Case Study Number 6: A Regional Firm Merges In A Niche Practice

The Acquiring Firm

Firm A, a regional $45,000,000 firm, is firm offering a diversified array of services. The firm has a significant network of law firms they work with due to a large litigation support and forensic accounting practice. They believed their large referral network would generate referrals of significant new business if they merged with a firm that has a niche handling bankruptcy work.

The Consultative Process

Several candidate firms were found and introductory meetings were held. One particular firm, Firm B, who had a strong bankruptcy niche, offered the best chemistry and long term potential. An offer was created, and accepted, and the deal was closed approximately 15 weeks after the search commenced.

Terms:

Firm B's brand was particularly strong in their area of expertise. Both firms agreed that the best interim strategy was to co-brand. A separate entity, a subsidiary to Firm A, was established and Firm B's practice was moved into it. The Firm B partners became partners in the overall firm. However, in addition to maintaining Firm B's identity for marketing purposes, this approach allowed Firm B's practice to be separately accounted for which was important for determining a large component of the Firm B partners' compensation.

It was agreed, the true "clients" of Firm B were its referral sources. That existing list of referral sources became Exhibit A to the agreement. In essence, in addition to the specific engagements in process at the time, Exhibit A represented the clients Firm B brought to the merger.

As a result of due diligence, the two firms agreed the current profit margin of the Firm B practice was 40 percent. This was significant as Firm B partners felt it was important to maintain their current level of income following the merger. However, Firm A was concerned about the potential volatility of Firm B's volume and some added collection risks due to the nature of the services Firm B offered.

The partner compensation for the Firm B partners in the agreement was structured to provide minimum payments of the following during the first three years following the merger:

> 40 percent of collections from all bankruptcy work referred by Firm A referral sources
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> 33 percent of collections from all bankruptcy work referred by other than Firm A referral sources (which gave credit to the strong existing referral network Firm A had)
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> 10 percent of all non-bankruptcy services provided by Firm A to clients referred by their referral sources
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> Firm B partners were included in the overall partner compensation system for Firm A and the above represented a conditional guarantee for their compensation

Benefits of the Process to both Firms

Although Firm B maintained a somewhat separate identity and operation, and maintained historical compensation levels, significant synergies were created by eliminating overhead redundancies, cross referral of work, and better utilization of staff resources. This resulted in an increased profit margin for the combined firm and increased partner compensation for both firms.

Firm B was exposed to Firm A's extensive referral network resulting in immediate growth in services.

Firm B's partners were relieved of most of their administrative duties allowing their partners to focus on higher productivity, practice development, and project management.

Firm B, who had previously focused entirely on bankruptcy services, was able to refer Firm A to its bankruptcy clients for additional engagements such as forensic services, operational improvement consulting, and post-bankruptcy services.

Certain facts and descriptions have been altered to protect the confidentiality of the parties involved in the above transaction.