



## BUYING OR SELLING A LAW PRACTICE

**RISK MANAGEMENT PRACTICE GUIDE OF LAWYERS MUTUAL**

# Buying or Selling a Law Practice

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## RISK MANAGEMENT PRACTICE GUIDE OF LAWYERS MUTUAL

A law office is the product of your life's work. A law office can also be difficult to establish in today's economy.

Like all ventures, there is value attached to an existing law office – it is just a matter of bringing buyers and sellers together to work out what is that value.

If you are a partner or owner of a law firm, you have invested your time, talent, energy, and money into your practice. You should be able to receive a return on your investment, which will help you in the next phase of your life.

If you are an attorney or firm looking to establish a new law office – whether it is to establish your own practice or to expand your footprint to a new area – purchasing an existing law office can provide you with the goodwill and trained staff to help you hit the ground running without the investment of trying to start from nothing in a new area.

This Lawyers Mutual Practice Guide will help you begin the process of determining a firm's value and provide you with items to consider for both potential buyers and sellers of law firms.

### About the Author

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*The Law Practice Exchange aims to curb the lack of knowledge in the profession 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](http://www.TheLawPracticeExchange.com). ©2014 The Law Practice Exchange, LLC. Reproduction in whole or in part is strictly prohibited.*

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DISCLAIMER: This document is written for general information only. It presents some considerations that might be helpful in your practice. It is not intended as legal advice or opinion. It is not intended to establish a standard of care for the practice of law. There is no guarantee that following these guidelines will eliminate mistakes. Law offices have different needs and requirements. Individual cases demand individual treatment. Due diligence, reasonableness and discretion are always necessary. Sound risk management is encouraged in all aspects of practice.

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## CAN YOU REALLY BUY OR SELL A LAW PRACTICE?

Most lawyers give consideration (or dream daily) about transitioning away from their law practice. Retirement, family, a new career, or some other pursuit comes calling. But the typical question that holds many lawyers back from entering the next phase is, “how can I afford to live without the income and resources from my practice?” For many, there are retirement savings, alternative opportunities from a second career or other options available to replace practice income. However, few attorneys actually consider the option of selling a practice as the precursor to that next step or even know that doing so is an option. Selling a practice can be a great way to benefit from the value built up over years of work. In addition, there are probably even fewer growth-focused attorneys who consider the potential of purchasing a practice as a way to grow client base, income and revenue streams, and overall firm health and sustainability.

The reality is that every lawyer at some point in time needs a plan for when he or she steps away from the legal field and the options for buying or selling a law practice should be considered. Thanks to life’s multitude of unexpected events, that time may be sooner than you think. And when you throw in the current state of evolution of the legal

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**Selling a practice can be a great way to benefit from the value built up over years of work . . . The reality is that every lawyer at some point in time needs a plan for when he or she steps away from the legal field and the options for buying or selling a law practice should be considered.**

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profession, it becomes more and more apparent just how important it is for each practicing professional to understand the challenges and opportunities that accompany this type of transition. For instance, do you have a succession plan? A practice continuation plan? If so, have you implemented such plan or put in place the tools or sought the counsel needed for implementation? If not, you're not alone. Few lawyers, particularly, solos and small firm members, have a signed succession or practice continuation plan in place and many don't think about it until too late to fully recoup the practice value.

With this state of flux in the legal world and the potential impact of major life events, the rules of law practice succession are still being rewritten. Gone are the days of whipping together a succession strategy, transitioning the clients to the next generation of lawyers, and sailing off into a retirement funded by the new partners at the firm. From big-firm shakeups to increasing client competition among small firms, lawyers today must contend with unprecedented financial, cultural, and marketplace changes and, as a result, each attorney must be open to transition strategies with a longer reach than those employed in the past. These broader and more modern strategies include realizing the value of a law practice through a sale or acquisition.

So how does one go about buying or selling a practice? The process is somewhat complicated by the fact that law practice sales are nearly invisible to the public market. Look down the street and around town and you see house-for-sale signs everywhere. A quick web search yields any number of results detailing home values and prices and identities of the parties involved.

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**Gone are the days of whipping together a succession strategy, transitioning the clients to the next generation of lawyers, and sailing off into a retirement funded by the new partners at the firm.**

Established markets, like the residential real estate market, give the general public an excellent idea of how and for how much to buy and sell all sorts of items, including real estate, stock, and cars. Buying or selling a business (especially a law firm), however, is a different story; potential buyers or sellers need to work a bit harder to find and utilize the law practice marketplace.

Self-education is a good place to start. A potential buyer or seller typically doesn't know whether

any given attorney wants to exit his practice or buy someone else's, what his practice looks like, or what the process or price to purchase or sell may be. It becomes important, therefore, for any lawyer to put in some time, do some research, and learn the basics about the law practice marketplace, how it works, the resources available and how it may help a lawyer looking to transition or grow. Putting the right team of advisors in place is also an important step. The buying or selling of law practices isn't new, but the approach and need to maximize the practice's value through an active marketplace search and proper transition structure are setting new benchmarks for transition success stories.



## PRACTICE TIP

### WHERE DO YOU START?

1. Self-education. Learn the basics about the law practice marketplace, how it works, and available resources.
2. Put the right team and advisors in place.

## Selling or Buying a Law Practice: The Opportunities Available To Seller and Buyer

The increase and development of knowledge base and actual marketplace for selling or buying a law practice have the potential to dramatically escalate over the next several years. Today, there are more reasons than ever that have lawyers considering transition or exit from their law practices through sale or other strategic exit options and those continuing in practice are focused on staying competitive by looking to buy or merge with existing practices as viable options for their growth and client service goals.

### For the Selling Lawyer

Once a lawyer accepts the premise that his or her practice has attainable and transferable value, certain key options open up for that lawyer to realize that value, including in the form of a purchase price through the sale of his or her practice and in the form of succession and major life event planning. So, while an attorney can actively seek a purchaser for the practice, he or she can also create buy-sell arrangements, determine how to transfer a practice under a last will and testament, or take advantage of other approaches afforded to non-attorney business owners under a sales-minded planning approach.

There are various ways to structure the sale of a law practice, but all should take into account the need for an attorney to actually transition his or her practice over time and preserve goodwill. This transition period

allows for key relationships and client knowledge to be transferred, maintaining the continuous and seamless provision of services to clients, and, most importantly, preserving the value of the brand, the likelihood of reoccurring revenue, and the buyer's expectations in purchasing the practice.

Consider the following transaction structure options:

- Structured merger of practices/firms with transition and practice assistance from selling attorney continuing for an agreed upon time period;
- Outright sale of a law practice;
- Partner equity transfer or sale to junior partner or associate; and
- Assumption agreements between lawyers or practices with certain buy-sell events.

When determining which method is right for you, consider the prototypical lawyer response: it depends. The particular facts and circumstances of the particular situation will necessarily determine the appropriate structure. A selling attorney should familiarize himself or herself with all of these options during transition planning.

### For the Buying Lawyer

The opportunities of acquiring a new practice or firm affords a would-be purchaser geographic expansion and overall growth to the existing practice. Often, when an attorney decides that it is time for his or her



### How should you structure the sale of a law practice? There are many options:

1. Merger.
2. Outright sale.
3. Partner equity transfer or sale.
4. Assumption agreements with certain buy-sell events.

practice to grow, he or she will spend unnecessary amounts of time and marketing money in the efforts to effectuate that growth. If an acquisition is planned and executed properly, however, it can be an easier and more fruitful means of practice development than building through marketing or starting from scratch. With a practice acquisition, many of the obstacles present when starting a practice have previously been overcome. A practice structure is already in place. Tangible items, such as office space, equipment and

supplies, will likely be included in any deal. And, arguably most important, the purchaser instantly gains certain intangible items, including the client database, a willing staff and a referral and client network. Merging practices is also a great option for an attorney that wants to offer his or her new clients a wider variety of practice areas. And while success and growth are certainly not guaranteed to follow, a well thought-out and implemented acquisition can go a long way toward achieving these important goals.

## Law Practice Exit Planning – Set Your Goals and Take The First Step

A potential purchase typically offers the same transaction structures as a sale offers the selling attorney, including merger, outright purchase, associate or junior partner buyout, and Assumption Agreements. The difference is the perspective of the buyer versus that of the seller. Regardless of which party in a given transaction you are, however, carefully planning the transaction and its implementation is very important to make sure your particular objectives are achieved.

### Set Your Objectives

That leads to another important question: “What are my objectives?” In looking to buy or sell a practice, there are right reasons and there are wrong reasons. Any attorney must first reflect on his or her practice and determine if it is ready for such a transition or acquisition. Is now the right time, or is it better to put the plan in place for a transition or acquisition down the line?

Openly, you must first establish your personal objectives, weigh the costs and potential benefits, and then strive to determine the best path for your sale or purchase given those goals. And while personal aims



**PRACTICE TIP**

**READY TO MOVE FORWARD?**

Questions to ask yourself:

1. What are my objectives?
2. Is my practice ready for a transition or acquisition?
3. Is now the right time?

may differ, in planning a transition plan, it can be helpful to consider the following goals:

- Better prepare practices for change
- Promote lawyer focus on client value
- Preserve client and practice goodwill
- Provide alternative growth options
- Provide exit strategies
- Continuous service to client
- Promote mentorship
- Increase or expedite retirement options

### Where To Start?

**Look Around.** Regardless of whether you are looking to sell your practice or acquire another's, the first step in any transition is to look at your practice and determine if it is in good order and capable of sustaining a transition. Focusing on how one will perceive your practice's value or considering the potential of doubling your client matters overnight is great motivation to help you tackle those lingering items you have wanted to address for years.

**Put Your Team Together.** Next, continue your education on getting ready to sell or buy by seeking assistance. This includes putting together your transition advisors, which typically include your CPA, financial advisor, insurance advisor, valuation expert and your law practice broker. Yes, a law practice broker. This type of advisor focuses on the buying and selling of law practices, bringing guided expertise to navigate and exploit the marketplace even when you can't see the for-sale signs. Confidentiality is key, so contacting and engaging someone to act on your behalf, but in the proper manner, helps make sure the transition is successful for all involved.

**Set Specific Goals.** Once you have your team in place it is time to start developing your strategy for selling, buying, merging or other transition. Set and review

your goals and define your desired transaction terms; and, then your practice broker will confidentially seek out and search potentials as well as sort through the non-opportunities.

### When To Start?

**Now.** Time has a way of working against us, especially in the legal profession where time is our typical exchange for compensation. Don't be the lawyer who forgets to focus on his own legal contingency plans when advising clients of their own needs. Take the time today to jot down some of your objectives for a potential transition, whether selling or buying, and some tasks to do tomorrow to see what options are out there for you. Seek a resource to help you with your best next step.

A law practice has transferrable value and that value can provide options to an attorney looking to exit his or her practice or to gain the goodwill of another. Knowing your options and the likely financial outcome can greatly impact your professional and personal finances and can also provide tremendous opportunities for those firms or lawyers looking to see continued client service through transition. Recognize that these options exist and begin exploring which may be best for you today.



### I AM READY TO MOVE FORWARD, WHAT NEXT?

1. Get your office in good order.  
How will a potential buyer or seller perceive your practice?
2. Get your team together.  
What advisors do you need to help you with the transition?
3. Set specific goals.  
What are your goals and strategies?



## Considering a Transition or Exit from Your Law Practice? Prepare and Proceed With the Right Team in Place

When the time comes to buy or sell a practice, there are several different areas of expertise that should be consulted. A law practice is a complex business, with many differing and dissimilar components combining to work as one. It makes sense, therefore, to seek the assistance of a resource for each necessary area of knowledge. The human body requires general practitioners, cardiologists, endocrinologists, gastro-intestinal experts, podiatrists, and many other specialties that each serve a separate but vital function in keeping the body as a whole working as the well oiled machine that it can be.

The same holds true for the sale or purchase of a law practice. It is useful, and often necessary, to seek the assistance of several different types of professionals to get the most out of the deal. There is the transactional attorney to help you through the legal side; the CPA for tax considerations; the financial advisor to help you plan for the next step; the valuation expert to help you determine the right purchase/sale price and how to get there; the insurance advisor for malpractice and other insurance needs; and the law practice broker to help you navigate items such as valuation, confidential communications with buyers and the best exit option for your practice.

Putting together the right team can take time. Choosing the right advisors who understand and have law practice specific knowledge can greatly increase the efficiency in team advising and communication as well as the impact they have on exit value. For these reasons, consider starting with the law practice broker as your first step. Often, the broker has the right connections to put you in touch with the people you need to see and can suggest cost-effective solutions. Additionally, you can reach out to your state's bar association.

While working to reduce costs in the sale or purchase process is important, it is equally important to make sure you seek the necessary assistance. Just like you would advise a client of the value you can bring as an attorney to a matter don't forget the benefit advisors can bring to you on this very important decision. To keep your health, you'll (presumably) consult the necessary medical specialties. Do the same for your practice.



### PRACTICE TIP

#### PUT TOGETHER THE RIGHT TEAM.

When the time comes to buy or sell a practice, there are several different areas of expertise that should be consulted, including the following:

1. Transactional attorney to help you through the legal side
2. CPA for tax considerations
3. Financial advisor to help you plan for the next step
4. Valuation expert to help you determine the right purchase/sale price
5. Insurance advisor for malpractice and other insurance needs
6. Law practice broker to help you navigate items such as valuation, confidential communications with buyers and the best exit option for your practice

## Law Practice Valuation – What’s Your Practice’s Number?

Stand in the mirror and say to yourself, “I’m a good lawyer. I work hard to do my best. I’ve spent years building my practice to get where I am today. I’m smart enough and, doggone it, my clients like me.” Next, settle with this fact: your law practice, like any other business, has value that can be bought or sold. Your efforts as a professional and your dedication to law and to serving your clients are the reasons the business has been successful. This success, manifested through the continued presence of your practice in the legal marketplace, incoming client revenues and the practice’s reputation in your community, has created marketable and measurable value above and beyond the current practice revenue you earn.

This practice value is known mostly as goodwill, being the established reputation of the firm or practice as a quantifiable asset. Your practice’s goodwill consists of revenues, client base, types of service offerings, practice personnel and staff, marketplace brand recognition, office location, and others. All of these individual components of goodwill, particularly client

retention – a particular client’s desire to come back to where they received great legal services – impact the overall practice worth and are potentially transferable.

So, your practice has value, but how much? Without fail, this is the next question a potential transferor must ask, and the answer will impact, if not outright determine, the decision on whether to sell or buy. In a marketplace for selling and buying law practices where most negotiations and actual deals are confidential, the public’s knowledge of a law practice’s worth is limited. While most practicing attorneys will immediately note the obvious reasons for this confidentiality, it adds a layer of difficulty to the overall process. That said, there are certain guidelines and base line rules on determining value. As with most service business, a standard is to look at the future expectation of revenues or earnings for what is being purchased. One option, and sometimes the simplest for valuation, is to look at annual revenues. Law practices typically will sell for a multiple of anywhere from .5 to 1.2 of average annual revenues. A practice with average annual revenues of \$500,000 may, therefore, sell for anywhere from \$250,000 to \$600,000. Not a bad number if you previously hadn’t even considered the potential to transfer your practice.

Besides revenue, there are numerous other key factors that impact valuation and the determination of whether a practice would generate a high or low enough multiple to justify the purchase or sale thereof. Some of these are:

- **Repeat Clients:** The greater the expectation of reoccurring revenue from clients, the better;
- **Size of the Practice:** Larger practices can be more difficult to sell because the market is likely to bear fewer purchasers capable of or willing to make a deal;
- **Type of Practice Areas:** Is it an emerging area in high-demand? Certain practice areas, particularly those in newer and growing fields, are looked upon more favorably by potential transferors and transferees;



### HOW TO VALUE YOUR LAW OFFICE

**Annual Revenues.** Law practices will usually sell for .5 to 1.2 of average annual revenues.

Other factors include:

- repeat clients
- practice size
- practice areas
- profitability
- employees
- terms of sale

- **Financials:** How profitable is the practice? A practice's billing and realization rates directly impact its marketability;
- **Employees:** Are there certain key employees that have demonstrable billing and profitability records? If so, a buyer will likely want to retain such employees and place a high value on their retention; and
- **Terms of Sale:** Will the seller finance the deal or is cash needed at closing? Is there a contingency period or fluctuation in sale price? How long will seller stay on? The particulars of a transfer agreement are incredibly important to value. Whether and how long a selling attorney will provide transition assistance, including client and referral maintenance and transfer assistance, are massively important terms to work out.

As noted, the "rule-of-thumb" revenues method is far from exact, but is usually a good starting place. However, law practices are diverse and unique, and similar practices can have very different values to the same potential buyer depending on some specific internal characteristics.



### VALUE YOUR PRACTICE!

Obtaining an accurate valuation of the practice is one of the most important things you can do as a seller to help you actually sell the practice ... From the buyer's perspective, the valuation is important because it perhaps takes some of the "leap of faith" out of the deal.

The value of a practice is typically calculated by a comprehensive look at the historical, current and projected financial outlook of the practice as well as other characteristics specific to that practice, practice areas, geographic area or client-base.

## The Financials of a Law Practice Value Determination Explained

Many – not all, but many – deals turn on the purchase price. The rest can typically be worked out if the purchase price is agreed upon. Obtaining an accurate valuation of the practice, therefore, is one of the most important things you can do as a seller to help you actually sell the practice. In most cases, the valuation by a law practice broker will determine the purchase price. Additionally, having that valuation can help a selling attorney avoid issues presented by an emotional overvaluing of the practice, obtain the necessary financing, and find the right buyer.

From the buyer's perspective, the valuation is important because it perhaps takes some of the "leap of faith"

out of the deal. Buying a practice is a huge investment of, among other things, time, money, and emotional, mental and physical well-being. It could ultimately be a bust; the buyer just doesn't know. But, if he or she knows the value of the practice, and can review those factors that went into reaching that valuation, he or she can rest a bit easier.

So what goes into determining the value of a practice? In a nutshell: goodwill. Goodwill is typically calculated though by a comprehensive look at the historical, current and projected financial outlook of the practice as well as other characteristics specific to that practice, practice areas, geographic area or client-base. Practi-

cally speaking, this means putting together the necessary documents and value indicators, identifying unique valuation factors, identifying issues and solutions to those issues, selecting valuation methodology and applying all of the above to that methodology.

**Documents/Evidence of Value:** Your valuation expert will provide you with a specific list of items. It will be a long list. Here are some items that will likely be on that list:

- Annual financial statements and tax returns for last 5 years
- W-2s/K-1s
- Interim financial statements through last period
- Copies of any forecasts or projections
- Copies of business plan
- Schedules of compensation for employees and seller
- Appraisals and lists of specific hard assets
- Specific Owner Benefits being paid for by practice
- Reports of other consultants
- Brochures, information, website, ads
- Resumes or summary of background and experience
- Client Fee Guidelines/Schedules
- Engagement Agreements/Representation Letters
- Breakout of revenue mix by percentage, including: Direct selling; Referral driven; Advertising; and Repeat clients
- Total number of client matters over last 24 months
- Details of significant leases, loans and notes
- Copies of partnership agreements or associate agreements
- Copies of any buy-sell agreements
- Details of key employees employment contracts
- Details of any litigation, including pending claims
- Details on any employee benefit plans

**Factors:** There can be a massively long list of factors that are considered in any given practice valuation. But on a transaction-to-transaction basis, the most common are the following:

- **Recurring Revenue:** What are the historical revenue, current revenue, and likelihood of revenue on an ongoing basis? This includes a detailed



### WHAT DRIVES PRACTICE VALUES?

- Financials, including net worth, current value, cash flow and projected future cash flow
- Human capital and customer base, including the impact of diversification, AR, and relational health
- Product and service offerings, including the impact of market saturation/share, the existence and extent of continuous improvement
- Repeatability of business.

analysis of the clients of the firm, nature of legal representation and likelihood of repeat business.

- **Size of the Practice:** Revenue; Number of Employees and Partners; Number of Clients; etc.
- **Assets to Liabilities:** What are the debts and obligations of the practice? In relation to its assets?
- **Type of Practice:** Practice area, particularly in relation to other similar practices in the geographical region and zone of service provision.
- **Location:** Is it in a major metropolis? A rural area? What is the population of the area? Demographics?
- **Dependency of clients on attorney:** This again goes back to repeat business.
- **Profitability:** Historical and current review of the profits and margins of the practice. Is the practice's overhead justified by its revenue?
- **Billing Rates & Realization:** A detailed review of A/R and collections. Do the practice's clients pay their bills?
- **Employees:** Number, nature and skill.
- **Technology:** Review and analysis of the technological infrastructure of the firm.
- **Age of Clients:** This again goes back to repeat clients.



- Concentration Mix of Fees: How diversified or, alternatively, concentrated is the nature of the fees charged and collected?
- Terms of Sale: The specific deal terms can have a dramatic impact on valuation, including intended purchase price allocation.
- Buyer type
- Hard assets to be transferred (vehicles, computers, etc)
- Fee Agreements or ongoing revenues guaranteed
- Transition time

That is a long list of factors. And there can be several more. In summation, they can be boiled down to some key items, including net worth, current value, cash flow and projected future cash flow, and identifying those items that most drive the practice's value, including:

- Human capital and customer base, including the impact of diversification, AR, and relational health;
- Product and service offerings, including the impact of market saturation/share, the existence and extent of continuous improvement; and
- Repeatability of business.

It is important to note that the legal field is based largely on relationships, which come and go. Market changes and factors, client transitions, real estate issues, employee retention and profitability, and other contract needs all have major impacts on the relationships of a practice, including those with its clients and referral sources. And they all have a material effect on the current and ongoing value of the practice. All practitioners should identify and incorporate specific steps to address, improve and protect relationships for the good of the practice and its value.

Another important step is applying the appropriate valuation methodology to the results of the above review and analysis. In the legal field, that often means identifying and applying a particular multiple: with a typical baseline of a multiple (2-3 times) of profit or a percentage (50%-120%) of annual revenue. The results of each approach could be similar or significantly different, and which one that is used will depend on market factors, primarily including the negotiations between the buyer and seller.

## Six Steps to Prepare Your Practice for Sale

So you're ready to sell your law practice. That's great! Selling your law practice can be an excellent way to realize the value built up over years of practice and to generate income as you transition into the next phase of your career or life. But where do you start? Listed below are a few steps to review and help you prepare for the transition and sale process.

- 1 Set a Timeframe.** When do you want to sell? Keeping this (flexible) date in mind, and factoring in a post-transition assistance period is important in readying the practice for sale and maximizing sale value.
- 2 Self-Education.** Spend some time researching the process, the applicable laws and rules (including NC RPC 1.17), and the practical concerns of putting a practice for sale on the marketplace.
- 3 Get Your Team In Place.** You can't go it alone, although it may be tempting. As a lawyer, you may have helped sell many businesses, but



### PRACTICE TIP

Steps to help you prepare for the transition and sale process.

- Set a timeframe
- Self-education
- Get your team in place
- Value your practice
- Develop your strategy
- Be patient

that does not mean you are necessarily qualified to best conduct the sale of your own. Having the right people to help you through the process will not only make it easier, but can also have a dramatic effect on the bottom line. Additionally, you are trying to run a practice, so your time and focus is limited. Find yourself a law practice broker and CPA, and consider consulting or retaining a financial advisor, an insurance advisor, and a valuation expert.

**4 Value your Practice.** It is a good idea to have a verifiable idea of your practice's value before placing it for sale. And while we are all likely to place a high premium on the work that we do, a potential buyer may see things differently. Consult with your practice valuation expert on current value and ways to increase value.

**5 Analyze and Initiate Steps to Make Your Practice More Valuable.** Get your practice in the best shape possible. Client management, practice areas, intended timeframe for sale, billing and realization rates and procedures, and employee

management and transition are some of the factors that go into valuing a practice. There may be ways to improve efficiency and results in any and all of these areas. If you give yourself enough time, these improvements may make the practice more appealing to potential buyers and may lead to increased sale price and take-home profits.

**6 Develop Your Strategy.** Consider the type of intended buyer, your financial needs for retirement or next phase (consult your financial planner and CPA), necessary sale price to provide for those needs, tax strategies, internal communication and transition needs, and other desired terms of sale. Prepare your strategy. It may and likely will change, but don't adlib the sale process.

Selling your practice does not happen overnight. It takes months of prep as well as months, if not years, of post-transition assistance. You have to start somewhere, however. Just as you may advise a client preparing to sell his or her business, start by getting your house in order. These steps should help.

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## Law Practice Sale Tips: Check the Checklist off the Checklist

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As most (probably all) legal practitioners know, a good checklist is a lifesaver when it comes to completing legal matters. That principle holds true whether the matter involves suing on a faulty construction defect claim, administering an estate, or selling a business: especially when it comes to selling a law practice. Your transaction checklist can mean the difference between a smooth, effective and efficient closing and a deal that falls through due to an issue you didn't think to check. There is any number of other factors that affect the deal, of course, but the checklist is a must.

The checklist for selling your law practice will likely look substantially similar to checklists you may use

in other M&A deals: it will involve many of the same general categories, including the following:

- Putting the team together (CPA, Banker, Practice Broker, etc.);
- Addressing financing requirements prior to closing;
- Seller inspection matters, such as entity and financial review; asset inspection and review; due diligence for liens, judgments and encumbrances; IP review; employee matters; licensing and permits; contracts, assignments and third party consents; taxes; client information review; litigation and insurance issues; and other disclosure needs;
- Definitive transaction agreement and ancillary document preparation and review;

- Pre-closing actions;
- Closing actions, including payoffs and verification of funds transfer, license and title transfer, utilities and service connections, and others; and
- Post-closing actions, including outstanding payroll and employee issues, retention of employees, verification of vendor transfers, and others.

However, just because they may be similar, that doesn't mean any old checklist will due. The nuances and subtle differences between the sale of a law practice and the sale of another entity, particularly involving your ethical responsibilities to your clients, will have an enormous impact on the transaction. Furthermore, with a law practice transfer, the selling attorney is most likely going to be engaged by the buyer for an extended period of time for goodwill and client maintenance, the association of a competent attorney in the practice area, and other ongoing practice needs.

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**Your transaction checklist can mean the difference between a smooth, effective and efficient closing and a deal that falls through due to an issue you didn't think to check.**

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Yes, in many ways the practice sale list is similar to the checklist you would see in other types of transactions, but on a much more detailed and intricate level that is directly impacted by the structure of exit chosen and the professional requirements. It is incredibly important, therefore, to use a law-practice-specific checklist for the sale of your practice.

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## **Time to Plan! Retirement and Estate Planning for the Small Firm Partner or Solo Practitioner**

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The fundamental principal of estate planning is to anticipate and prepare for the major life events, particularly, what will happen to one's property upon disability or death. The same line of thought can and should be applied to your law practice. Preparing and implement a plan for your practice upon the occurrence of certain major events should be a major priority for any practice owner.

The practical reality of the situation is that so very often professionals spend most or all of their waking hours working on or in their practice. The seemingly endless needs of one's clients tend to get in the way of this sort of planning. But it is too important to ignore. What were to happen, say, if the sole owner of a practice passed away without a succession plan in

place? Trouble, definitely. Chaos, most likely. Missed opportunities, certainly.

Every practice owner should take the time to adopt a plan for his or her practice that will properly provide for ongoing client management and representation upon his or her passing. Call it an emergency plan, a disaster plan, or otherwise, it should be well thought out and on-hand in the event of the practitioner's passing. Here are some key elements to consider as part of that planning:

**Prepare.** Prepare a law practice knowledge source with key disaster info and checklist for what steps should be taken in such an event.

**Ethics.** Consider your ethical requirements for each event and how they may impact your plan.

**Personal Needs.** What are your personal needs regarding exit value for you, your family or otherwise?

**Plan for Each Event.** Review and implement a transition plan for:

- Retirement
  - Are you going to sell your practice, close it down or transition it to an associate?
  - Is time on your side to accomplish this planning?
  - Will the law practice purchase price meet your retirement planning needs?
- Disability or Death
  - Do you have an Assumption Agreement with an outside trusted peer attorney or a Buy-Sell/Partnership Agreement with other partners of the firm?
  - How has the purchase price in these events been calculated and is it properly funded to ensure payment?
  - How can you prepare clients to ease transition in such an event?
- Relocation or Other Transition
  - How would an accelerated timeline impact your plan?
  - Would your potential transitioning attorney be able to manage the increased client demand?

**Ask For Assistance.** Seek out those who focus on practice transitions or these types of events and ask for advice in putting together your plan. There is an abundance of resources out there with your insurance providers and state bar associations. In addition, key individuals such as CPAs, financial advisors and law practice consultants and brokers can help you make quick work of your practice's estate plan.

Just like the saying in estate planning goes, it is not a matter of 'if', but 'when,' this same mindset should be



### PRACTICE TIP

#### BE PREPARED AND PLAN

Preparing and implementing a plan for your practice upon the occurrence of certain major events should be a priority for any practice owner.

Make sure you **PLAN FOR EACH EVENT**, including:

- Retirement
- Disability or Death
- Relocation or Other Transition

used to motivate your planning. Make sure you have a plan that takes care of your practice, your clients and preserves the value built for your loved ones.

One works tirelessly to build a successful practice and a plan should be in place regarding what would happen if the founder were to become disabled or pass away. One's law practice succession plan and estate plan should work hand in hand to ensure that there is a smooth transition from leadership to leadership and your responsibilities and goals are met.



## Eight Key Considerations in a Law Practice Transition Agreement

While there are many different considerations leading up, during and after the sale process, here are a few to which you should pay particular attention.

**1 Valuation.** It is common to highly value our own work. This is particularly true for business owners, and lawyers are no different. As such, we may be prone to overvaluing the business. Unrealistic or unsupported sales prices can hamper or outright quash a deal. So it is typically a good idea to bring in a valuation professional to accurately value the practice.

**2 Increasing Purchase Price.** It is beneficial in preparing for sale to review some of the key factors of valuing a practice as they pertain to your own. These include historical financial performance and growth, reasonable expectations of future revenue, likelihood and extent of repeat clients, geographic location of the practice, saturation of practice areas in local and regional marketplace, and others. Focusing on strengths and weakness may point to where you can do more to improve the value of your practice leading up to the sale.

**3 Consider Taxes and Net Number.** If there is a certain purchase price you need to hit for retirement or any other next stage in your life, knowing what you need to do to get the value of your practice to that price, and then making sure the purchase price and structure supports that goal are imperative. Also, consider the personal benefits you are receiving as an employee of the practice (health insurance, vehicle, CLE, etc) as well as those liabilities that you would have to satisfy at closing and how those impact your personal number.

**4 Transition Timeline.** Knowing what is needed and if you can provide the time and effort to transition the clients and their associated goodwill to any purchaser is vital to any transaction being successful. Each practice is unique and specifics should be worked out not only on total time, but how the day-to-day roles

will work and the financials post-closing.

**5 Insurance Considerations.** Due to the nature of legal malpractice insurance coverage, maintaining proper coverage through and beyond the sale of your practice is vital. Coverage details will likely be a key point in the sale transaction deal, with the seller responsibility likely taking the form of “tail” coverage, which provides a certain period of time of extension of coverage for claims made during the original life of the policy.

**6 Ethical Considerations.** As an attorney, you are subject to a myriad of legal and ethical duties on an ongoing basis. That doesn’t change just because you sell your practice. Rule 1.17 of the North Carolina Rules of Professional Conduct is the seminal authority on your responsibilities during and after this process, laying out certain conditions precedent to the ability to sell and providing guidelines on the post-closing transition. In addition, there are a number of other ethical responsibilities that apply depending on the structure of the transaction (i.e. merger v. sale) and how conflicts are checked and avoided are key as well.

**7 Post-Closing Items.** Give strong consideration and planning to how things will work after the sale is closed. Items such as non-compete, access to files, firm name use, how selling attorney will be involved, fees and billing structures are just a few key areas that should be discussed and included.

**8 Making Sure You Are Ready.** Selling your practice can be very draining: mentally, emotionally, physically and financially. It is important, therefore, to make sure you are ready, on all of these levels. Take the time to talk it through with your loved ones. What are their expectations? What are yours? Are they reasonable? Does it matter? Make sure you are fully prepared for these and other transition consequences.

# CHECKLIST FOR SELLING A LAW PRACTICE

## **Review Your Ethical Responsibilities:**

- ☐ N.C. Rules of Prof'l Conduct Rule 1.17 (2003) (SALE OF LAW PRACTICE)  
(Note: A recent change in the ethics rules made selling a law practice more attractive to retiring lawyers. In 2013, the State Bar approved an amendment to Rule 1.17 of the Rules of Professional Conduct governing the sale of a law practice. The amendment clarified that a lawyer who sells his or her practice to another lawyer may continue to practice law with the purchaser as an employee.)
- ☐ 98 Formal Ethics Opinion 6. (Opinion rules that the requirements set forth in Rule 1.17 relative to the sale of a law practice to a lawyer who is a stranger to the firm do not apply to the sale of a law practice to lawyers who are current employees of the firm.)
- ☐ Protect client confidences - N.C. Rules of Prof'l Conduct Rule 1.6 (2003).
- ☐ Properly handle client files and funds - N.C. Rules of Prof'l Conduct Rule 1.6 (2003); N.C. Rules of Prof'l Conduct Rule 1.15 et seq. (2003);
- ☐ Avoid conflicts with purchasing lawyer's existing clients - N.C. Rules of Prof'l Conduct Rule 1.7 – 1.12 (2003).
- ☐ Properly terminate representation - N.C. Rules of Prof'l Conduct Rule 1.16 (2003).

## **Establish your timeline – several years out is optimal.**

- ☐ Time is your friend – and your enemy!

## **Engage your team of professionals:**

- ☐ Law firm management consultants;
- ☐ Business opportunity brokers;
- ☐ Accountants;
- ☐ Valuation experts;
- ☐ Marketing consultants;
- ☐ Executive search consultants;
- ☐ Lawyers.

There are several organizations that credential business valuers, including the National Association of Certified Valuators and Analysts (NACVA), the American Society of Appraisers (ASA) and the Institute of Business Appraisers (IBA).

Consider professionals who focus on or have specific knowledge and experience with assisting law practices in their transitions if possible.

**Create a transition plan:**

- ☐ Develop sales plan – strategies, targets, etc.
- ☐ Get your staff on board
- ☐ Define your personal goals and desired outcomes
- ☐ Finalize preferred transaction terms

**Consider your options:**

- ☐ Groom an associate to take over the practice?
- ☐ Develop a relationship with a younger lawyer who is not in your firm?
- ☐ Outright sale?
- ☐ Merger with another firm or lawyer?

**Prepare your law practice for sale. Get your financial and organizational house in order:****Organizational preparation:**

- ☐ Create 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

**Financial preparation:**

- ☐ Prepare financial statements and have them reviewed by a professional
- ☐ Gather federal and state income tax returns for the past five years
- ☐ Collect fee schedules, if any, for the past five years
- ☐ Accounts receivable listing and current accounts receivable aging schedule
- ☐ 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

### **Determine the value of your practice. Consider:**

- ☐ Nature of the practice;
- ☐ Recurring business;
- ☐ 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.

### **Valuation Methods:**

- ☐ Cost or book value method (tangible assets);
- ☐ Fair market value method (requires comparable assets – difficult in law firm environment);
- ☐ Income or cash flow method (most widely used in law firm environment).

In certain instances seeking the opinion of a legal focused transition professional can assist in valuation. Consider seeking an opinion from a lender, CPA or practice business broker who has experience and specific knowledge of law practice sales and related valuations used.

- ☐ Create an offering memorandum

### **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

### **Sort potential buyers for matches. Consider:**

- ☐ 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;
- ☐ Transition time required of seller after the sale.

### **Preliminary commitment:**

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



**Draft a Contract:**

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

**Notice to clients – Rule 1.17:**

- ☐ 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.

**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.

**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.

## **CHECKLIST FOR BUYING A LAW PRACTICE**

### **Ethics:**

- ☐ Review NC RPC Rule 1.17 – Sale of Law Practice
- ☐ Review 98 FEO 6
- ☐ Are there any conflicts between your current/former clients and the Seller's?
- ☐ Determine how to notify Seller's clients of change at the firm

### **Timing – it is a marathon, not a sprint!**

- ☐ Research the local legal market
- ☐ Determine how many attorneys are in the geographic area
- ☐ Determine how many attorneys are in your areas of practice
- ☐ Is the local population growing, stable, or shrinking (remember, this is your potential client base)
- ☐ Begin talks early once you identify a potential firm to purchase and ensure confidentiality is maintained
- ☐ Both Buyer and Seller should take their time during the process to ensure a smooth transition by complete disclosure and discussions during the due diligence period

### **Engage your team of professionals:**

- ☐ Law firm management consultants;
- ☐ Business opportunity brokers;
- ☐ Accountants;
- ☐ Valuation experts;
- ☐ Marketing consultants;
- ☐ Executive search consultants;
- ☐ Lawyers.

There are several organizations that credential business valuers, including the National Association of Certified Valuers and Analysts (NACVA), the American Society of Appraisers (ASA) and the Institute of Business Appraisers (IBA).

**Business profile:**

- ☐ Are you comfortable with the Seller's areas of practice?
- ☐ Do you plan on adding other areas?
- ☐ Do you plan on removing areas?
  - ☐ If so, determine a referral plan to send those clients to another attorney (you may get referral business in return!)

**Location:**

- ☐ Does Seller own the building or rent?
- ☐ If Seller owns, will you purchase it as well or lease it?
- ☐ If Seller rents, be sure to discuss terms with the Landlord
- ☐ How is parking managed?
  - ☐ Adequate spaces for you, staff, clients?
  - ☐ Cost of parking?
  - ☐ Condition of parking areas?

**Personnel:**

- ☐ Will the Seller stay on as "of counsel" for a year or more to introduce you to the community?
- ☐ Will the staff stay and continue to work with you?
- ☐ What are the salaries of the staff you will need to pay?
  - ☐ Are any benefits provided?
  - ☐ Any bonuses?
  - ☐ Etc.?

**Valuation:**

- ☐ Contact a CPA or other business valuation professional
- ☐ Items that may indicate increased value:
  - ☐ Regular repeat business (e.g. small businesses, creditors, etc.)
  - ☐ Estates practice where the firm probates most of the wills it drafts
  - ☐ Well-known phone number for non-repeat business (e.g. criminal law, personal injury, etc.)
  - ☐ Proximity to courthouse
  - ☐ Firms that maintain ongoing relationships through a focus on continued client communications
- ☐ Some common valuation methods:
  - ☐ Cost or book value method (tangible assets);
  - ☐ Fair market value method (requires comparable assets – difficult in law firm environment);
  - ☐ Income or cash flow method (most widely used in law firm environment)

### **Asset Purchase Agreement**

- ☐ Specifically list what is being purchased
- ☐ Specifically list whether liabilities will be assumed (generally not assumed)
- ☐ Purchase price and funding terms can be listed here

### **Financing**

- ☐ Contact several financing sources to determine the best fit, and consider focusing on those that have a law practice focus or experience:
  - ☐ Local bank
  - ☐ Your personal bank
  - ☐ Seller's bank where the firm has its trust account
  - ☐ Contact the local Small Business Administration loan officer
  - ☐ Is seller financing an option in lieu of or in addition to the above?
    - ☐ If so, what would the structure be? (e.g. flat figure, percentage of revenue, etc.)
    - ☐ What about the payment terms? (probably will be 5 years or less)

### **Legal Structure**

- ☐ What will the name of your firm be?
- ☐ Review NCRPC Rule 7.5 – Firm Names and Letterheads
- ☐ Will you be a sole proprietor, partnership, corporation, limited liability company, etc?
- ☐ Be sure to file the appropriate paperwork with the NC Secretary of State and the NC State Bar
- ☐ It is advisable to start a new legal entity rather than change the name of the Seller's entity

### **Banking**

- ☐ Research available banks (including where Seller banks) for Trust Accounts and Operating Accounts
- ☐ Establish new accounts for your new firm
- ☐ Research online banking and online payroll options
- ☐ Talk with several banks to ensure you receive the best fit for your needs

**Insurance**

- ☐ Contact your insurance company or agent to determine what coverages you need
- ☐ Review Seller's insurance portfolio to determine current coverages
- ☐ Common types of insurance needed:
  - ☐ Professional Liability Insurance (LPL)
  - ☐ Business Owner's Policy (BOP)
  - ☐ Worker's Compensation (check regulations on minimum number of employees)
  - ☐ Health Insurance
  - ☐ Cyber Liability
- ☐ Other additional types to consider:
  - ☐ Dental Insurance
  - ☐ Disability Insurance
  - ☐ Life Insurance
  - ☐ Fidelity Bonds
  - ☐ Employee Dishonesty Bonds
  - ☐ Crime Policy with Social Engineering Endorsement
- ☐ Determine if Seller will be purchasing an Extended Reporting Endorsement on the Seller's professional liability insurance policy (also called "ERE" or "Tail")

**Other Service Providers:**

- ☐ What services does Seller use?
- ☐ What services will you continue using? (contact those providers to begin service)
- ☐ Which services will you not use? (inform Seller so the services can be cancelled)
- ☐ Which other services do you need?
- ☐ Make a list of other services that you want (this will be used as a reference tool in the future as revenue increases and needs change)
- ☐ Some common services include:
  - ☐ Phone, Internet, Cable, Power, Gas, Heating Oil, Copier, Computer, Backup, Technical Support, Temporary Staffing, Fed Ex, UPS, USPS, Mail Metering, Shredding, Recycling, Custodial Services, Plumber, HVAC Servicing Company, Security, Landscaping, Office Supplies, Water Cooler, Coffee, Vending (drinks, snacks, etc.)

**Post Closing:**

- ☐ Set Client and referral meetings with Seller, if permissible
- ☐ Schedule times and needs for Seller to mentor/assist you going forward
- ☐ Review all systems to ensure they are operating as needed and determine any necessary upgrades or changes
- ☐ Contact clients and other practice contacts, referral sources, etc. (possibly with Seller's assistance) to explain the transition and answer questions

# **CHECKLIST FOR TRANSITIONING LEADERSHIP IN A LAW FIRM**

## **Are you ready to retire?**

- ☐ Why do you want to leave your practice?
- ☐ What do you want to do with your life once you leave?
- ☐ Do you want to quit working and retire or start a new adventure?
- ☐ Can you achieve the same objective without leaving the practice of law?
- ☐ Are you really ready to let it go?

## **Create an “estate plan” for the practice:**

- ☐ Prepare client list with all current contact info and status of cases
- ☐ Create a file memo with case strategy, outcome planned and tactics anticipated
- ☐ Groom a successor within the firm and develop timeframe for transitioning clients
- ☐ If there is no partnership agreement that controls the buy-out of your interest, then you'll need to broach the subject for consideration with how to deal with your interest, what the value is, and how to pay for your interest.
- ☐ Set up career counseling program to help mentor lawyers into retirement
- ☐ Set up alumni clubs for retired partners
- ☐ Transition plans should be structured gradually so client and rainmaking responsibilities gradually shift over a period of up to 5 years

## **Organized client transfer process:**

- ☐ Create a client profile
- ☐ Create a client map (relationships within the client entity)
- ☐ Create a matter map (recurring matters, types of matters, potential matters)
- ☐ Create a relationship tree (business partners, referral sources, community contacts, potential client targets)
- ☐ Create a client service checklist (for each client: how to bill, credit terms extended, how to best communicate)
- ☐ Develop an accountability plan for client transfer
- ☐ Develop process of including successor in client meetings and communications
- ☐ Maintain client contact during transition



**Succession plan when selling practice:**

- ☐ Safeguard clients interest, confidences, and property
- ☐ Review and satisfy record keeping responsibilities
- ☐ Keep diligent records
- ☐ Implement a file retention policy
- ☐ Return all client property
- ☐ Deal with unearned fees
- ☐ Close out trust accounts
- ☐ Review all open files
- ☐ File appropriate pleadings
- ☐ Review closed files
- ☐ Update client contact info
- ☐ Retain or store files as required by ethics rules

**Additional closing responsibilities as business owner:**

- ☐ Inventory assets and liabilities
- ☐ Focus on collecting accounts receivable
- ☐ Consider engaging a collection agency
- ☐ Review insurance policies
- ☐ Assess bank obligations
- ☐ Negotiate debt with creditors
- ☐ Arrange to terminate lease and storage space
- ☐ Consider dissolution of entity
- ☐ Take control business assets
- ☐ Determine requirements for public notice
- ☐ Determine tax requirements
- ☐ Notify utility and telecommunications providers
- ☐ Notify vendors and suppliers
- ☐ File instructions with the post office
- ☐ Set moving date

**Insurance:**

- ☐ TAIL coverage
- ☐ Personal insurance (home, auto, jewelry, collectibles)
- ☐ Life insurance
- ☐ Long term care insurance
- ☐ Disability income insurance

For more information regarding insurance options, contact Lawyers Mutual for TAIL coverage or Lawyers Insurance (Lawyers Mutual subsidiary) at [www.lawyersinsuranceagency.com](http://www.lawyersinsuranceagency.com) or 800-662-8843.

**Life after retirement:**

- ☐ Changing careers
- ☐ Giving back to the profession
- ☐ Self assessment tools (Myers Briggs, Strengthfinders, MAPP Career Assessment)
- ☐ Develop an exit strategy planning process
- ☐ Develop an individual development plan

## HOW PREPARED IS YOUR PRACTICE?

### Introductory Questions:

1. Do you have a law firm closing checklist and knowledge source readily available? Yes/No
2. Do you have information about transition plan in engagement letters? Yes/No
3. Upon what events do you want to consider a transition plan?: \_\_\_\_\_  
\_\_\_\_\_
4. What are your objectives in transitioning your practice (client service, financial, etc)? \_\_\_\_\_  
\_\_\_\_\_
5. Do you have a partnership, buy-sell or assumption agreement in place?: Yes/No
6. Do you have a retirement plan and what is your timeline?: Yes/No Timeline: \_\_\_\_\_

### Follow-Up Tasks:

### Date to Complete:

### Completed:

|       |       |     |
|-------|-------|-----|
| _____ | _____ | [ ] |
| _____ | _____ | [ ] |

### Important Individuals:

1. Assisting Attorney\* \_\_\_\_\_
2. Authorized Signer† \_\_\_\_\_
3. Transition advisors‡ \_\_\_\_\_  
\_\_\_\_\_
4. Emergency Response Team§ \_\_\_\_\_
5. Who knows security codes and passwords to computers and voicemail? \_\_\_\_\_
6. Who has keys to offices, safety deposit boxes, and storage facilities? \_\_\_\_\_

### Follow-Up Tasks:

### Date to Complete:

### Completed:

|       |       |     |
|-------|-------|-----|
| _____ | _____ | [ ] |
| _____ | _____ | [ ] |

**Important Things to Have and Keep Current:**

- |   |  |
|---|--|
| <input type="checkbox"/> Time and billing records   | <input type="checkbox"/> Staff directory                   |
| <input type="checkbox"/> List of all of suppliers and service providers                   | <input type="checkbox"/> Record of your insurance policies |
| <input type="checkbox"/> Office procedures manual   | <input type="checkbox"/> Inventory of client matters       |
| <input type="checkbox"/> Inventory of key office records                                  | <input type="checkbox"/> Inventory of trust accounts       |
| <input type="checkbox"/> Calendar system with deadlines and follow-up dates               |  |
| <input type="checkbox"/> Inventory of original documents and client property held by firm |  |

| Follow-Up Tasks: | Date to Complete: | Completed:               |
|------------------|-------------------|--------------------------|
| <hr/>            | <hr/>             | <input type="checkbox"/> |
| <hr/>            | <hr/>             | <input type="checkbox"/> |

\_\_\_\_\_

\* An attorney to make arrangements with to close down your practice or to handle it while you are incapacitated

† A person to authorize as a signer on your lawyer trust account

‡ i.e. CPA, financial advisor, insurance advisor, valuation expert, law practice broker

§ Individuals everyone in the office will listen to for instruction and who can make independent decisions for the firm, coordinate disaster preparations and responses, periodically review disaster plans and make updates if necessary, and make final decisions during emergencies

## DOES YOUR LAW PRACTICE HAVE VALUE?

Take a quick moment to complete the following questions to consider the value of your practice. Please note that the Revenues or Earnings Methods are guidelines only. In considering the Additional Factors determine how each category would look for your individual practice and whether you feel it would have a positive or negative impact on overall value.

### Revenues or Earnings Methods

Average annual revenue over last 3 years (multiply by .5 to 1.2) \$ \_\_\_\_\_

#### OR

Average Owner Comp over last 3 years including profit, benefits and salary  
(multiply by 2 to 3) \$ \_\_\_\_\_

### Additional Factors Which May Impact Value:

### Positive or Negative Impact?

- |   |        |
|---|--------|
| <input type="checkbox"/> <input type="checkbox"/> Positive historical financial performance, growth, and margins? | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Positive stability of revenue stream month-to-month?            | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Future expectation of revenue?                                  | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Repeat clients?   | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Likelihood clients would remain with practice after transition? | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Depth and breadth of client and referral base?                  | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Key Personnel likely to remain?                                 | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Geographic location   | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Sublet, assignment, and/or buyout options in lease agreement    |        |
| <input type="checkbox"/> <input type="checkbox"/> Proximity to courthouse   |        |
| <input type="checkbox"/> <input type="checkbox"/> Office furnishings and decor                                    | + or - |
| <input type="checkbox"/> <input type="checkbox"/> IT, computer, and phone systems                                 | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Office equipment and supplies                                   | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Client management software and proprietary processes            | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Overall reputation of firm                                      | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Well-known phone number   | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Focus on maintaining ongoing relationships                      | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Attorney track record, expertise, and reputation                | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Marketable brand recognition                                    | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Age of practice   | + or - |
| <input type="checkbox"/> <input type="checkbox"/> Emerging area(s) in high demand                                 | + or - |

## **HELPFUL CONTACTS AND RESOURCES**

### **CONTACTS**

#### **Cindy Anderson, Thinc Strategy**

[www.thincstrategy.com](http://www.thincstrategy.com)

[cindy.anderson@thincstrategy.com](mailto:cindy.anderson@thincstrategy.com)

(888) 501-3216

Cindy founded Thinc Strategy to help business leaders and their management teams increase their corporate value. She has owned five businesses, selling three of her own. She has guided over 125 clients in growing their value, with many selling for a higher premium. She has spoken at Lawyers Mutual's "Selling a Law Practice" program.

#### **Rachel Blunk, Sharpless Stavola**

[www.sharpless-stavola.com](http://www.sharpless-stavola.com)

[rmb@sharpless-stavola.com](mailto:rmb@sharpless-stavola.com)

(336) 333-6380

Rachel is a transactional lawyer who assists law firms with business planning. Rachel has spoken at Lawyers Mutual's "Selling a Law Practice" program.

#### **Tea Hoffmann, Law Strategy Corp, LLC**

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Tea is a lawyer and the managing principal for Law Strategy Corp. Tea helps lawyers with strategic and succession planning. Tea has spoken at Lawyers Mutual's "Selling a Law Practice" program.

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Tom Lenfestey is the Managing Member of The Law Practice Exchange, LLC as well as a practicing North Carolina attorney. The Law Practice Exchange aims to educate and advise attorneys on the options available in the legal marketplace and serve as a confidential broker and advisor helping connect an exiting attorney and a growth-focused attorney or firm.

#### **Stacey Phipps, Attorney at Law PC**

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Stacey Phipps has been appointed trustee by the NC State Bar to close law practices for attorneys with health issues or disciplinary problems. Stacey serves as a member of the Lawyers Mutual HELP team, developing materials and procedures for assisting attorneys with emergency legal problems as a result of death or disability. Stacey serves as a consultant to assist lawyers prepare for winding down or to sell.

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Anna is a CPA and manager of valuation services at the accounting firm Cherry Bekaert. Anna has handled valuation of many professional service organizations and businesses including law firms. She has spoken at Lawyers Mutual's "Selling a Law Practice" program.

**Chris Vaughan, Firm Transitions**

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Chris is the founder of Firm Transitions and the EBOSS Group. He is also a public speaker and business consultant focused on helping attorneys and their firms grow through strategic planning, branding, and improved operational efficiency. He has worked with attorneys in firms of all sizes – from solo practitioners to Am Law 200 firms. Chris can offer technology systems to assist lawyers as they prepare to transition or sell their law practice.

## **GROUPS AND ORGANIZATIONS**

ABA Senior Lawyers Division

[www.americanbar.org/groups/senior\\_lawyers.html](http://www.americanbar.org/groups/senior_lawyers.html)

Lawyers Mutual HELP Team

<http://www.lawyersmutualnc.com/risk-management-resources/help-team>

[riskmgt@lawyersmutualnc.com](mailto:riskmgt@lawyersmutualnc.com)

(800) 662-8843

NCBA Transitioning Lawyer Commission

<http://ncbar.org/members/committees/transitioning-lawyers-commission/>

Osher Lifelong Learning Institute

[http://www.osherfoundation.org/index.php?olli\\_list](http://www.osherfoundation.org/index.php?olli_list)

(Check above for the location nearest you.)



## OTHER RESOURCES

The following publications, articles and internet links are good starting places to learn more about a variety of topics related to law firm transition and life after law opportunities.

Recognize, however, that change is a constant. New information arrives daily. While we have made an effort to select resources that have a long shelf-life, some articles that are timely today might be outdated tomorrow.

- Brown, Patrick. “Maintaining Continuous Coverage.” (Lawyers Mutual Article.) <http://www.lawyersmutualinc.com/risk-management-resources/articles/maintaining-continuous-coverage>
- *Plan Ahead for Closing A Law Practice: Procedures for Retirement, Moving to a New Firm, or Your Death or Disability.* (Lawyers Mutual Practice Guide). [http://files.www.lawyersmutualinc.com/risk-management-resources/risk-management-handouts/closing-a-law-practice-through-retirement-moving-to-a-new-firm-or-death-of-a-fellow-lawyer/Closing\\_Practice.pdf](http://files.www.lawyersmutualinc.com/risk-management-resources/risk-management-handouts/closing-a-law-practice-through-retirement-moving-to-a-new-firm-or-death-of-a-fellow-lawyer/Closing_Practice.pdf)
- North Carolina Bar Association. Turning Out the Lights Video Series. (Videos.) <http://www.ncbar.org/members/committees/transitioning-lawyers-commission/turning-out-the-lights-video-series/>
- Reeves, Jay. “Guidance on Closing Your Office.” (Lawyers Mutual Blogpost.) <http://www.lawyersmutualinc.com/blog/guidance-on-closing-your-office>
- Savage, Warren. “FROM START TO FINISH: Why Everyone Needs A Firm Emergency Plan.” (Lawyers Mutual Article.) <http://www.lawyersmutualinc.com/risk-management-resources/articles/why-everyone-needs-a-firm-emergency-plan>
- Savage, Warren. “You Are Never Too Young and Healthy To Have A Firm Emergency Plan In Case Of Unexpected Death, Illness, Or Disability.” (Lawyers Mutual Blogpost.) <http://www.lawyersmutualinc.com/blog/you-are-never-too-young-and-healthy-to-have-a-firm-emergency-plan-in-case-of-unexpected-death-illness-or-disability>

These titles are in the Lawyers Mutual Book Lending Library, available as an exclusive free benefit to policyholders. <http://www.lawyersmutualinc.com/risk-management-resources/book-lending-library>

- Arron, Deborah and Guyol, Deborah. *The Complete Guide to Contract Lawyering: What Every Lawyer and Law Firm Needs to Know about Temporary Legal Services*
- Batman, Jean L.; Wren, Harold Gwyn; and Glascock, Beverly Joan. *Of Counsel: A Guide for Law Firms and Practitioners*
- Berson, Susan A. *Younger Next Year*
- Bridewell, David A. and Nauts, Charles, Editors. *The Lawyer’s Guide to Retirement: Strategies for Attorneys and Their Clients*
- Clyde, John and Funk, Pat. *Lawyers at Midlife.*
- Cowley, Chris and Lodge, M.D., Henry S. *The Lawyer’s Retirement Planning Guide*
- Giuliani, Peter A. *Passing the Torch Without Getting Burned.*
- Krauss, Geri S. *Partner Departures and Lateral Moves: A Legal and Ethical Guide*
- Poll, Edward. *Life After Law: What Will You do with the Next 6,000 Days?*
- Rath, Tom. *Strengths Finder 2.0*
- Warrillow, John. *Built to Sell: Creating a Business that Can Thrive Without You*