



Week of **February 9, 2010**

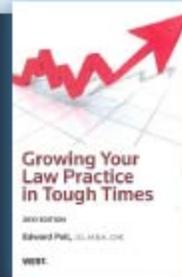
What Is Your Practice Worth?

My personal experience is that interest by lawyers in selling their practice is stronger than ever—either because of financial pressures, professional burnout or advancing age. Regular readers of these tips know it is one of my articles of faith that even the smallest and most personal practices are saleable for the right price and under the right terms, especially those with solid clients and little debt. But although the specifics of arriving at that price can be much more of an art than a science, there are some practical benchmarks to consider.

Although every lawyer will have different income needs in retirement, valuation of a practice to support retirement is typically based on a "rule-of-thumb" method after valuing physical or identifiable assets. This method attempts to determine what the stream of income is worth to a prospective buyer. Although a standard has not yet been set for law firms, a general multiplier would be in the range of 50% to 300% of annual gross receipts, depending on the nature of the practice, the transferability of the clients and how much repeat business is expected.

There is no definitive way of calculating goodwill, but appraisers often use the "excess earnings" model in which goodwill is defined to be a differential advantage resulting from the individual lawyer's skill, reputation and special talent. A rough calculation involves determining the average annual earnings of the firm over the previous five years, subtracting a fair return on the physical assets of the practice, and comparing the result to a typical compensation figure for a lawyer in the local market. This is the amount of excess earnings, and can serve as a proxy figure for goodwill.

Ultimately, a business is worth only what someone is willing to pay for it. Valuation may be different at different points in time, and valuation and price may not be the same thing. But every practice has some



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inherent value that can be sold. For more insights on how to determine it, you may wish to consider two new LawBiz resources: [Law Firm for Sale](#), a 4-disc CD set and [Exit Strategy: Selling & Other Strategies to Leave the Practice of Law](#), a 3-disc DVD set. Both reflect the lessons I've learned from decades of consulting with and helping lawyers value their practices for purchase or sale. Go to the www.lawbiz.com web site for more information. It may be the first step to finding out that your practice is worth more than you think.

Personal Commentary

The last few days, I've had the good fortune to be in Ojai, CA in our Airstream. We visited the Ojai Olive Oil Co. to see how oil varieties are made, and then the Ojai Valley Inn, an upscale resort, for a delicious lunch. We also visited Happy Valley, an artist's paradise of 500 acres since the 1920s, with perhaps the most glorious scenery I've ever seen. And, it's been raining steadily. I can't remember so much rain. But, also today, the sun shone... and the world looked renewed. The economic news in today's newspaper is more positive. Let's hope the new year brings a resurging joy and economy for you as well.

Best wishes,

Ed Poll

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*STEWART L. LEVINE, ESQ.,
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