Admitting New Partners

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Main Ways to Admit New Partners

1. No Buy In/No Buy Out

2. Book Value With or Without Goodwill

3. Freeze Book Value and Recapitalize the Firm

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1. No Buy In / No Buyout

- More Prevalent In Larger Firms
- Required Capital Contributions
- Refundable

2. Book Value Without Goodwill

- Assets Minus Liabilities
- Include AR and WIP

Example:
A law firm has 500k in assets including AR and WIP and owes 200k to the bank, book value is 300k. Each share is worth 3k.

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2. Book Value With Goodwill

- Assets Minus Liabilities
- Include AR and WIP
- Something Extra for the Value of the Going Concern

Example:
A law firm has 500k in assets including ar and wip and owes 200k to the bank, book value is 300k. Assume partners agree to a going concern value of 50k, each share is worth 3.5k.

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Examples of Goodwill

- Reputation of the Current Partners
- Firm Name Recognition and SEO Cred
- Use Of Current Partners' Creditworthiness
- Marketing and Administrative Systems
- Key Talent and Staff

3. Freeze Book Value and Recapitalize the Firm

- Liquidate the Current Firm
- Partners In the Former Firm Own the AR and WIP
- Partners In the Former Firm Own the Debts
- New Partners Must Contribute Capital to Cover Any Asset Transfers and Start Up Costs

Amount Of Equity To Allocate To New Partners

- Matters more when compensation and equity are linked
- If compensation is independent of equity a smaller percentage is offered initially
- Vesting in new percentages happens over a 2 or 3 year period based on profit contributions
- Must address control issues
- If compensation and equity are linked, a buyin type approach with an economic contribution analysis is needed

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