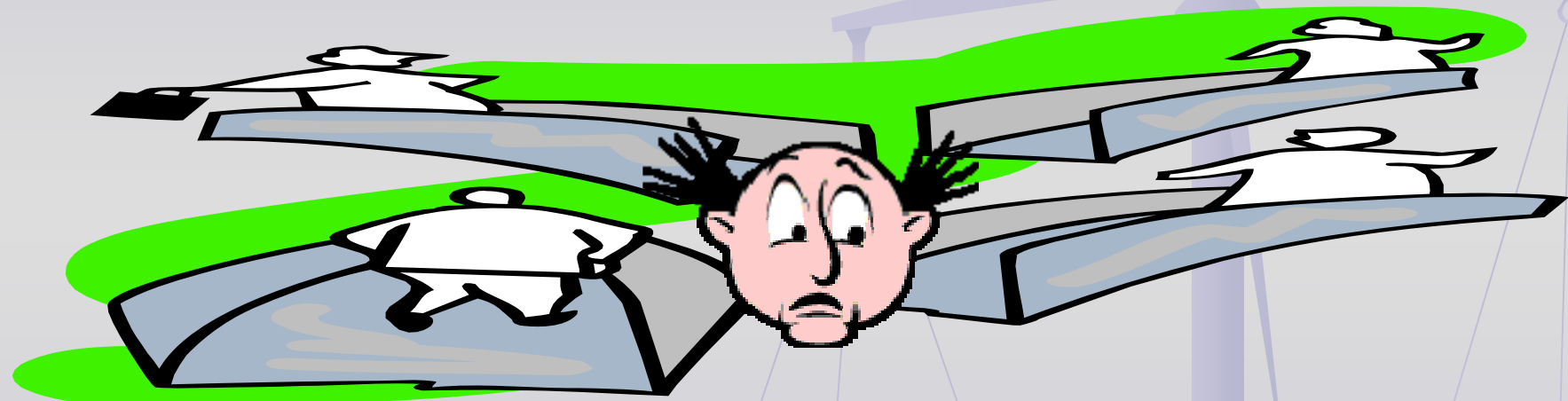


THE LEGAL INDUSTRY **UNDER THE GLOBAL** **FINANCIAL CRISIS**



David Zalmanovitsh
Attorney at law, B.A, LL.B, M.B.A
GLawBAL Enhancing Performance
22.5.09 - MULTILAW

THE PANEL



THE PANEL

- **Mr. Pekka Inkeroinen**, Partner, Attorneys-at-Law Juridia Ltd in Helsinki Finland
- **Mr. Artem Kukin**, Partner, Yust Law Firm, Moscow, Russia
- **Mr. Pierre-Emmanuel Jobard**, Founder partner of Jobard, Chemla & Associates, Paris, France
- **Mr. Gianmarco Mileni Munari**, Jenny & Partners, Milan, Italy
- **Mr. Tom Schmuhl**, Partner, Duane Morris LLP, Philadelphia, USA

AGENDA

- Updated overview – 10 MINUTES
- Topics for discussion – 55 MINUTES
- Questions and comments – 10 MINUTES

UPDATED OVERVIEW



2008 - is everything still “rosy”?



AmLaw 100

Gross revenue

Top 5 – 2008

Firm Name	Gross Revenue
Skadden, Arps, Slate, Meagher & Flom	\$ 2,200,000,000
Baker & McKenzie	\$ 2,188,000,000
Latham & Watkins	\$ 1,923,000,000
Jones Day	\$ 1,540,000,000
Sidley Austin	\$ 1,489,500,000



AmLaw 100

**Revenue per
lawyer**

Top 5 - 2008

Firm Name	Revenue Per Lawyer
Wachtell, Lipton, Rosen & Katz	\$ 2,455,000
Sullivan & Cromwell	\$ 1,480,000
Davis Polk & Wardwell	\$ 1,210,000
Cravath, Swaine & Moore	\$ 1,210,000
Debevoise & Plimpton	\$ 1,205,000



AmLaw 100
**profit per equity
partner**

Top 5 - 2008

Firm Name	Profits Per Equity Partner
Wachtell, Lipton, Rosen & Katz	\$ 4,010,000
Quinn Emanuel Urquhart Oliver & Hedges	\$ 3,335,000
Boies, Schiller & Flexner	\$ 3,065,000
Sullivan & Cromwell	\$ 2,940,000
Paul, Weiss, Rifkind, Wharton & Garrison	\$ 2,655,000



AmLaw 100
% profit Margin
Top 5 – 2008

Firm Name	Profit Margin
Wachtell, Lipton, Rosen & Katz	61%
Quinn Emanuel Urquhart Oliver & Hedges	59%
Gibson, Dunn & Crutcher	54%
Sullivan & Cromwell	51%
Willkie Farr & Gallagher	48%





SALARIES!



Firm	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
	Details	Details	Details	Details	Details	Details	Details	Details
<u>Akin, Gump, Strauss, Hauer & Feld, L.L.P.</u>	\$160,000	\$170,000	\$185,000	\$210,000	\$230,000			
<u>Allen & Overy</u>	\$160,000	\$170,000	\$185,000	\$210,000	\$230,000	\$250,000	\$265,000	\$280,000
<u>Alston & Bird LLP</u>	\$145,000	\$155,000	\$170,000	\$190,000	\$210,000	\$225,000	\$240,000	
<u>Amster Rothstein & Ebenstein LLP</u>	\$145,000							
<u>Andrews & Kurth L.L.P.</u>	\$160,000	\$170,000	\$185,000	\$210,000	\$230,000	\$250,000	\$265,000	\$275,000
<u>Arent, Fox, Kintner, Plotkin & Kahn, PLLC</u>	\$160,000	\$170,000	\$185,000	\$200,000	\$215,000	\$230,000	\$245,000	\$260,000
<u>Arkin Kaplan & Cohen</u>	\$125,000							
<u>Arnold & Porter</u>	\$145,000	\$155,000	\$170,000	\$185,000	\$210,000	\$225,000	\$240,000	\$255,000
<u>Axinn, Veltrop & Harkrider LLP</u>	\$160,000	\$170,000	\$185,000	\$210,000	\$230,000	\$250,000	\$265,000	\$275,000

HAS THE DREAM GONE?



<u>Parameter</u>	<u>Average 01 - 07</u>	<u>2008</u>
Income	11.4% 	(10.0%)
Profit per EP	9.2% 	(11.8%)
Efficiency	(1.1%)	(8.0%)
Demand	4.8%	(0.3%)
Tariff	7.0%	0.0%
Number of EP	4.1%	1.8%
Expenses	9.5% 	10.1%
Salaries	10.1% 	15.2%
Number of Lawyers	6.0%	5.2%

CITY BANK
Survey
among 650
US&UK Firms

Avarage 01-07 to 08

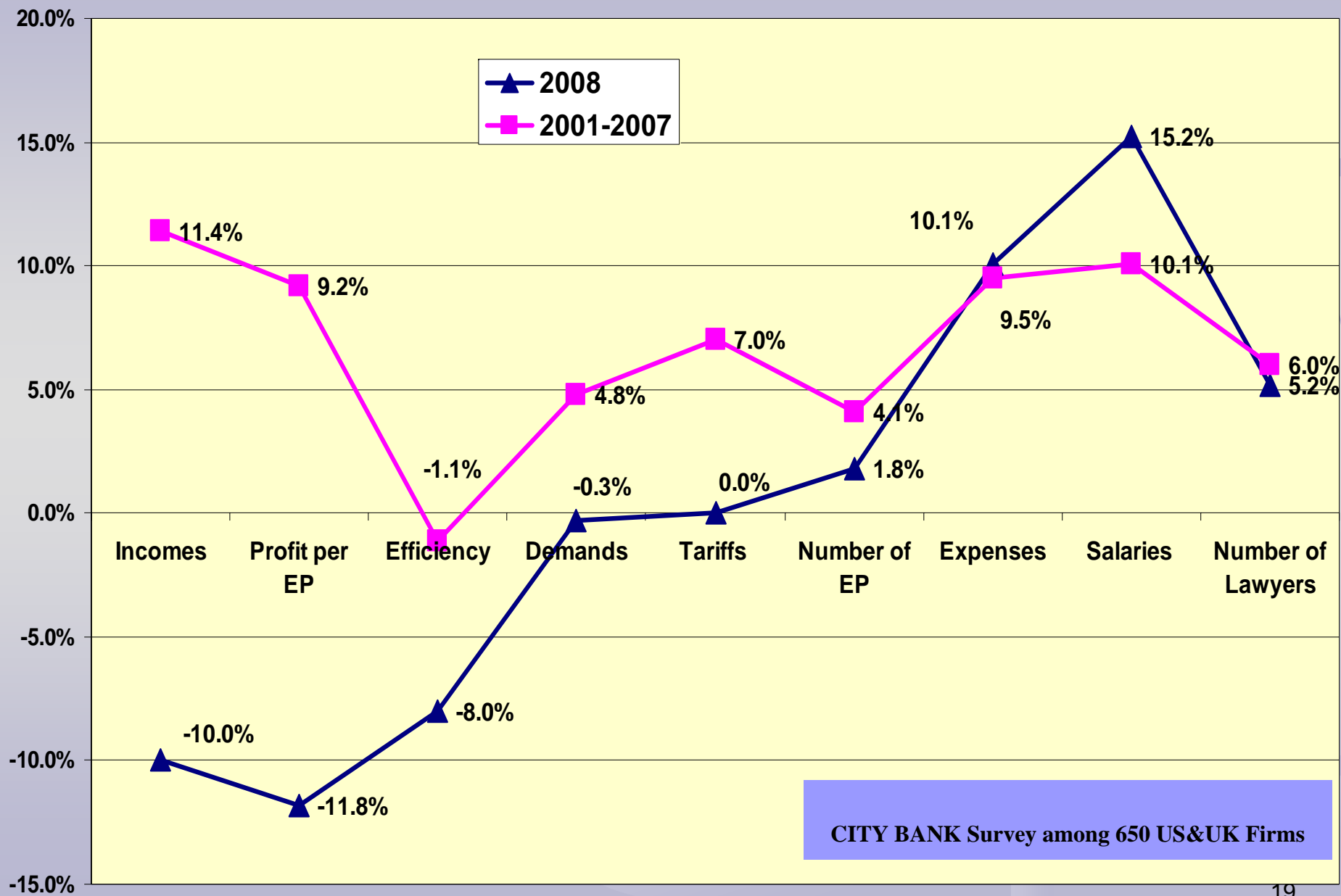
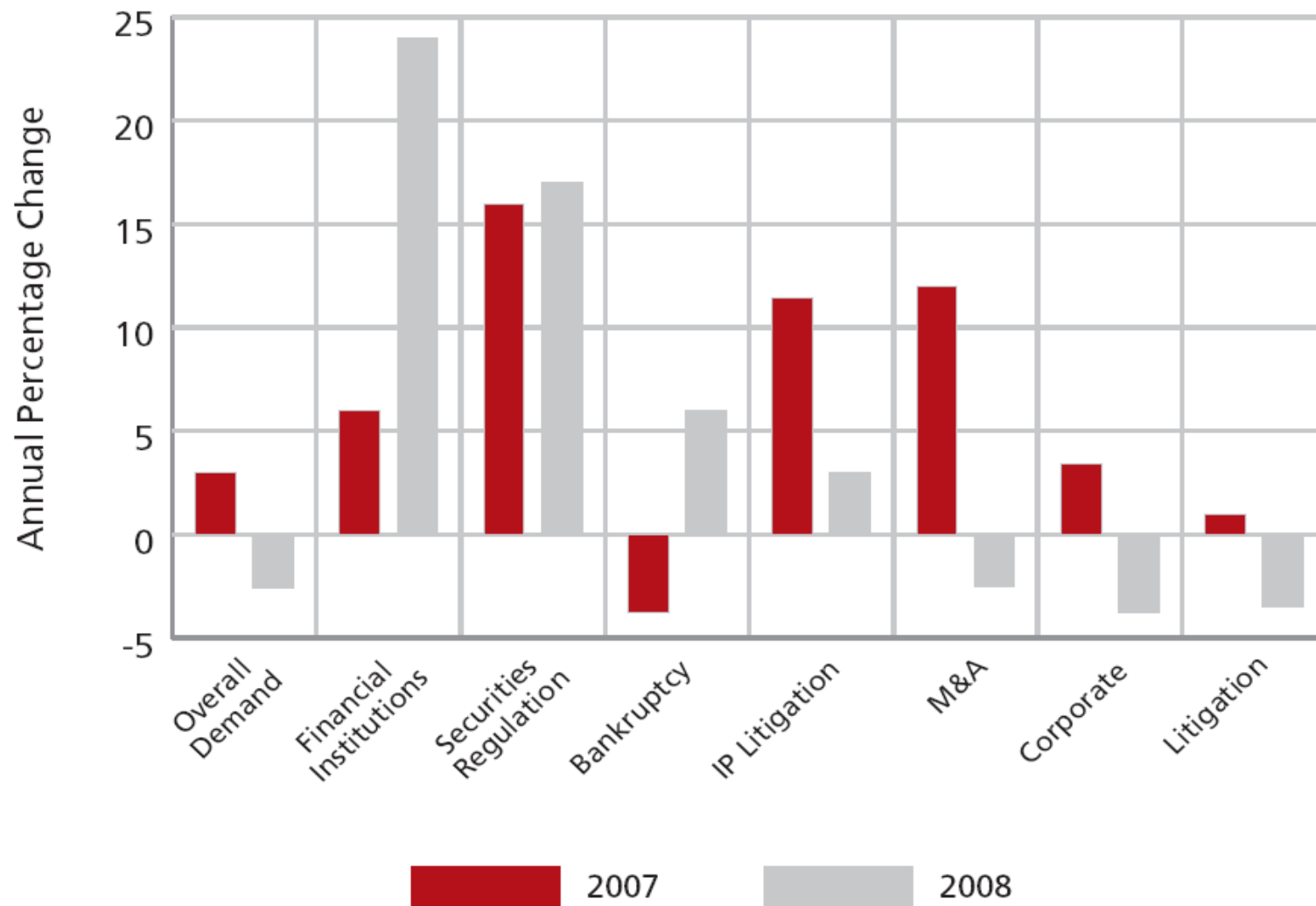
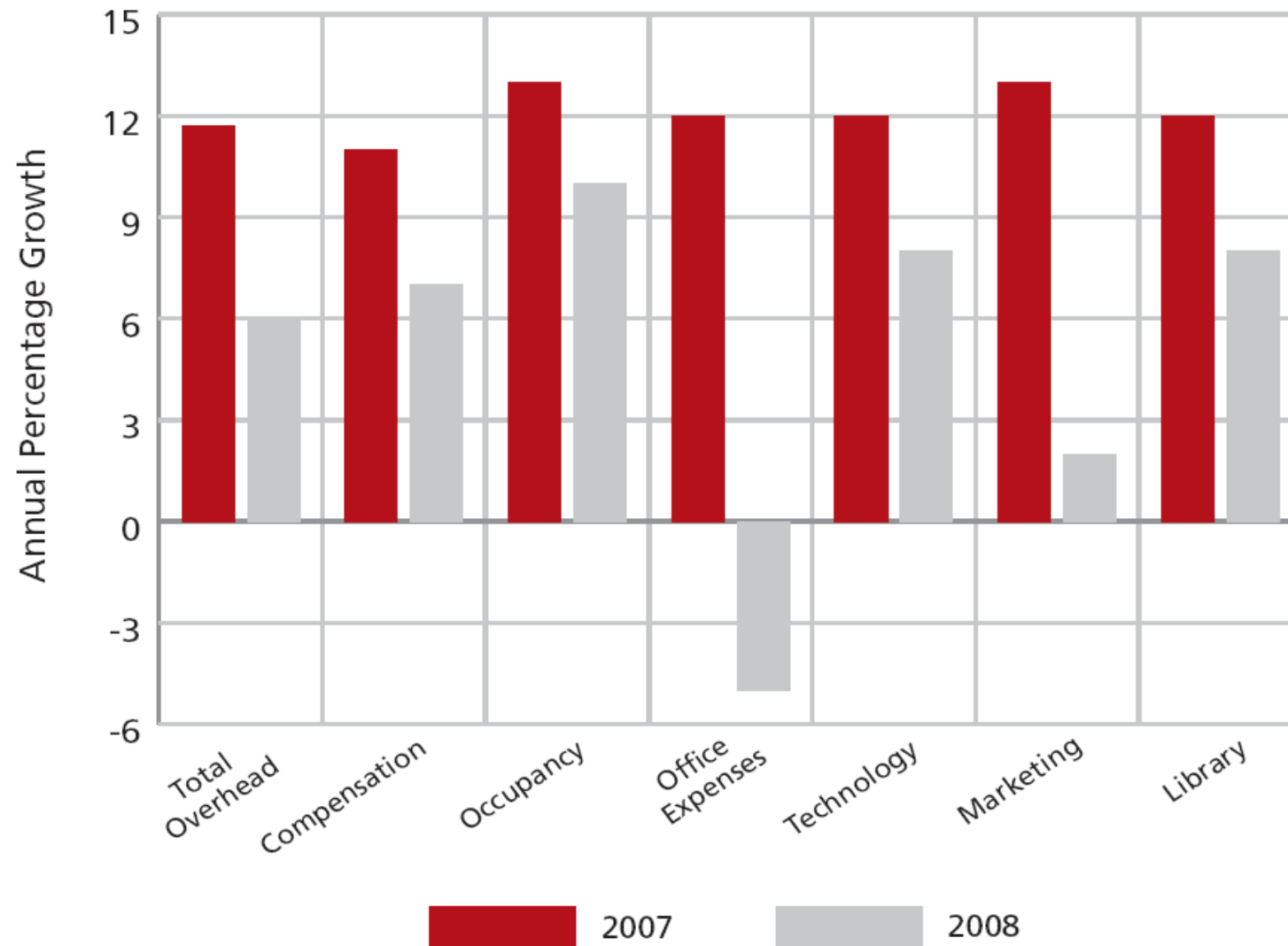


Chart 3 – Demand Growth by Practice — 2008 vs. 2007



Source: Hildebrandt Peer Monitor

Chart 4 – Growth in Overhead Expenses – 2008 vs. 2007

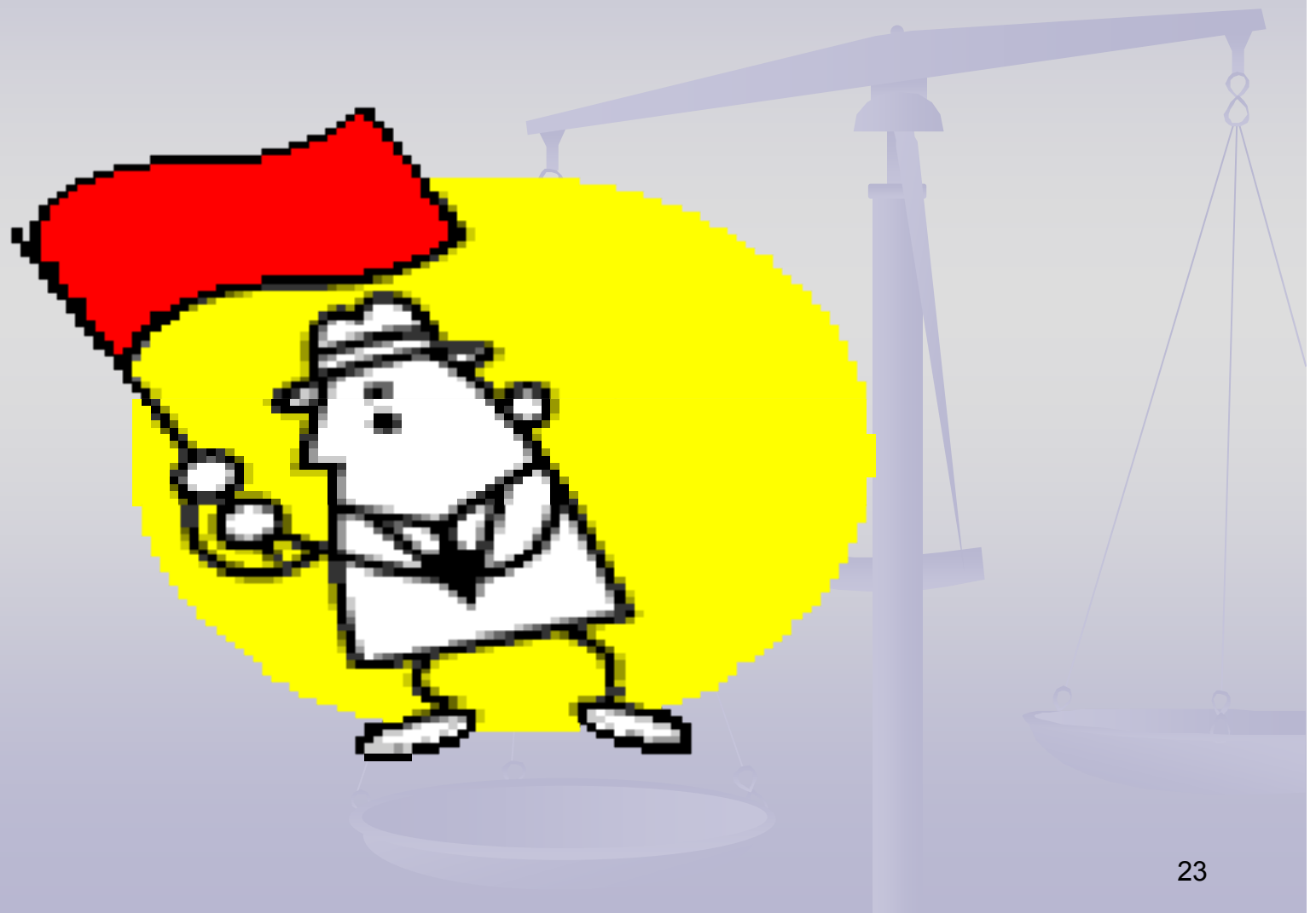


Source: Hildebrandt Peer Monitor



"You should check your e-mails more often. I fired you over three weeks ago."

Lessons Learned from Previous Recessions



Lessons Learned from Previous Recessions

- Aggressive growth through laterals who:
 - Have a track record of business development.
 - Have a reasonable plan for the future.
 - Look for new opportunities.
- Vigorous due diligence in client acceptance.
- Take bold but well thought out strategic actions:
 - Open new offices in high risk locations.
 - Look for Law firm leaders with business experience.

Lessons Learned from Previous Recessions

- Respond quickly to opportunities:
 - No paralysis by analysis.
 - Match the size of the bet to the potential win and the level of risk.
 - Create exit strategy that gets you out faster than you get in.

Practices that are likely to flourish in the next five years



Practices that are likely to flourish in the next five years

- Soundly managed firms with good cash management and capital base.
- Firms that can balance their portfolio and risk between transactional, litigation and advisory.
- Broad-based firms where downturns offset by counter-cyclical work.

Practices that are likely to flourish in the next five years

- Practices in developing and emerging markets – India, China, South East Asia, Eastern Europe, South America.
- Firms able to increase market share in a declining market.
- Firms with transaction client bases which are less affected.

TOPICS FOR DISCUSSION



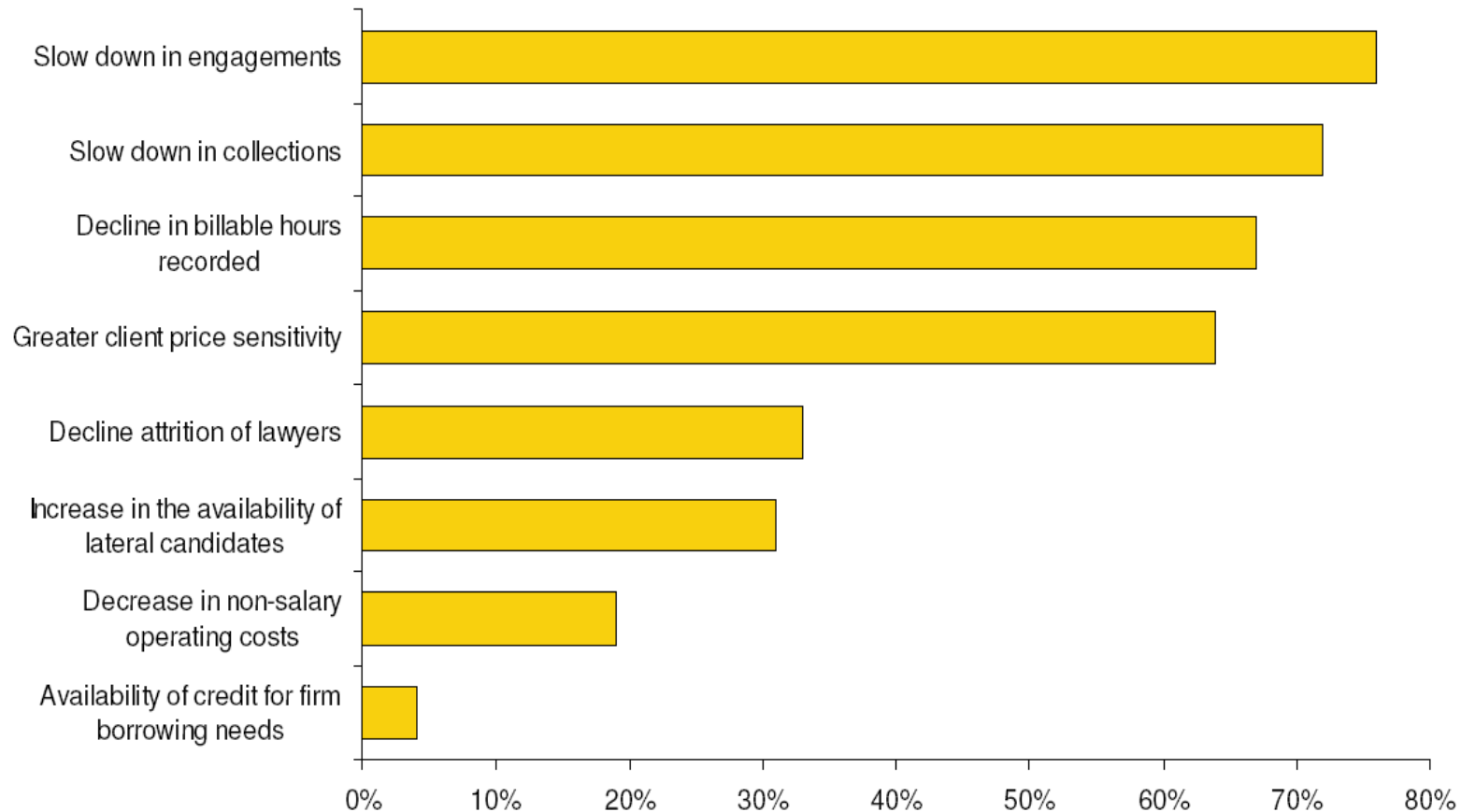
1. What keeps you awake at night these days?



Effects of Recession

The New
Reality

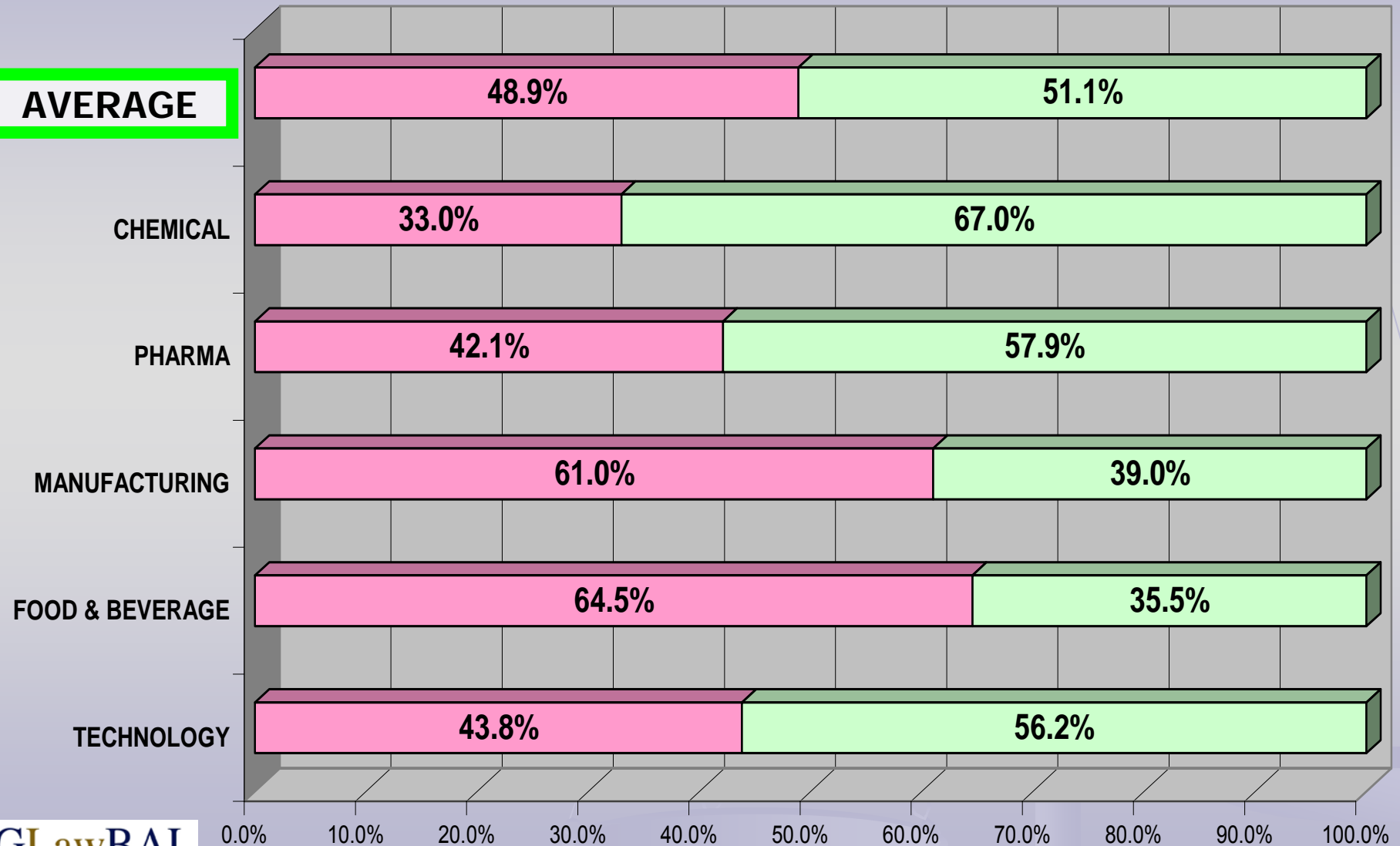
Thus far, which of the following have affected your law firm as a result of the global economic turmoil?



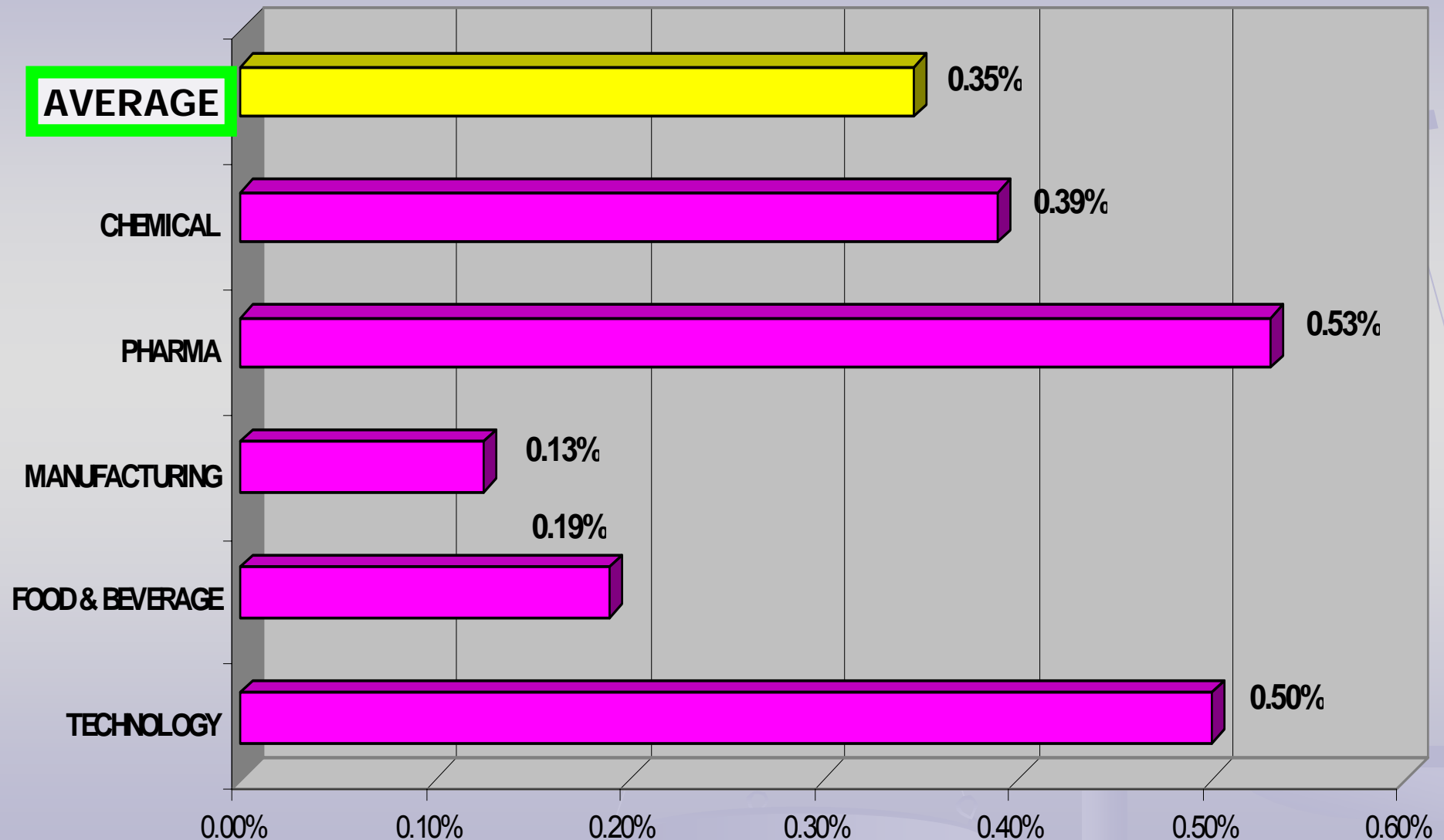
In house Vs. Outsourcing

■ OUTSOURCING
■ INHOUSE

AVERAGE

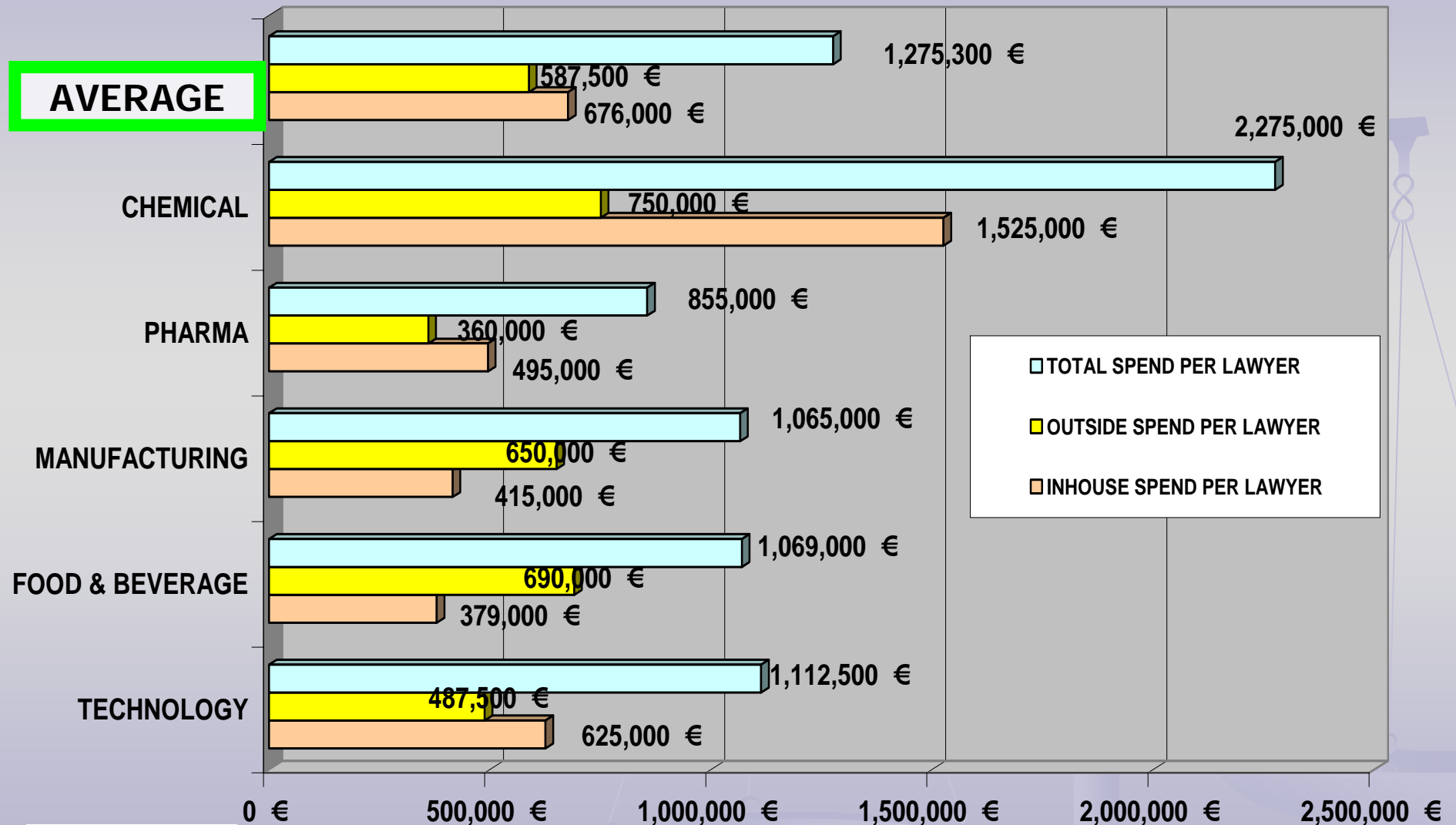


Legal Departments - Total spend on legal services



Based on:
Laurence Simons

In house Vs. Outsourcing



1. What keeps you awake at night these days?

3 MINUTES TO PANELIST



Responses to Questions

Tom Schmuhl, May 21, 2009

- I find myself worrying principally about “macro” events and situations that I cannot neither control nor influence.
- my first concern is that there will be increasing interference by the government with the normal workings of commerce and industry in a manner and to a degree that will cause significant economic problems that will last for a very long time.
- My second concern is that a dramatic international event will occur that will make economic recovery much more difficult such as a war or a terrorist attack.

2. The recession as an opportunity



Business Day

N

B1

SATURDAY, OCTOBER 18, 2008

The New York Times

Financial Crisis Provides Fertile Ground for Boom in Lawsuits

By JONATHAN D. GLATER

Nothing makes lawyers more popular than bad times.

It seems like just a few months ago — because it was — that trial lawyers, those advocates who take on companies on behalf of investors, customers or even other businesses, had a wretched reputation. Three of the best known of those lawyers, William S. Lerach, Melvyn L. Weiss and Richard F. Scruggs, had all pleaded guilty to crimes. Defense lawyers were gleeful.

But the pendulum has shifted again, much as in the years after the collapse of Enron and WorldCom.

Accusations of executive excess, accounting fraud and lack of disclosure are far more credible now, since bad bets on real estate and securities linked to home loans have caused some of the biggest and most prestigious financial firms in the country — Lehman Brothers, the American International Group, Fannie Mae, Freddie Mac — to collapse, sell parts of themselves at fire-sale prices or suffer outright government takeovers. A legal argument rarely used in investor lawsuits is tempting: *res ipsa loquitur*, or the thing speaks for itself.

"There's clearly going to be an erosion in the presumption that

these senior-ranking executives should be given the benefit of the doubt," said John P. Coffey, a partner at Bernstein Litowitz Berger & Grossmann, adding that as a result of regulators' investigations and angry former employees, there is also more information available to plaintiffs about questionable conduct. "There's clearly going to be an effect there; judges are human."

So are investors, who are angry. Individual shareholders as well as big companies want someone else to pay for their losses on investments in everything from basic stocks to exotic

Continued on Page 5

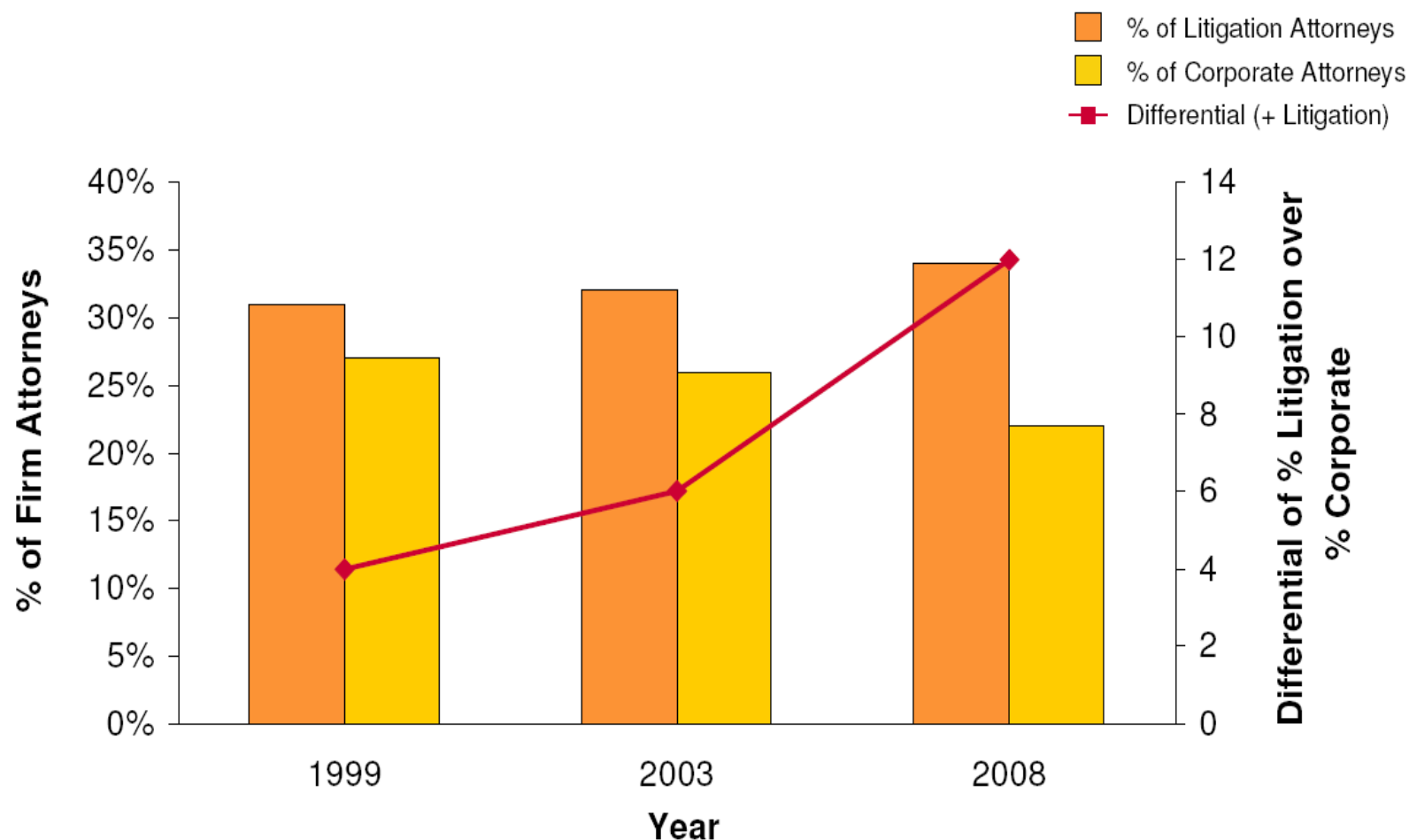


JENNIFER S. ALTMAN FOR THE NEW YORK TIMES

H. Adam Prussin's law firm represents Fannie Mae investors.

Shift by AmLaw 200 to Greater Litigation Dependence **The New Reality**

Non-capital market law firms have decreasing dependence on transactional work, therefore, slower to respond to recession.



Top 10 City quartet awarded Singapore licenses

China looks to buy more base metals

By Patti Waldmeir in Shanghai and Javier Blas in London
Published: December 3 2008 18:16 | Last updated: December 3 2008 18:16

China, the world's largest metals consumer, is considering a plan to build up state reserves of base metals to help fight the impact of the global economic slowdown, according to an industry association.

Wen Xianjun, vice-chairman of the China Nonferrous Metals Industry Association, told a conference that central government was considering buying more base metals to meet domestic demand.

Smaller Mortgage Lenders See Turmoil

(See Corrections and Amplifications item below.)

As many of the biggest U.S. banks continue to pare back their mortgage lending, some financial institutions see global financial turmoil as an opportunity to pick up market share.

The eight largest mortgage lenders, as measured by total volume in the first nine months of 2008, reported declines in originations from a year earlier, according to Inside Mortgage Finance, a trade publication in Bethesda, Md.

At Washington Mutual Inc., of Seattle, which had its banking operations seized by the federal government in September and sold to J.P. Morgan Chase, mortgage volume plunged to \$33 ...

THE WALL STREET JOURNAL

Switzerland Special Report: Crisis? What crisis?

As some European lawyers fret about where their next instruction is coming from, their Swiss colleagues are busy burning the midnight oil.

Market and Sector Type: Emerging Markets

Emerging Markets Fund Raises \$2.9 Billion

Article Date: Dec 01 2008

Private equity firm Actis has raised US\$2.9 billion (£1.9 billion) to invest in emerging markets, exceeding its target of \$2.5 billion.

Actis Emerging Markets 3 will be invested in buy-outs or growth capital deals in 30 to 40 companies across Africa, China, India, Latin America and South East Asia.

Russia and Eastern Europe, often included in emerging markets funds, are excluded from the list of target regions.

Paul Fletcher, senior partner at London-based Actis, believes underlying economic growth remains resilient in many of the emerging markets.



The fund has nearly \$3 billion to invest

m consumer demand and

CORPORATE FINANCE
SEPTEMBER 2008

M&A strategies in a down
market



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ALLY GARLAND, ESQ.



2.The recession as an opportunity

3 MINUTES TO PANELIST



Responses to Questions

Tom Schmuhl, May 21, 2009

- Unfortunately, in difficult times, we have to be prepared to take advantage of the sad fact that many businesses, firms and individuals are having difficulties. For example, it may be possible to acquire lateral partners who may be able to bring business and talent.
- Or it might be possible to attract new clients who in the current economic climate may not want to pay the higher fees and costs of some of your competitors.
- Or it may be possible to take advantage of opportunities by using skills and expertise that are more attractive in recessions such as skills and expertise in bankruptcy and insolvency matters.
- We should not be so concerned about finding only “big” opportunities that we forget about assembling a number of smaller opportunities at a time when some of our competitors may be having a much more difficult time than we are.

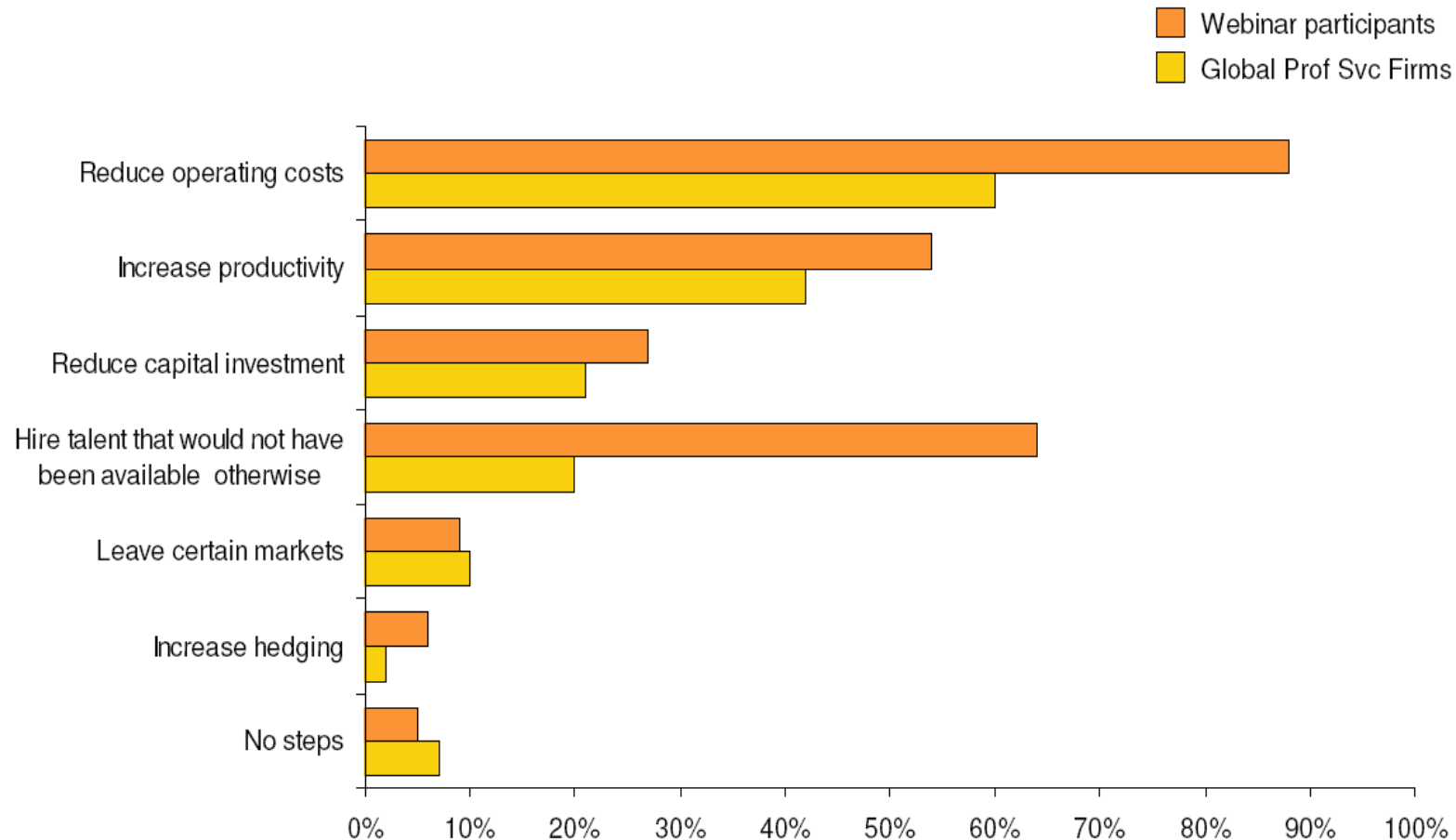
3. What relevant steps should we take?



Survey of Law Firm Recession Plans

The New
Reality

What steps, if any, has your firm taken or does your firm plan to take as a result of the global economic turmoil?



3. What relevant steps should we take?

- Change business model to face the new reality.
- Adjust dependence on commoditized work.
- Seek litigation work that is not so dependent on referrals from transactional departments.
- Shift to a staffing model that is scalable and cost effective.
- Outsourcing.

3. What relevant steps should we take?

- Seek counter-cyclical practices:
 - Public Sector and sectors which interface with it.
 - Sectors connected with governmental policy responses.
 - Restructuring, corporate recovery, etc.
 - Good old-fashioned commercial litigation.
 - Regulatory work.

3. What relevant steps should we take?

- Providing specialist services to other law firms:
 - Overseas (and out of area) firms.
 - Larger firms providing services to smaller firms in return for referral fees.
 - Boutiques providing niche services to larger firms.

3. What relevant steps should we take?

- Closing offices.
- Eliminating practices.
- Managing toward leverage.
- Shedding unprofitable clients.
- Reducing office space.

3. What relevant steps should we take?

4 MINUTES TO PANELIST



Responses to Questions

Tom Schmuhl, May 21, 2009

- Keep costs under control, particularly in such areas as not having more non-legal or support staff than we absolutely need.
- Send out bills promptly.
- Pay attention to collecting bills.
- Never stop looking for opportunities to get new clients.
- Whenever in doubt about what to do, remember that the most important thing is to give our clients the best service possible.
- Work with partners who have become less productive to encourage them and help them to become more productive again.

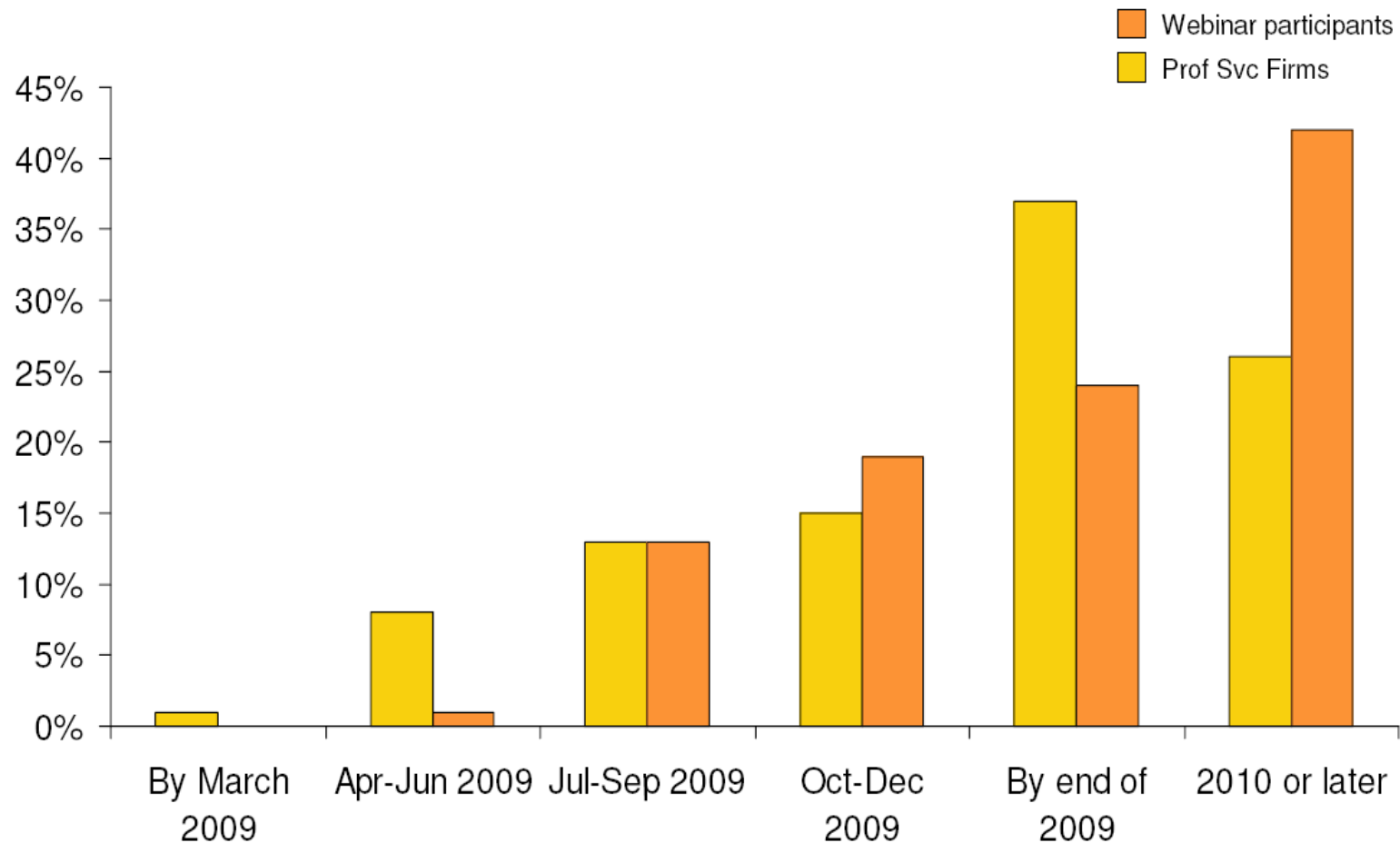
4. Are we seeing the end of the recession ?



Length of Recession

The New
Reality

When do you expect an economic upturn to begin?



4. Are we seeing the end of the recession ?

2 MINUTES TO PANELIST



Responses to Questions

Tom Schmuhl, May 21, 2009

- Perhaps the question that we should be answering is what will the end of the recession be like?.
- If the end of the recession (at least in the US) means a return to the way things were 18 months ago, I very much doubt that the recession will be over for a very, very long time indeed.
- Instead, however, if we are looking for meaningful economic recovery in general commerce and industry that will have a materially positive impact on the market for legal services, I think the recession will last until late 2011 to early 2012.

QUESTIONS !



THANKS!

A faint, light purple background image of a balance scale is visible behind the text. The scale is positioned on the right side of the slide, with its beam extending towards the left. The pans are hanging from the beam, and the entire image is semi-transparent.

GLawBAL
Enhancing Performance