

## The Business of Our Business - Key Terms

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AI	Artificial Intelligence, including Large Language Models (LLMs) such as ChatGPT. Computer systems that seem likely to materially alter the way legal work is done and law firms operate.
AFA	Alternative Fee Arrangement. Billing arrangements other than strictly by billable hours, though AFAs are often derived from hours billed.
Billing Rate	Hourly fee charged for legal services to a client.
Blended Rate	An “average” of the normal billing rates of timekeepers on the matter that is charged by all timekeepers working on the matter.
Budget	The expected revenue and expenses of an organization, created before the period – typically a year – against which ongoing performance is measured to see if things are “on track”.
Capital Contribution	Money invested in a firm by (generally) a new equity partner in exchange for an ownership percentage of the firm.
Equity Partner	A partner who has contributed capital to the firm and, as an owner of the firm, is entitled to a share of the firm’s profits (or losses) and other rights or obligations as stipulated in the firm’s partnership agreement.
Expenses	Expenses, or Operating Expenses, include salaries, rent, technology, marketing, recruiting, and other daily costs to keep the business running.
Gross Revenue	The total earnings of a firm before subtracting expenses.
Leverage	The ratio of all attorneys who are not equity partners to equity partners. E.g., a firm with 100 attorneys and leverage of 3:1 means there are 75 associates, counsel, or other billing lawyers who do not own equity in the firm and 25 equity partners.
Net Income	Gross Revenue (minus) Expenses. Net Income is what the equity partners earn.
Non-equity Partner	An attorney designated as a Partner but who generally does not own an equity interest in the firm. Sometimes called “Income Partner”. Voting and other rights vary by firm.
Partner	“Partner” includes Equity and/or Non-equity Partners. Depending on the use, seek clarification.
Productivity	In the firm context, Productivity or “Production” is generally the same as Utilization (see below).
Profit Margin	Net Income divided by Gross Revenue. It reflects the amount of expenses needed to generate Net Income, or the firm’s “efficiency”.
Profits Per Partner	PPP, or Profits per Equity Partner, is the firm’s Net Income divided by the number of Equity Partners. Very few partners actually earn the exact PPP.
Realization	“Realization rate” is the percentage of hours billed that are actually collected. E.g., if 1000 hours are billed and 900 of them are collected, there is 90% realization.
Utilization	“Utilization rate” is the percentage of hours billed divided by the hours budgeted or projected to be worked in a given time period. It can apply to a timekeeper, practice group, or office. E.g., if an attorney is projected to bill 2000 hours but only bills 1900, the Utilization Rate is 95%.
Write-off	Broadly defined, fees resulting from hours worked that are not billed to the client or the client does not pay. Write-offs result in revenue “leakage”.