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Slipping and sliding

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From afar, Washington may look like the land of legal opportunity, what with the recent passage of financial and health care reform.

But even in D.C., firms have shed lawyers at a nearly unprecedented clip. According to the *Legal Times* 150, our annual ranking of the largest law offices in the nation's capital, headcount for Washington-area firms declined by 4.5% last year, or 702 lawyers — the biggest drop that we've recorded in 25 years. In all, 93 of the 150 had fewer lawyers than in the previous year.

Why the sharp drop amid all of the regulatory activity? Firm leaders in the region say some of the blame lies with Congress and the Obama administration, which took their time passing and implementing regulation — thus making it less necessary for clients to bring on D.C. talent. The sour economy also forced firm leaders to think hard about bringing on first-year associates.

And don't look for a major hiring boom anytime soon. Although they are more optimistic about the bottom line now that regulatory work is picking up, D.C. firm leaders said they are wary about bringing aboard untested associates or laterals from private firms or government who are coming without books of business. "Washington, D.C., just wasn't immune to the types of pressures from clients that we have seen in other areas," said J. Warren Gorrell Jr., co-chief executive officer of Hogan Lovells. "Clients are trying to reduce their legal spending wherever they can, and that pressure affects how firms go about hiring."

Hogan Lovells, which was created in May when Hogan & Hartson merged with U.K.-based Lovells, maintained its position as the largest firm in the Washington area this year despite reporting a 7.5% decrease in its headcount. Covington & Burling, which reported a 2.7% drop in headcount, held on to its No. 2 spot, while Arnold & Porter climbed one spot to No. 3 on the back of a 3.4% increase. Wilmer Cutler Pickering Hale and Dorr fell from No. 3 to No. 4 after holding the top spot on the list in 2008. Wilmer lost 69 lawyers in D.C., a decline of 14.7%. Rounding out the top five are Crowell & Moring and Steptoe & Johnson LLP, which, at 294 lawyers apiece, posted declines of 5.5% and 3.6%, respectively. Crowell's drop in headcount comes after posting a 15.6% increase last year.

MAKING MOVES

William Perlstein, co-managing partner of Wilmer, attributed his firm's headcount decrease to attrition after a period when "no one wanted to make a move." He said that lawyers who might have been willing to leave the firm for another job hadn't been willing to do so in an uncertain job market. Now that the economy is showing signs of picking up, he said, those moves are being made more frequently. "There was an artificial buildup in headcount between 2008 and 2009. These days, you're seeing a more normal level of movement that is closer to what you'd expect to see in a good environment." Perlstein also pointed to shrinking first-year associate classes, which he said have continued to decrease in size as more and more clients balk at paying for what they see as training efforts.

This year, the firms that provided estimates for new associates said the total will drop by 6% to 746. While that is likely little encouragement to young lawyers hoping for a Big Law job straight out of school, it is a marked improvement compared to last year, when the number of new associates fell by 67%.

Eric Bernthal, managing partner of Latham & Watkins' Washington office, said that, while associate classes have gotten smaller, deferrals are becoming less frequent as client demand picks up. In September, Latham brought in several associates before their deferred start date in October. Latham reported a 3.7% decline in headcount. "Entry-level classes are definitely smaller, but they're right-sized for the level of demand. People are being much more careful about entry-level lawyers than they were in the past," Bernthal said.

Suburban offices took a bigger hit than those within the District. Sixteen of the 29 suburban offices on the survey (in other words, those offices outside the borders of the District of Columbia) reported drops in overall headcount. Five of those offices — Vienna, Va.-based Rees Broome; the McLean, Va., branch of Pillsbury Winthrop Shaw Pittman; the Falls Church, Va., branch of Reed Smith; Venable's Vienna office; and Morrison & Foerster's McLean office — reported declines of 15% or more.

Branch offices didn't fare much better. Offices that serve as Washington outposts for firms based elsewhere saw their headcount fall by 6%. (Put another way, they lost 534 lawyers — more than all of the lawyers at Hogan, the No. 1 firm in the region.)

HOME-FIELD ADVANTAGE

Firms that were founded in the D.C. area had a better time of it than branch offices, falling by 2%, or 150 lawyers. But for firms that rarely stumble, it's a noticeable drop.

The firm with the largest increase in headcount was Bingham McCutchen, which jumped 10 spots to No. 24 after its August 2009 merger with McKee Nelson. The McKee merger added 65 lawyers to Bingham's Washington office.

Avery Ellis, a recruiter with Mestel & Co., said this year's dismal numbers at most of the largest firms in Washington were not surprising, given that so many firms in Washington have reported declines in gross revenue. The D.C. 25, our annual ranking of the top moneymakers among Washington law offices, found that, for the first time in 11 years, the combined gross revenue for Washington's largest firms declined. "There has been a noticeable trickle-down effect. Partners have been having trouble keeping busy in some practices, which has meant that associates aren't getting fed," Ellis said. "Firms are taking a much harder look at everyone under their roof."

That said, firm leaders said there has been an increase in work in a number of key practices. Intellectual property litigation, antitrust, government contracts, Foreign Corrupt Practices Act and regulatory practices are all much more busy than a year ago, they said. Several managing partners said they were looking to add lateral partners — that is if those laterals have a portable, and profitable, practice.

Bobby Burchfield, co-managing partner of McDermott Will & Emery's Washington office, which posted a 2.4% decline, said that, although the hiring process is now more rigorous, "there are still great opportunities out there." Burchfield said, "We're turning the corner and are back in growth mode."

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