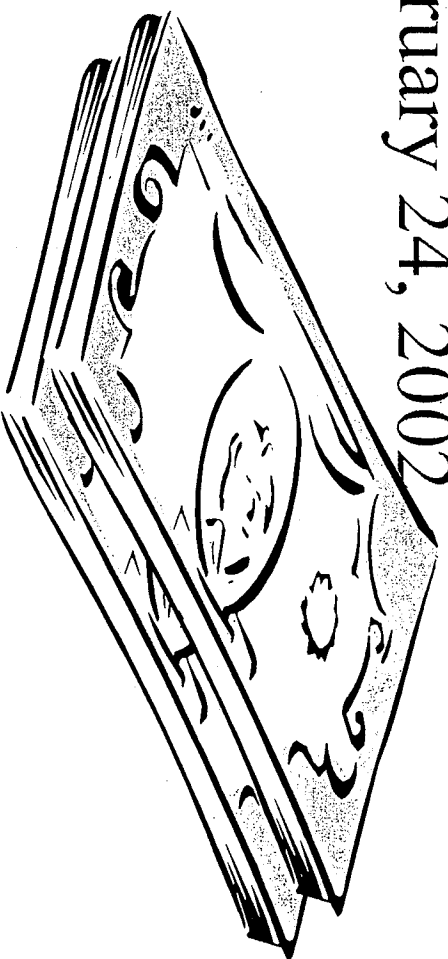


# Law Firm Economics 101

February 24, 2002



# Financial Statements:

## REVENUE

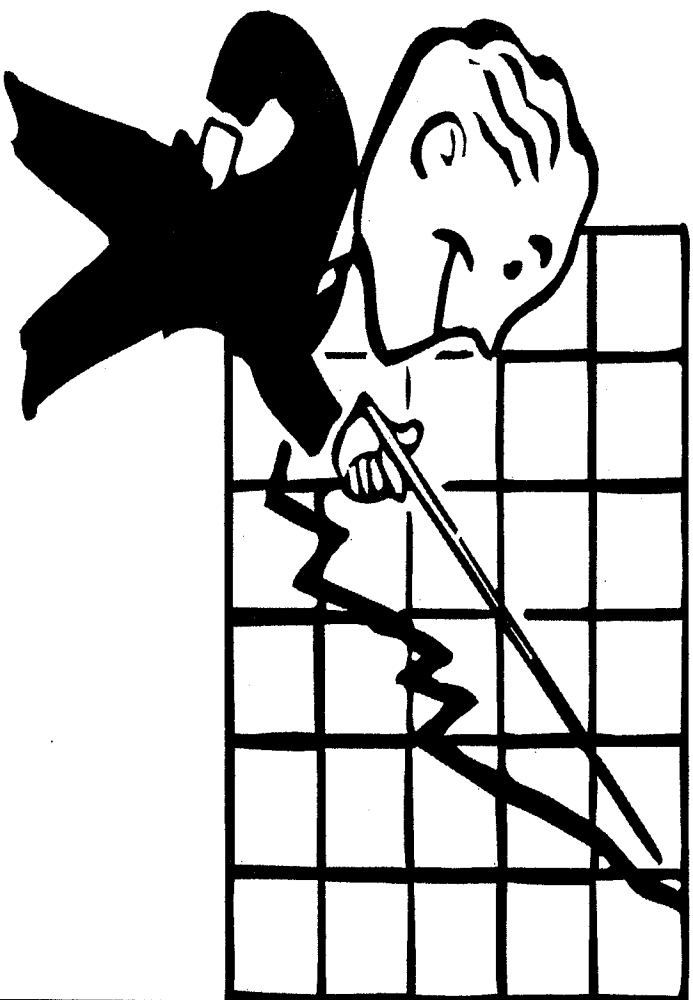
- Gross Fees
- Less: Write Downs
- Less: A/R Write offs
- Less: Reserves
- = Net Fees

## EXPENSES:

- Personnel Expenses
- Facilities Expenses
- Operating Expenses
- Marketing Expenses
- Interest/Other Expenses

# LUBRM

- Leverage
- Utilization
- Billing Rates
- Realization
- Margin



# Leverage

- Definition: ratio of other lawyers to equity partners
- Equity Partners = 100
- All other lawyers = 200
- Leverage Ratio = 2.0 to 1



# Leverage Example

	Hours	Rate	Fees @ 95%	Comp	Fixed Costs	Net Income
Equity	2,000	250	475,000	0	150,000	325,000
Assoc. 1	2,400	150	342,000	100,000	150,000	92,000
<b>Total</b>	<b>4,400</b>		<b>817,000</b>	<b>100,000</b>	<b>300,000</b>	<b>417,000</b>

	Hours	Rate	Fees @ 95%	Comp	Fixed Costs	Net Income
Equity	1,500	250	356,250	0	100,000	256,250
Assoc. 1	2,200	150	313,500	100,000	100,000	113,500
Assoc. 2	2,200	150	313,500	90,000	100,000	123,500
<b>Total</b>	<b>5,900</b>		<b>983,250</b>	<b>190,000</b>	<b>300,000</b>	<b>493,250</b>

# Components of Margin (Profitability)

## Revenue Factors:

- Billable hours
- Billing Rates
- Utilization
- Realization

## Expense Factors:

- Compensation
- Administrative Staff
- Operating Expenses



# Billing Rates

- **Billing Rate**
- **Effective Billed Rate**
- **Effective Collected Rate**
- **Work-to-collection Ratio**

## Effective Billed Rate

<u>Hours</u>	<u>Rate</u>	<u>Fees</u>
2.0	\$100	\$200 (Generated)
2.0	\$87.5	\$175 (billed to client)

Effective Billed Rate = \$87.50/ hour v. \$100  
or 87.5%



# Effective Collected Rate

<u>Hours</u>	<u>Rate</u>	<u>Fees</u>
2.0	\$175	\$175 (billed to client)
2.0	\$75	\$150 (paid by client)

Effective Collected Rate = \$75.00/hour v.  
\$100 or 75%

## **Work-to-Collection**

- The time it takes from the day it is worked to the day it is paid.
- Measured monthly by billing attorney
- Time investment/average new fees

# Work-to-Collection Example

- Unbilled Time      \$100,000
- Billed Time      \$ 50,000
- Time Investment    \$150,000
- Avg. new fees      \$ 50,000
- W-T-C Ratio      3.0

# **Ways to Decrease/Eliminate Your Bonus**

- Extend the WTC ratio
  - Untimely recording of time
  - Untimely return of BIMs
  - Ignore your A/R over 45 report
- Miss budgeted billable hour goals