

'Tug of War' Shapes Up at Alschuler Grossman

Leaders Prepare to Part Ways and Debate the Future of the Santa Monica Firm's Lawyers

By Robert Iafolla
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SANTA MONICA - As firm leaders at Alschuler Grossman Stein & Kahan prepare to part ways, a battle is shaping up over which camp will lure the firm's lawyers.

Chief rainmaker Marshall Grossman estimated as many as 50 of the firm's 84 lawyers would remain with a reconstituted firm known only as Alschuler Grossman. Grossman stressed his Santa Monica firm is not dissolving.

But key partner Stanton "Larry" Stein contended as many of 45 lawyers would follow him out the door at the end of the year.

There will be "a tug of war" over the lawyers, one industry insider predicted.

Grossman and Stein announced this week that they had decided to split after merger talks with Cooley Godward collapsed.

Grossman said he plans to retain his corporate litigation group that will include some entertainment and transaction lawyers. The entertainment litigation and corporate transactional groups led by Stein and Robert L. Kahan, respectively, are negotiating to form a new firm with New York-based Dreier, Stein said.

Stein said the terms of his deal with Dreier are unfinished, but he foresees 40-45 lawyers joining his new firm. In addition to the entertainment and transaction group, he said a number of commercial litigators are expected to join as well.

Mark Dreier, Dreier's founding and managing partner, said several Alschuler Grossman commercial litigators have contacted him about joining his firm.

Some legal recruits expect - or hope - that a bruising battle between the camps could prompt Alschuler lawyers to simply seek a third firm.

"It is very clear that Marshall is looking for a firm to merge with," Valerie A. Fontaine, a recruiter at Seltzer Fontaine Beckwith in Los Angeles, said. "People sticking with him don't know where that's going to be, and they need to think of themselves."

Grossman said he is not worried about lawyers leaving due to uncertainty, because they are "fiercely loyal."

Talks with Cooley Godward broke down, Grossman said, because it would have been too difficult to combine two litigation-heavy firms. In a merger that will take effect Oct. 1, Cooley Godward combined with New York litigation house Kronish Lieb Weiner & Hellman to form the 550-attorney Cooley Godward Kronish.

In recent years, Grossman has been in some form of merger discussions with Robins, Kaplan, Miller & Ciresi; Wilson Sonsini Goodrich & Rosati; Nixon Peabody; Sonnenschein Nath & Rosenthal; and Chadbourne & Parke, sources say.

Alschuler Grossman partners Michael R. Heimbold and Mark A. Neubauer left earlier this year with a group of associates for Steptoe & Johnson in separate moves after the failed Robins Kaplan merger.

"My firm was exploring its options, so it was a good time for me to explore my options," Heimbold said at the time of his departure.

Grossman and Stein agree a primary driver for the split are conflicts that arise between institutional corporate clients and individual entertainment clients.

Grossman said the conflict caused him to turn down clients, while Stein said the conflicts are what kept him out of any merger discussions.

"I've been opposed to a merger from the inception," Stein said. "The firms Marshall wants to merge with are megafirms, and those firms invariably represent multimedia corporations, which create conflicts with my entertainment clients."

Differences in business philosophy also motivated the plans to break up.

Lyndon Parker, managing director of legal search and consulting firm Mestel & Co. in Los Angeles, said he believes Grossman wanted to merge with a large firm to guarantee the stability of his practice group after he retires.

"It's my understanding he was dealing with succession issues," Parker said. "His motivation was right, but his execution was not."

Grossman could not be reached late Wednesday.

Meanwhile, Stein said he favors smaller, more nimble practice settings.

"Everybody thinks they need to be part of a megafirm, but there is a middle market out there that is incredibly profitable. You just have to be agile enough to grab it," he said. "They're like big steamships, and we're a speed boat."

Stein's planned firm would be a Dreier affiliate, independent of the Dreier's 125-attorney operation in New York.

Dreier said he's in active discussions to bring real estate and commercial litigation groups into this new firm, which would be called Dreier, Stein & Kahan, and may include another name partner or two.

He said his New York firm is not an equity partnership but the structure of the Los Angeles operation has not been decided.

Dreier said he's negotiating to lease two of the three floors in the Santa Monica office building that Alschuler Grossman Stein & Kahan currently occupy. In addition to the Century City space he's already obtained, this would give him room for 100 attorneys.

However, Grossman said Dreier would only take one of the three floors.

Observers note that beyond practical considerations and business philosophy, personal animosity played a strong part in the decision to divide.

"Sure you have all those issues, but this was more internal, where you had Larry and Marshall butting heads," an industry observer said on the condition of anonymity.

Other knowledgeable sources said the relationship between the two rainmakers had become "dysfunctional."

"In the final analysis, the football team just wasn't big enough for two great quarterbacks," said Sanford A. Lechtick, president of the legal search company Esquire Inc. in Los Angeles.

The firm formed in January 1999, when Alschuler Grossman & Pines combined with Stein & Kahan. It started with 45 attorneys and grew to a peak of 100 lawyers three years ago.

Due in large part to the firm's two rainmakers, Grossman and Stein, it has represented big-ticket corporate clients Blockbuster and AIG and show business companies, including Marvel Entertainment and the Olsen twins' company.

Lechtick and other observers noted that, apart from the drama and chaos, the impending split is at its core another example of the difficulty mid-sized firms are facing to remain in business.

Midsized firms "either need to specialize by practice, industry or geography, because it's hard to compete with the national and international firms by being everything to everybody," legal recruiter Fontaine said.

"Its becoming evident that small to mid-sized firms are having a difficult time competing with the huge firms for associates and business," said Alan Miles, president of the partner placement firm Alan Miles and Associates. "They're either being gobbled up or dying on their own."

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