

**“ATTORNEYS FACING RETIREMENT”**

**A CONTINUING LEGAL EDUCATION  
SEMINAR OF THE  
CONNECTICUT BAR ASSOCIATION**

**NORTH HAVEN, CT**

**THE VALUATION OF THE LAW PRACTICE  
FOR RETIREMENT PLANNING PURPOSES**

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## ONE . CHARACTERISTICS OF PROFESSIONAL PRACTICES

- ◆ Service business with few tangible assets,
- ◆ Relationship of trust between client and professional,
- ◆ Practice or professional(s) rely on referrals,
- ◆ License required by governmental authority as well as bar association.

## TWO . PROFESSIONAL PRACTICES VS. SMALL BUSINESS

- ◆ Larger reliance on intangible assets; thus valuation methods generally used are based on earnings capability as opposed to assets.
- ◆ Dependence on the professional: somewhat akin to key man issue. What's the difference between professional and practice goodwill?
- ◆ Limitations on license transfer, effect on the market.
- ◆ Supply and demand of specialty; supply and demand in trade area.
- ◆ Cash basis accounting.
- ◆ Value drivers. See **Chart A**.

### CHART A

#### Checklist of factors affecting the values of professional practices

Factor	More Desirable	Less Desirable
Location + demographics	Urban High growth Affluent Stable population	Rural Mature or declining market Poor Transient population
Client persistence	Very stable	High turnover
Dependence on referrals vs. direct client contact	Large direct client base	One or few referral sources
Contractual relationships	Strong relationships	Relationships threatened by termination
Supply/Demand	High demand, low supply	High supply, low demand

Reputation	Stellar, far and wide	Non-existent or tarnished
Facilities + technology	State of the art	Antiquated
Employees	Adequate and dedicated	Inadequate or departing
Practitioner's work habits	Light work load	Workaholic
Potential synergies	high propensity to be revenue source for potential acquirer.	No such potential

Source: Shannon P. Pratt, Robert F. Reilly, Robert P. Schweih's Op. cit. p.566.

### THREE . ADJUSTING THE BALANCE SHEET OF A PROFESSIONAL PRACTICE

- ◆ Cash
- ◆ Accounts Receivables: collectible or not.
- ◆ Work-In-Process Inventory: adjust for % unbilled, % uncollected.
- ◆ Supplies
- ◆ Prepaid Expenses
- ◆ Equipment
- ◆ Leasehold improvements
- ◆ Intangible assets -see **Chart B**
  
- ◆ Accounts Payable
- ◆ Accruals
- ◆ Deferred Liabilities
- ◆ Contingent Liabilities

#### CHART B

#### Intangible Assets Commonly Found in Various Professional Practices

Computer software	Licenses
Computerized databases	Literary works
Cooperative agreements	Litigation awards & damages
Copyrights	Management contracts
Customer contacts	Marketing/Promotional materials

Customer lists	Noncompete covenants
Customer relationships	Patents + Patent applications
Designs and drawings	Client records
Employment contracts	Permits
Favorable leases	Procedural manuals
Franchise agreements	Royalty agreements
Going-concern value	Schematics + diagrams
Goodwill	Know-how
Government contracts	Case/research notebooks
Historical documents	Subscription lists
HMO enrollment lists	Supplier contracts
Insurance expirations	Technical + Specialty library/documentation
Joint ventures	Trade secrets
Library	Trained + Assembled workforce

Source: Shannon P. Pratt, Robert F. Reilly, Robert P. Schweih's Op. cit. p.576.

#### **FOUR . METHODS COMMONLY USED TO VALUE PRACTICES**

- ◆ Discounting of economic income: see Exhibit **A**.
- ◆ Capitalization of economic income: see Exhibit **D**.
- ◆ Multiples of revenues: no serious one for law firms.
- ◆ Comparative transactions/buy-ins: difficult to find for law firms.
- ◆ Punitive and retirement formulas.
- ◆ Capitalized excess earnings: see Exhibits **B** and **C**.

- ◆ Asset accumulation or adjusted book value method: see THREE above.

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