



Week of **August 18, 2009**

When De-Equitization Costs More Than It Saves

The de-equitization phenomenon will likely continue even after the pain of recession subsides for law firms. The objective of de-equitization is to improve the financial leverage of the firm by adjusting the staffing levels that are critical cost factors for serving a client. For example; are two senior lawyers, each with high hourly rates and likely with personal assistants, necessary to handle a client's work? Can the firm involve an associate, or even a paralegal, and get by with one senior partner? If so, then the superfluous partner is a candidate for de-equitization, as the firm takes the rational business step of improving its leverage and reducing cash outflow.

However, de-equitization is hardly a financial magic bullet because few firms look at the cash flow issues involved from the standpoint of cash coming *into* the firm. The focus here is on accounts receivable. That includes such items as the completion of time sheets and the goodwill of the partner for billing and collection. Before a lawyer is de-equitized or otherwise terminated, the firm should take care to understand what that lawyer's receivables are, and to know how much they depend on the lawyer to bring in those receivables. Ensure that there are incentives in the departing lawyer's interest to collect. Make certain that receivables are not left uncollected by:

- Ensuring that time sheets are current
- Sending final billings to clients immediately even if the totals need adjustments later
- Monitoring payment performance of the client to ensure that final invoices are not ignored
- Reviewing client files to confirm that there is no basis for refusing payment by claiming that work was left



Collecting Your Fee: Getting Paid from Intake to Invoice

By Edward Poll

(6x9", 143 pages + with CD of forms soft cover, ISBN: 1-59031-153-1, Published by American Bar Association, 2003)

The CD contains forms for intake, engagement letters, status report, budget, sample bills and collection letters, accounts receivable aging reports and more.

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undone.

It is essential that the law firm communicate with the client whose lawyer has been terminated. It may be appropriate to send a joint letter (firm and lawyer) to the client indicating the new relationships being created. If the departing lawyer is "taking the client," it is important that lawyer and firm negotiate the responsibility and methodology for collecting the outstanding fees.

Collections are a bottom-line issue, and the bottom line is that a firm policy on what to do with a departing partner's outstanding accounts is essential. Given that de-equitized partners may have been less than vigorous in their business development efforts, overdue accounts may have piled up to a dangerous point. A firm that has reached the stage of de-equitizing partners may either be a firm in financial trouble, or a firm with a sharp eye on the bottom line that is taking tough corrective actions to ensure profitability. Either way, client accounts of terminated partners should not go uncollected.

Personal Commentary

It's been 10 years since our dog died and suddenly, after we saw perhaps the most elegant Boxer I've ever seen during our maiden voyage in the Airstream, we now have our own majestic rescue Boxer, age 2 to 3 years. The addition certainly will alter our lives in ways we can't yet even imagine. He's smart, good looking and very energetic. Could the addition of the right staff person or attorney similarly revitalize your law practice?



Best wishes,

What Readers Are Saying...

Keynote speech is the "highlight" of Bar Association training seminar

"Ed's presentation, in my opinion, was the highlight of this series of speakers. I found the information which was presented to be tremendously valuable. Further, it was presented in a format which was both usable and interesting. Since Ed's presentation, I have had an opportunity to speak with several others who were in attendance and it is clear from them that he made our event successful."

-David R. Hagen, San Fernando Valley Bar Association

Ed Poll
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lawbizblog.com
www.LawBizForum.com
(800) 837-5880 Order Phone
(310) 827-5415 Office Phone

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