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San Francisco Bay Area Law Firms Float on Turbulent Waters

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A rough economy in late 2007 killed a lot of the M&A and corporate work that had powered 2006, but leading Bay Area firms say global presence and a balance of practices helped insulate them from the downturn.

Despite the subprime mortgage crisis and resulting credit crunch, most of the eight Bay Area law firms that have released financial data so far showed solid increases in revenue and profitability in 2007, according to *The Recorder's* annual survey of California firm finances.

Two exceptions were Heller Ehrman, which saw revenues and profits per partner drop slightly, and Townsend and Townsend and Crew, whose 2006 numbers had been goosed by an exceptionally large contingency fee.

Leading the pack in revenue growth, Morrison & Foerster and Orrick, Herrington and Sutcliffe each posted 16 percent increases in revenue, to \$772 million and \$894 million, respectively.

Cooley Godward reported a 45 percent increase in revenue -- but that number is somewhat less jaw-dropping when considering that much of the increase is from its late 2006 merger with Kronish Lieb Weiner & Hellman.

Leaders at MoFo and Orrick credited their increases to international scope and diversity of core practice areas.

"[With] the international platform of the firm, we are now able to serve our clients around the world in a significantly more comprehensive way than we were just a few years ago," said Orrick Chairman Ralph Baxter Jr.

Orrick's ranks and revenue per lawyer grew by 8 percent each. RPL is now at \$850,000, which Baxter predicted will continue to rise "year on year going forward."

Headcount at MoFo grew by 6 percent and was outpaced by RPL, which grew by 9 percent to \$890,000.

Referring to 2006's 12 percent revenue jump, MoFo Chairman Keith Wetmore called 2007's across-the-board increases "more of the same."

"We saw lots of activity in our core litigation strengths," Wetmore said, pointing to major wins such as the November jury verdict in favor of JDS Uniphase Corp. in a securities fraud trial.

Pillsbury Winthrop Shaw Pittman saw a more modest 2 percent increase in revenue, to \$590 million. Its gross had risen 1 percent the year before. In 2007 the firm lost 24 lawyers while RPL increased by 5 percent to \$810,000.

Though the firm's gains weren't as large as other firms, Pillsbury Chairman James Rishwain Jr. was happy with the increase.

It was "on the path that we expected," he said.

Heller Ehrman was the hardest hit of the large San Francisco firms reporting so far, falling from \$507 million to \$491 million in revenue, a 3 percent drop. RPL fell by 5 percent to \$800,000, canceling gains made in 2006.

Firm Chairman Matthew Larrabee blamed the losses on a series of large litigation cases that wrapped up early in the year.

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"In the first quarter of 2007, in a period of about 45 days, we won or settled eight or nine very large litigation matters," he said.

He also blamed "an environment where litigation was down nationwide."

The nationwide decline, said Newport Beach-based legal consultant Peter Zeughauser, comes after years of above-average activity.

"It just so happens that it was extraordinarily busy for a good five years, and it's fallen off a little bit," he said.

That's not to say litigators everywhere were twiddling their thumbs.

"Litigation remained robust and ... in litigation shops or firms that had big litigation practices, generally, I think they had good years," he said, noting that "there were a few exceptions."

Heller also lost 25 equity partners, a 15 percent drop, while gaining 26 non-equity partners, a 30 percent increase.

Those changes, Larrabee said, are due to the firm adhering to *The Recorder's* survey definition of equity and non-equity partners -- something the firm hadn't done in the past.

"In the past we did not report everybody who fit *The American Lawyer* definition as a nonequity partner as nonequity," Larrabee said.

Regardless, the lower financial numbers won't drive lawyers away, Larrabee said.

"We have a very transparent organization. The partners are well aware of what happened this year and why," he said.

"Our partners have been very supportive."

Though most firms escaped the full wrath of the subprime crisis and credit crunch, the economy still held back growth.

Corporate and private equity trended downward, Zeughauser said.

"That's really what kept this year from being a great year."

He expects 2008 to be a lot like 2007.

"I think it's going to be a mixed year again. I think litigation is going to be strong," he said. "I think corporate is going to be weaker."

Employment powerhouse Littler Mendelson had a year of expansion that saw healthy growth in gross revenue -- up 28 percent to \$307 million -- but losses in revenue per lawyer and profits per partner as headcount grew by half.

Managing partner Marko Mrkonich said that as employment law becomes increasingly specialized, his firm is looking for underserved corners of the country to set up new offices. In 2007, it opened offices in Portland, Ore.; Orlando; Cleveland; and New Haven, Conn., adding 220 lawyers in the process.

Mrkonich said that much of that growth also took a bite out of profitability. Profits per equity partner dropped by 10 percent, to about \$420,000. Revenue per lawyer was down almost 15 percent, to \$460,000.

Mrkonich said that the best-performing areas continue to be cross-border employment issues, payroll and traditional labor law, and class actions. "The total number of class actions being defended passed 300 pending matters at any one time in 2007, up from 250 a year ago," Mrkonich said.

The growth phase isn't over, either. He said he expects the firm to employ more than 700 lawyers by the end of this month.

The other two largest S.F.-based firms -- Thelen Reid Brown Raysman & Steiner and Sedgwick, Detert, Moran & Arnold -- did not provide financial data by the time of publication.

PEAKS IN THE VALLEY

Unlike the mixed results from San Francisco firms, some key Silicon Valley firms reported strong results for 2007.

Cooley Godward Kronish had a very strong year, boosting revenue by 45 percent to \$485 million. While that outsized hike was thanks in large part to its merger with New York's Kronish Lieb, Cooley said that a strong year across all of its practices also boosted its 2007 results. That was evident in the healthy 10 percent bump in RPL.

"The Valley was extremely busy and I think the more pure tech firms weren't nicked as much by the subprime problems as other firms were," said Mark Pitchford, Cooley's COO. "In our space it was a really, really nice year."

Pitchford said IP and commercial litigation, as well as the firm's M&A practice, were particularly busy in 2007. Also, the firm's work for emerging companies rose on an increase in clean-tech activity, he said.

Profits per partner were up 42 percent at Cooley, hitting \$1.42 million -- but that number was aided in part by a drop in equity partners and a huge increase in nonequity partners. The firm reported 6 nonequity partners in 2006 and 72 in 2007. The equity ranks went from 148 to 129.

Changes were made to the Cooley pay system in 2007 that caused a number of mostly junior partners to be reclassified as nonequity partners as defined in the *Recorder* survey, explained Joseph Conroy, Cooley CEO. *The Recorder* and *American Lawyer* magazine

define a nonequity partner as a partner who receives more than half of his or her compensation from guaranteed salary rather than from profits.

Conroy said the change was made to better manage partner compensation as partners move up through the ranks. It also, he said, provided a more "apples to apples" comparison with PPP at other firms.

"That was not part of the motivation for the change," Conroy said. "That was part of the calculus of whether we would report these partners as nonequity partners."

Pitchford added that the change had nothing to do with the merger.

Fenwick & West boosted its top line nearly 10 percent to \$183 million.

"Litigation was busy, corporate was busy, tax was busy and IP was busy," said Fenwick's Chairman Gordon Davidson.

Fenwick also raised its PPP nearly 8 percent, breaking the million-dollar mark for the first time in its history. The firm did drop four equity partner slots and gain six nonequity partners. Davidson said that's because new partners get a certain amount of compensation guaranteed for the first two years, a new practice at the firm.

"It was our strongest year ever, including the bubble," Davidson said.

What looks like a lousy year for one IP-heavy firm was just a numbers trick. After booking huge contingency fees in 2006, Townsend and Townsend and Crew showed a 15 percent decline in revenue to \$145.5 million, with PPP nearly halved to \$750,000.

Chairman James Gilliland Jr. predicted a year ago that 2007 wouldn't match the previous year, when the firm pulled in a \$40 million award from a huge antitrust case against Microsoft. The firm also had landed a big contingency fee in 2005 from a patent suit for MicroUnity Inc. against Intel Corp.

"From our perspective 2007 was not a down year, it was a typical year," Gilliland said this week. "[2005 and 2006] were definitely aberrations and the partners knew that."

Before the two big years, the firm's PPP was at \$550,000 while revenue stood at around \$100 million.

Wilson Sonsini Goodrich & Rosati said it would wait until the close of its fiscal year Jan. 31 to report results. But firm spokeswoman Courtney Dorman said it would be a record year for the firm.

Staff writer Petra Pasternak contributed to this story.

Editor's note: For related financial information, see [The Recorder story "Quinn Partner Profits Clear \\$3 Million."](#)



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