

DUE DILIGENCE: FINANCIALS LIST

FINANCIAL STATEMENTS:

- Three (3) years of Historical Financial Statements as of each Fiscal Year-end and most recent Financial Statements
 - Profit & Loss (P&L)
 - Balance Sheet

- Current (YTD) Statements
 - Billings/Cases in Progress
 - Accounts Receivable Aging Report
 - Provisions for doubtful accounts
 - Basic payment conditions
 - Long term contracts
 - Payroll Summary

- Explanations, as may be appropriate, for the above Financial Statements including:
 - Positive or negative trends
 - Unusual fluctuations in performance measures (i.e. sales volume, margins, working capital turns, capital investment, debt, etc.)
 - Non-recurring items recorded in each P&L Statement
 - Ownership expenses and other 'add-back' adjustments
 - Expenses that may be potentially eliminated or reduced as part of transition
 - List of any significant items of an unusual nature recorded on each Balance Sheet
 - Explanation of all intangible assets including original and net value, and amortization period

INCOME:

- Client Revenues
 - Client revenues projection through year-end and next year forecast
 - Standard client engagement terms & conditions
 - Sample(s) of client engagement letters
 - Breakdown of hourly rates and/or fixed fees schedules
 - Revenues by client for past 3 years
 - Revenues by referral source and contact person for source for past 3 years
 - Revenues by originating attorney for past 3 years
 - Revenues by practice area or case/matter type for past 3 years
 - Revenues by timekeeper for past 3 years

EXPENSES:

- Employees
 - Number of employee by type (i.e. Supervision, Engineering, Clerical, Production)



Excerpted from *Designing a Succession Plan for Your Law Firm*

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- Name, role, date of hire for all employees
 - Paid vacation days per year, work hours per week
 - Bonus programs
 - Usage of Temps or Contractors
 - Employee personnel files as requested
 - Employee handbook or policies or contracts

☐ Other Costs

- Lease costs:
 - Termination of existing lease contracts
 - Lessor / Lessee
 - Rent / Lease payments per year
 - Not-used capacity
- Marketing costs
 - Marketing budget/expenditures
 - Website and other vendor costs
 - Attorney originations or other staff incentives
- Insurances
 - List of all insurances with costs per year
 - Coverage per contract / Insured Values
- IT Costs
 - List of used hardware and software tools
 - Planned investments
 - Ongoing expenses

ASSETS:

- ☐ Breakdown of cases, matters and clients
 - By practice area
 - Top 20% clients
 - Analysis of fees and billings in progress
 - Estimate of case inventory value, if applicable

- ☐ Breakdown of Fixed Assets
 - By Depreciation Class (Land, Buildings, Machinery & Equipment, etc.)
 - List of debts, leases mortgages and/or asset pledges

LIABILITIES:

- ☐ Breakdown of Payables
 - Analysis by Supplier plus aging
 - Largest suppliers by amount
 - Standard payment terms & conditions
 - Long term contracts, if any



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- Banks
 - List of credit lines and/or long term debt
 - Outstanding balances
 - Interest rates
 - Maturity dates

 - Accruals/Provisions/Unfunded liabilities, if any
 - Pension Plans and Post-Retirement benefits
 - Contingent Liabilities (Describe)
 - Taxes
 - Other (Describe)

OTHER / MISC.:

- Any schedules or other supporting information deemed to be helpful in understanding the financial statements and assessing the general financial condition of the company

- Understanding of significant accounting policies
 - Revenue recognition
 - Expense recognition (accruals / provisions)

- Other
 - Litigation report
 - Licenses held and renewed

