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Law Practices

SIC: 8111**NAICS:** 541110**Number of Businesses / Units:** 500,000

This industry comprises offices of legal practitioners known as lawyers or attorneys (i.e., counselors-at-law) primarily engaged in the practice of law. Establishments in this industry may provide expertise in a range or in specific areas of law, such as criminal law, corporate law, family and estate law, patent law, real estate law, or tax law.

Rules of Thumb

40 to 100 percent of annual fee revenue; firms specializing in estate work would approach 100 percent; may require earnout

General Information

Can You Sell Your Law Practice?

"An increasing number of attorneys consider getting out of the practice of law and doing something else. Whether changing careers or retiring, many attorneys leave the law by just closing their office doors one day and never returning. However, by abruptly leaving, the attorney forsakes 'cashing in' on a valuable asset that has taken many years to build.

"And, what about the situation where the attorney dies suddenly and leaves a spouse to 'mop up'? Is there anything of value that can be sold?

"Depending on where you practice, the answer to both questions is yes.

"In 1989, California became the first state to adopt a rule of professional conduct (Rule 2-300) that specifically permits the sale of a law practice. The American Bar Association, through the efforts of the General Practice Section, then adopted a similar rule, Model Rule 1.17. Two years ago, through the efforts of the ABA's Standing Committee on Sole & Small Firm Practitioners, the ABA adopted a modification that permits lawyers to sell part (not all) of their practices. Several states have since adopted the ABA's new version, and more than 40 states now have some version of the ABA rule and permit the sale of a law practice. The remaining states are in various phases of rethinking this issue.

"While the practice of law is personal, there is also a business component to it that enables the owner to sell the practice to another attorney, who would then step into the first attorney's

Industry Trend

"For lawyers, that analysis might mean understanding how an upcoming merger of law firms could change the competitive landscape, how an anticipated regulatory change could affect business, when a practice area is ripe for expansion, or whether the arrival of a national law firm poses a threat. Without that knowledge, a law firm could overlook a promising opportunity to merge or lose a lucrative client to a rival firm."

Source: "Law Firms Learn How to Compete" by Sacha Pfeiffer, *The Boston Globe*, June 19, 2006

shoes and provide a continuity of service to the existing clients.

"It is time that attorneys realize that their practice is something of value, and that value (not the practice) can be passed on to the heirs of the attorney at time of death or otherwise become part of the attorney's estate if the practice is sold before death.

"Is every practice saleable? Maybe not. Some practices are so small and so personal that without continuing involvement of the first attorney, a second attorney would not succeed in keeping the clients. However, most law practices—including small and personal ones—are saleable for the right price and under the right terms."

Source: Edward Poll, J.D., M.B.A., CMC, February 2005, *Law Practice Today*, www.aba.net
Sale of a Law Practice

Following are excerpts from Rule 1.17 covering the sale of a law practice promulgated by the American Bar Association. For the complete text, refer to Rule 1.17.

The Model Rules - Rule 1.17: Sale of Law Practice

A lawyer or a law firm may sell or purchase a law practice, including good will, if the following conditions are satisfied:

- a. The seller ceases to engage in the private practice of law [in the geographical area] [in the jurisdiction] (a jurisdiction may elect either version) in which the practice has been conducted;
- b. The practice is sold as an entirety to another lawyer or law firm;
- c. Actual written notice is given to each of the seller's clients regarding:
 1. the proposed sale;
 2. the terms of any proposed change in the fee arrangement authorized in paragraph (d);
 3. the client's right to retain other counsel or to take possession of the file;
 4. the fact that the client's consent to the sale will be presumed if the client does not take any action or does not otherwise object within ninety (90) days of receipt of the notice.