

Kelley Drye in Merger Talks With Collier Shannon

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New York-based Kelley, Drye & Warren is in advanced merger talks with the 82-lawyer D.C. firm Collier Shannon Scott, both firms confirmed Tuesday.

The firms have yet to sign a letter of intent, but both partnerships are expected to make a decision in the coming weeks, says Brad Mutschelknaus, managing partner of Kelley Drye's Washington office.

"I would describe myself as guardedly optimistic," Mutschelknaus says. "There are a lot of moving parts, and any one of them could cause it to go south."

A combined firm would more than double Kelley Drye's Washington presence, to about 125 lawyers, and bring the corporate litigation firm a mix of regulatory practices, including Collier Shannon's advertising, international trade and antitrust groups.

The merger would be the latest in a string of acquisitions in the D.C. legal market, which has seen many local midsize firms swallowed up by out-of-town players looking to bolster their presence inside the Beltway.

"It really goes to the proposition that this world is moving away from the boutique law firms," says Avery Ellis, a recruiter at Mestel & Co. "Many general-practice firms have advertising and international trade practices like Collier Shannon. So how do they compete?"

Collier Shannon was founded more than 40 years ago and has long been a member of Washington's legal establishment. The firm has been noteworthy for its work in the regulatory sphere, representing a number of trade associations as well as domestic companies in international trade disputes. It is still well regarded for its antitrust work despite losing 30 attorneys after antitrust powerhouse James Rill left for Howrey, in 2000. Last March, John Williams, then the head of the firm's litigation group, also left, joining the Washington office of Jones Day.

But as Collier Shannon's competitors have grown to include hundreds of lawyers, the smaller firm has struggled to keep pace. A merger has the "potential to provide greater resources for our clients and would make us able to serve them better," says Paul Rosenthal, managing partner of Collier Shannon.

Kelley Drye also has faced its share of challenges since it came into the D.C. area, in the 1980s. The firm's Washington practice hit hard times after telecommunications work dried up during the dot-com bust. In 2002 the firm laid off attorneys in its 43-person Northern Virginia office. Then its six-lawyer litigation practice in the District jumped ship. The bleeding continued when the firm's five-person environmental group exited in February 2004. By last spring the firm's D.C. branch had dwindled to 29 lawyers.

Nationally, Kelley Drye has been trimming, as well. The firm closed its money-losing Miami office in 1999, then shuttered its Hong Kong outpost and Los Angeles office in subsequent years. Though the closures helped boost firm profits per partner, which hit \$905,000 last year, they remain well below the \$1 million-plus levels enjoyed at other New York firms, such as Simpson Thacher & Bartlett and Skadden, Arps, Slate, Meagher & Flom.

Kelley Drye continues to suffer losses. Just last week a four-partner New York bankruptcy group left for Ropes & Gray, and in January the firm saw its eight-lawyer employment practice jump ship to Heller Ehrman. Both firms have actively been looking for a merger partner, and Rosenthal first sat down with Mutschelknaus last November, over lunch at Sam & Harry's restaurant in Washington. Since then, the firms have had numerous meetings. They still must complete a client-conflict check and evaluate real estate commitments before any final decision is made, Mutschelknaus says.

"They are a terrific firm with a wonderful, diverse area of practice. ... Clearly, we would love to have that part of Kelley Drye," he says.