

Succeeding Differently

Thanks to focus
and geography, some
Second Hundred
firms outpaced
The Am Law 100.

LOCATION, LOCATION, LOCATION: THE REAL ESTATE agent's catchphrase turns out to be an important predictor of value in the law firm world as well. The Am Law Second Hundred—101–200 on our list of the country's highest-grossing law firms—covers an even wider swath of territory than The Am Law 100. There were Second Hundred firms in all corners of the country—in Seattle and San Diego, Tampa and Boston—and most major markets in between.

And on average they had a pretty good year in 2002, even when measured against their bigger counterparts. Gross revenue at the Second Hundred was up an average of 5.4 percent, compared to 8.5 percent for The Am Law 100. The average increase in revenue per lawyer—3.8 percent—was about on par with The Am Law 100's 4.0 percent, and the rise in profits per partner was 8.4 percent, exceeding The Am Law 100's 6.9 percent.

What those numbers don't show is that the formulas for success that Second Hundred firms use are often different from those of their larger competitors. A handful specialize in particular, lucrative practice areas. Others select a regional strategy, dominating parts of the country that are underserved by The Am Law 100. And some Second Hundred firms, located in Am Law 100 strongholds such as New York and San Francisco, compete head-to-head with the bigger firms—and prosper.

BIG BOUTIQUES

To find the big profits in the Second Hundred, look to the small cadre of firms that concentrate on high-end litigation and intellectual property work. Profits per partner are on par with some of the most profitable Am Law 100 firms. Take Los Angeles's Quinn Emanuel Urquhart Oliver & Hedges, where average profits per partner last year were \$1 million. Founded in 1986, the 190-lawyer firm does only litigation, mostly high-end trial work. "Our message to the business community is simple," says managing partner John Quinn. "We do only one thing—try your tough cases." The firm does it well. Throughout their careers, the firm's partners have won 92 percent of their cases, Quinn says. And last year the firm obtained a \$134 million verdict for Bancorp Services in a trade secrets case—the nation's second-largest verdict in an intellectual property case.

Another Second Hundred firm, New York's Fish & Neave, has practiced IP law for the past 125 years. Its anniversary comes in the same year as the centennial of the Wright Brothers' first flight; aptly, the Wrights were firm clients, notes managing partner Jesse Jenner. The niche has been lucrative. Last year Fish & Neave's average profits per partner were \$800,000, and Jenner says that most large general practice firms can't match his firm's IP knowledge. "They don't have the background and expertise to sell the service genuinely," he says. Even when big Am Law 100 firms represent technology companies in big litigations, he says, they often need to retain an IP counsel, ultimately adding to client cost.

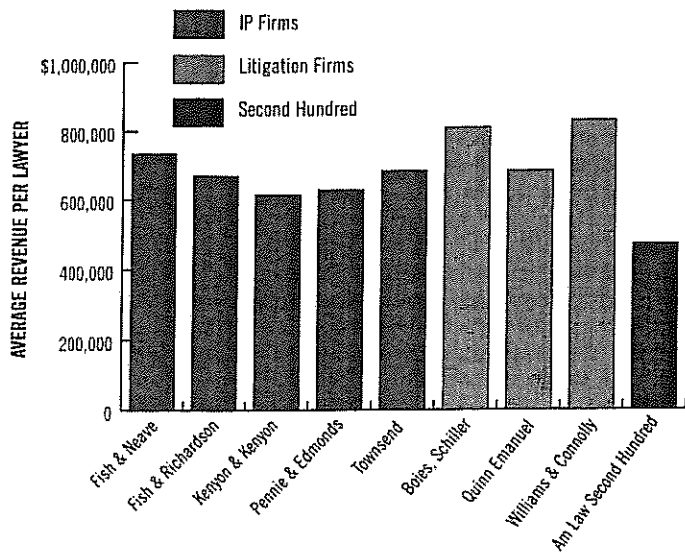
A GEOGRAPHIC PLAY

While many Am Law 100 firms try to hang shingles from coast to coast (or around the world), some Second Hundred firms make an asset of a limited geographic gaze. For instance, Charlotte, North Carolina's Moore & Van Allen focuses on the Carolinas, with four offices scattered throughout the two states. Managing partner Ernest Reigel says that's just fine with him; he has no plans to expand beyond them. Why should he? Moore & Van Allen enjoyed average profits per partner of \$645,000 last year, higher even than a couple of New York's Second Hundred firms.

Moore & Van Allen's gross revenue has increased 38.1 percent over the past three years, and revenue per lawyer has increased 15 percent, thanks in part to the region's booming banking business.

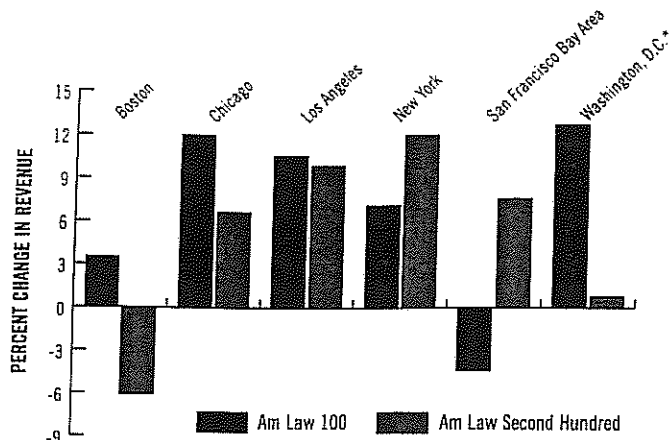
Specialty Shops

Firms focusing on intellectual property and litigation had much higher average revenue per lawyer than the Second Hundred as a whole.



Urban Warfare

From 2001 to 2002, Am Law 100 firms had a higher rate of gross revenue growth than Second Hundred firms in four of six major markets.



*Excludes two firms that received large contingency fees.

Bank of America Corporation and Wachovia Corporation, the country's second- and sixth-largest banks, respectively, are headquartered in Charlotte, and Moore & Van Allen handles a lot of syndicated loan and general credit finance work for them.

Similarly, Columbia, South Carolina's Nelson Mullins Riley & Scarborough enjoyed the benefit of a local client base that includes Michelin North America, Inc., based in Greenville, and Roche Carolina Inc., a unit of Hoffmann La Roche Inc., in Florence. (The firm does mainly product liability work for those two companies.) Managing partner David Dukes notes that local work can become national in scope, particularly in pharmaceutical litigation and product liability. Work also comes to Nelson Mullins from companies outside the area, such as product liability matters from Wyeth and Johnson & Johnson. Last year the firm saw its gross revenue increase 15.6 percent.

While Nebraska may connote corn and cattle (or maybe Warren Buffett) to New York's deal mavens, Omaha's Kutak Rock benefited from a strong presence in the Midwest, Arkansas, Colorado, and Oklahoma. The firm, which has nine of its 15 offices in the region, does real estate and litigation work for Arkansas-based Wal-Mart Stores, Inc.—the nation's largest public company—and Tyson Foods, Inc., among others. Such work, combined with a national public finance practice, helped increase gross revenue 14.6 percent last year.

Meanwhile, sticking to the Southwest didn't hurt Phoenix's Snell & Wilmer: The firm, which has six offices in the region, saw gross revenue shoot up 22.8 percent, due in large part to a onetime \$20 million contingency fee in an insurance case. (Even without the fee, Snell & Wilmer's gross revenue would have grown by 6.8 percent.) During the nineties, the firm expanded throughout the Southwest and now has a solid practice representing large local clients such as Phoenix-based Pinnacle West Capital Corporation and the Tucson Airport Authority, as well as such national clients as Ford Motor Company and Bank One Corporation.

DUKING IT OUT

Not every Second Hundred firm has the benefit of a regional niche; in larger cities where Second Hundred and Am Law 100 firms muscle it out, the dynamic is quite different. And despite conventional

wisdom, it is clear that bigger does not always equal better. True, in Boston, Chicago, and Washington, D.C., the growth of Am Law 100 firms trumped that of Second Hundred firms. But in such markets as New York and San Francisco, Am Law 100 firms saw their premier, high-margin work evaporate, while Second Hundred firms saw steadier, specialized work buoy their growth.

In Boston, for instance, softness in the city's venture capital and biotechnology industries affected both Am Law 100 firms and their Second Hundred counterparts. The Second Hundred firms recorded a 6.1 percent decrease in gross revenue, while Am Law 100 firms saw a 3.5 percent increase, led by firms such as Goodwin Procter and Ropes & Gray, which have a large presence outside Boston.

Faced with a tough business climate, Boston's Second Hundred firms may have to merge to survive, say recruiters and consultants. "If they don't have a focus, and don't have depth, I think they're at risk," says Jeff Coburn of Boston's Coburn Consulting. "There was a place for these firms 35 years ago, but today people will use whatever the go-to firm in a particular field is."

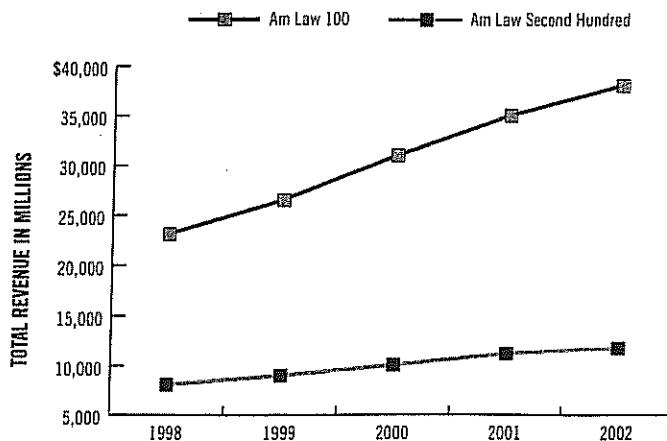
Don't try selling that to Jeffrey Jones, the managing partner of Boston's Palmer & Dodge, a Second Hundred firm that recorded a 1.7 decrease in gross revenue in 2002. "There are still opportunities for agile firms that provide good work," he says. He admits that his firm is a bit of an anomaly—a single-office, general practice firm in a region relatively devoid of Fortune 500 clients. But Jones believes that his firm can do well for precisely that reason—New England's smaller companies, he says, do not have far-flung legal needs requiring offices across the country. Jones has faith that the venture capital and biotechnology industries—in which his firm is invested—will rebound. "You have to assume," he says, "that every pendulum swings back."

In Washington, D.C., Am Law 100 firms truly dominated their Second Hundred counterparts. The larger firms' gross revenue increased an average of 12.7 percent, while the Second Hundred eked out gross revenue growth of just 0.8 percent. (Results from Dickstein Shapiro Morin & Oshinsky and Crowell & Moring were not included in these averages, since large contingency fees skewed their figures in 2001 and 2002.)

Why is it so hard for Second Hundred firms in the nation's capital? James Jones, a Washington, D.C.-based consultant for Hilde-

On The Rise

Total revenue of both The Am Law 100 and the Second Hundred have grown since 1998.



brandt International, says that it's simply the result of greater competition in the marketplace. "Larger firms are going after matters that three or four years ago they would have passed up," he says.

And it's not just coming from the big D.C.-based firms. Am Law 100 firms from across the country have moved into the nation's capital, intensifying competition. "A lot of firms that have opened up shops here have been able to lure talent away from the old-line firms," says Jeffrey Lowe of legal recruiter Major, Hagen & Africa's Washington, D.C., office. In the past year, for instance, Verner, Liipfert, Bernhard, McPherson and Hand merged into Piper Rudnick and Arent Fox Kintner Plotkin & Kahn lost attorneys to Sidley Austin Brown & Wood, Sonnenschein Nath & Rosenthal, and Thelen Reid & Priest. (Washington offices of Second Hundred firms that are based elsewhere have been hit, too: The now-defunct Arter & Hadden had seen its Washington, D.C., office dwindle to about a dozen lawyers from 90 in the late nineties, and last year 33 international trade lawyers defected from Powell Goldstein Frazer & Murphy to Sidley.)

Arent Fox managing partner William Charyk says that in the past his firm had been quick to bring on lawyers and add practice areas to keep pace with Washington's Am Law 100 firms. Now, he says, "we're going through an exercise of saying, who are we?" But Charyk says there is still a place in Washington for firms of Arent Fox's size, assuming they strategize wisely; for Arent Fox, that means strengthening core practices in real estate and IP work, Charyk says.

Chicago's Am Law 100 firms also breezed past their Second Hundred competitors, with average gross revenue growth of 12.1 percent, almost twice that of the Second Hundred's 6.7 percent. Am Law 100 firms with a large national presence such as Kirkland & Ellis and Sonnenschein saw big gains—15.3 and 19.5 percent growth in gross revenue, respectively. Smaller, more locally focused Second Hundred firms—such as Gardner, Carton & Douglas and Wildman, Harrold, Allen & Dixon—had more modest gains in gross revenue—1 and 4.3 percent, respectively.

Chicago-based Hildebrandt consultant Joel Henning says that consolidation among clients is the cause. The Second Hundred firms, he says, "had a nice middle-market business, but as smaller

businesses get swallowed up and become global, the legal business goes to the larger firms."

John Sapp, managing partner of Michael Best & Friedrich, which is based in Milwaukee but has more than one-third of its 310 lawyers in Chicago, says that mergers among the smaller law firms in the region will likely occur—a prospect he welcomes. Sapp says that his firm has looked into pairings with one or more area firms because there is "commonality" among firms within the Midwest; he speaks of a "Great Lakes plan," in which a merged firm would have offices in a region bounded by Minnesota, Michigan, Missouri, and Ohio. "Consolidation is happening in every industry," says Sapp, whose firm recorded a 12.1 percent increase in gross revenue last year. "There's no reason the legal business should be any different."

For a contrast, look to New York. That city's Second Hundred firms had stronger growth than its Am Law 100 firms (12.1 percent for the Second Hundred, compared with 7.2 percent for The Am Law 100). Wall Street's plight is the cause, says recruiter Lynn Mestel of Mestel & Company Inc. "The top 100-grossing firms depended more on big-ticket M&A, IPOs, and work coming through the capital markets," she says. "But the general corporate work of the bottom 100—the middle-market business—remained steady, and litigation was [also] very strong."

Gross revenue dropped 13.9 percent at The Am Law 100's Cravath, Swaine & Moore and remained flat at Davis Polk & Wardwell. But among New York's Second Hundred firms, insurance litigation specialist Wilson, Elser, Moskowitz, Edelman & Dicker saw a 13.5 percent rise in gross revenue, and product liability litigation helped boost Hughes Hubbard & Reed's gross revenue by 10.3 percent [see "Second Wind," page 76].

The strongest growth among New York firms was at Brown Raysman Millstein Felder & Steiner, which recorded a 33.6 increase in gross revenue and 10.6 percent growth in revenue per lawyer. Peter Brown, the firm's managing partner, says that mergers with a 45-lawyer general corporate firm and a small employment firm were partially responsible. While Brown sees other New York firms chasing after big clients, he says that he is more than happy with a stable of "middle-market companies," which he defines as those with revenues of \$100-500 million. "If you're looking for a quality, midsize firm," Brown says, "there are less and less choices—which is actually good for us."

Second Hundred firms thrived in California, too. In the San Francisco Bay Area, gross revenue at Second Hundred firms increased 7.6 percent, while Am Law 100 firms recorded a 4.4 percent drop. In Los Angeles, Second Hundred firms saw a 10 percent increase in gross revenue, compared to 10.6 percent at the city's Am Law 100 firms.

For Second Hundred firms in both Northern and Southern California, slow but steady was the key to success. Firms that took a low-risk approach during the late nineties saw their caution rewarded. "A lot of firms quietly amassed a squadron of good lawyers who stayed with them during the dot-com boom, as well as a stable of institutional clients who kept giving them good work," says Major, Hagen & Africa's Martha Fay Africa.

That assessment is not lost on Guy Halgren, chairman of the executive committee at Los Angeles's Sheppard, Mullin, Richter & Hampton, where gross revenue increased 14.1 percent last year, despite having no offices outside California. (Earlier this year the firm opened a Washington, D.C., office, and Halgren says that the firm plans to move into New York eventually.) Halgren attributes part of the firm's success to its conservative management and "not jumping on any bandwagons" (read: not taking stock options in place of fees). "Our increases have never been spectacular," says Halgren, "but we don't have down years either."

This year some Am Law 100 firms undoubtedly wish they could say the same.

—ROBERT LENNON

First-Tier Work

At five top Second Hundred firms, revenue per lawyer approaches that of the five top Am Law 100 firms.

| Am Law 100 Firm | Revenue per lawyer |
|---------------------|--------------------|
| Wachtell | \$1,895,000 |
| Sullivan & Cromwell | \$970,000 |
| Davis Polk | \$960,000 |
| Paul, Weiss | \$915,000 |
| Simpson Thacher | \$870,000 |

| Second Hundred Firm | Revenue per lawyer |
|---------------------|--------------------|
| Munger, Tolles | \$835,000 |
| Williams & Connolly | \$830,000 |
| Boies, Schiller | \$810,000 |
| Fish & Neave | \$735,000 |
| Irell & Manella | \$730,000 |