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TOP NORTHERN CALIFORNIA LAW FIRMS

THE HOLDOUTS

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Larry Rabkin in the late 1990s found his firm facing a doomsday mantra — that the mid-sized law firm wouldn't survive in the increasingly international marketplace for legal services. The now chairman and managing director of 117-lawyer Howard Rice Nemerovski Canady Falk & Rabkin watched as the market consolidated around him and small and mid-sized firms disappeared.

"That was the absolute perspective of consultants and the wisdom in the greater legal community," Rabkin says, "that consolidation was the only avenue to survival."

Many northern California firms disappeared, shrank or were simply gobbled up by larger operations when the dot-com bubble burst at the turn of the century.

And the wave of mergers and acquisitions continues to this day. Most recently, Los Angeles-based Manatt, Phelps & Phillips scooped San Francisco's Steefel, Levitt & Weiss, a 45-lawyer shop, in a merger that went live on Feb. 1. San Francisco litigation firm Morgenstein & Jubelirer, with 35 attorneys, became part of Chicago's Schiff Hardin last year. And in 2006, Philadelphia-based Duane Morris acquired the 64 lawyers of well-known San Francisco insurance coverage firm Hancock Rothert & Bunshoft.

Nonetheless, northern California's legal market remains somewhat fractured. Smaller, regionally focused firms still excel and compete with larger firms, says Newport Beach-based industry consultant Peter Zeughauser.

National and international firms are still looking to establish a foothold where they haven't yet set up shop. Recruiters say about half of the top 100 national law firms have established a presence in the Bay Area.

But industry analysts predict that high-end



ART SHARTSIS of Shartsis Friese

local holdouts like Rabkin's firm, although attractive targets for firms looking to expand their Bay Area footprint, will not be easily lured into merging because the benefits of merger for these firms don't outweigh the downsides of compromising their lifestyles or independence.

"They feel they can continue the lifestyle without the need for affiliation with a large firm to build their practices or even retain their client base," says Richard Gary, a Bay Area law firm consultant.

The Holdouts

The list is familiar: Kecker & Van Nest and Howard Rice. Gunderson Dettmer Stough Villeneuve Franklin & Hachigian and Farel-la Braun + Martel. Shartsis Friese. Coblentz, Patch, Duffy & Bass. Hanson Bridgett Marcus Vlahos & Rudy. Greene Radovsky Maloney Share & Hennigh.

Targeted firms say they are courted "con-

stantly," "weekly" or "incessantly." But, they are staunch about maintaining their independence and say that profitability and size don't always go hand in hand.

"More power to them," says Kecker managing partner Chris Kearney of larger firms' attempts to seduce them. "We just don't want to be a part of that. We like who we are. We like what we are. We don't feel like we need that to continue doing what we're doing."

Rabkin says managing growth in favor of stability better keeps his 117-attorney firm competitive. "We weather these things better by reliance on this model that adheres to the same values that we've always held," Rabkin says. "We stick to our knitting."

Keeping up with the Jones Days

But how can firms intent on staying small compete economically with globalizing firms when their platforms so drastically differ?

Kecker's Kearney says the firm is selective

about the cases and the attorneys it takes on. Instead of being all things to all people, the 68-attorney San Francisco litigation boutique tries to be the go-to firm for clients on the cases that matter to them most, the “bet the company” litigation.

“I think people have been questioning its viability for a long time,” Kearney says of Keker’s model. “I think that the fact that we have survived is a testament to that.”

Likewise, Shartsis Friese, with 54 attorneys, doesn’t offer “one-stop shopping,” says partner and management team member Carolyn Reiser. But, it has enough diversity within its litigation and corporate practices to keep it busy during all economic cycles, says name partner Art Shartsis. Six attorneys devote themselves to securities enforcement defense work, while 21 practice complex civil litigation. Eight attorneys work on sophisticated real estate transactions, and 14 are advisers for investment funds.

Part of staying both small and profitable is running a tight ship. The other part is adapting one’s business model when needed.

Reiser says Shartsis Friese, which bills less than its larger competitors, stays profitable by keeping its attorneys busy and making sure it collects on the time it bills.

“We’re careful about what clients we take on and we ensure that they pay for the work that we do,” she says.

Shartsis Friese’s chief operating officer, Paul Feasby, says annual revenue for 2007 exceeded \$40 million, an 8 percent increase over the previous year, which he characterized as an “average” increase for the firm.

The Woo

One challenge smaller firms face is wooing attractive clients.

Mark Hennigh, founding partner of the 28-attorney transactional firm Greene Radovsky Maloney Share & Hennigh, says the relatively small size of his firm, which works exclusively on business transactions, has attracted clients who believe larger firms overcharge for similar quality work. Its clients include Macys.com, Union Bank of California and law firm Townsend and Townsend and Crew.

“You can achieve the same result with fewer people, and my billing rate is closer to an associate than a partner,” Hennigh says. “Look at the economics of that.”

Smaller firms may be able to capitalize on their lower billing rates more than ever in the wake of the last round of associate salary wars. Last year, New York’s associate salary wars spilled over into other major

legal markets, including northern California, which irked clients who feared they’d have to foot the bill. First-year salaries at many large firms rose to \$160,000. A majority of general counsel surveyed by Pennsylvania-based legal consulting firm Altman Weil last year described the salary increases as “outrageous.”

Some smaller firms are able to command rates that match those of larger firms but provide a bargain by leaner staffing. Keker’s Kearney says the firm is a good deal for clients because they don’t “just put bodies on a case.”

Star Struck

But attracting clients is not all dollars and cents. Star power can be a large part of the allure.

Name partner John Keker recently attracted the business of Mississippi plaintiffs’ lawyer Richard “Dickie” Scruggs, Sen. Trent Lott’s brother-in-law, who must defend himself against federal criminal charges that he attempted to bribe a federal judge, and Keker concluded his representation of class-action king William Lerach last month, when Lerach was sentenced to two years in prison for his role in a client kickback scheme.

Being a force in the local and national litigation scene has its benefits but reliance on star power has its dangers. The ripples caused by the defection or retirement of a firm heavyweight can have a bigger impact in a smaller pond.

Greene Radovsky’s Hennigh admitted that his firm relies heavily on its five-to-seven senior standouts to attract much of its business. Hennigh acknowledges the firm could be in trouble financially if those attorneys were to leave, but says the firm works to keep its best attorneys by ensuring that they have a fair say in the firm’s business direction.

“We are really accommodating to minority interests in the partnership,” Hennigh says.

The firm also addresses succession issues by progressively easing younger partners into relationships with the firm’s mainstay clients.

Livin’ La Vida Buena

Another major challenge small firms face is attracting top talent to the ranks.

Some firms, such as Shartsis Friese and Keker, say their associate salaries match those at large firms, which helps them attract and retain talented attorneys.

But, even firms that don’t match can provide other benefits like greater flexibility and a better lifestyle.

Andrew Giacomini, managing partner of Hanson Bridgett, says his firm uses a creative payment structure to close the gap between its associates’ salaries, which start at \$120,000 but require a lower minimum billable hour requirement than a larger firm, and the \$160,000 starting salaries typical at larger shops. Hanson Bridgett requires first year associates to bill 1,800 hours per year, which earns them a 10 percent bonus. If an associate logs 1,900 hours, he receives another 10 percent bonus, bringing the figure to \$144,000.

“You choose your dollar amount, or you choose to watch your child at a soccer game,” Greene Radovsky’s Hennigh says. He says lateral transfers who come from major firms have realized that “making money isn’t worth much if you can’t enjoy it.”

Rabkin says Howard Rice’s structure lacks hierarchy and the firm maintains an ethos of permanence.

“We have a lot of people who have been at the firm for a very long time,” Rabkin says.

Smaller firms can also provide associates opportunities for greater responsibility at earlier stages in their careers. Howard Rice’s partner-associate ratio, which is almost one-to-one, is typical for a firm its size. Legal consultants say that helps firms like Howard Rice attract top talent; associates can work at the elbow of a partner, an opportunity that is increasingly rare at larger firms.

At Keker, for example, associates Brook Dooley, Travis LeBlanc and Warren Braunig are working alongside John Keker on the criminal defense of class action king “Dickie” Scruggs, rather than spending their days buried under reams of paper doing a never-ending document review.

Kearney, who has been with Keker for 17 years, says the firm’s size is a huge incentive to work at the firm.

“It just doesn’t get any better than that - being able to walk into one another’s offices to discuss something or all sit around a table together. If you like your partners, there’s no better way to practice law,” Kearney says.

No firm interviewed expressed interest in merging.

“We have always preferred to march to the beat of our own drum,” says Howard Rice’s Rabkin.

Shartsis Friese’s Reiser says, “There’s absolutely nothing broken in our model, so we’re not tinkering with it.”

But Hennigh left the door open. “Over the years, we have sat down and listened to [headhunters]. Our sentiment is that we are not currently interested, although we will never say never.”