

1 (Proposed Amendment – As approved by Standing Committee on Legal Ethics on  
2 November 17, 2008)

3 **RULE 1.17 Sale Of Law Practice**

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5 A lawyer or a law firm may sell or purchase a law practice, partially or in its entirety,  
6 including good will, if the following conditions are satisfied:

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8 (a) The seller ceases to engage in the private practice of law, or in the area of practice that  
9 has been sold, in the geographic area in which the practice has been conducted, except the lawyer  
10 may practice law while on staff of a public agency or legal services entity which provides legal  
11 services to the poor, or as in-house counsel to a business.

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13 (b) The entire practice, or the entire area of practice, is sold to one or more lawyers or law  
14 firms;

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16 (bc) Actual written notice is given by the seller to each of the seller's clients (as defined  
17 by the terms of the proposed sale) regarding:

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19 (1) the proposed sale and the identity of the purchaser;

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21 (2) any proposed change in the terms of the future representation including the fee  
22 arrangement;

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24 (3) the client's right to consent or to refuse to consent to the transfer of the client's  
25 matter, and that said right must be exercised within ninety (90) days of receipt of the  
26 notice;

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28 (4) the client's right to retain other counsel and/or take possession of the file; and

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30 (5) the fact that the client's refusal to consent to the transfer of the client's matter  
31 will be presumed if the client does not take any action or does not otherwise consent  
32 within ninety (90) days of receipt of the notice.

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34 (c) If a client involved in a pending matter cannot be given notice, the representation of  
35 that client may be transferred to the purchaser only upon entry of an order so authorizing by a  
36 court having jurisdiction. The seller may disclose to the court *in camera* information relating to  
37 the representation only to the extent necessary to obtain an order authorizing the transfer of a  
38 file.

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40 (d) The fees charged clients shall not be increased by reason of the sale.

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44 **COMMENT**

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46 [1] The practice of law is a profession, not merely a business. Clients are not  
47 commodities that can be purchased and sold at will. Pursuant to this Rule, when a lawyer or an  
48 entire firm ceases to practice and another lawyer or firm takes over the representation, the selling  
49 lawyer or firm may obtain compensation for the reasonable value of the practice as may  
50 withdrawing partners of law firms. See Rules 5.4 and 5.6.

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52 ***Termination of Practice by Seller***

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54 [2] The fact that a number of the seller's clients decide not to be represented by the  
55 purchaser but take their matters elsewhere does not result in a violation. Neither does the seller's  
56 return to private practice after the sale as a result of an unanticipated change in circumstances  
57 result in a violation. For example, a lawyer who has sold the practice to accept an appointment  
58 to judicial office does not violate the requirement that the sale be attendant to cessation of  
59 practice if the lawyer later resumes private practice upon leaving the office.

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61 [3] Comment [3] to *ABA Model Rule* 1.17 substantially appears in paragraph (a) of this  
62 Rule.

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64 ~~[4–6] *ABA Model Rule* Comment not adopted.~~

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66 [4] The Rule permits a sale of an entire practice attendant upon retirement from the  
67 private practice of law within the jurisdiction.

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69 [5] This Rule also permits a lawyer or law firm to sell an area of practice. If an area of  
70 practice is sold and the lawyer remains in the active practice of law, the lawyer must cease  
71 accepting any matters in the area of practice that has been sold, either as counsel or co-counsel or  
72 by assuming joint responsibility for a matter in connection with the division of a fee with another  
73 lawyer as would otherwise be permitted by Rule 1.5(e). For example, a lawyer with a substantial  
74 number of estate planning matters and a substantial number of probate administration cases may  
75 sell the estate planning portion of the practice but remain in the practice of law by concentrating  
76 on probate administration; however, that practitioner may not thereafter accept any estate  
77 planning matters. Although a lawyer who leaves a jurisdiction or geographical area typically  
78 would sell the entire practice, this Rule permits the lawyer to limit the sale to one or more areas  
79 of the practice, thereby preserving the lawyer's right to continue practice in the areas of the  
80 practice that were not sold.

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82 ***Sale of Entire Practice or Entire Area of Practice***

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84 [6] The Rule requires that the seller's entire practice, or an entire area of practice, be sold.  
85 The prohibition against sale of less than an entire practice area protects those clients whose  
86 matters are less lucrative and who might find it difficult to secure other counsel if a sale could be  
87 limited to substantial fee-generating matters. The purchasers are required to undertake all client  
88 matters in the practice or practice area, subject to client consent. This requirement is satisfied,  
89 however, even if a purchaser is unable to undertake a particular client matter because of a  
90 conflict of interest.

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***Client Confidences, Consent and Notice***

[7] Negotiations between seller and prospective purchaser prior to disclosure of information relating to a specific representation of an identifiable client no more violate the confidentiality provisions of Rule 1.6 than do preliminary discussions concerning the possible association of any lawyer or mergers between firms, with respect to which client consent is not required. Providing the purchaser access to client-specific information relating to the representation and to the file, however, requires client consent. The Rule provides that before such information can be disclosed by the seller to the purchaser the client must be given actual written notice of the contemplated sale, including the identity of the purchaser and any proposed change in the terms of future representation, and must be told that the decision to consent or to make other arrangements must be made within 90 days. If nothing is heard from the client within that time, the client's refusal to consent to the sale is presumed.

[8] A lawyer or law firm ceasing to practice cannot be required to remain in practice because some clients cannot be given actual notice of the proposed purchase. Since these clients cannot themselves consent to the purchase or direct any other disposition of their files, the Rule requires an order from a court having jurisdiction authorizing their transfer or other disposition. The Court can be expected to determine whether reasonable efforts to locate the client have been exhausted, and whether the absent client's legitimate interest will be served by authorizing the transfer of the file so that the purchaser may continue the representation. Preservation of client confidences requires that the petition for a court order be considered *in camera*.

[9] All the elements of client autonomy, including the client's absolute right to discharge a lawyer and transfer the representation to another, survive the sale of the practice.

***Fee Arrangements Between Client and Purchaser***

[10] The sale may not be financed by increases in fees charged the clients of the practice. Existing agreements between the seller and the client as to fees and the scope of work must be honored by the purchaser, unless the client consents after consultation.

***Other Applicable Ethical Standards***

[11] Lawyers participating in the sale of a law practice are subject to the ethical standards applicable to involving another lawyer in the representation of a client. These include, for example, the seller's obligation to assure that the purchaser is qualified to assume the practice and the purchaser's obligation to undertake the representation competently (*see* Rule 1.1); the obligation to avoid disqualifying conflicts, and to secure client consent after consultation for those conflicts which can be agreed to (*see* Rule 1.7); and the obligation to protect information relating to the representation (*see* Rules 1.6 and 1.9).

[12] If approval of the substitution of the purchasing attorney for the selling attorney is required by the rules of any tribunal in which a matter is pending, such approval must be obtained before the matter can be concluded in the sale (*see* Rule 1.16).

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***Applicability of the Rule***

[13] This Rule applies to the sale of a law practice by representatives of a deceased, disabled or disappeared lawyer. Thus, the seller may be represented by a nonlawyer representative not subject to these Rules. Since, however, no lawyer may participate in a sale of a law practice which does not conform to the requirements of this Rule, the representatives of the seller as well as the purchasing lawyer shall see to it that they are met.

[14] Admission to or retirement from a law partnership or professional association, retirement plans and similar arrangements, and a sale of tangible assets of a law practice, do not constitute a sale or purchase governed by this Rule.

[15] This Rule does not apply to the transfers of legal representation between lawyers when such transfers are unrelated to the sale of a practice.

**VIRGINIA CODE COMPARISON**

Ethical Consideration 4-6 states that a lawyer should not attempt to sell a law practice as a going business because, among other things, to do so would involve the disclosure of confidences and secrets.

**COMMITTEE COMMENTARY**

The Committee was persuaded to eliminate the prohibition of the sale of a law practice currently set forth in Ethical Consideration 4-6 by several arguments, the first being that sole practitioners and their clients are often unreasonably discriminated against when the attorney's practice is terminated. When lawyers who are members of firms retire, the transition for the client is usually smooth because another attorney of the firm normally takes over the matter. Such a transition is usually more difficult for the clients of a sole practitioner, who must employ another attorney or firm.

Another persuasive argument is that some attorneys leaving practice, firm members and sole practitioners alike, indirectly "sell" their practices, including its good will, by utilizing various arrangements. For example, firm members sometimes receive payments from their firm pursuant to retirement agreements that have the effect of rewarding the lawyer for the value of his/her practice. Sole practitioners contemplating leaving the practice of law may sell their tangible assets at an inflated price or bring in a partner prior to retirement, then allow the partner to take over the practice pursuant to a compensation agreement. Such arrangements do not always involve significant client participation or consent.

In addition, an attorney's practice has value that is recognized in the law. Under Virginia divorce law, for example, a professional's practice, including its good will, may be subject to equitable distribution. (*Russell v. Russell*, 11 Va. App. 411, 399 S.E.2d 166 (1990)). Therefore, under the *Virginia Code*, an attorney in a divorce proceeding may be required to compensate his/her spouse for the value of the practice, yet be forbidden to sell it.

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184           The Committee recommended, after considering all of these factors, that adopting a  
185 carefully crafted rule allowing such sales without resort to these alternate methods would be  
186 preferable and would assure maximum protection of clients. This recommended Rule is based  
187 on the *ABA Model Rule 1.17* with several significant changes, the chief ones relating to consent  
188 and fees.  
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