

# THE SURVEY OF LAW FIRM ECONOMICS

## ECONOMICS

A SPECIAL REPORT

### ABOUT THIS SURVEY

This year, for the first time, *The National Law Journal* has partnered with ALM Legal Intelligence, our parent company's research unit, to bring readers results from The Survey of Law Firm Economics. Taken by 187 law firms—most of them with fewer than 150 lawyers—the survey provides a rare glimpse into the financial health of firms outside the Am Law 200 or NLJ 250. The survey's 300-plus pages provide detailed data on fiscal year 2009 and are designed to help finance teams benchmark their firms' performance. In this special report, we offer an overview of key trends and results. For more information, visit [almlegalintelligence.com](http://almlegalintelligence.com). To find a link to a webinar with more on the survey from NLJ editor David Brown, visit [nlj.com](http://nlj.com).

## How small and midsize firms weathered the storm

Survey shows a grim revenue picture for many, but expense cuts helped firms maintain profitability.

Rough economic winds battered small and midsize firm revenues during 2009—though cuts in expenses helped those firms eke out small increases in profits.

That's according to The Survey of Law Firm Economics, a joint project of ALM Legal Intelligence and *The National Law Journal*. The survey is open to U.S. firms of all sizes, but the majority of those who take it have fewer than 150 lawyers. The results provide a deep look into the financial state of smaller and midsize players during fiscal year 2009.

How did those firms fare? In 2008, revenue per lawyer declined by the largest percentage in 25 years—nearly 5%. In 2009, the figure dropped again, this time by less than 1%. Although the decrease was slight, a two-year drop in revenue-per-lawyer figures is unprecedented for firms taking this survey.

But law firms countered last year's sluggish revenues with a far more aggressive cost-cutting campaign. Expense per lawyer declined by 5% in 2009 after dropping 2% in 2008. A

5% cut may not sound like much, but it's the largest-ever in the expense-per-lawyer figure and the first time that expenses have fallen two years in a row. More often, a decrease in expenses one year has been followed by an even larger increase in expenses the next.

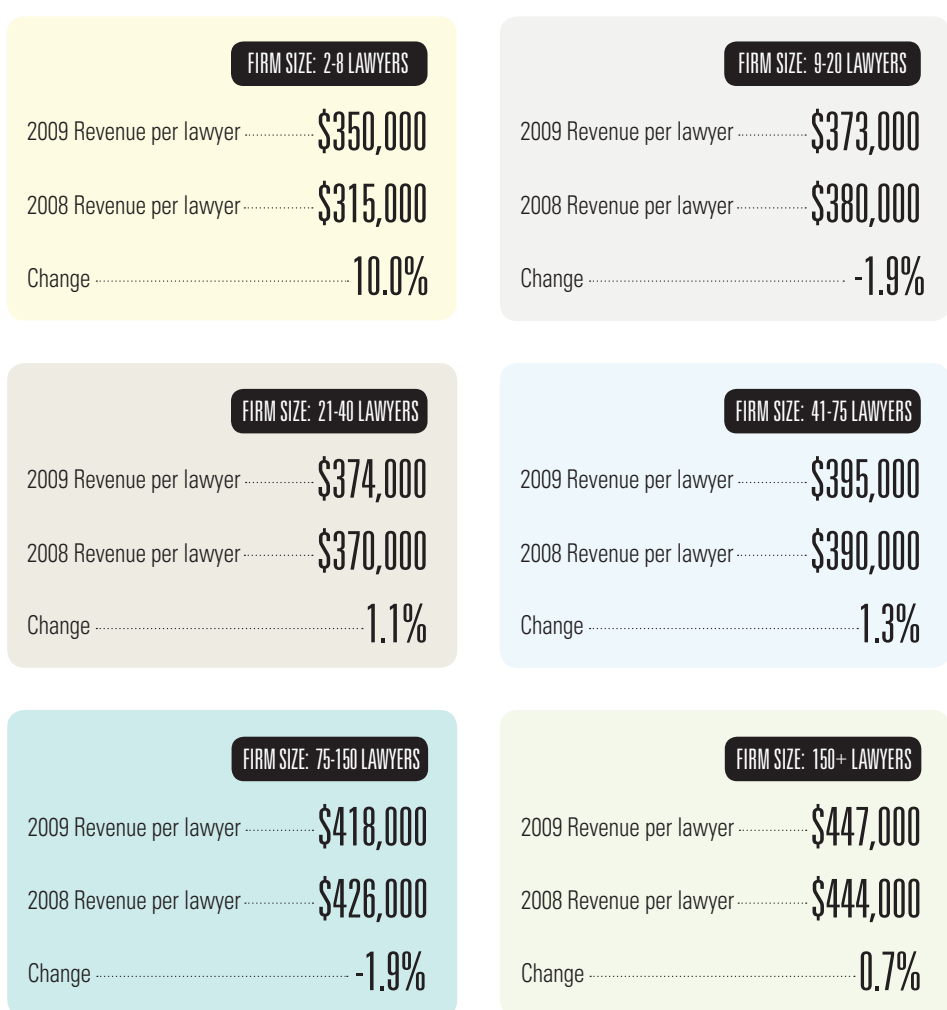
Cost-cutting helped profits rise. Net income was up 2.7%. Before firm managers cheer, consider: 2008 saw profits fall faster than at any time since 1985. Firms have yet to make up all of that lost ground.

A few other less-than-encouraging signs emerged. Although clients, on average, paid their bills within 2.3 months, realization rates declined from 88% to 85.9% and partners wrote off 7% more time last year than in 2008. Billable hours dropped for both partners and associates.

Firms tried to make up the ground by raising rates. Hourly rates for the average equity partner are now at an all-time high among surveyed firms. Will clients let firms get away with that maneuver again? Tune in next year. —DAVID BROWN

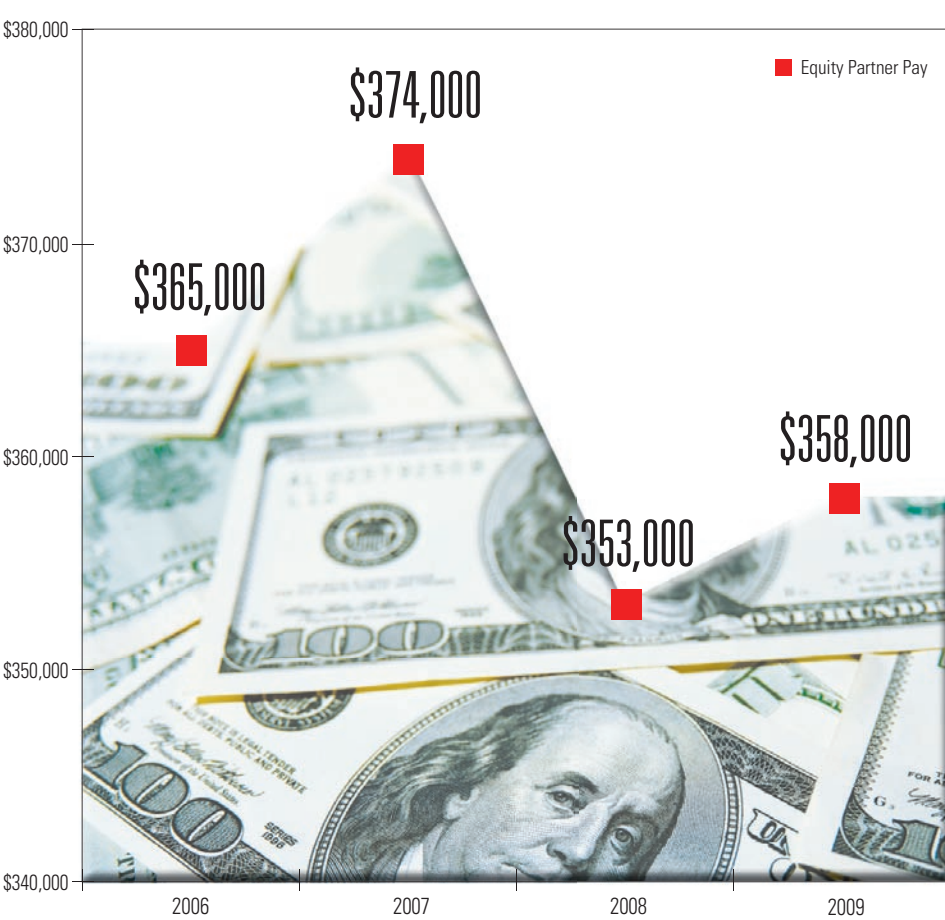
### REVENUE PER LAWYER: SIZE DOES MATTER

Perhaps it's no surprise that revenue per lawyer (RPL) is highest at the largest firms surveyed. Although they may be bringing in more than their smaller counterparts, larger firms had relatively flat revenue numbers in 2009. Meanwhile, RPL grew fastest at the smallest firms surveyed (firms with two to eight lawyers). At those firms, the average RPL jumped 10% from \$315,000 to \$350,000.



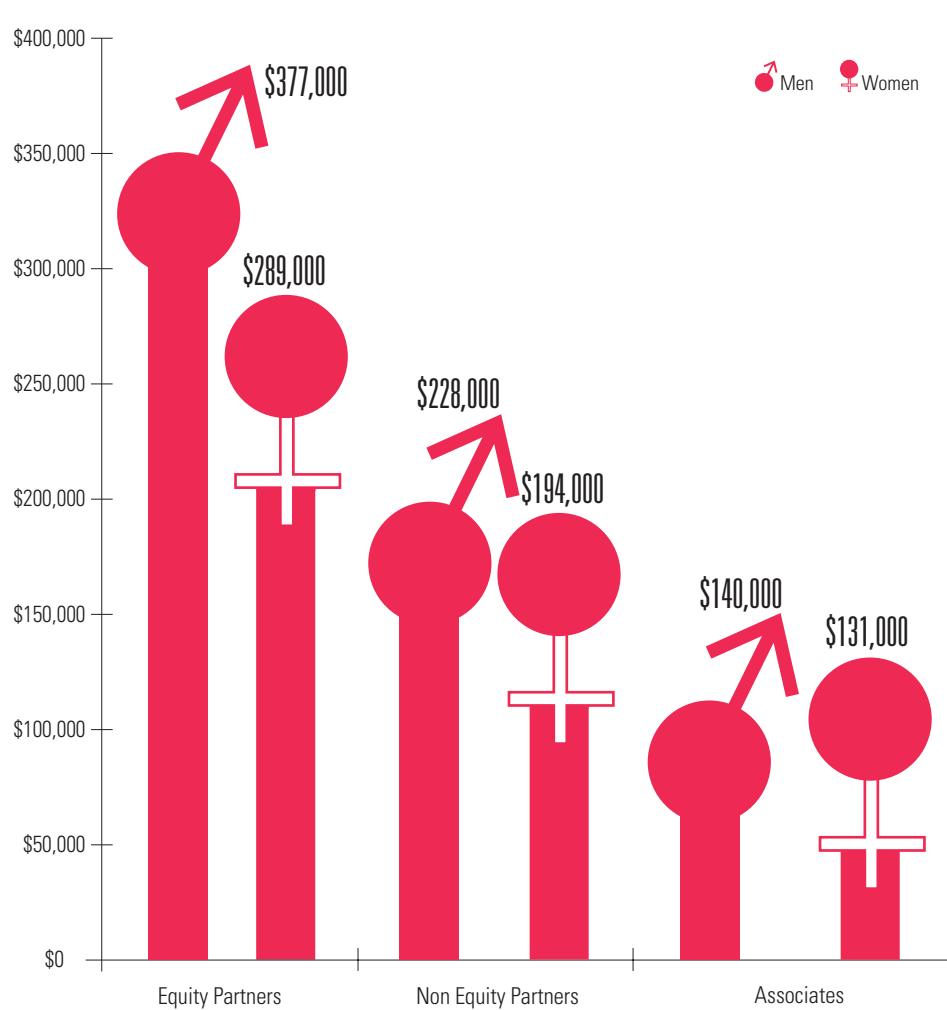
### EQUITY PARTNERS: DOING A LITTLE BETTER

Total compensation for equity partners took a beating in last year's survey, showing one of the sharpest-ever year-over-year declines. This year's survey showed that equity-partner pay made a bit of a rebound, climbing from \$353,000 to \$358,000. Despite the increase, pay levels lag far behind the averages in 2006 and 2007. Among all partners, including equity and nonequity partners, pay levels increased just \$87 to \$272,293. FY 2008 was the first time since 1985 that compensation for all partners declined—and the figure has yet to rebound.



### WHEN IT COMES TO PAY, A CLEAR GENDER GAP

Firms surveyed showed fairly stark gaps between pay rates for men and women. Part of the problem may be sheer numbers of women versus men in the equity partner ranks. But the pay disparity is clear through all levels, and it widens as attorneys advance through their careers: Women earn 76% of men's salaries as equity partners, 85% at the nonequity level and 93% in the associate ranks.



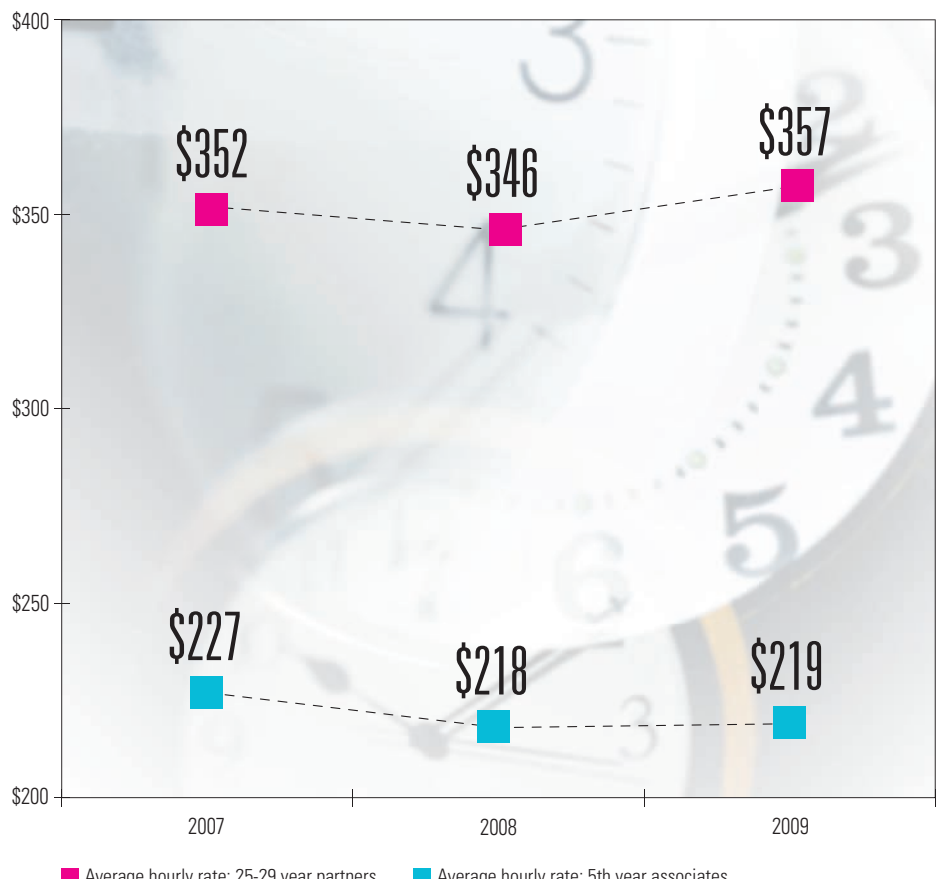
### COMPENSATION: WHAT'S SO GREAT ABOUT BEING A NEW YORK PARTNER?

Sure there's the culture and cachet of living in Big Apple—and try getting kung pao chicken delivered at 3 a.m. in Milwaukee. But for all the convenience, New York partners are saddled with a cost of living that severely siphons their purchasing power. Here's a breakdown of top partner salaries—defined for this purpose as average salaries for partners in the top 10% of Survey of Law Firm Economics respondents—and what those partners would earn if they had the same salary in New York.

CITY	TOP-EARNING PARTNERS, AVERAGE SALARY	COMPARABLE SALARY IN NEW YORK
Chicago	\$760,000	\$1,141,000
Grand Rapids, Mich.	\$493,000	\$1,035,000
Milwaukee	\$647,000	\$1,251,000
Pittsburgh	\$643,000	\$1,228,000
St. Louis	\$505,000	\$1,036,000
Washington, D.C.	\$920,000	\$1,152,000
New York	\$921,000	-

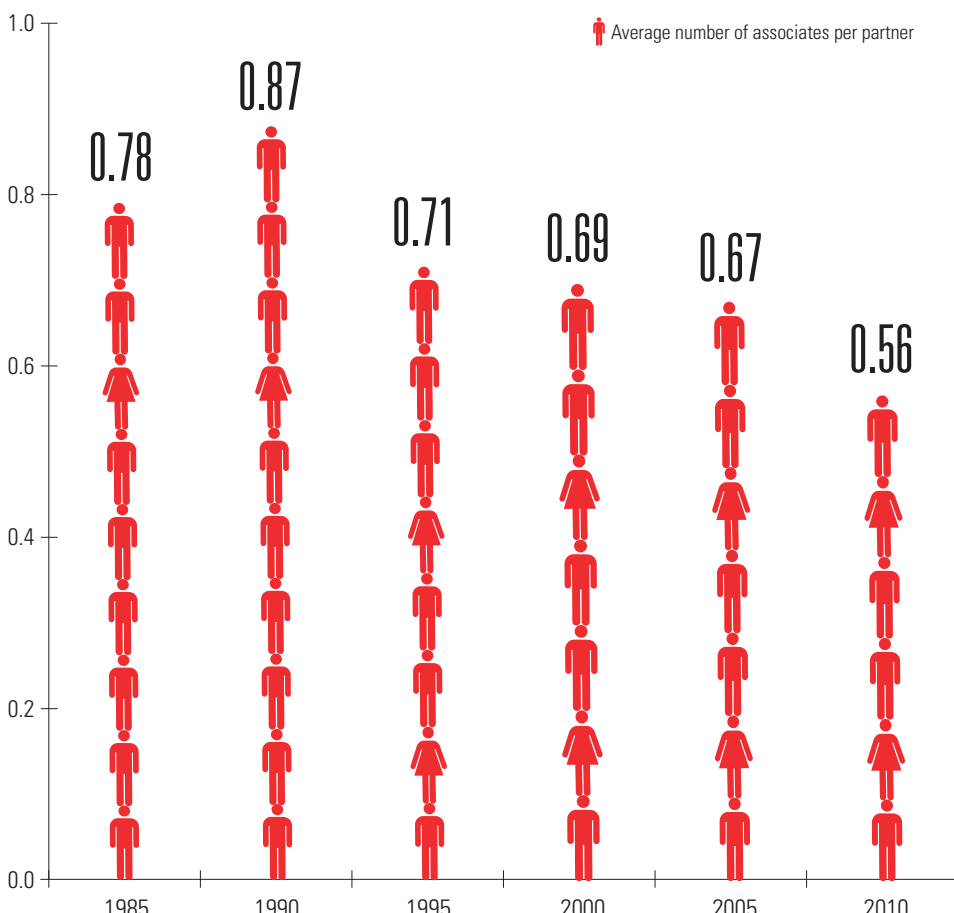
### RATES ON THE REBOUND?

Clients may have been pressuring firms to keep their bills low, but that didn't stop firms from raising their hourly rates. In 2009, the average hourly rate for equity partners climbed from \$332 to \$342. Rates were also up among two key demographics: senior partners (defined as lawyers with 25-29 years of experience) and fifth-year associates. After a decline in 2008, the senior partner average rose to an all-time high, \$357 an hour. For midlevel associates, the increase was slight, just a dollar an hour to \$219—but it was an increase nonetheless.



### ASSOCIATE-TO-PARTNER RATIOS: ON THE DECLINE

How dark was the job picture for associates? One way to find out is by looking at the ratio of associates to partners at firms that took the survey. Last year, firms registered .56 associates per partner. That is the lowest level in 25 years—and last year's number represented the biggest single-year decline since the 1990s. The reduced ratio signals layoffs of associates and first-year deferrals at many firms surveyed. Cuts were heaviest—an average of 11% or better—at midsize firms (defined here as 41-150 lawyers), but the declines were felt across the board.



### EXPENSES: WHERE DOES THE MONEY GO?

Not surprisingly, firms spend the bulk of their money on attorney salaries and benefits—nearly two-thirds of the average expense per lawyer. In the past year, that number climbed slightly—even as firms significantly trimmed costs in other areas, particularly promotional, equipment and occupancy costs. Spending on support staff also continued to decline, with ratios of support staff to attorneys reaching a nearly quarter-century low. This pie chart shows, in percentage terms, how firms spend their dollars.

