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What is the Fair Market Value of a Full Service Commercial Law Firm?

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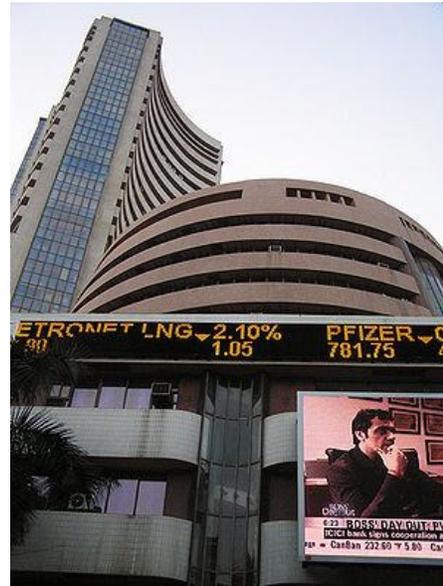
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A [short piece](#) in today's the *Wall Street Journal* caught my eye: The *Journal* reported that a report was just issued that "estimates that top U.K. law firms are worth between \$711 million to \$4.1 billion, with Magic Circle firm Allen & Overy leading the pack." The [report](#) the *Journal* made reference to was brief and from [Europa Partners](#) which stated that it had just completed its second annual valuation of UK based law firms and found that "Law firms are valuable businesses; six of the top ten by value are large enough to be included in the FTSE100 if they were listed."

I wonder.

When I went to school, I learned that the definition of value was “the price a willing buyer would pay a willing seller, each negotiating in good faith and neither under duress.” Well then, is there a willing buyer out there for any of these firms? We don’t see any. The Alternative Business Structure, sometimes called the Tesco law, does allow for non-lawyer ownership of law firms in the United Kingdom and Wales. But, as [I predicted some time ago](#), there aren’t any non-lawyer buyers lining up or kicking the tires for large commercial law firms. With the top ten magic circle firms valued in the eye-popping range of \$711,000,000 to \$4,200,000,000, I suspect that more than a few equity partners at these well heeled law firms would be seriously thinking about cashing in their chips if there were a willing buyer out there. I know you would. I certainly would.



We have all learned the hard way that lawyers, trusted business advisers to the global markets, have concocted the silliest business model for their own business. In any other endeavor, a business owner invests capital, sweat equity and builds a viable enterprise and looks forward to an exit strategy, where he or she could sell the business or perhaps leave it to his or her children. Lawyers can do neither. If they are lucky, they get to [retire voluntarily](#) when they are ready (not when they are forced to) and then simply get their own money, namely, their capital contributions, back over a period of years. Maybe a nice dinner with a couple of partners is thrown in as well. But no premium and no premium for having built a successful business. Anti-nepotism rules typically preclude a bequest of a partner’s ownership rights to his or her offspring.

More painfully, a large commercial law firm has less than zero value on liquidation or winding down. In fact, [such scenarios have been enormously costly for partners in such law firms](#).

Well, then, what is a commercial law firm worth? Nothing, really. I have no idea what Europa Partners’ valuation methodology was, but whatever methodology was deployed, it certainly couldn’t result in a fair market value with the standard textbook definition of value.

The Achilles’ heel in valuing a law firm is that its most valuable assets, its working partners, ride that old elevator down every night and in this age of [partner free agency](#), there is only a hope and a prayer that these assets will return the next day to contribute to the production line. Our colleagues across the pond do have an advantage in maintaining some value for these assets in some respects in that the rules in the UK do allow for “[garden leaves](#),” under which a withdrawing partner can be compelled to spend many months after he or she withdraws from a

law sitting at home enjoying the garden or just sucking wind. But, in most of the United States, Rule 5.6 of the Model Code of Professional Conduct bars a lawyer from entering into any agreement which restricts him or her from practicing law. No restrictive covenants here.

But, I digress.

The point is as we go through the wrenching changes wrought by The Great Recession, clever lawyers, with a bit of self interest should be thinking about re-designing the entire business model of law firms and the delivery of legal services. While the American Bar Association [dithers with little bits of the non-lawyer ownership of law firms issue](#) for no good or productive reason, the market – and clever lawyers – will develop a new structure which create a new structure for the delivery of legal services, which will have real value, be saleable and scalable. [Our LPO competitors have already figured out how to do so](#) and may be soon eating our lunch. And their enterprises have real value.

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