

# GARRISON & SISSON

WASHINGTON, DC

## SNAPSHOT OF ECONOMIC TERMINOLOGY

Prepared by Dan Binstock

*The following definitions are intended to provide a translation of law firm economic shorthand.*

### I. PARTNERSHIP TERMS

**Partnership:** Generally speaking, there are three types of partners: (1) **equity partners**; (2) **non-equity partners**; and (3) **contract partners**.

Title	Voting Rights	Capital Contribution	Share of Profits	Fixed (i.e., Guaranteed) Compensation	Pros	Cons
Equity Partner	Yes	Yes	Yes	Generally, no, but can be used with lateral partners during the transition/for a defined period of time.	Highest prestige; upside is participation in firm's profits.	Capital contribution; potential liability.
Non-Equity (or "Income") Partner	Yes	Usually not, but there are exceptions.	No, unless the firm provides "phantom shares" to non-equity partners.	Typically	Predictable income/cash flow; usually eligible for bonuses; reduced liability.	Less prestigious than equity partnership; less economic upside potential.
Contract Partner	No	No	No	Yes	Ability to market with partner title.	Defined term of employment.

**Equity Partners:** Partners who are part owners of the law firm and share in the profits. Equity partners receive shares to reflect the amount of their ownership. In the American Lawyer's Am Law 200 survey, equity partners are defined as "those who file a Schedule K-1 tax form and receive no more than half their compensation on a fixed-income basis." (American Lawyer, April 29, 2009). Equity partners have the most to gain and the most to lose because their compensation is directly proportional to the firm's profitability.

Garrison & Sisson, Inc.

655 15<sup>th</sup> Street NW, Suite 820 • Washington, DC 20005

[www.g-s.com](http://www.g-s.com) • (202) 429-5630

---

# GARRISON & SISSON

---

WASHINGTON, DC

## SNAPSHOT OF ECONOMIC TERMINOLOGY

**Non-Equity (or “Income”) Partners:** Partners who have voting rights, but do not share in the firm’s profits. In the American Lawyer’s Am Law 200 survey, non-equity partners are defined as “those who receive more than half their compensation on a fixed basis.” (American Lawyer, April 29, 2009).

**Capital Contribution:** A portion of an equity partner’s projected earnings is contributed to fund the operational expenses of the firm (a/k/a “skin in the game”). There are many ways that firms structure capital contributions, but most withhold a portion of an equity partner’s earnings from each paycheck and spread the contribution out over several years. Others, however, require the partner to independently borrow money from a bank and personally guarantee the loan. If a partner leaves a firm, the capital contributed is returned to the partner as the partnership agreement dictates.

In reaction to the past few years, many firms have moved to increase the overall percentage of capital contribution required in order to reduce a firm’s reliance on lines of credit or other third party loans.

---

## II. PROFITABILITY AND FINANCES

---

**Profits-Per-Partner (PPP):** A staple of the American Lawyer’s annual Am Law 200 rankings, this is the most widely recognized measurement of a law firm’s profitability. This is the figure on which firms and lateral partner candidates are most focused. According to the American Lawyer, PPP is calculated by “dividing the firm’s net operating income by the number of equity partners.” (American Lawyer, April 29, 2009). **Plain English:** Take all of the firm’s revenue from a one year period. Subtract all overhead and operating expenses (rent, salaries, etc.). What’s left (before deducting income taxes and interest) is the net operating income. Divide this figure by the number of equity partners and you have the PPP. Despite its widespread visibility, critics claim that some firms are tempted to “game” the numbers they report.

**Revenue Per Lawyer (RPL):** In the American Lawyer’s Am Law 200 survey, RPL is calculated by dividing the gross revenue by the number of lawyers. This is often viewed as a proxy for overall firm performance.

---

## III. BUSINESS DEVELOPMENT AND BILLING

---

**Originations:** A term that describes how much work a particular attorney was responsible for bringing (e.g., originating) into the firm.

---

**Garrison & Sisson, Inc.**

655 15<sup>th</sup> Street NW, Suite 820 • Washington, DC 20005

[www.g-s.com](http://www.g-s.com) • (202) 429-5630

---

---

# GARRISON & SISSON

---

WASHINGTON, DC

## SNAPSHOT OF ECONOMIC TERMINOLOGY

**Rainmaker:** A partner who is responsible for bringing in large amounts of business to the firm. Rainmakers typically have the power in the firm, and firms need to keep them happy because of the revenue they generate and the other attorneys they keep busy.

**Billing (or “Working”) Attorney:** If numerous attorneys are working for one client, the billing attorney is often the one who works on day-to-day matters.

**Relationship (or “Originating”) Attorney:** If numerous attorneys are working for one client, the relationship attorney is usually the one who oversees and supervises the work from a higher level. The relationship attorney also may be the billing attorney, but sometimes the relationship attorney serves simply as a liaison between the client and the billing attorneys.

**Realization:** Realization refers to efficiency in collecting on amounts billed. There are many different types of realization, but generally speaking this term measures how legal work is billed and collected. On an individual level, it often refers to how much of an attorney’s billable time is actually collected. If an attorney bills \$10,000 to a client and \$9,500 is collected, the realization rate would be 95%. Obviously, the higher the realization, the better.

---

## IV. COMPENSATION

---

**Draw:** The monthly, quarterly, or annual amount firms distribute to equity partners as an “advance” against the fiscal year-end calculation and distribution of profits. This is typically a fixed amount per period and is determined by the partner’s anticipated annual compensation. The lower the draw as a percentage of forecast profitability, the more conservative the firm is being.

**“Eat What You Kill” Compensation Model:** A term used to describe law firm compensation models that reward partners largely for the work that they bring in and handle (or supervise) themselves. The upside is that the rainmakers are rewarded handsomely, but the downside is that it can create a competitive culture where a partner’s billable credit often prevails over efficient staffing.

**Lockstep Compensation (Associates):** Base salary is the same for all similarly classified associates—and progresses uniformly across the board—so long as the associates are at the same year level and perform satisfactorily. Given the changes in the economy, firms are starting to abandon lockstep compensation for more merit-based compensation.

**Lockstep Compensation (Partners):** More common for U.K.-based firms, but not common in the U.S.

---

Garrison & Sisson, Inc.

655 15<sup>th</sup> Street NW, Suite 820 • Washington, DC 20005

[www.g-s.com](http://www.g-s.com) • (202) 429-5630

---

---

# GARRISON & SISSON

---

WASHINGTON, DC

## SNAPSHOT OF ECONOMIC TERMINOLOGY

**Merit-Based Compensation (Associates)**: Compensation is based on the individual associate's performance and skill level, not necessarily by date of law school graduation. This is becoming more popular for some firms as a way to reward the high performers, but also to retain more control and flexibility over compensation expenses.

**Open Compensation (Partners)**: Compensation data is distributed or available to be distributed to the entire partnership. This provides much more transparency, but at the same time can limit a firm's ability to pay a premium to recruit (or retain) in-demand lateral partners because it could create resentment with existing partners who are receiving less.

**Closed Compensation (Partners and Associates)**: Compensation data is confidential and usually determined by the compensation committee. Although transparency is reduced, this provides a firm more flexibility to reward the highest performers without having to justify compensation decisions more widely within the partnership.

---

**Garrison & Sisson, Inc.**

655 15<sup>th</sup> Street NW, Suite 820 • Washington, DC 20005

[www.g-s.com](http://www.g-s.com) • (202) 429-5630

---