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**Portfolio Media. Inc.** | 648 Broadway, Suite 200 | New York, NY 10012 | [www.law360.com](http://www.law360.com)  
Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | [customerservice@portfoliomedia.com](mailto:customerservice@portfoliomedia.com)

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## Client Demands Continue To Drive Law Firm Mergers

By **Erin Coe**, [erin.coe@portfoliomedia.com](mailto:erin.coe@portfoliomedia.com)

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Legal consultants say a faltering economy is not slowing down U.S. law firm mergers, and the number of combinations is holding steady with merger activity from previous years.

Last week alone, three law firm combinations were announced, and two firms said they were in the middle of talks to create a 1,700-lawyer team spanning the globe.

The first quarter of this year also got off to a strong start, with consulting firm Altman Weil Inc. identifying a total of 17 firm combinations.

Judith M. Katany, managing director of Huron Consulting Group Inc., said 40 to 50 law firm mergers have taken place each year for the last few years.

"If the first quarter is any indication, mergers are on pace to be in that window," Katany noted. "Most law firms merge for good business reasons, and that's not necessarily driven by whether the economy is better or worse."

Client demands for firms to have a broader geographic reach and deeper expertise are intensifying and pushing firms to consider combinations, according to Lisa R. Smith, vice president of Hildebrandt International Inc.

"There continues to be pressure on firms to retain the best talent and attract the best clients," Smith said.

She noted that firms that are struggling because of the economy or for other reasons do not make good merger candidates in the first place. However, firms that are desirable are even more so in a down economy, said Frank M. D'Amore, founder of Attorney Career Catalysts LLC.

"In a down market, there tends to be a higher closure rate. When a firm is a really good target and there are fewer options, an interested firm will do everything to get the deal closed," D'Amore said.

D'Amore expects to see fewer mergers with large firms, which take a significant amount of resources, and more mergers with small- to medium-sized firms, he said.

Last week, that trend played out, with three mid-sized firms combining with smaller firms.

Cincinnati-based **Dinsmore & Shohl** LLP, which has more than 350 attorneys, acquired Dayton, Ohio-based **Chernesky Heyman & Kress** PLL's 26 lawyers.

Another Cincinnati firm, **Taft Stettinius & Hollister** LLP, snapped up Indianapolis-based **Sommer Barnard** PC and its 100 attorneys to boost its attorney count to 320.

And Philadelphia-based **WolfBlock** LLP, which has about 300 lawyers, bumped up its size by combining with the five attorneys of the Wilmington, Del., firm of Oberly Jennings & Rhodunda PA.

A large-scale merger may also be on the horizon for about 1,500 lawyers at international firm **K&L Gates** LLP and more than 175 attorneys at Charlotte, N.C.-based **Kennedy Covington Lobdell & Hickman** LLP. The deal could take effect as soon as July 1 and would create a 1,700-attorney firm with 28 offices across the United States, Europe and Asia.

The firms that combined last week all cited objectives of strengthening their geographic presence and expanding their practice expertise.

For Dinsmore, a full-service firm that is looking at regional expansion in the Midwest, the move to combine with Chernesky was an easy decision.

"We made a commitment to expand in each of the markets we are currently in, and this particular merger shows our commitment to the Dayton market, where we have doubled the size of our office. This expansion adds to our expertise because Chernesky has represented clients across the board and particularly in the corporate and tax areas," said Merideth A. Trott, a corporate partner in Dinsmore's Dayton office.

Taft decided two years ago that it wanted to expand into Indianapolis and found Sommer Barnard stood out as the best fit based on its culture and financial performance.

"Sommer has exceptional capability in mergers and acquisitions, litigation, labor and employment, and other practice areas that are key for our firm. The combined firm gives both firms a bigger, better toolkit that will enable us to serve our clients even better than we have in the past," said Thomas T. Terp, a managing partner at Taft.

The courting of firms has evolved from an extensive wooing process into a much more direct and business-like interaction, said Joel A. Rose, who has served as a consultant for law firms for 42 years.

"Years ago, when lawyers talked about merging, they would get to know one another and waltz around first. Then they would start to share financial information. This merger dance was often referred to as kicking the tires. Today, there's not a lot of tire-kicking before discussing financial issues," said Rose, founder of Joel A. Rose & Associates Inc.

What will make or break merger talks is determining if the firms' net profits match up somewhere within the range of 10% to 15%, D'Amore said. If the gap between the firms' net profits per partner and per lawyer is too wide, discussions are likely to end at that point.

Rose said he did not foresee a drop-off in mergers, noting that more lawyers are looking for opportunities to join together to draw in more clients and enhance different practice areas.

"Law firms realize that the businesses they are servicing are so large and the expertise is so specialized that they have to expand. They face more competition today and have to do what they can to find the type of business to sustain them," Rose said.

WolfBlock is intent on continuing to grow, and its combination with Oberly is one step

toward boosting its litigation as well as real estate and land-use practices in Delaware. The firm is also on the lookout to reinforce intellectual property and bankruptcy practice groups in the state.

"The other equally important component is to make sure lawyers are going to be compatible from a cultural perspective — that these are folks that you want to practice law with," said Thomas P. McGonigle, a managing partner at WolfBlock.

Firms should also examine their core values and strategies, as well as how the firms are governed and how practice areas are managed, in order to determine whether a merger will work.

While firms are attuned to resolving actual conflicts before a merger, they sometimes put secondary conflicts on the back burner, and that can come back to haunt them, according to D'Amore.

In a situation where the parties agree during talks to focus their real estate practice on representing landlords, but then after they merge, the attorneys from one firm decide they would rather represent tenants, such a switch could pose a threat to the combination.

"Conflicts that are put off for another day sometimes snowball to the point that they become a big problem," D'Amore said.

A law firm that is not ready to commit may also lead to the dissolution of a merger.

"If both firms are in it for the long haul, the merger will be fine. But if one of the firms has a short-term focus, the parties can run into problems if it does not see immediate results," D'Amore said.

Smith said some firms are so focused on retaining internal control after a merger that they sometimes fail to maintain a platform that is meaningful for clients.

"The focus on the internal aspect may make people feel better, but it's not going to bring clients to the door," she said.

Smith added that laws firms need to ask whether the merger will make a meaningful difference to build on their market position.

"It can't be one plus one equals less than two. It really has to have an impact and achieve what the firms are trying to achieve. A merger by itself is not a strategy," she said.

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