

# Administrator's Guide to Firm Dissolution

by  
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The decisions made by the management team regarding the administration and management of firm and lawyer and staff activities can be the determining factor of whether a law firm will ultimately succeed or fail. Helping to insure the success of their law firms is one of the most important responsibilities a law firm administrator can undertake. That responsibility includes continued analysis of the firm culture. Understanding the culture is important, and then helping the Partners to understand when that culture has changed and what those changes mean for the future of the firm is essential. Perhaps the most important role an Administrator can play in a law firm dissolution is its prevention.

In understanding the firm culture, Administrators must be aware of changes taking place and identify how they will affect the firm in the future. Several warning signs of a law firm in danger of dissolving include:

- a. Partner departures. If the firm has not been seriously confronted with lawyer departures, then Partners suddenly begin to leave, there is an underlining problem which led lawyers to look elsewhere to find a better work environment. Administrators need to be aware of the change taking place, help management pinpoint the reasons, then assist in a plan of action to address the issues quickly and effectively. If the underlying issues are not addressed, lawyers will continue to depart, creating an unstable firm.
- b. Partner disagreements. It is understood that Partners will disagree, however it is the level of disagreements that need to be assessed. Can the disagreements be discussed to reach some kind of compromise Partners are willing to live with for the sake of the continuation of the firm? If not, loyalty may be tested and lawyers may eventually leave or decide to dissolve as an entity.
- c. Financial Instability. Financial management must be decisive and effective. If the firm continuously suffers from financial peaks and valleys, it is more likely that it will be unable to secure a stable foundation to remain in business. Partners will tire of the constant need to shuffle money to meet firm needs. The Administrator must be aware of the issues, assist in the development of an effective turnaround plan, then implement it, manage it consistently, and evaluate it regularly.
- d. Lack of Planning. Firms which do not plan are not prepared for the ups and downs of the legal market. These firms are hit hardest when there is a significant change in their client base, in the legal industry or in the firm's ability to promptly deliver legal services. The failure to prepare for the unexpected can attribute to the dissolution of a law firm.

- e. Lack of Growth. In today's legal community, firms are growing and changing to meet the needs of their clients and desired clients. If the firm does not focus on replacing retiring partners, growing its practice base, expanding its legal services or recruiting, training and retaining associates it will not be prepared to meet future needs. Firms that do not grow often do not succeed.
- f. Loss of Clients/Smaller Client Base. When a firm's client base begins to disappear, the reasons must be identified and an action plan developed and implemented to affect a change. When firms fail to attract new clients regularly, it adversely affects the success of the firm. It is a well known fact that 40% of a firm's client base turns over every five years. If that client base is not replaced and added to, the firm may not be able to produce enough work to remain viable.
- g. Greed. Sometimes lawyers are more concerned about how much money they take home than ensuring the firm is financially stable. If lawyers consistently take home more than is possible to keep the firm stable, the firm will begin to realize financial instability and this instability could eventually lead to firm dissolution or bankruptcy.

### **Communicating the Decision of Dissolution**

When Partners are considering dissolution as an alternative to solving firm problems they should have a full understanding of what the dissolution process entails and how it is implemented. Among the issues to be considered:

- a. What steps are involved in a law firm dissolution?
- b. How long would it take to develop and carry out a firm dissolution to conclusion?
- c. Who would be responsible for carrying out the steps involved in a dissolution?
- d. What are Partners responsibilities to the firm, before, during and after the dissolution?
- e. What support system should be developed in order to effectively implement the dissolution process?
- f. What will be the decision making authority, the Managing Partner, the Management Committee, the Partners as a whole, etc.
- g. What expenses are involved in carrying out a firm dissolution and how will those expenses be paid?

- h. Is dissolution more beneficial to the members of the firm, rather than to dissolve then to reorganize with effective management and discipline in the practice of law

In order to make a decision regarding the future of the firm, Partners must have all information necessary to make an intelligent decision. It is far easier to implement the dissolution if there is a basic understanding of what is entailed and how it will be handled. Once the final decision is made to dissolve, the Administrator should encourage the Partners to follow an organized plan of action to effectively put the firm out of business.

As soon as the decision is made, the Administrator should develop a detailed plan of action and submit it to the Partners. Once the plan of action is agreed to by the Partners, it is time to communicate the decision and the course of action to the Associates and firm staff. Encourage the Partners to hold an all lawyer meeting. The designated spokesperson for the Partners should inform the Associates of the decision which has been made and the course of action to be followed. The same spokesperson should attend a staff meeting informing the staff of the decision and the course of action. The meetings should be held the same day. The decision needs to be communicated to both groups by the Partners and not the office grapevine.

The meetings will accomplish a number of things including:

- a. Informing employees as a group which allows them to hear the same information from one source.
- b. The spokesperson will describe the process, therefore staff and associates can gain an understanding of how it will affect each of them personally.
- c. The meetings give the employees the opportunity to ask questions and raise concerns regarding the decision and the process.
- d. Often, the Associates and staff have suggestions or raise issues which have not been considered previously.
- e. This communications means will provide an opportunity to build a team atmosphere, encouraging everybody to work together to make the process as beneficial as possible to all.

Departed and retired Partners will also need to be informed regarding the decision to dissolve. The dissolution may affect the retirement arrangement or buyout compensation or file service. A letter describing the dissolution and its affects should be developed and provided.

Perhaps the most important step to be taken in the communication process, is informing current clients of the decision to dissolve. The Partners, with the help of the Administrator, will need to agree when and how the clients will be informed of the dissolution. Once the date of the announcement is decided upon, act quickly. Steps to be considered when informing firm clients include:

- a. Each attorney should write a personal letter to their clients informing them of:
  - the dissolution and the effective date
  - that the bills are due and payable in full to the firm by the original date appointed in the billing statement
  - what will happen to their work
  - insure them that communications will remain open and that the lawyer would be happy to answer any questions.
  - provide the correct address, phone number, fax number and email address of the firm and the appropriate lawyer
- b. If the firm has institutional clients - decide who would be responsible for contacting them and informing them of the same information as above.
- c. The payroll of Partners can be withheld until proof of the letters to clients has been provided to the appropriate authority within the firm.
- d. At the appropriate time, the Partners will provide a forwarding address to their clients.

### **The Nuts and Bolts of the Process**

The Administrator will play a major role in the implementation of the dissolution. Perhaps the most important step for the administrator to perform early on is the creation of a checklist regarding ongoing obligations/responsibilities of the firm. Such as:

- a. Bank loan(s)
- b. Office lease(s)
- c. Equipment lease(s)
- d. Vehicle lease(s)
- e. Phone contracts
- f. Cell phone agreements
- g. Web hosting agreement
- h. Yellow pages ads
- i. Medical and other insurance agreements
- j. Professional liability coverage
- k. Other arrangements as identified by the Administrator

The Administrator should also create a list of memberships and special arrangements which should be cancelled, such as:

- a. Credit cards
- b. Club memberships
- c. Parking arrangements

- d. Overnight mail accounts
- e. Retirement accounts
- f. Email accounts
- g. Martindale-Hubbell
- h. Others as identified by the Administrator

The Administrator should provide direction to the person in charge of ordering office supplies. They will need to determine what and how many supplies will be needed through the dissolution process. An inventory of supplies should be conducted and current supplies should be secured. Either the Administrator or their designee should contact distributors and suppliers with whom the firm has ongoing deliveries to inform them that the regular deliveries are cancelled as of a certain date. Notification should be done via phone or email as well as in writing via letter. Return un-needed supplies and keep a record of what was returned.

The Administrator must review all firm lease obligations. List the vendors and the amount of the financial obligation. Each vendor must be notified and a negotiation of the lease must be conducted. Vendors may take the equipment and/or furniture back, however it is unlikely. Negotiating an amicable solution is beneficial to both the firm and the vendor. If the lessor won't take the furniture and/or equipment back without payment in full, you may need to make arrangements for storage until agreement has been reached.

Notify all insurance carriers of the termination date of policies in accordance with COBRA.

Once the timing of the conclusion of the dissolution has been determined, the firm should begin to cancel phone lines, fax lines and other expense items which will not be needed for the duration of the dissolution process. Cancel all unnecessary bank accounts to simplify accounting. Follow up on all utilities which have been cancelled to insure cancellation has been implemented. Keep good records, date of cancellation notice, when it will be effective, the person who handled your call, etc.

The Administrator should ask the firm to assign an attorney to work with the Administrator to oversee the disposition of the furniture and other assets such as computers and printers. In order to do this effectively, there are simple steps to be followed, including:

- a. Have each item appraised by an outside person/organization.
- b. Decide who will receive what assets.
- c. If items are to be purchased, establish the value of each item.
- d. Determine the purchase agreement.
- e. Create a list of items for sale and their value.
- f. Record the sale of items by including:
  - the item
  - the purchase price
  - who purchased it
  - how they paid
  - when the item changes hands

- g. Provide a signed letter of agreement to the purchaser, which will authorize the removal of the item. Make sure building security requests to see the letter when items begin to leave the firm.
- h. Decide whether there are charitable donations that can be made to local organizations such as books, etc.
- i. Determine what will happen to sports tickets and who has the rights going forward.

The firm must decide who will close out the firm, a Partner, the Administrator and/or an outside source. Once the determination is made, act accordingly.

### **Financial Management**

To insure the firm has all relevant information necessary to move forward, the accounting firm that services the firm should be contacted and informed of the impending dissolution. The Partners and the Administrator should arrange a meeting where the accountant provides an overview of their financial status. The firm accountant may also have suggestions and recommendations regarding how to proceed and how they can be of help to the firm during the process. This meeting should take place very early in the process.

With the assistance of the firm's accountant or accounting firm, create a plan to address financial obligations with the bank. The plan should indicate how and when the bank will be paid. The bank will most likely want to be paid first. Be prepared for difficult negotiations. In many cases the bank will create an Asset Management Account, where all firm revenue will be deposited. The bank will then transfer the funds to the firm account as they deem appropriate.

If the Firm has made loan(s) to employees, Partners, etc., secure payment immediately. At the very least agree to a payment plan, put it in writing and have both parties sign the agreement.

### **Billings, Receivables and Payables**

The collection of past and current client bills will be very difficult to achieve. Once clients hear that the firm is dissolving, they often delay their payment, and many don't pay at all. The Administrator and the Partners must develop and implement a plan to collect all receivables. Often times, the Partners don't focus on collecting receivables for the firm, but focus on going forward at their new location. If Retainer Agreements were used when the firm was retained by the client, those agreements should be reviewed and used as a collection tool. It is very important for the lawyers to understand the need to collect the receivables. This should be discussed at the very outset, during the process and continuously throughout the dissolution.

Lawyers should submit all outstanding client expenses immediately for charge to the client. Where possible, clients should pay the vendors directly. Any expenses charged after a specific date should become the responsibility of the attorney who did not meet the deadline date.

Once the closing date has been established, identify the resources needed to insure the billing and collection of firm wip and receivables. The Firm must identify the person responsible for preparing the bills, mailing the bills and receiving and applying the receipts. Managing the firm receivables is vital if the firm is to meet their financial obligations.

The firm also needs to identify the person who will be responsible for insuring firm payables are paid appropriately and on time. Reports must be kept regarding who has been paid, when and how much.

### **File Management**

Distribution of files must be addressed early and a plan identified and implemented. A Partner must be assigned the responsibility for the distribution of client files. Both open and closed files will need to be addressed. The responsible person can be assisted by a staff member and/or the Administrator, but decisions must be made by the Partner in charge. A list of all files, open and closed, should be created and include the responsible attorney for each file. Files of departed or deceased Partners must also be addressed and included in the distribution. The Partner in charge must decide where the files of clients with wills and trust should go, and then make a list when distribution is implemented and concluded.

### **Communications**

Effective communications is essential in the dissolution process. The Administrator and Partners must be aware of the decisions taking place and the action plan developed and being implemented. Important communication should be verbal as well as written.

The firm must keep the staff informed as the process moves forward.

As staff, associates and partners depart; make sure they provide a forwarding address for mail received at the firm. It is also important to remain in contact with former personnel and lawyers in case they can be of assistance as the dissolution moves forward. Insure all those departing complete a forwarding form for record keeping.

### **Alternative Administrator Role**

The Legal Administrator=s role in the dissolution of a firm is considerably different when the firm decides to retain an outside party to wind down of the firm's affairs.

The outside party will supervise the following activities:

- h. Identify and communicate with all vendors currently appearing in the firm's accounts payable lists;
- i. Create an inventory of both:
  - a. Accounts receivables

- b. Work in progress
- j. Once the inventories of accounts receivable and work in progress are completed, then the third party will:
  - a. Advise the clients to whom fees are to be paid.
  - b. Request all lawyers to prepare closing statements which will bill the clients for the work completed at the time the firm closed.
  - c. The fees will be collected by the third party.
- k. The third party will create a schedule for receipt, review, approval and payment of claims.
- l. The third party will request all vendors who have claims against the firm to submit this claim by a fixed date.
- m. Following the receipt of all vendors' statements, a list will be prepared which includes vendor's names and the amount claimed. The list will be sent to all vendors who report payment.
- n. The third party will receive objections to the amount claimed by vendors. It will review the claim, then approve or object to the requests for payment.
- o. During this period, the third party will also negotiate the termination of leases entered into by the firm.
- p. During this period, the third party may engage a trustee to collect fees and it may also retain legal counsel to review and approve vendor claims.
- q. The third party will seek to bring the dissolution to closure by the previously established date.

During this period, the legal administrator will:

1. Arrange for the termination of employees.
2. Conduct an inventory of firm equipment.
3. Effectuate the termination of various contracts.
4. Assist the third party to bring the dissolution to closure.

## **Conclusion**

The Administrator's role in a law firm dissolution changes with each firm depending on its culture. Understand the firm culture. Assist the lawyers to understand the best plan of action for their firm. Develop and implement the plan of action effectively. Understand the steps involved, the resources needed, and the roles to be played by all.

# Law Firm Dissolution

## Checklist

- Q Create an Action Plan
- Q Identify who will be in control of the wind down process
- Q Contact the firm accounting firm
- Q Identify a spokesperson to address Associates and staff
- Q Identify a spokesperson to handle the Press and other outside sources
- Q Notify Associates and staff
- Q Notify retired Partners and departed Partners if appropriate
- Q Identify the person(s) who have authority to make what decisions
- Q Create a checklist of ongoing obligations and responsibilities
- Q Create a list of membership and special arrangements which will need to be addressed
- Q Notify insurance carriers of termination date
- Q Identify the person(s) who will conduct the daily activities to make it happen
- Q Notify the clients of the dissolution
- Q Notify the clients that the law firm owns the receivables and how and to whom they should be paid
- Q Follow up significant receivables with a phone call
- Q Determine compensation arrangements for those who implement the wind down process
- Q Develop a dissolution and wind down agreement signed by all owners, including:
  - addressing ownership and collection of receivables and work in process
  - how to address the orderly disposition of assets and how owners may obtain any particular asset
  - indicate that no owner has a specific interest in any firm asset

- Q Identify the person(s) who will have physical control of the client files
- Q Form agreement as to the sequence of payments, i.e., debts first, owners last, etc.
- Q Determine the last day of firm operation
- Q Determine how and when the final work in process will be billed
- Q Address the rent obligation  
-who will negotiate with the landlord
- Q Address lease obligations
- Q Determine the value of all firm assets as of the last operational day of the firm
- Q Identify contingent fee matters, and then negotiate a separate agreement regarding how to pay the firm and the lawyers involved.
- Q Determine the date the office physically closes its doors