

Checklist for Selling a Law Practice

Selling a law practice takes many different structures and paths based on your goals and the overall uniqueness of the firm, practice area(s), geographic location, client base and many others, but at the end of the day 'sale' is really about finding the next owner, leader and successor for you and your ownership of your law practice. This successor may be:

- An attorney you hire (or already is employed);
- An outside law firm who acquires your practice under an acquisition-merger structure;
- An outside attorney who purchases your ownership and joins your firm as the owner of the future;
- A law firm you join as partner or of counsel and then retire from down the road; or
- Numerous other potential successors for your practice ownership which could be your 'buyers'.

To make law firm sales successful they need to be transition-based exchanges where the selling attorney will stay on for a certain time after any transaction or agreement in order to transition clients, network, knowledge and all other elements of value to the buyer. That timeline is determined based on your desire, firm and client needs, and buyer needs to ensure a complete transfer of value and ease any change of control items over a well implemented and actionable plan after sale.

1. REVIEW YOUR ETHICAL RESPONSIBILITIES Visit <http://www.ncbar.gov/rules/>

- [N.C. Rules of Prof 'l Conduct Rule 1.17](#) (2003) (SALE OF LAW PRACTICE)
- [N.C. Rules of Prof 'l Conduct Rule 1.6](#) (2003)
- [N.C. Rules of Prof 'l Conduct Rule 1.15 et seq.](#) (2003)
- [N.C. Rules of Prof 'l Conduct Rule 1.7 – 1.12](#) (2003)
- [N.C. Rules of Prof 'l Conduct Rule 1.16](#) (2003)
- [N.C. Rules of Prof 'l Conduct Rule 5.6](#)
- [98 Formal Ethics Opinion 6](#)
- Others which may be applicable to transition structure
 - o [N.C. Rules of Prof 'l Conduct Rule 7.5 Firm Names and Letterheads](#)

2. ESTABLISH YOUR TIMELINE:

- If internal candidate when do you want to offer purchase of equity (the sooner the better)?

- Determine when to start your search for an outside hire or buyer (at least 3-5 years before is best):

- How long will it take you to find an outside buyer (at least 1-2 years)? _____

- Determine how long it will take to transition clients, network, management, etc. to buyer? (at least 1-2 years post sale): _____

- Determine when you want to begin decreasing time commitment in the practice (6-12 months after sale):

- Determine when you want to be completely disengaged from the practice (2 years after sale min):

Typically a selling attorney will continue to assist with the transition for at least 2 years after the sale.

During such transition a selling attorney can expect to be scaled down in hours until full exit.

Consult with financial advisors to determine appropriate timeline for full exit given financial and other retirement goals.

3. ENGAGE YOUR TEAM OF PROFESSIONALS:

- Law firm management consultants;
- Law practice brokers;
- Accountants/CPAs;
- Financial Advisors;
- Valuation experts;
- Marketing consultants;
- Executive search consultants;
- Lawyers/closing attorneys;
- Transition consultants; and
- Lending sources.

4. CREATE A TRANSITION PLAN:

- Define your personal goals and desired outcomes: _____

YOUR OPTIONS:

Internal Sale	External Sale
a) Groom an associate to take over the practice	a) Sell to an outside attorney who can learn and take over client relationships
b) Hire and develop a mentor relationship with a younger lawyer who is not in your firm	b) Sale or merger type transaction with another law firm
c) Transfer practice and clients to other firm partners	c) Sell to a firm and join them as Of Counsel with financial earnout and retirement incentives
d) Stay on as Of Counsel with the firm and slow down over time	d) Join together under a transition timeline with an outside lawyer who will take on clients and cases over time
e) Sell to attorney who joins the firm upon sale as a new partner	e) Sell to a firm which desires specific geographic location where some work and resources will shift to main firm offices

- Develop sales plan – strategies, targets, etc.
- Create a plan of action to get your staff on board
- Obtain a valuation analysis
- Finalize preferred transaction terms

5. PREPARE YOUR LAW PRACTICE FOR SALE

ORGANIZATIONAL PREPARATION:

- Create and document your systems and processes.
- Create a database of former and current clients.
- Review closed physical files and dispose of files as appropriate and permissible under the Ethics Rules.
- Review and prioritize all open files with emphasis on time-sensitive issues.
- Document your key responsibilities and how you perform them.
- Create and maintain firm disaster recovery information.

FINANCIAL PREPARATION

- Prepare financial statements and have them reviewed by a professional
- Gather federal and state income tax returns for the past five years
- Gather Income Statements and Balance Sheets for the past five years
- Maintain up to date Income Statements and Balance Sheets for current year
- Collect fee schedules, if any, for the past five years
- Accounts receivable listing and current accounts receivable aging schedule
- Practice area by revenues breakdown
- Originations and production by attorney
- Ongoing case value
- Client origination source by revenue breakdown
- Notes payable, mortgages (Deeds of trust), etc.
- Leases in effect for the premises and all equipment
- Bank statements, cancelled checks, and bank reconciliations
- Work in progress schedule
- Data on key personnel of the firm who will assist in transition or remain with the firm.
- Insurance policies in effect
- Brochures, if any, about the firm
- Additional relevant documents

6. DETERMINE THE VALUE OF YOUR PRACTICE

It is important to have a benchmark of what your practice may be worth. You may need to determine your needs for retirement planning or it may just help in discussions with a potential successor, but having a justifiable value for your firm will help meet goals and to continue discussions forward. Seeking the opinion of a law firm transition professional to assist in valuation can prove helpful as the law firm specific nature of the transaction may have a significant impact on value. Consider seeking an opinion from a practice broker, a lender, or a CPA who has experience and specific knowledge of law practice sales and related valuations used.

Law firm organizational and financial structures can vary greatly, but with most law practices a common element is the value being attached to client or network relationships or goodwill, rather than hard assets. As such, pricing and payment structures are very important to maximize value, but the most important is the transition plan that will be agreed upon between a seller and buyer. A thoroughly developed transition plan which will be implemented post-closing can make the difference between a mild and wildly successful transaction for both parties.

***Please note**, if seeking external sale these items can also affect timeline to find a buyer and financial terms and structure.

VALUATION CONSIDERATIONS:

- Nature of the practice;
- Recurring business;
- Firm location;
- Business model and operational platforms;
- Ownership role and organizational structure;
- Number of clients and concentration of work in a few clients;
- Likelihood clients (and perhaps staff) will remain with the practice after the sale;
- Stability of the practice's revenue stream from month to month and perhaps year to year;
- Strengths and weaknesses of your practice;
- Overall reputation of the firm; and
- Desired financial terms and structure considerations

DETERMINE PROPER VALUATION METHOD:

1. Cost or book value method (tangible assets);
2. Transitioned market value (requires comparable law firm sales and broker opinion); and
3. Cash flows multiple approach which looks to historical and projected revenues, owner's income and other adjustments to determine potential price and benefit to buyer (most widely used in law firm environment).

7. SEARCH AND SEEK POTENTIAL BUYERS

- Consider a Buy/Sell Agreement or Assumption Agreement with an internal attorney or an outside firm for a potential future buyout or merger;
- Use Non-Disclosure Agreements, private and limited listings, and/or third-party brokers to ensure initial confidentiality about the transition is maintained;
- Ability of new attorney to pay for the practice – obtain financing and note;
- Personality, knowledge and ability of buyer to relate to clients and staff; and
- Transition time required of seller after the sale.

8. BUYER-SELLER MATCH

- Due diligence process with commence
- Check for conflicts among all parties to the transaction
- Discuss and finalize a transition plan

9. CONTRACT NEGOTIATIONS:

- Memorializing the agreements
- Include an Asset Purchase Agreement
- May include a Non-Disclosure Agreement

10. NOTICE TO CLIENTS – RULE 1.17 OR OTHER APPLICABLE REQUIREMENTS:

- Document receipt of notice by the client. Keep good records of what was sent to whom as well as their responses.
- Get instructions from clients as to how their files should be handled, i.e., transferred to new lawyer, stay with purchasing lawyer, etc.
- Get receipts from clients who pick up their files.

11. CLOSING:

- File appropriate pleadings, including motion to withdraw or substitution of counsel for all litigated matters.
- If an outright sale, consider firm dissolution filings with the NC State Bar and NC Secretary of State.
- If a merger or other transition option is used, consider responsibilities and needs to update firm name, addresses, etc.

12. POST-CLOSING:

- Contact your professional liability insurance carrier for an Extended Reporting Endorsement commonly called “tail insurance.”
- Contact the State Bar concerning “Inactive-Retired” status.
- Notify utilities, phone companies, internet service providers, re: transfer of service date.
- Notify vendors and suppliers of intent to terminate relationship.
- Arrange for transfer or forwarding of mail as appropriate.
- Schedule times to mentor/assist Buyer going forward, if part of the agreement.

The Law Practice Exchange aims to curb the lack of knowledge in the profession on law practice transitions by educating and advising attorneys on the number of different options available in the legal marketplace and also serving as a confidential broker and advisor to seek and provide connections for those right opportunities between an exiting attorney and a growth-focused attorney or firm. Find out more at www.TheLawPracticeExchange.com. © 2020 The Law Practice Exchange, LLC. Reproduction in whole or in part is strictly prohibited.

The information and advice provided in this publication is intended as general guidance only and is not necessarily specific to your individual situation, objectives or other needs. Make sure you seek a qualified expert opinion before proceeding with your transition objectives.

Additional Resources

“Selling Your Law Practice” by Mark Scruggs, November 2013

(<https://www.lawyersmutualinc.com/risk-management-resources/articles/selling-your-law-practice>)

Lawyers Mutual Risk Management Practice Guide – Buying or Selling a Law Practice by Tom Lenfestey, August 2015 (https://nmcdn.io/e186d21f8c7946a19faed23c3da2f0da/556712d9bf0f4cb2a916cc810687d52b/files/risk-management-resources/practice-guides/Buy_or_Sell_Practice.pdf)

“‘I’m Thinking of a Number Between 1 and...’ What’s Your Law Practice’s Valuation Number?” by Tom Lenfestey, August 2015 (<https://www.lawyersmutualinc.com/risk-management-resources/articles/im-thinking-of-a-number-between-1-and-whats-your-law-practices-valuation-number>)