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# The Next for Law

**Mike Whitton**

Whereas the nation's largest firms once flooded into San Diego, changes in the market may now mean more consolidation than growth for branch offices.

**By Owen Praskievicz**

When Mike Whitton started practicing law in his hometown 20 years ago, San Diego was a tight-knit legal market wedded to the area's healthy, but homogenous economy of defense contractors, real estate developers and small-town entrepreneurs.

But the area's legal community has seen tremendous growth since then, and

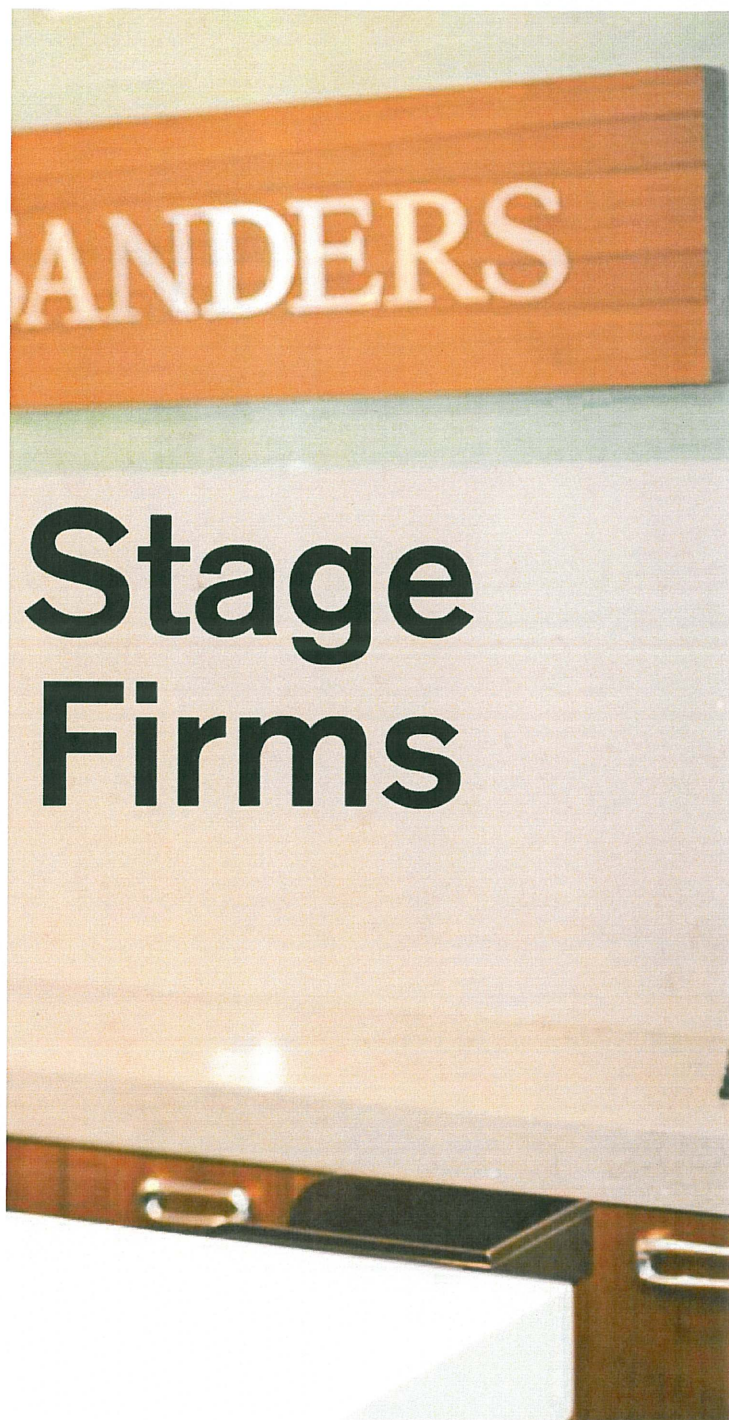


PHOTO BY STUART HANDY

Whitton, now the managing partner of the San Diego office of Troutman Sanders LLP, hardly recognizes the market.

“It’s changed,” he said. “There were a handful of signature firms in town that everybody knew. It was easier to be known in the market. Now, there are many firms in town and many more lawyers.”

Whereas Luce Forward, Hamilton & Scripps, Gray Cary and a handful of other local firms, once dominated the market today San Diego is home to more than 35 branch offices of the nation’s largest 250 law firms.

Except for Procopio, Cory, Hargreaves & Savitch LLP, which is the second largest firm with 120 local attorneys, the market is led by national practices — Gordon & Rees, McKenna Long & Aldrige, Cooley and DLA Piper US, which Gray Cary merged into in 2005.

Whitton’s firm is typical of the evolution. He joined Miller, Boyko and Bell, a small boutique practice, in 1994. It merged with a Washington, D.C.-based firm to become Ross, Dixon & Bell in 2000. Troutman Sanders, a national Atlanta-based firm with more than 600 attorneys, then took over the practice in 2009.

The change in landscape was fueled by the region’s emergence as a tech leader, particularly in the life sciences. The city was also becoming one of few business clusters in the country focused on renewable and clean technology, supported by research from the University of California San Diego.

That growth increased legal needs, especially in intellectual property litigation and patent work, which could sustain high billing rates. The nation’s largest firms started to move into San Diego, snatching up laterals from boutique firms.

The number of branch offices of the nation’s largest 250 firms grew from nine in

1986 to 35 by 2006. The number of lawyers at those firms grew at an even greater pace — from 283 to 1,344. It was all part of a worldwide trend that saw the largest law firms grow — primarily through mergers — from revenues of \$7.2 billion in 1986 to \$71 billion in 2006.

With its growing tech market and high profits, San Diego was one of the prized possessions during this heyday. In 2006, it ranked 14th in the world among cities with \$872,610 profit per partner.

But that was the high water mark. Since 2006, law firm revenues have been flat. While the economy is partly to blame, the decline started two years before the recession.

Clients began to move away from the high hourly rates to lower-priced firms, in-house legal departments, contract attorneys and legal process outsourcers. Compounding the problem, some big firms started providing volume discounts to retain market share. But, that left other firms struggling, most notably Luce Forward in San Diego.

“In order for survival, it was necessary for them to merge,” said Larry Watanabe, a legal recruiter based in Rancho Santa Fe. “The firm’s profits were not sustainable to maintain and keep their rainmakers.”

Luce Forward, which had been in San Diego since 1873, had been strongly tied to the real estate market. That had helped the firm grow into one of the nation’s largest firms. But when the market went south, it did not have the practice

breadth to weather the storm.

Its revenue dropped to \$83.5 million in 2011 — its lowest point since 2000 and 17.7 percent less than the year before. That led to key departures, including Darryl Steinhouse, a real estate partner who left for DLA Piper in October 2011. Two major groups of partners left for Procopio, Cory, Hargreaves & Savitch LLP in February. It finally merged into Washington D.C.-based McKenna Long in March.

Watanabe expects even more mergers.

“Consolidation is the next trend,” he said. “A number of firms are without the critical mass, and they need talent at the partner level.”

The primary problem is that there is not enough work in San Diego to warrant the high billing rates — sometimes as much as \$700 an hour — that national practices desire. Watanabe said while the tech and life sciences can support those rates, national firms must seek global work from outside the region to sustain San Diego branch offices.

Unless the local tech market takes off, the national firms will likely be forced to close branch offices, consolidate or woo practice groups from their rivals — hence consolidation.

While that may not seem like a long-term business strategy, it will ensure a lot of activity for recruiters like Watanabe.

Meanwhile, Procopio, Cory, Hargreaves & Savitch LLP and other local firms that survived the large firm growth period may actually be in a better position

to thrive, given their lower billable hours.

As for Whitton, success in the future depends on balancing local work with global work and paring down superfluous expenditures.

“There was a paradigm shift in law

firms,” Whitton said. “There were fundamental changes in how they approached their business. No question, firms had to do some downsizing, but well-managed firms then are even better managed now.”

## A close-knit community

As San Diego’s legal market grew and evolved, what was once a tight-knit community lost some of its small-town roots.

“I watched the legal industry in this community grow and mature,” said Mike Whitton, who attended high school across from the University of San Diego, where he studied in the school’s legal research center. “I think it was a much closer community then.”

But Marcella McLaughlin, president-elect of the San Diego County Bar Association and a deputy district attorney for the County of San Diego, thinks the community might be reverting back to the small-town model.

“Because of the economy, you have a lot more solo practitioners,” she said. “Those people are kind of creating a network among themselves, sharing information. They’re not really being recruited or hired by the law firms.”

McLaughlin said the criminal side of the legal community has always been fairly tight.

“We have kind of a friendly rapport, and people get along,” said McLaughlin, a graduate of California Western School

of Law who has been practicing for 12 years. “I feel like I’ve been able to get that sense of community.”

The SDCBA has approximately 9,000 to 10,000 members, representing about half the lawyers in the county. McLaughlin said the association helps lawyers make connections and form relationships.

“You have that feeling of knowing everybody,”

she said, noting how local attorneys and judges banded together to lobby the state in the face of a major and massive court-funding crisis. “I don’t know if that’s happening in other parts of the state.”

— *Owen Praskievicz*



**Marcella McLaughlin**