Succession Planning Working Document

*Note: This document is intended only as an illustration. Firms should draft a transition framework customized to each firm’s specific circumstances and based on advice from their attorney and other advisors.*

## Background and Overview

As part of WM Design Architects’ ongoing evolution and succession planning, we have developed the following working document to serve as a framework for offering ownership to selected individuals. The firm’s current Shareholders are considering expanding the ownership and leadership of the firm to reflect the firm’s desire to: 1) recognize the Incoming Shareholder’s leadership strengths, professional commitments, and ongoing contributions to the firm; 2) broaden the leadership team in order for the firm to continue to prosper; and 3) implement an ownership succession plan. To help achieve these goals, the firm retained outside advisors to develop a valuation and to guide the firm through a series of ownership transition buy-in scenarios.

Among the primary criteria for ownership are: 1) adopting the mindset that what is best for the firm takes precedence over what is best for any individual; 2) a belief that collaboration is a fundamental tenet guiding the firm’s culture and contributing to continued success of the firm.

While we will evaluate each prospective future owner separately, and while we understand that individuals offer unique skills and contributions to the firm, the attached document indicates the criteria we will consider for potential ownership in the firm.

If you are offered and become an owner, you will have access to key financial and operational information and the opportunity to shape the firm’s future, participate in a greater level of governance and decision-making, and participate in a different set of bonus pools. You will also assume an expanded set of responsibilities and be expected to spearhead specific firmwide initiatives

## Purchase of Shares

Each year we value the firm based on metrics commonly used in the industry. To ensure objectivity, we employ a prescribed methodology to update the firm value each year.

While we believe that ownership should be affordable and attractive, we also believe that each owner should have some “skin in the game” in the form of a down payment. We also believe that each owner should continuously contribute and be incentivized to increase the value of the firm so that the value of his/her shares increases.

Shares of the firm will be offered in increments, generally called “tranches.” This enables new owners to purchase shares over time, spreading out the financial obligations. To make a purchase of shares more attractive and affordable, and to increase Incoming Shareholders’ projected return-on-investment, we may consider taking the following steps (all subject to review of the current firm value and the financial health of the firm):

* Reduce the valuation by allocating a portion of the firm’s value to current owners.
* Provide Incoming Shareholders with a one-time salary increase and/or incentive bonuses in recognition of the contributions to the firm and the additional responsibilities anticipated as an owner.
* Provide financing so that initial purchases can be paid partially in cash and partially through a promissory note held by the firm.

The firm will repurchase each owner’s shares when that person is no longer active in the firm, subject to a few restrictions based on the firm’s financial conditions and/or the desire of new/existing shareholders to purchase those shares. The details of these conditions and any stipulations attached to the repurchase price are contained in our Shareholder Agreement and will be shared with you prior to you accepting any offer.

## Roles, Responsibilities, and Governance

Initially, major changes are not anticipated in an Incoming Shareholder’s day-to-day role, as an Incoming Shareholder will generally have been spearheading important aspects of the firm’s operations and managing key projects. Over time, additional firm-wide responsibilities will be identified, including larger roles in proactively developing new business and strategically planning how the firm continues to grow, evolve, and deliver responsive services and quality design.

As is the case with most firms, governance will be by a Board of Directors and/or Executive Committee with the Board and/or Executive Committee empowered to make decisions in accordance with the firm’s Bylaws. The Board of Directors, elected annually by the Shareholders, will meet periodically to determine the strategic direction of the firm and to make ongoing operational decisions. While the firm’s intent is to seek consensus about how to operate the firm, each Shareholder shall be entitled to one vote for each voting share owned for those decisions that are subject to a simple majority vote, a “supermajority” vote, or a higher threshold vote as described in the firm’s Bylaws and Shareholders Agreement.

## Shareholders Agreement

As a shareholder, you will be obligated to sign our Shareholders’ Agreement and related agreements, which will be distributed for your review. These agreements specify how the firm is valued, how shares are purchased and redeemed by the firm; restrictions on sales and purchases of shares; and terms related to confidentiality, non-competition, non-solicitation of clients and employees, at-will employment, and related issues.

## Next Steps

Leaders being considered for ownership will have an opportunity to review more detailed information, such as a valuation of the firm and cash flow projections, and the current Shareholders and the firm’s advisors will be available to provide additional information and/or answer questions. Our goal is to work closely with invited owners to position each owner and the firm to prosper for years ahead.