THE AMERICAN LAWYER
JUNE 2006
ALM

THE AM LAW 200 2006

Singles Dance

Once a midsize merger candidate, **Loeb & Loeb** is pursuing a go-it-alone strategy—and profiting.

By Joshua Lipton

LEADING LOEB: FIRM CHAIR JOHN FRANKENHEIMER IN LOS ANGELES

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LOEB & LOEB	
LAWYER HEAD COUNT	195
AM LAW 200 RANK	143
REVENUE PER LAWYER	$750,000 (13% increase)
PROFITS PER PARTNER	$925,000 (28% increase)
COMPENSATION—ALL PARTNERS	$625,000 (16% increase)

IN OCTOBER 1998 a group of lawyers from Los Angeles–based Loeb & Loeb holed up in a hotel conference room near Chicago's O'Hare International Airport to decide the future of their century-old firm. For three days, ten partners tried to figure out how to recraft their institution. "People were not happy," remembers partner Michael Beck. "This was a time when the markets were booming. Firms were making all sorts of money. And we weren't."

During the following fiscal year Loeb & Loeb saw profits per partner decline. Gross revenue was up by a lackluster 5 percent. "We were not moving in the same direction as other firms," says partner David Schaefer. "We had to think about what we were good at. What should we aspire to?"

The attorneys in Chicago, along with a consultant from Hildebrandt International, Inc., discussed how to make the firm more profitable. Over the next few years Loeb & Loeb initiated a top-to-bottom redesign. It shed satellite offices, hired professional managers to help look after the books, and trimmed costs. It also beefed up niche practice areas, like trusts and estates, and doubled the number of lawyers in its New York office.

Most importantly, however, the firm—following a brief flirtation with a merger a few years ago—has made the decision to go it alone. Even though its size (now roughly 200 lawyers) and strong entertainment practice makes it a prime target for consolidation, Loeb's lawyers have resisted a merger, believing instead that they can successfully exploit middle-market work that suits the firm's size.

The decisions made in 1998 appear to be paying off: Between 2000 and 2005, Loeb & Loeb's gross revenue increased 53 percent (slightly higher than the 42.1 percent average gross revenue increase for Second Hundred firms during that period). Revenue per lawyer grew 33 percent. In 2005 alone, revenue blossomed 20 percent, to $146 million, while profits per partner ballooned nearly 30 percent, to $925,000. "Now we have had consistent years of profitability," says cochairman John Frankenheimer. "And it has really started to accelerate in the last couple of years."

Change at the firm began with management. Loeb & Loeb had long relied on a single chairman and an eight-person management committee to manage the firm's affairs. While the firm was more democratic in structure, the number of

LEADING LOEB: FIRM CHAIR MICHAEL BECK IN NEW YORK

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people contributing to management decisions made decision making difficult. So partners at the Chicago summit decided to adopt a more streamlined, corporate style: They did away with the management committee altogether, and vested authority instead in cochairs Frankenheimer in Los Angeles and Jerome Levine in New York. (Beck took over for Levine in 2004.) "It would take six months to make a decision that we can now make in a day," Beck says.

After the meeting in Chicago, the firm also decided to slash head count from 220 to 175. It shed satellite offices in Rome, where two entertainment attorneys had worked, and then, a year later, shut down in Tokyo, where two lawyers practiced in IP. IP lawyers from Spensley Horn Jubas & Lubitz, who the firm picked up in 1996, departed in March 2000. While the group, which numbered 40 lawyers at its peak, had always proved profitable, it failed to generate business for other practice areas, says partner Michael Mayerson: "The group was successful, but it didn't interact with the rest of the firm."

On the administrative side, the firm hired a new executive director and chief financial officer, nonlawyers who helped Loeb save $4 million in overhead. The new team reduced the ratio of support staff to lawyers from 1.5:1 in 2000 to 1:1 in 2006. "Money started hitting the bottom line that was being just tossed away before," Beck says.

With all of the cost cutting and the renewed profitability, Loeb might have become an even more attractive target for a merger. The firm, the second-oldest in Los Angeles, still has a strong foothold in the entertainment industry. Its 50 entertainment lawyers represent the likes of performers Kid Rock and Vince Gill, directors Woody Allen and Robert Rodriguez, and music labels BMG Entertainment and Bertelsmann AG. The practice accounts for 25 percent of the firm's annual gross. (Loeb's largest practice area is litigation, with 85 attorneys. Corporate and wealth management practices round out the firm.)

About four years ago, Beck and Schaefer did meet with around 20 firms to discuss the possibility of consolidating with a bigger shop. But what became clear after meeting with other chairmen is that consolidation wouldn't always result in a better bottom line. "The concept that bigger is better has never made a lot of sense to me," Frankenheimer says. "If you look at these mergers, a lot of them are taking two okay firms and making it a larger okay firm. There is nothing special or unique about them."

In its go-it-alone strategy, Loeb & Loeb is focusing specifically on middle-market work. In litigation, for example, Loeb & Loeb has done a lot of work for Merrill Lynch & Co., Inc. The investment bank farms out its more procedurally complex class actions to firms like Skadden, Arps, Slate, Meagher & Flom, Shearman & Sterling, and Sidley Austin. But the in-house team at Merrill turns to Alyson Weiss and William Manning, Jr., at Loeb & Loeb to handle medium-size securities arbitrations that require just one partner and a few associates. The firm has handled about 50 such cases in the last few years. "If you need sophisticated counsel, and you don't need to drop 30 people in Iowa or Ireland, then we are a good choice," Schaefer says.

On the corporate side in New York, where the firm has doubled its number of lawyers since 2000, the 40 attorneys compete against bigger firms by going after work from private equity funds like Thomas H. Lee Partners and Veronis Suhler Stevenson. These smaller companies have $50 million transactions that require just a few lawyers to shepherd. "We're not chasing the $1 billion deal," Schaefer says.

And by staying midsize, rather than merging, the firm can also carve out profitable practice areas that bigger firms may not be as interested in cultivating. To complement its 17-lawyer tax and wealth services group, which represents clients like the J. Paul Getty Trust and the William Randolph Hearst Trust, it picked up seven lawyers from O'Melveny & Myers's trusts and estates group in March. The firm is banking on a lot of legal work being generated as wealth is transferred and fought over by the children of aging baby boomers.

Being a midsize firm in a world full of thousand-lawyer competitors does have its drawbacks. A Los Angeles–based recruiter who has worked with Loeb & Loeb points out that attorneys who have national practices might be tempted to leave for larger firms with a broader reach. In April labor and employment chair Carla Feldman jumped ship to Morgan, Lewis & Bockius, which has 265 labor lawyers, compared to the 20 that she practiced with at Loeb & Loeb. "I have clients who have business in different states," Feldman says. "Morgan Lewis has more people who do what I do. The depth and experience in this practice area is greater here."

Over the last 15 months the firm has lost three partners: Feldman, David Carlin to Reed Smith, and Susan Heller to Greenberg Traurig. On the flip side, the firm has brought aboard 22 partners, Mayerson says. Loeb & Loeb now has about 110 lawyers a piece in Los Angeles and New York, plus a seven-person team in Chicago focusing on IP, and four lawyers in Nashville who concentrate on the music industry. To make room for the new recruits, the firm has added a new floor to its Los Angeles office space. "We will always be in the middle, no matter how much we grow," Mayerson says. Right now, that seems like prime real estate.

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