

Firm M&As M.I.A. So Far in 2010

Few firms merged in first quarter, typically the busiest time of the year; some expect uptick.

By Kari Hamanaka
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Law firm mergers and acquisitions slowed to a trickle during the first quarter of 2010, a time that historically accounts for most of the year's activity. But industry watchers say firm confidence should pick up later this year.

"We've already seen more activity announced for the second quarter," said Lisa Smith, head of Hildebrandt Baker Robbins's law firm strategy and merger practice. "I don't think we'll get to the levels that we had in the last few years because so much of the activity happens in the first quarter."

Hildebrandt reported in its U.S. report that only four firm mergers were finalized during the first quarter of this year, down from 33 in the same period last year and 22 in the first-quarter of 2008.

Altman Weil Inc. reported eight mergers closed during the quarter, because the firm tallies mergers when they are reported. All of the deals involved firms of fewer than 50 lawyers and none were on the West Coast.

"Although we're seeing a lot more interest in mergers and acquisitions behind the scenes this year, it will take some time for law firms to shift gears from the internal crisis management focus of 2009 back to an outwardly facing, strategic stance," Thomas S. Clay, a principal at Altman Weil, said in a statement.

Clay forecasted more deals to come this year.

Smith agreed, saying interest in mergers is picking up.

"I think we are seeing an uptick in activity, particularly cross-bor-

der activity," Smith said. "I think we'll see more combinations in the second half of the year. We're not going to get back to the total mergers comparable to prior years, but I think it will get back on track."

Valerie A. Fontaine, a partner in Los Angeles-based legal consultancy Seltzer Fontaine Beckwith, said some of her larger law firm clients based outside of Los Angeles are expressing interest in acquiring Los Angeles practices to beef up their existing presence.

"There are several firms that came over in the last decade and have been relatively small and quiet and think this could be a good time to acquire small and

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local firms to build their offices," Fontaine said. "On the other hand, if you call the smaller, local firms, if they are interested in the merger they want to be the Los Angeles office."

While she would not elaborate on what firms are interested in acquiring practices, she did say her firm is on retainer with one firm, has a retainer proposal out to another and is working with a national law firm consultant on behalf of a third firm.

This gap between prospective buyers and sellers could be pressured by economic conditions. Smaller firms that may have been

holding out last year may be forced to sell as the year progresses.

"I think there's going to be smaller firms that find it's very difficult to continue to compete in this market and they may look to join a larger platform," Fontaine said.

Edward Poll, principal of Venice Beach-based LawBiz Management Co. and Edward Poll & Associates Inc., said that while it is possible merger activity will pick up in the latter half of 2010, he does not believe large law firms are done shedding lawyers.

"They really are, I think, finally beginning to look at a strategic plan and grow accordingly and sometimes that means shedding practice areas and sometimes that means bringing on more practice areas," Poll said. "The larger the law firm, the more selective they are now in their acquisitions."

Despite slow merger activity, firm office openings in the first quarter were relatively consistent with previous years.

According to Hildebrandt, 26 offices opened nationwide in first-quarter 2010, seven in California. Downey Brand, Greenberg Traurig and Morris Polich & Purdy opened in San Francisco. Hopkins & Carley, Kaye Scholer and Vinson & Elkins opened in Silicon Valley and Ogletree, Deakins, Nash, Smoak & Stewart opened in Orange County.

Even though tenants continue to have the upper hand in office lease deals throughout the state, Poll said that would not necessarily drive additional office deals by law firms.

"With real estate prices coming down, it's a prime time to take a look at new space and new offices, but firms are being cautious about that and they're not going to move just for the sake of lower costs," Poll said. "It has to fit in with their strategic plan."

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