

Piper Rudnick to Merge With Big British Firm

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Piper Rudnick Gray Cary LLP, a law firm with major operations in Washington, agreed over the weekend to merge with British firm DLA LLP, creating one of the largest combinations ever of law firms from different countries.

Officials of the firm, which is to be called DLA Piper Rudnick Gray Cary after the deal closes Jan. 1, say that by combining they will be able to better serve international clients. They acknowledge, though, that they will face a formidable challenge in merging two very large firms from different parts of the world, each with a distinct culture.

"We felt the more places we can touch a client in meaningful ways, the better off we'd be," said Francis B. Burch Jr., a co-chairman of Piper Rudnick who is to be one of three joint chief executives of the combined firm. "There are some challenges. The integration challenge is the big one, getting as many of these 2,700 lawyers in 18 countries to work together as possible."

DLA Piper will be the third-largest law firm in the world by number of lawyers in 2005, the companies say. The firms' combined 2003 revenue of \$952 million would put DLA Piper in ninth place in a worldwide ranking of law firms published by American Lawyer magazine. Piper currently has only one office outside the United States.

Piper has more than 500 employees in the Washington area, including 234 lawyers and a large lobbying practice it obtained in part by acquiring D.C. firm Verner, Lipfert, Bernhard, McPherson and Hand in 2002. Well-known members of its government affairs operation include former Senate Democratic leader George J. Mitchell and former House Republican leader Richard K. Armey.

Each firm has about 1,350 lawyers, and there are no cities in which DLA and Piper both have offices. Burch said he does not expect any job cuts because of the merger. The only other international law-firm merger of comparable size was of British firm Clifford Chance, New York firm Rogers & Wells and German firm Punder, Volhard, Weber and Axster in 2000, which created at the time a 2,700-lawyer firm that is now the world's largest. However, in that deal Clifford Chance was by far the larger partner, unlike the DLA-Piper Rudnick deal that is a merger of roughly equals.

Other major law firms, such as Skadden, Arps, Slate, Meagher & Flom LLP and Baker & McKenzie LLP, have offices around the world, but generally have built worldwide presence through small mergers and gradual expansion, rather than in a single transaction.

Firms like Piper Rudnick are seeking an advantage over competitors by being a full-service firm that can offer big companies a wide range of legal services all over the world. As an example of the business that the merged DLA Piper will be able to win, Burch said Piper Rudnick's clients include a U.S.-based real estate investment firm that is planning major developments in seven different European nations. In the past, Piper would have lost the business advising the client on government relations and real estate law in those countries to competitors, but now it hopes to win much of that work through DLA partners.

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"The world is getting smaller and borders are becoming more porous from a business point of view," said Peter Zeughouser, a consultant who advises law firms on management, mergers, and other matters. (Zeughouser has done work for Piper Rudnick, but not on the DLA transaction). "Firms have to serve clients, and nearly all clients are doing business internationally today," he said.

That's not to say it will be easy. International law-firm mergers are often complicated, given the differences in the legal cultures of various nations.

A particularly nagging issue is compensation. British firms typically pay lawyers through a "lock-step" system based solely on seniority. U.S. firms generally use an "eat-what-you-kill" approach under which partners are paid based largely on business they bring in and hours they bill. Reconciling the two can be difficult in a merger. Burch said he believes that compensation issues will not be as difficult with the DLA merger as they have been in other transatlantic law-firm deals, because DLA already uses a system in which lawyers are paid partly based on the revenue they generate.

Another problem is conflicts of interest. The combined firm will have to put in place systems to make sure that, for example, if it is defending a company in a big lawsuit, a partner in a different office doesn't try to bring in the plaintiff as a client for real estate work.

"Conflicts of interest are a difficult problem," said Bradford W. Hildebrandt, chairman of the consultancy Hildebrandt International Inc., who helped engineer the Piper deal. "You have to have pretty sophisticated systems in place to keep you out of trouble."

The deal is another step in a rapid ascent of Piper Rudnick to the top of the legal profession. In 1999, two mid-size law firms with little national profile merged -- Baltimore-based Piper & Marbury and Chicago-based Rudnick & Wolfe. In the five years since, through aggressive hiring and several large acquisitions, the firm has become one of a dozen or so full-service U.S. firms that can handle the full range of corporate legal work.

DLA has a similar history. It has grown rapidly in the past five years, opening offices in 16 countries in Europe and Asia. It too specializes in general corporate work, finance, litigation, government relations, and real estate law.

Lawyers from the two firms have worked together on projects in the past year to make sure they are a cultural fit. "We think we're pretty compatible," Burch said.

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