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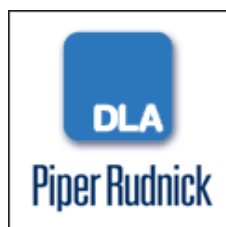
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The genesis of a heavy hitter

By Bob Sherwood

Published: December 5 2004 18:43 | Last updated: December 5 2004 18:43



The merger of US law firm Piper Rudnick with DLA of the UK signals "the start of the shake-down that will lead to the creation of a handful or two of global full-service law firms", according to Nigel Knowles, DLA managing partner.

Some others - notably Clifford Chance of the UK, which took over New York's Rogers & Wells in 2000 - might argue that the shake-down began a few years ago.

But what today's deal will do is create a new global player among the established heavy hitters, ranked in the top 10 by revenues. It might also set off alarm bells at other mid-tier law firms on both sides of the Atlantic.

Mr Knowles says: "Because we are first, it will cause a lot of other firms to think 'what on earth is happening? Where is all this going to end up?' . . . It will go the same way as the accountants. But we might be one or two years ahead of the next big merger."

The arguments for European law firms to create a significant US capability have been well rehearsed over the past few years: the biggest businesses are in the US; it is the biggest single investor in most of the countries in which law firms operate; and a huge amount of capital is still controlled from the US. "If you want to be capable of acting for the best and largest clients doing the most interesting, high-value work, you have got to have a solution that involves the US," adds Mr Knowles.

The reasons for US firms, with typically higher profitability levels and a bigger home market, to take a European merger partner have perhaps been less pressing.

Francis Burch, Piper Rudnick's co-chairman, says a big factor is the continued expansion of US clients into European and Asian markets. "If we don't have lawyers in those markets, over time we will be at a disadvantage," he says.

As Mr Knowles puts it: "Piper Rudnick's reasons may be slightly more defensive, while ours might be slightly more opportunistic."

Not all agree, of course, and many of the big New York firms are committed to practising only US law. And while some larger firms have swallowed up smaller practices to create transatlantic capability, such as the Clifford Chance deal, and Jones Day of the US, which took over UK firm Gouldens last year, this merger is unusual in that it is a marriage of two practices of near-identical size.

"Nobody has really done what we are trying to do," says Mr Burch. "We will be the only firm in the world with more than 1,000 lawyers in the US as well as in the UK."

Nor is it simply a merger of two firms. Piper Rudnick will also merge with West Coast firm Gray Cary Ware and Freidenrich, creating more potential difficulties over blending lawyers within the US as well as internationally.

The combined firm is to be called DLA Piper Rudnick Gray Cary, though no one is taking bets on that diplomatic but cumbersome label lasting the year. It will have 1,030 partners and 1,656 other lawyers with 49 offices in 18 countries and projected revenues for 2005 of about \$1.4bn (£728m). Its chairman will be George Mitchell, the former US senator who chaired the Northern Ireland peace talks that led to the 1988 Good Friday agreement.

The firms trumpet the combined entity as a global leader in litigation, real estate, technology and regulatory law. But they accept it will need to boost its corporate practice and will not be as strong in New York as it needs to be.

Piper is a national firm with no single headquarters and large bases in Baltimore, Chicago and Washington, but just 150 lawyers in New York. Lee Miller, co-chair of

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Piper, says the merger is "not an endgame" but a platform for further expansion, though he is at pains to stress that "the US market is a lot bigger than just New York."

The firms are confident they can avoid the problems that have beset some other high-profile mergers, such as the plunging staff morale and stream of big-name departures that hit Clifford Chance in New York.

One immediate advantage is that Piper Rudnick, with the exception of a recently acquired Paris office, and Gray Cary have no lawyers in Europe or Asia, while DLA has no offices in the US, avoiding problems of duplication, merging offices and subsequent rationalisation.

The other advantage is that the firms do not have to marry different ways of paying their partners, a thorny subject that is probably the single biggest headache for UK firms trying to break into the US. DLA, unlike many of the top UK law firms, operates a merit-based system for distributing profits to partners, which is closer to US firms' traditional "eat what you kill" system.

Many other British firms have a "lockstep" system, where partners' compensation is dependent on their seniority and time spent in the firm - a system of which high-earning US lawyers are understandably sceptical. Clifford Chance was forced to pay some of its wealthiest US partners salaries above the top of its pay scale, while a planned tie-up between merit-based US firm Fried, Frank, Harris, Shriver & Jacobson and lockstep-based Ashurst of the UK - the closest attempt so far to achieving a "merger of equals" - foundered after long negotiations earlier this year.

Mr Burch acknowledges that the preponderance of UK lockstep firms means that the choice of potential partners for US firms is limited. "There are not a lot of very attractive merger candidates outside the US," he says.

The deal will cap a history of mergers that has characterised the aggressive expansion strategies of both Piper and DLA. Piper and Rudnick merged in autumn 1999, creating a firm with revenues of just \$150m. Meanwhile, nine years ago, Dibb Lupton Broomhead, then a firm based in the north of England, had revenues of just £51m ahead of a merger with Alsop Wilkinson.

Mr Knowles says his firm's track record of aggressive expansion indicates that it will also be successful in this, its most ambitious deal yet. "Now is the time to do it once again - to be a top-five, global, full-service law firm. We have planned it. We will drive through the plan and we will do it again."

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