

# Los Angeles Business Journal

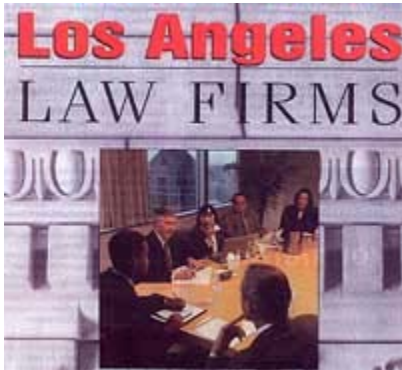
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## Manifest Destiny

Southern California has become the place for Branch Offices



“California here I Come”, the song popularized by Al Jolson in the 1920’s, has become the hit melody crooned by an increasing number of national mega-firms. Gigantic operations with hundreds and hundreds of lawyers and support staff, some with 10 to 20 offices all over the nation and some with offices in Europe, Russia and the Far East are invading California. At last count at least sixteen such firms, from Texas and Florida, to Baltimore, Milwaukee and Boston, Pittsburgh, Washington, D.C. and New York have potted their plants in California - and most have very ambitious growth objectives. All want in on the action.

Years ago, I would have labeled a lot of this as “letterhead ego” - national firms saying “how can we be national without presence in California?” But today, more and more firms have strategic business interests in California and do not want to be left out of the action. Without question, these developments are great news for the California economy, mega-firms in general and music to my ears – since we are retained by some of these firms to capture top partners. This influx though is bad news for poorly managed, unprofitable firms, no matter what their size is.

Consider: In the last month alone, three mega-firms have come to California: Nixon Peabody, a 500 lawyer New York firm merged with San Francisco’s 100 year old Lillick & Charles (70 lawyers); 500 lawyer Shaw Pittman (D.C.) acquired Century City corporate boutique Klein & Martin (15 lawyers) and 500 lawyer Boston firm Mintz Levin planted its flags in Santa Monica. In the last year and a half, the following firms have opened offices and all want to grow. They include: Kirkpatrick & Lockhart, a 600 lawyer firm (Pittsburgh); Squire, Sanders & Dempsey - 800 lawyers (Cleveland); Piper, Marbury, Rudnick & Wolf - 700 lawyers (Baltimore); Winston & Strawn - 750 lawyers (Chicago); Greenberg Traurig - 800 lawyers (Florida); Holland & Knight -1000 lawyers (Florida) and Squadron, Ellenoff - 125 lawyers (New York). Other relatively new firms to California that are experiencing significant growth include: Akin, Gump - 1050 lawyers (Texas); Foley & Lardner - 900 lawyers (Milwaukee); Jenkins & Gilchrist - 600 lawyers (Texas); Oppenheimer, Wolff & Donnelly - 600 lawyers (Minneapolis); Steptoe & Johnson - 500 lawyers (Washington, D.C.) and Hogan & Hartson - 450 lawyers (Washington, D.C.). Two big time Washington, D.C. firms that came here in the last

decade, Howrey, Simon, Arnold & Durkee - 500 lawyers and Arnold & Porter - 650 lawyers, have doubled in California. This headhunter has not seen anything like this since the rah-rah days of the early to mid 1980's. These new games in town not only help keep the others on their toes, but reaffirm the free market value of rainmakers - the lawyers who consistently generate revenue into their firms. It is these proven revenue producers that my company works most closely with.

The influx of big names in California is, I believe, ominous news for many local firms, but overall, a very positive development for the economy and reaffirmation of the growing importance of California. First of all, it reinforces the perception that the West Coast has become an extremely important financial and business center - and that Los Angeles, San Francisco and Silicon Valley are increasingly perceived by the Big Money as critically important strategic centers. Law firms, after all, follow the money. In previous years, most of the big money favored the East Coast, especially since most of the Fortune 500 companies are based in the Mid-West and East Coast, and New York has been the financial hub of the nation.

Secondly, more firms who have reached saturation in their home turf or find themselves in slow growth markets give new push to the West Coast - especially California. Firms based in high saturation markets, like Pittsburgh, Cleveland, Baltimore, Washington, D.C. and Philadelphia look to California as particularly fertile. While the competition is fierce, it is tough to get around the fact that if California were a separate country, the revenue alone would make it #6 in the world.

Thirdly, with the convergence in California of technology, entertainment, intellectual property and deal flow, national law firms see huge upside potential here. For example, big firms that were seldom mentioned in the same breath as entertainment are now building significant entertainment practices e.g. Akin, Gump; Katten, Muchin; Morrison & Foerster; and O'Melveny. We now see full service California law firms that were not known in the technology field, building strong technology and intellectual property practices such as Luce, Forward; Morrison & Foerster; Crosby, Heafey; Manatt, Phelps and Pillsbury Winthrop. Other out of state firms are trying to do the same such as Howrey, Simon which merged with Arnold Durkee; Oppenheimer, Wolff & Donnelly and Foley & Lardner. Technology is unquestionably the Holy Grail for Brobeck.

This activity is certainly not going unnoticed by other East Coast and Midwest firms who want in on the action. With all the new economy activity, emerging growth companies, escalating importance of content converging, the ripple effects cannot be ignored. More deals also mean more deals that go bad and that means more litigation. Certainly, bet the farm high-stakes litigation - especially in the technology and biotechnology field has increased significantly. Irell & Manella in technology and Heller, Ehrman in the life science field have become especially prominent. Even insurance companies have become part of the intellectual property cloud involving coverage issues.

On the other hand, some observers could argue that all these new firms are not generating new business, but simply reshuffling the chairs on the deck - taking juicy morsels from

one table and putting them at another. I can't totally deny this statement since my firm plays a role in the rearrangement process. Certainly there is a talent reconfiguration and clients and revenue who simply change the name on their door. But the stronger, more dynamic, better-managed firms - especially multi-office operations, have a greater track record of turning acorns into oak trees. With few exceptions, their partners earn much more money, they have bigger bags of fertilizer and a lot more experience at exploiting business opportunities. Simply put, these larger firms invading California have a much stronger track record in taking these little kernels and growing them into large trees with huge root systems and sturdy branches than smaller firms. The way I see it, a lot of work that used to be handled in New York or other areas are now flowing in California. The challenge for these new operations will be absorbing diverse practice groups, some from different firms with different cultures and melding them into cohesive team oriented operations who have the same vision. That snappy song "California Here I Come" may get snappier and looks to be a Best Seller for some time to come.

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## CONCLUSIONS

1. With the increased globalization of clients and law firms, more and more firms see California as a key point in their global orbit. The Silicon Valley caste system has not taken hold in Southern California and the technology, emerging growth field is up for grabs. When UCLA, CALTEC, UC Irvine, USC and others start emulating Stanford, look out.
2. Since relatively few partners have moved from the home offices, the growth here has been at the expense of boutiques, mid-sized firms and practice groups at big firms. Small and mid-sized firms will find increased competition for the best clients, associates and their most valued partners. The free-agent market will generally work to the advantage of large firms with deeper pockets, economy of scale, higher paying clients and growing relationships with headhunters.
3. Since most firms, especially the large ones, want laterals in the same practice areas (general corporate, securities, project finance, technology, intellectual property and high stakes litigation), the issue will not be who's is looking, but rather what firms are perceived to be the sexiest, the most profitable, the best led, the most dynamic.
4. Increasingly, partners and/or practice groups who are thinking of moving their practice, will select the platform that offers the most likely 2+2=5 scenarios. Partners, in their quest to grow their practices and make more money will look closer at the firm's national client roster, cross-selling potential, national growth objectives, associate leverage, marketing support, market share and profits.
5. As firms get larger and larger the spectrum of client and practice area conflicts will increase and become the main deal breaker. "Chinese walls" will get

tougher to erect. Partners will become more selective of what clients they take on.

6. Clearly, the rich will get richer and the divide between the have and have-nots will widen. In short, Steve Brill's prognostications will come true - albeit 15 years later than he thought.