 - Caps
 - Penalty buyouts
 - Premature exit

- Exit without appropriate notice
- Getting booted out
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20  **Death/Disability**

21  **Termination**

22  **De-Merger Clauses**

23  **Miscellaneous**

24  **Other Thoughts**

25  **For more information**

Please visit our website for resources including free reports, whitepapers and case studies.

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