The Golden R-U-L-E-S:

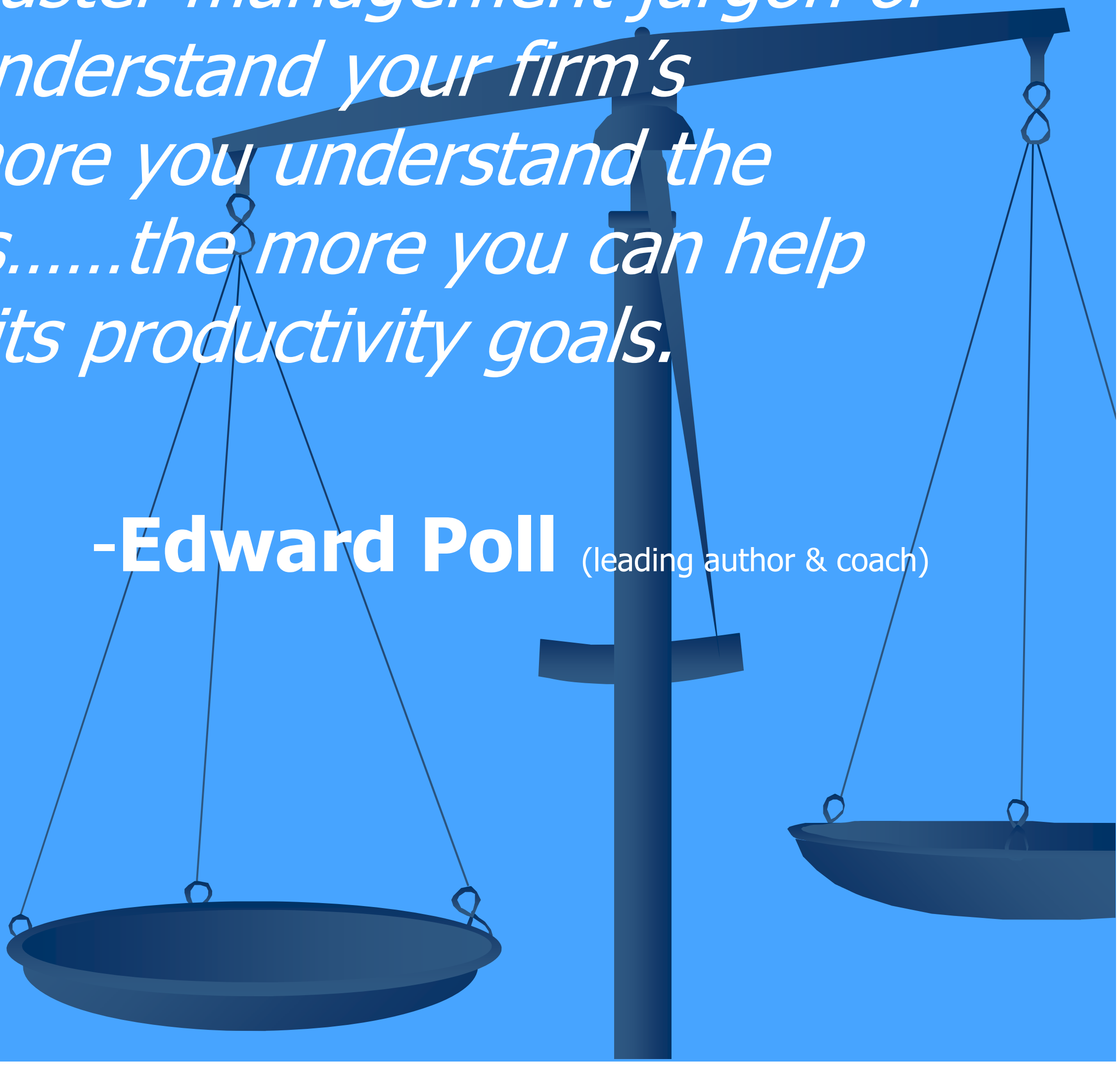
What It Means to be a Financially Successful Firm

Randolph C. Becker, Executive Director
Richards Kibbe & Orbe LLP

Henry Macchiaroli CLM℠, MBA, Controller

You don't need to master management jargon or get an MBA to understand your firm's finances….the more you understand the business aspects……the more you can help your firm reach its productivity goals.

-**Edward Poll** (leading author & coach)



Understanding the Business

“Relationships”

What differentiates your firm, your lawyers, from others?

What do your clients want from you and what do you want from your clients?

How are you perceived by your partners, associates, and staff? What is your firm culture?

How are you perceived by your bank?

Understand Your Practice Areas

Not all practice areas or matters within a practice area are equal

Contingency matters
Paid at Closing ("PAC") arrangements
Fixed Fee matters
Hybrid alternative fee arrangements
Discounted matters
Standard Rate billing

Some practice areas and/or types of tasks may be loss leaders and meant to attract more lucrative work (i.e. preparation of wills in a T&E practice … estate work; trademark scans & searches … IP litigation)

Determine Your Profitability Threshold

Profitability = RULES

Realization of Billing Rates

Utilization of Timekeepers

Leverage of Lawyers

Expense Control

Speed of Billing and Collection

Realization

Client Intake Procedures

Financial Stability – client's ability to pay

Communication – client understands what is involved (scope of work)

Timeliness – expectations are set for prompt payment

Follow-up – change in previous status is addressed

Conflicts – ensure that the firm can do the work

Billing Guidelines – understand what the client will and will not pay for

Utilization

Maximize your resources

Expectations – set targets

Retention – challenging work and overall confidence

Behavior – responsible recordkeeping, timely & complete

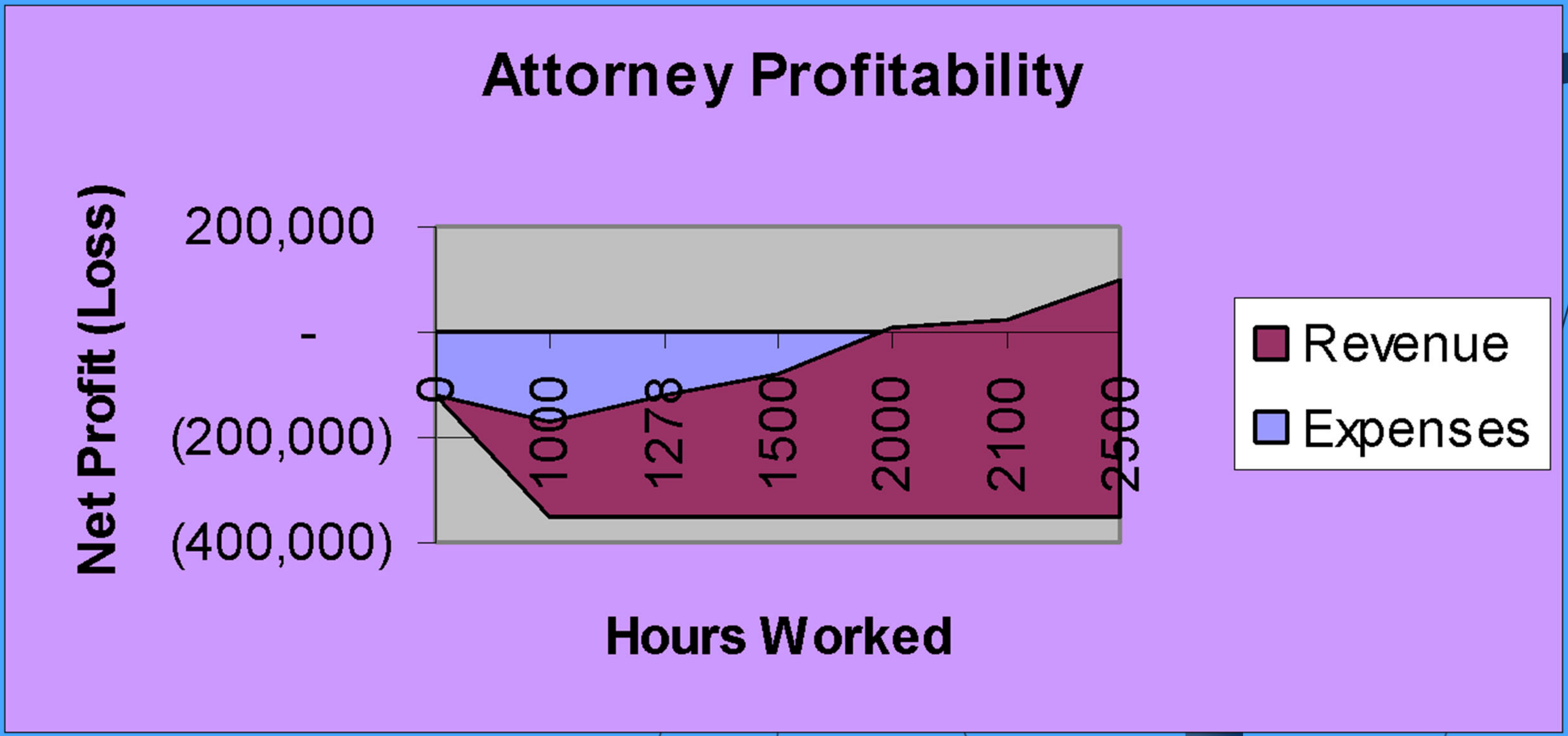
Headcount – avoid excess full time equivalent's ("FTEs")

Recruitment – Hire skilled lawyers & constantly evaluate

Supervise – Better manage fee earners and insure work is assigned appropriately (i.e. associate mentoring)

Flexible – ability to reassign outside of practice area

Utilization Levels Chart



Leverage

Non-Partners to Partners

Pushing work down (efficient work performed at the right price)

Skill set – match work with appropriate ability

Marketing time – more partner hours available to develop new client work

Professional Growth – Continue to offer challenging work

Succession Planning – prepare for retirement/departures

Diversify – insure continuity of workflow

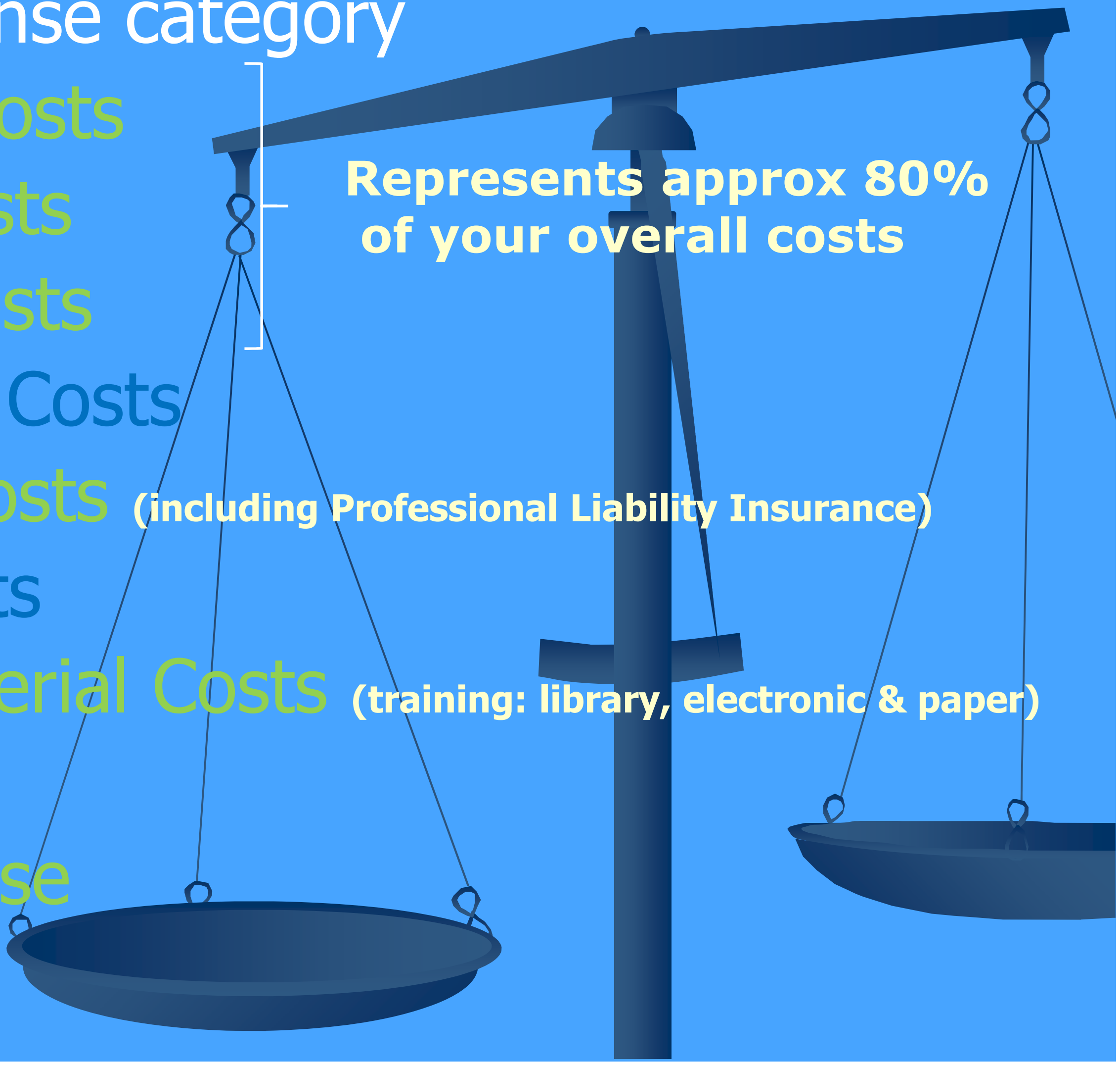
Institutionalize Clients – complete firm service

Budgeted Work Plan – anticipate new associate class arrival when creating work assignments

Evaluate Expenses

- Review each expense category
  - Employment Costs
  - Occupancy Costs
  - Technology Costs
  - General Office Costs
  - Professional Costs **(including Professional Liability Insurance)**
  - Marketing Costs
  - Reference Material Costs **(training: library, electronic & paper)**
  - Contributions
  - Interest Expense

Represents approx 80% of your overall costs



Speed of Billing and Collection

Determine the time it takes from when services are provided to when monies are received from the client

Unbilled Time inventory divided by the monthly value of time added times days in the period

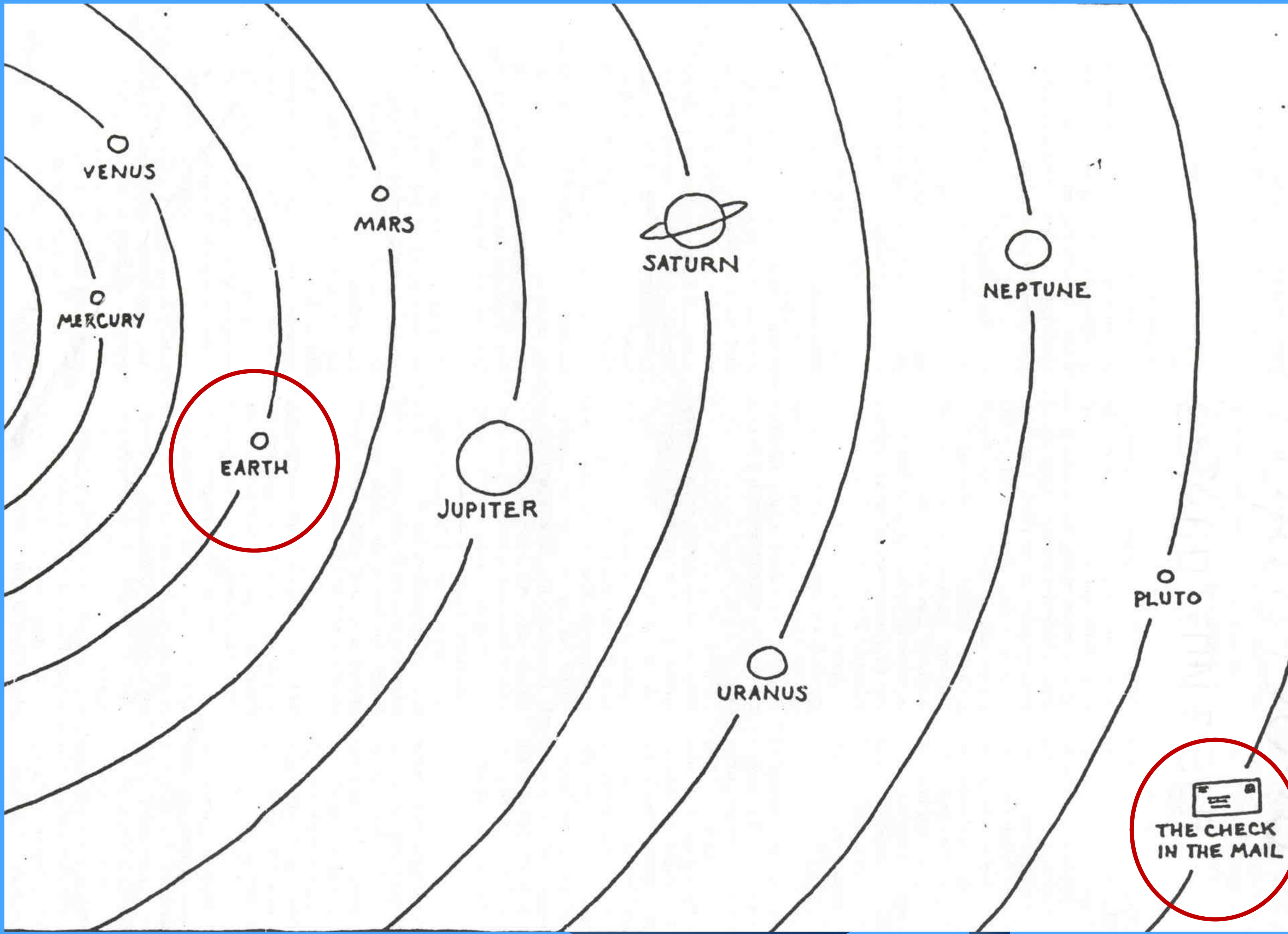
e.g. Average unbilled time balance of $5 million with $3.5 million in monthly billing equates to 43 days in inventory. ($5 / $3.5 times 30 days = 43 days). A 3 day swing indirectly effects profits by as much as $250k

Accounts Receivable (“AR”) inventory divided by the monthly amount of fees billed times days in the period

Reducing the time to bill and collect plays an integral role in a firms profitability and can also effect other factors (i.e. realization)

Persistence and getting to the right contact are key

Another way to gauge the strength of AR is to look at the AR that is current (i.e. % over 90 days; % over 120 days)


VENUS
MARS
SATURN
NEPTUNE
MERCURY
EARTH
JUPITER
PLUTO
URANUS
THE CHECK
IN THE MAIL

Don’t let this happen in your firm

Profitability Analysis

Profitability Formula

Fees Collected – Expenses Paid
= Net Profit available for distribution

Net Profit Margin

Shows how much profit (net income) is generated by each dollar of fees collected

= Net profit / Fees Collected

Typical Ratios range between .33 to .40 for law firms

Fee Income per Working Attorney

- Define Working Attorney as all timekeepers
- Internal Computer System calculation of fees collected by timekeeper showing the actual dollars and respective hours collected
- $ Fees/Hours Collected=Income per Hour
  - $648,000 / 1,800 hours = $360/hr

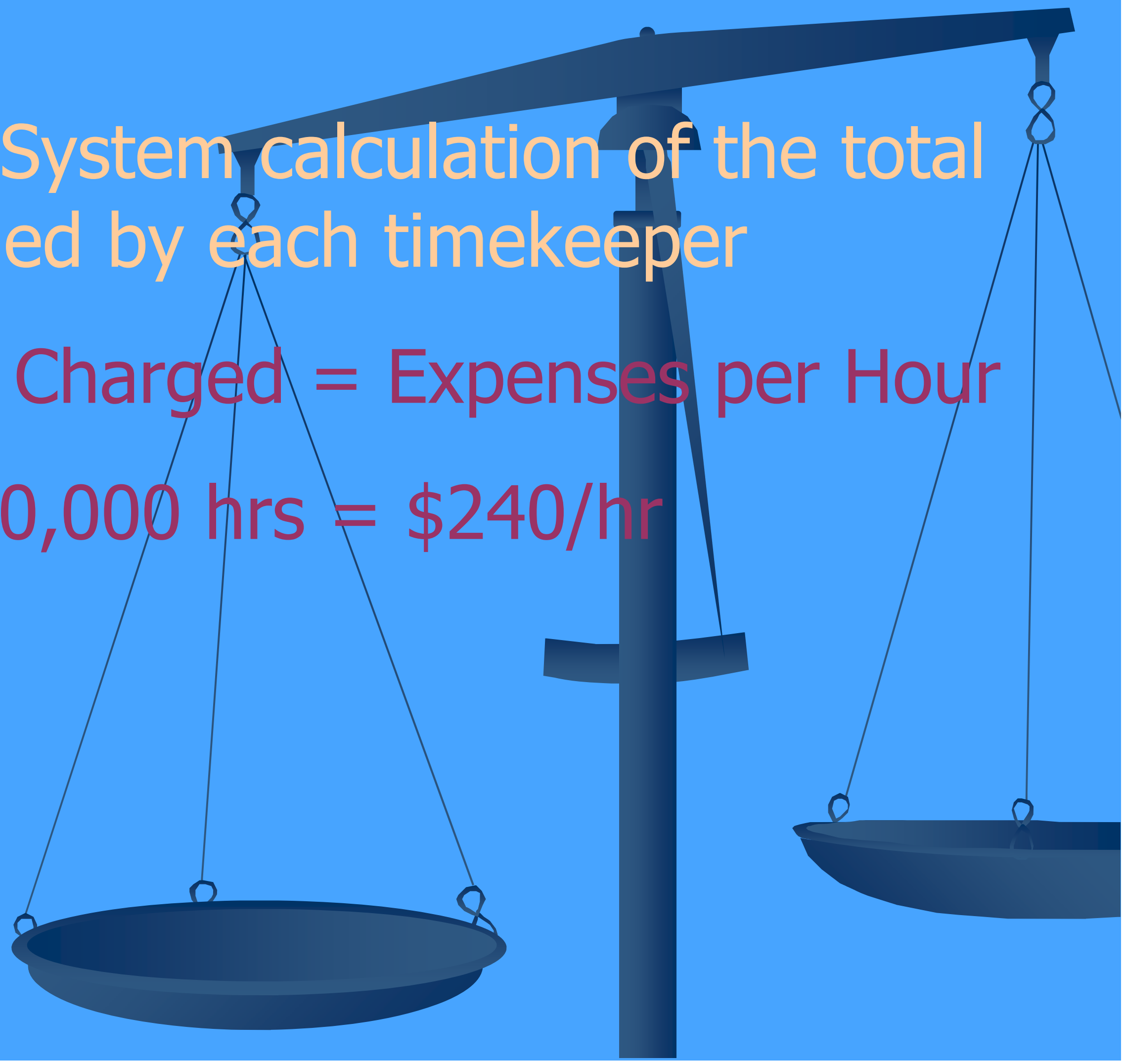
Fee Income per Working Attorney

OR

Billable Hours Recorded times Billing Rate times Firm Collection Realization Percent which gives you an approximate estimate of Fees Collected for each Timekeeper

1,800 hours x $400/hr x 90% = $648,000

Expense per Hour

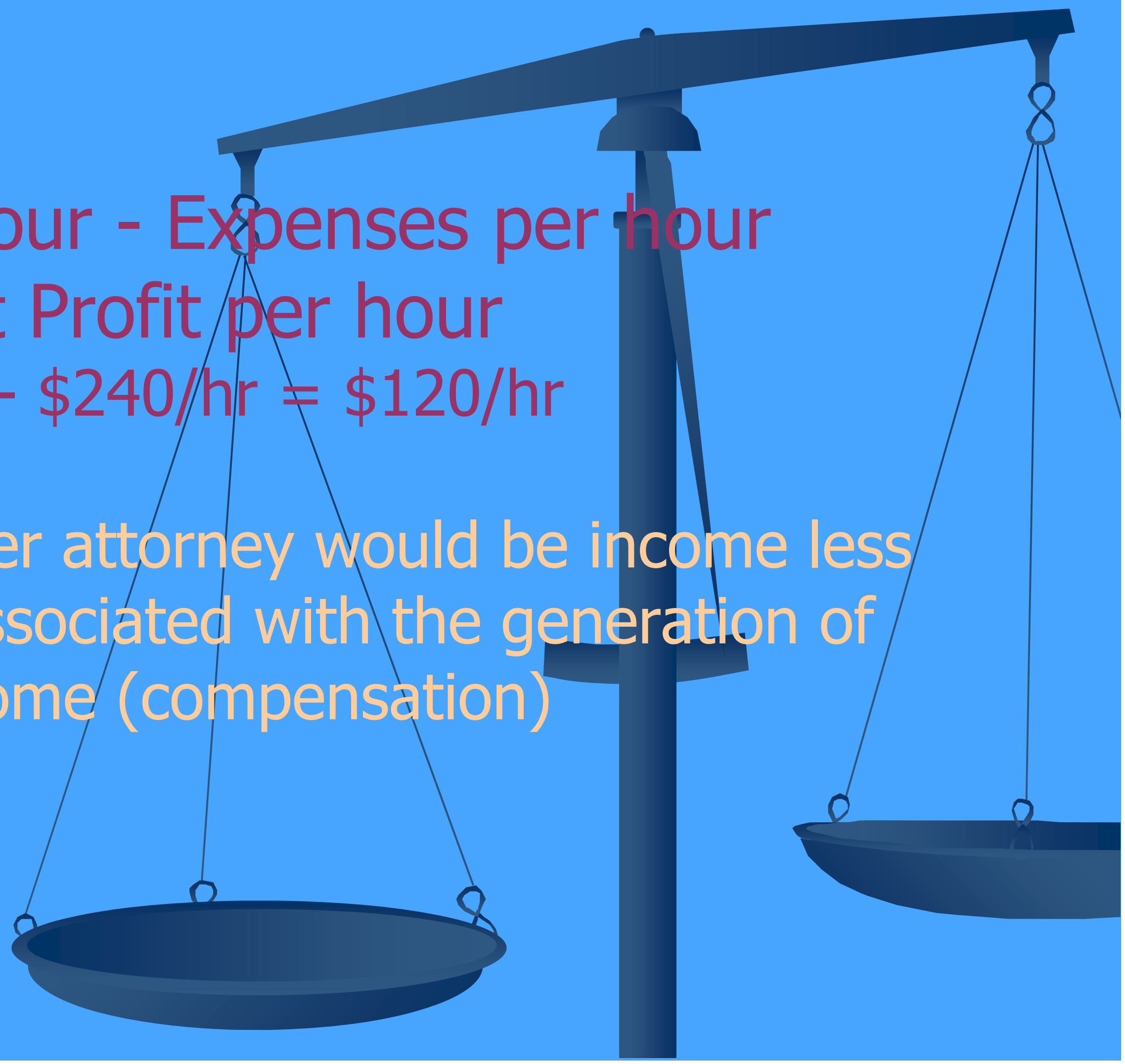


Internal Computer System calculation of the total hours charged by each timekeeper

$ Expenses/ Hours Charged = Expenses per Hour

$21.6 million / 90,000 hrs = $240/hr

Net Profit per Hour

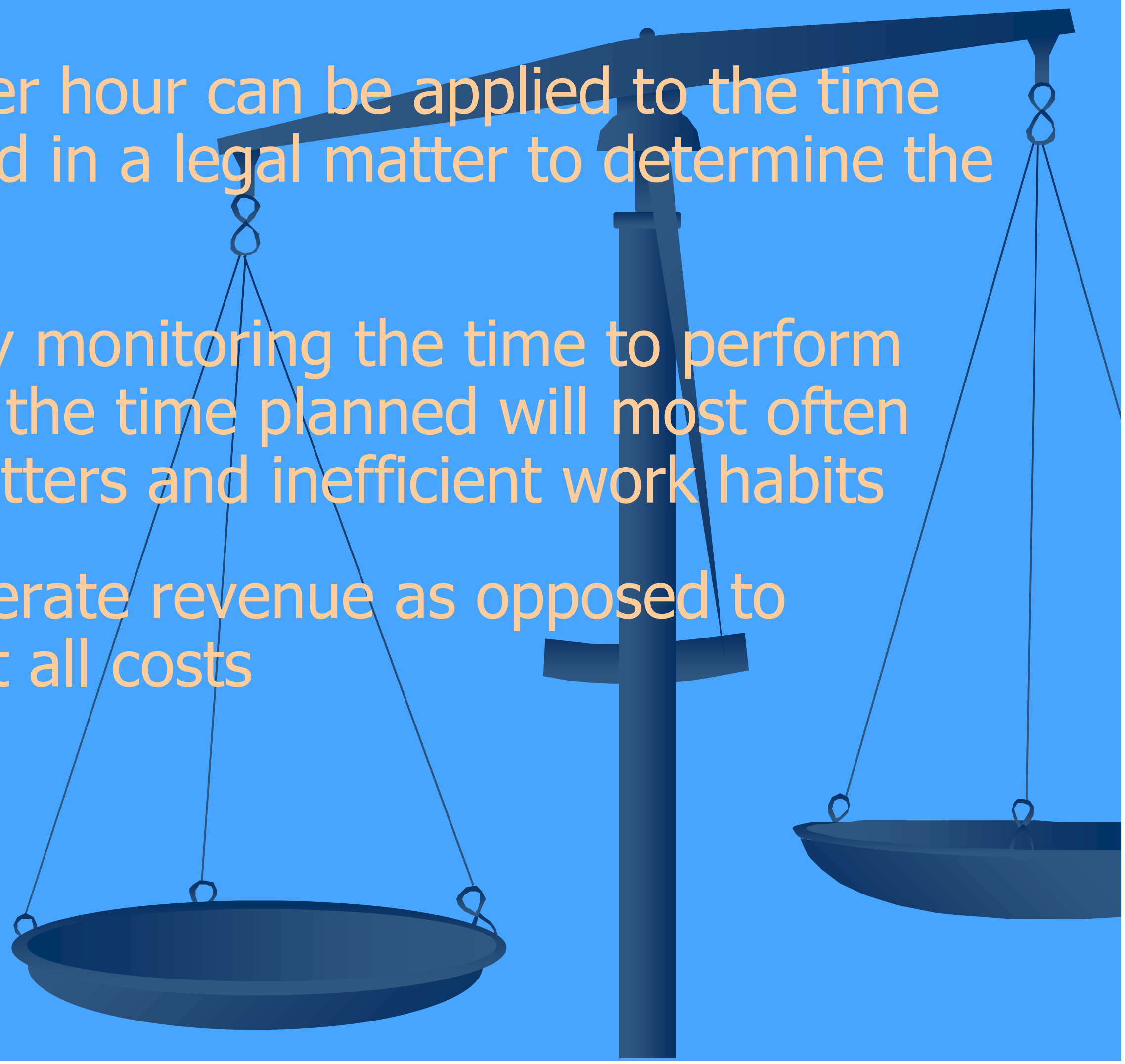


Income per hour - Expenses per hour
= Net Profit per hour
$360/hr - $240/hr = $120/hr

Direct Contribution per attorney would be income less expenses directly associated with the generation of that income (compensation)

Profitability Analysis - Conclusion

- The calculated cost per hour can be applied to the time expected to be worked in a legal matter to determine the break-even point
- Managing a project by monitoring the time to perform tasks as compared to the time planned will most often avoid unprofitable matters and inefficient work habits
- Know the cost to generate revenue as opposed to generating revenue at all costs



Profitability Analysis - Conclusion

Who uses this information?

Management to determine if all areas of the practice are contributing to the overall profitability of the firm as well as each matter individually

Some practice areas may be a loss leader servicing existing clients or bringing clients in and introducing them to other practice groups

Business Development staff in determining fee estimates used in RFP responses

Current Trends

Associate population is growing slightly with demand flat

Number of Equity Partners is decreasing

Occupancy space needs continue to decrease as space design becomes more efficient and the number of attorneys and staff right sized to match demand

Commercial Real Estate combines new construction with expected movement from old space

Clients are demanding AFA’s in various forms (less pricing control), continued scrutiny on disbursements and more clients requiring e-billing

Cyber Security Initiatives become a priority for law firms and law firm clients

Actions taken by Firms

Continue to evaluate underutilized attorneys

Focus on generating business through cross-selling between practice areas and geographic locations

Continue to strengthen Balance Sheet by increasing Capital calls from partners and reducing debt and paying Undistributed Income ("UI") slower

Collection efforts have become more persistent

New matter evaluation requires more scrutiny, doing credit checks and/or seeking higher retainers to decrease risk

Expanding the use of AFA's

Concentrated focus on Cyber Security Initiatives

What Financial Institutions evaluate to determine risk

Firm net worth as well as individual partner net worth, especially with smaller firms

Capital Loan Guarantees and determine how much partners would be on the hook for

Concentration risk vs. diverse practice areas

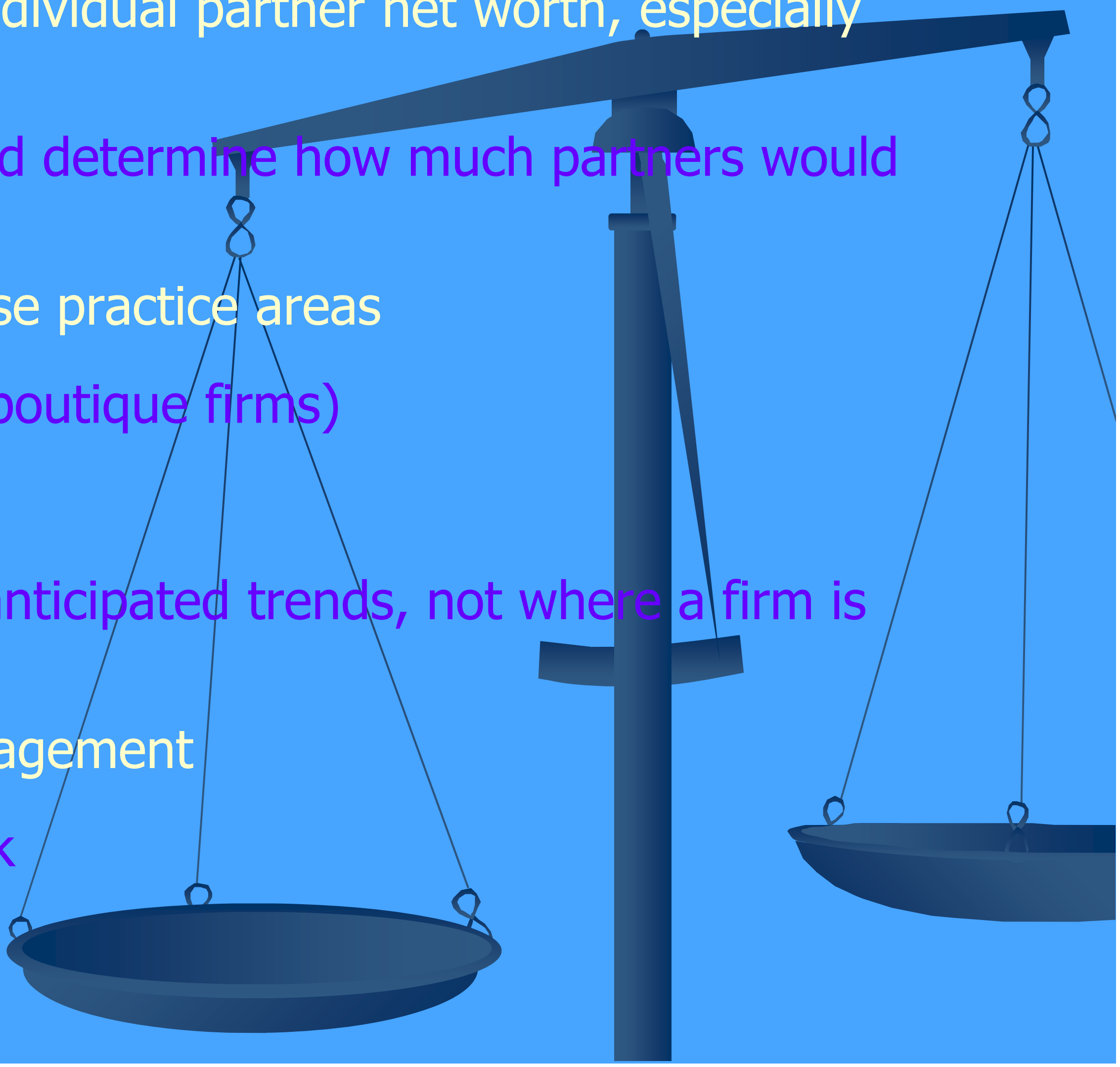
Firm infrastructure (less in boutique firms)

Rainmaker Risk

Lending amount based on anticipated trends, not where a firm is today

Relationships and firm management

Volume of contingency work

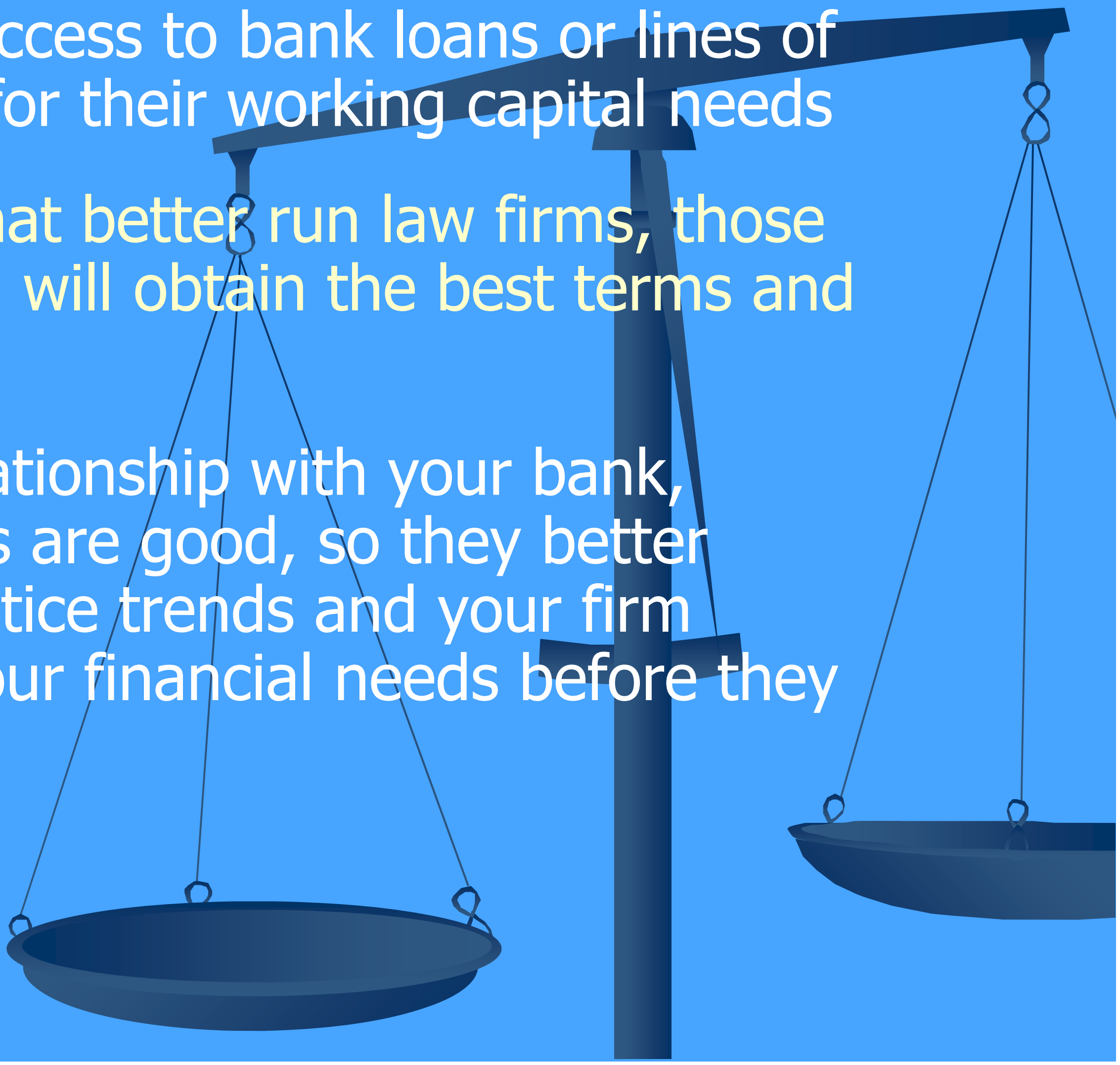


Financing for Law Firms

For most law firms, access to bank loans or lines of credit are necessary for their working capital needs

It stands to reason that better run law firms, those firms financially solid, will obtain the best terms and pricing

Maintain a strong relationship with your bank, especially when times are good, so they better understand your practice trends and your firm culture and expect your financial needs before they arrive



Borrowing Base Considerations

Cash

Aged Inventory (accounts receivable & unbilled time)

- Value is discounted by age of invoice, so faster collections support a larger borrowing base

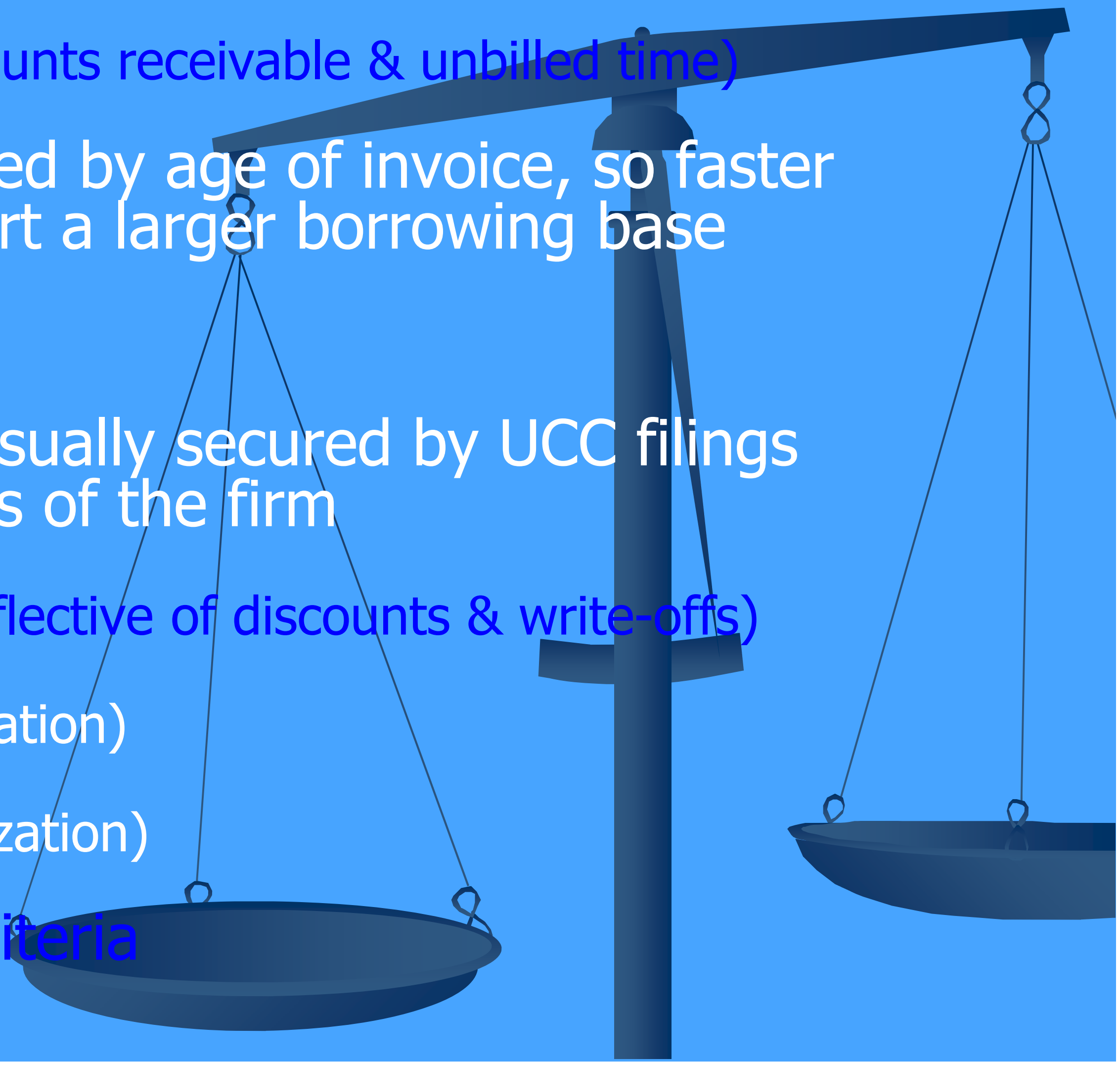
Assets of the firm

- Loans/lines are usually secured by UCC filings against the assets of the firm

Realization Rates (reflective of discounts & write-offs)

- Gross (billing realization)
- Net (collection realization)

Client Acceptance Criteria



Q&A

Speakers

Randolph C. Becker, MBA

Randy is an Executive Director at Richards Kibbe & Orbe LLP. He has more than 35 years of law firm management experience. He has been an active ALA member since 1993, presenting at other ALA local and regional venues and at NYC and NYS Bar Association seminars.

Henry Macchiaroli, CLM℠, MBA

Henry has more than 25 years of law firm administrative management experience at large, mid-sized and small law firms. He is the former Controller for Phillips Nizer and Henry continues as an active ALANYC member having served as a Regional Director, President of the NYC Chapter and as a National At-Large Director. Henry has presented at ALA local and regional venues and at the NYC Bar Association.

Thank You for Attending