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## New Report Shows Signs of Life in Law Firm Merger Market

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10-02-2009

The law firm merger market didn't rebound in the third quarter of 2009, but it did show some signs of life after a sluggish second quarter.

Thirteen U.S. firms (pdf) announced mergers between the start of July and the end of September, according to Altman Weil's latest MergerLine report. That's up from just seven announcements in the second quarter, but down from the 25 mergers announced in the first quarter of the year.

Seven law firm mergers were completed in the third quarter -- a drop from nine the previous quarter -- according to Hildebrandt International's MergerWatch report.

The number of merger announcements compiled by Altman Weil tends to reflect the current thinking of law firm leaders, while the Hildebrandt figures for completed mergers reflect the mindset of firms when they entered into merger talks months ago.

Both reports show that most large firms aren't ready to resume their aggressive growth strategies. However, some are starting to once again seriously consider their acquisition options, several legal consultants said.

"The first half of the year law firms were pretty focused on the internal issues such as cutting costs," said Lisa Smith, a consultant with Hildebrandt International. "The numbers [of completed mergers in the third quarter] we see now are low because six months ago people were thinking about cost containment."

But a growing number of firms are now expressing an interest in planning for future growth both domestically and internationally, Smith said.

The uptick in merger announcements reported by Altman Weil in the third quarter shows that some firms have jumped back into the merger game, but on a relatively small scale. With the exception of Bingham McCutchen's acquisition of 120-attorney McKee Nelson, which was announced in August, most of the recent merger announcements involved small numbers of attorneys. Eight of the 13 mergers involved acquisitions of 10 or fewer attorneys, and the majority



were between regional firms.

"It's about mitigating risk," said Altman Weil consultant Bill Brennan. "Firms don't want to take on the big risk of a large merge right now. But there are tremendous opportunities out there."

The tables have largely turned in the merger market as a result of the recession, Brennan noted. Prior to the downturn, large firms sought to merge with small and midsize firms as a key part of their growth strategy, and those smaller firms were regularly approached with acquisition proposals.

Now, however, many smaller and midsize firms are realizing that their position in the marketplace may be more secure as part of a larger firm. At the same time, many large firms have pulled back their expansion efforts and aren't extending merger offers as they have in the past. It has turned from a seller's market to a buyer's market when it comes to acquiring small firms, Brennan said.

Among some of the larger recent mergers, Cincinnati firm Dinsmore & Shohl joined with 45-attorney firm Woodward, Hobson & Fulton in Louisville, Ky. Howrey acquired Silicon Valley-based intellectual property boutique Day Casebeer Madrid & Batchelder and its 25 attorneys.

While many U.S. law firms have put their merger plans on hold for now, Brennan said the international merger market is heating up. Altman Weil is working with some international firms looking to acquire U.S. firms, and with smaller firms outside the country looking to be picked up by U.S. firms.

Total mergers within the United States are likely to be down in 2009 compared with 2008, Brennan said. In the first three quarters of 2009, some 45 mergers took place. There were 70 in all of 2008.

Smith, however, believes that the number of mergers in 2009 will be comparable to those in 2008 -- largely because of a wave of mergers that were negotiated before the economy faltered last September and took effect at the start of 2009.