Selling a Law Practice: 8 Things to Know

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As a law firm owner, you may consider selling a law practice for many reasons. And there's a lot to consider to properly put a value on a business that you've built with your time, talent, and passion over the years.

You may be thinking of pursuing a new career, moving, or retiring. Sometimes, putting a law practice for sale is the best choice for a law firm owner. But that doesn't mean that it's a simple decision. If you're thinking of selling a law firm, you must have a plan, follow your jurisdiction's rules, and ask for help when you need it.

In the following post, we'll cover key things to consider when selling a law practice. From establishing a transition plan to ensuring you properly serve your clients, and accurately pricing your practice and more, read on to start strategizing.

What documents do you need to sell a law firm business?

When selling a law firm, you'll need documents to value your practice. Also, you'll need any legal documents related to selling a business for your jurisdiction.

While the exact documents you need will vary depending on your situation and location, you'll likely need—at minimum—the following:

- An offer-to-purchase agreement
- A note of seller financing
- Current and past financial statements (often two to three years)
- A statement of seller's discretionary earnings
- Cash flow statements

Consider these 8 things before selling a law practice

Just as a firm owner has to carefully plan and execute a strategy to close a law practice, you need to think about multiple factors before selling a law practice. Here are eight important elements to consider:

Familiarize yourself with the rules

Start the process of selling your law firm by researching and investigating any ethical considerations, applicable laws, and rules in your area.

For example, Rule 1.17 on the Sale of Law Practice from the American Bar Association's *Model Rules of Professional Conduct*, which applies to most states, outlines the conditions necessary for a lawyer or law firm to sell or purchase a law practice or area of a law practice (including good will). In brief, the rules state that the seller:

- Cannot engage in the private practice of law, or in the area of practice, in the geographic area or jurisdiction of the law firm being sold.
- Must sell the entire practice or area of practice to one or more lawyers or law firms.
- Must notify their firm's clients with a detailed written notice of the proposed sale. The law firm seller must also state the client's rights to retain other counsel or to take possession of their file. In addition, the law firm seller must include how they will transfer the client's files if the client doesn't take action or respond within 90 days of receiving the notice.

Rule 1.17 also states what should happen if the seller cannot give their clients notice. The rule also asserts that the law firm seller should not stop charging clients the relevant legal fees because of the firm's sale. You can read Rule 1.17 in detail.

Check applicable state rules

In addition to checking how Rule 1.17 applies to you, if you're planning to sell a law firm, you should also check for applicable state rules.

While it's your duty to learn and abide by the rules of selling a law firm, you don't have to navigate the process alone. And the process of selling a law practice is long—from understanding the rules to managing the emotional aspects of making such a large transition. Bearing in mind confidentiality issues, reach out to a former colleague, contact, or legal mentor if possible. Someone who has been through the process of selling their law practice themselves can provide helpful support.

Invest in the evaluation process

One of the most challenging aspects of selling a law practice is determining what it's worth.

As the firm's owner, assessing your firm for its fair value is challenging. It's also natural to struggle to accurately value your firm because of all the time, energy, and money you've invested.

Some firms use a straightforward revenue-based strategy to assign value. This revenue-based strategy usually means assigning a multiplier such as 0.5 or 1.2 to a firm's average annual revenues. Or, some firms look to comparable firm sales to get a number. However,c omparing with other firm sales doesn't account for tangible and intangible elements driving the value of a practice. Comparing with other firms sales also ordoesn't account for firms in practice areas with less predictable revenue streams.

Some factors that impact a firm's value

- **Overall historical and projected financials**—including the firm's net worth and profitability.
- **Practice composition**—including the firm's practice size, practice area, and employees.
- **Client base**—a firm with many repeat clients will have a higher potential value.
- **Firm reputation**—a firm's established reputation and brand recognition can be a valuable asset.
- **Terms of sale**—the particulars of the deal (such as how long the seller will stay on to assist during the transition) can impact the firm's valuation.
- **Location**—As outlined in the most recent *Legal Trends Report* research, a firm's geographical location can make a difference in hourly rates, as certain states have higher average hourly rates (click the link to explore the average lawyer rates by state and practice area).

Due to the complexity and variability of assigning value to a firm you are thinking of selling, consider hiring a consultant who specializes in firm valuation. This type of expert, outside perspective, can help ensure you get a fair market value for your law firm business.

Turning to experts to help you determine a fair firm appraisal when needed is also smart. Experienced law firm appraisers can walk you through the overall process of selling a law practice as well. A team of professionals with expert knowledge can make the process of selling a law practice easier and more efficient for you as a seller. They can also help you follow the rules and avoid potential issues with the selling process. This team could include:

- **A Certified Public Accountant (CPA)** to help with tax considerations
- **A transactional attorney** to assist with the sale

- **An insurance advisor**, as you'll want to ensure you have proper legal practice insurance coverage as long as necessary in case of malpractice claims
- **A financial advisor** to assist with financial planning through the sale, and after

You may also want to check with your state's bar association for resources to support you through the process of valuing and selling your law practice. For example, the North Carolina Bar Association has a Transitioning Lawyers Commission. This commission offers resources and services for lawyers moving away from their practice through succession planning or selling a law practice.

Seek out potential buyers

Once you've decided to put your legal practice for sale, gathered a team of experts, and have valued your firm, the next step is to find potential buyers.

What should you look for in a potential buyer? This depends on your goals, but consider factors such as:

- **Finances**. Can the buyer financially afford your sale price? Do you and the buyer agree on the value of your firm?
- **Personality fit.** You know your staff and clients best—so you want to find a buyer that is committed and capable of serving the firm.
- **Timelines**. Do your transition timeline and the buyer's transition timelines agree?

If you don't already have a buyer in mind, finding a serious buyer who is a good fit for your firm may take time. If you're not sure where to start, consider working with a law firm brokerage company. A law firm brokerage company can help market your law firm. A firm brokerage company may also be able to support you in communicating with potential buyers.

Keep tax considerations top of mind

When considering selling your law practice, you need to consider the tax implications that will come with this sale. With this in mind, it's wise to work with a CPA throughout the process to ensure you meet all tax requirements.

In addition to helping navigate the tax requirements, a CPA can also assist with collecting necessary business documentation for selling your law practice business.

Take care of your team

One of the challenges of selling a law practice is that it impacts people—you, your clients, and your team.

Unless you're a solo attorney working, your dedicated employees are part of the foundation of the firm. That's why it's important to take steps to support your law firm's staff and ensure you provide a smooth transition.

A detailed exit plan (more on this below) with staff input, where applicable, helps ensure that your team will have a smooth transition once you've left the firm.

Create a comprehensive exit plan

Just as you made a business plan when starting your law firm, having a thoughtful transition plan when selling a law firm is essential. A transition plan ensures all parties involved—you, your employees, the firm's clients, and your buyer—can transition fairly and smoothly.

Your exit plan should include many of the same elements as a law firm succession plan while accounting for the elements specific to selling a law practice.

If you're a solo attorney, you can develop your plan by yourself. However, you may want to seek the help of an expert team you've assembled (such as your CPA or insurance advisor).

If you own a firm with employees, consider working with them to develop the plan. Including senior staff members in the succession planning process can help ensure your transition covers all your bases. At the same time,it ensures you address all daily operations.

Critical elements of your exit plan

While the exact details of your plan will depend on your situation and your area's ethical rules, consider planning for:

1. **A transition timeline**. How long will you stay on after the sale? Plan the steps in detail and project the time you'll need to transition from your ownership to the buyer's.
2. **Essential law firm information**. Just as with a succession plan, you should have a plan to responsibly pass on key information about your firm (like account details, passwords, insurance details, and vendor contacts).
3. **Training.** Will you need to train the new owner or staff? Account for this in your plan.

Prioritize your clients

Also, prioritize current and past clients in your plan. In addition to ensuring you maintain proper client notification and consent (as per ABA Model Rule 1.17 discussed earlier), you need to consider how to handle closed client files and confidentiality issues.

For guidance on this, it may be useful to consult ABA Model Rule 1.6(b)(7), which allows you to disclose client information in a limited way due to changes in the ownership of a firm. You can do this as long as disclosures do not compromise attorney-client privilege or prejudice the client's interests. Entering a non-disclosure agreement with the buyer can help protect clients' interests during the process of selling a law firm.

If time permits—make your practice more valuable

Taking steps to improve your firm's financial health and get it in the best possible shape before selling is always a good idea. After all, to achieve the best financial result, you want to make your firm as attractive as possible to potential buyers. However, the depth and breadth of these steps depends on how much time you have.

Consider how a potential buyer may perceive your law firm: Are there areas that you could improve now to make it more valuable before you put it for sale?

If time permits and you don't need to sell the practice urgenty, look at key areas of the firm that may impact its value. Such areas include billing and realization rates, employee management, and client management. Assess if there are ways to improve or optimize procedures and results.

Consider these to make your legal practice more valuable

- **Ask for advice.** If you have a consultant to help determine the value of your firm, they may be able to identify strategies to increase the firm's value before you try to sell it. Working with financial professionals (such as a CPA) can also help you identify ways to optimize your practice.
- **Use technology to optimize operations**. Technology like legal practice management software can improve your firm's efficiency prior to selling. Legal technology can also make your firm more attractive to buyers. For example, if your firm's collections rates are low, using Clio Manage can help increase collection rates and improve cash flow. Clio Manage can help by letting you offer more flexible payment plans and accept online credit card payments.

Learn more about how Clio can help you increase your firm's value prior to selling.

Get clear on your needs

You want to get the best possible result when selling a law firm—financially and for yourself, staff, and clients. That's why it's important to identify what you value the most. Is money for retirement your priority? Or are you most concerned with your rapport with clients and employees? Is the most important factor for you the person buying your firm? Or is it important that they're equipped with the necessary skills to keep it running proficiently?

Getting clear on your ultimate needs as a law firm owner can help you stay focused throughout the process. Having a good understanding of your needs can also help guide your timelines. You're also more likely able to strike an advantageous deal.

While selling a law practice is likely new to you, the process is actually similar to buying or selling a home. If you were looking to sell your house, you would communicate your deal-breakers. This might include informing real estate agents of the minimum price or a move-in date. By communicating these points, you could make a deal that gets you what you want and need. In many ways, this is no different.

Also, don't underestimate the potential heightened stress that comes with selling a law firm—even under the best of circumstances. Whatever your reason may be to sell, letting go of the entity that you've dedicated your time and talent to is difficult. With this in mind, remember to prioritize your own needs and wellness throughout the process.

For more on prioritizing lawyer wellness—at any point in your legal career—listen to this episode of our Matters podcast.

Selling a law practice isn't easy

Selling a law firm is never an easy (or simple) decision, but there are times when it's the right decision.

If you're considering putting your law practice for sale, take proactive steps. These steps include recruiting a team, knowing the rules, and getting your firm in the best possible shape prior to selling. Doing so can make the journey as smooth as possible. When done right, selling a law practice can be a win for both the buyer and the seller. While ensuring that the seller is fairly rewarded for the practice that they worked so hard to build.

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