

# ADD STRATEGIC VALUE IN YOUR ORGANIZATION BY DEVELOPING A PROFITABILITY MINDSET

April 26, 2013

## Glossary of Terms

Accounts Receivable (A/R) – Refers to money due to the firm for legal services provided (invoices billed that have not yet been collected on).

Accounts Payable (AP) – Refers to money that a firm owes to its suppliers, but hasn't been paid yet. Accounts payable accounts typically hold bills for operating expenses.

Adjusted Billing Realization - Fees billed - Write-offs ÷ Time Value Billed

Annualize – To budget/calculate income or expenses so as to reflect a rate that is based on a full year.

Billing Rate – The hourly (or alternative) fee charged to a client for legal services. There generally is a standard billing rate and a realized billing rate.

Blended Rate - Billing rate set to be charged by all timekeepers working on a matter.

Budget – An operating tool that is used to measure current performance against planned expectation.

Capital – An individual contribution to the firm's equity in order to participate in the ownership of the firm. The partner's investment is relative to their ownership percentage.

Closing Time – The periodic closing of books and finances to tally where you are. In law firms the period is a month.

Collections – The receipt of payment for fees billed to a client.

Contingency Fee – A fee for legal services upon successful completion of the services. This is usually calculated as a percentage of the gain obtained for the client.

Debt – Amount firm owes to third parties

Deferred Compensation – An arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned.

Draw – Preferential distribution of profits

Fiscal Year – A 12-month period over which a law firm estimates/budgets its spending; the financial year. A fiscal year does not always begin in January and end in December.

Fixed Fee Arrangements – An alternative billing arrangement where the fee is agreed upon in advance of a transaction and is the amount billed regardless of the actual number of hours spent on the matter.

Full Time Equivalent (FTE) – Annualizing of part-time individuals to compare them with full-time individuals.

Leverage – Ratio of total head count (minus equity partners) to equity partners.; often refers to the work that partners delegate to associates and support staff. Optimal leverage ratios will vary by firm and practice area. Most often profitability increases as leverage increases.

Net Income - Gross Revenue - total costs.

Non-Equity Partner – Also termed as Income Partner, Special Partner or Junior Partner, is a law firm partner who does not share in the equity of the firm. The partner has no ownership in the firm and no vote in how the firm is operated. They typically earn a salary. This position is typically considered a stepping stone to equity partnership.

Operating Expenses – Day-to-day expenditure incurred in running the firm. Examples of typical operating expenses are rent, technology, insurance, utilities, compensation, and recruiting and training costs. Firms will often try to improve their financial position by reducing operating expenses.

Overhead – All operating expenses excluding timekeeper’s compensation. The overhead is the cost to run the firm.

Partner – A lawyer who is an owner of the firm and is paid a percentage of the firm’s profits that reflects the lawyer’s contribution to the firm. Also known as shareholder or equity member.

Pre-bill – A draft report of billable time and disbursements allocated to a client matter. A pre-bill is reviewed and adjusted by the billing attorney before a bill is produced in final format for the client.

Premium Rate - Negotiated billing rate which is higher than the standard billing rate.

Productivity – Measure of how busy an attorney is at any part of the year

Profit Margins – The profit after applying fee income less the compensation to produce the fee income.

Profits Per Partner (PPP/PPEP) – A performance statistic often used by law firms; calculated by dividing the firm’s net income by the number of partners (most often equity partners).

Realization – The amount of fees billed versus fees collected.

Revenue – Amounts received from clients for time billed.

Revenue per Lawyer – A performance statistic often used by law firms; calculated by dividing the firm’s collected fees by the number of full-year equivalent lawyers.

Timekeeper – a person who keeps time records with the intention of billing hours worked to appropriate client matters.

TVR – Time Value Recorded – Hours x standard rate, used to analyze utilization.

Utilization – The number of billable hours an attorney works compared to the hours targeted for a given time frame; also referred to as productivity rate.

Work in Progress (WIP) – Time that has been worked but not billed to the client.

Write off – Billable client time that is subsequently not charged to a client. This is unbilled write-off. Billed write-off is when the time was originally billed to the client, but you do not receive receivables.