

2013
Law Firms in Transition
An Altman Weil Flash Survey



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by
Thomas S. Clay

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Law Firms in Transition 2013

The fifth annual Altman Weil *Law Firms in Transition Survey* finds law firm leaders are acutely aware of the changes that the profession is facing.

- They are concerned that the demand for legal work is flat or shrinking in many practices.
- They feel real pricing pressure from clients.
- They recognize the competitive forces of commoditization and the emergence of lower-priced, non-traditional service providers.
- They are coming to grips with the idea that aggressive growth in lawyer headcount may no longer make sense.
- They believe that the pace of change is increasing.

Now in its fifth year, the survey shows the ongoing evolution of thinking on many of these issues including some dramatic shifts in opinion since 2009. However, there is less evidence of tangible changes in how law firms operate.

Headcounts and billing rates are still up on average – albeit far less than they would have been pre-recession. Firms use alternative pricing, but in a limited (and usually non-strategic) way. There is some tightening of partnership admission standards at the top of the pyramid, and broader use of contract lawyers at the base.

Most firms appear to be reacting to external forces and making incremental changes within the framework of the existing business model, rather than pursuing opportunities to meaningfully differentiate their firms in the eyes of clients. So far firms are staying ahead of the curve of transition with these tactics — but is this a sustainable long-term course if the forces of change really are accelerating?

Staying Ahead of the Curve

We asked firm leaders a series of questions about their preparedness for change. Most are reasonably confident that their firms are fully prepared to keep pace with the challenges of the new legal market, rating their confidence at a median “7” on a

0 to 10 scale. However, when we compare their 2013 responses to those for the same question asked for the first time in 2011, we see that the percentage of firm leaders who are highly confident (scoring 9 or 10 on the scale), has dropped by almost half from 23.9% in 2011 to 12.9% in 2013.

We also asked about partners' awareness of the new challenges law firms are facing. Leaders assessed their partners' awareness of the changing marketplace at a median "6." Only 5.3% of leaders considered partners to be highly aware (in the 9 - 10 point range). Finally, we asked about partners' level of adaptability to change. Law firm leaders rated their partners' adaptability at a median of "5," with only 2.2% describing them as highly receptive to change.

These results highlight another significant challenge for law firm leaders. Along with many external market pressures, there is internal drag from partners who don't fully understand the need for change, who don't feel any sense of urgency to change, or who are simply resistant to doing things differently.

Additionally, firm leaders' options are often constrained by Baby Boom partners with significant economic sway and a short-term outlook who act as a drag on meaningful firmwide innovation.

Changing the Business Model

In order to balance the competing external pressures from clients for greater value and internal pressure from shareholders to maintain profitability, firm leaders are looking at how they can change the law firm business model.

In the 2013 survey, we asked firm leaders if their law firms have significantly changed their strategic approach in four primary areas of the model: overhead cost management, partnership admission and retention standards, efficiency of service delivery, and pricing.

Overhead cost management is the easiest place for most firms to start, and 65% of firm leaders report that they have significantly changed their approach in this area. However, it appears that a lot of work in this area is already complete, as only 30% of firms showed a net reduction in overhead costs in the 2013 survey, compared to 69% in 2010.

Unfortunately, the potential for meaningful cost reduction is finite, unless firms are willing to make a dramatic change in something like lawyer/secretary ratios or space reduction.

The Lawyer Pyramid

The 2013 survey explored the idea that the typical lawyer pyramid of Equity Partners, Non-Equity Partners and Associates may be giving way to a more fluid arrangement in some firms.

Forty-five percent of firm leaders report they have made significant changes in their strategic approach to partnership admission and retention since the recession. Over three quarters also said they had made some kind of change in standards (or the more rigorous application of existing standards) for Equity Partnership. A similar increase in discipline is not found at the non-equity level, where 92.2% of firms said they did not have an 'up or out' policy for the non-owner partnership tier.

Limiting the number of a firm's owners may produce desirable PPP results today, but a burgeoning tier of high-priced leverage at the non-equity level can create a drag on profitability and a barrier to the advancement of young talent that will have to be dealt with in the future. This is a good example of short-term, tactical action versus longer-term, strategic thinking about key business model issues. The temptation to take the quick fix rather than pursuing more difficult systemic change is another challenge for firm leaders.

Forty-five percent of firm leaders report they have made significant changes in their strategic approach to efficiency of legal service delivery. One way law firms can improve efficiency and better serve clients is by rethinking project staffing.

We asked about alternative staffing strategies in law firms. Any past stigma associated with contract lawyers clearly is gone. Large majorities of firms are using part-time and contract lawyers in 2013. This is a smart tactic, usually endorsed by clients, which can hold down costs while boosting profitability.

Almost 40% of firms report outsourcing some non-lawyer functions – up from 15.7% in 2010 when we first asked the question. Only 7.7% of the firms surveyed outsource legal work, although the number jumps to 19.7% in firms with 250 or more

lawyers. Outsourcing is not a robust profit driver, but it can be an effective client lock-in strategy for firms that want to demonstrate efficiency and deliver cost reductions to clients.

Pricing Strategy

'More price competition' was identified as a permanent trend by 95.6% of firm leaders surveyed in 2013. Eight out of ten leaders believe 'more non-hourly billing' is here to stay. Additionally, 67.9% of survey respondents said they thought 'smaller annual billing rate increases' would be a permanent change in the marketplace.

However, despite these responses, only 29% of firm leaders report that their firm has significantly changed its *strategic approach* to pricing since the recession. Law firms' primary response to pricing pressure appears to be discounts.

We asked leaders what percentage of their firm's fees came from discounted rates. The median response was 21% to 30% of fees in all firms and 31% to 40% of fees in firms with 250 or more lawyers. Approval of discounts was required in 78.2% of firms — leaving 21.8% of firms in which partners make independent discounting decisions.

Pricing discounts are the easy, *non-strategic*, response to client push back on law firm rates. Virtually all firms offer them. But without appropriate oversight of discounts, firms can find themselves in the counterproductive pursuit of unprofitable revenue, sometimes referred to as 'suicide pricing.'

Non-hourly based billing is also used by almost all law firms, although it represents a median of only 10% of fees collected. Two thirds of all alternative fee arrangements (AFAs) are provided in response to client requests, compared to about one third that are offered proactively by law firms.

We asked about the profitability of alternative fees, and found that only 16% of AFAs are more profitable than projects billed at an hourly rate. Another 40% are about as profitable as hourly projects. When we analyzed the results based on which firms were using non-hourly billing proactively and which were doing so reactively, we found that AFAs were almost twice as likely to be more profitable in the proactive firms.

By taking a proactive stance on non-hourly billing, law firms are better serving their clients, *and better serving themselves*. This is not to say that all clients automatically want alternative fees — they do not. But when firms educate themselves on the options and think through scenarios to best serve clients, they will be prepared to spot the opportunities for win-win pricing agreements when they arise.

Better strategic pricing and profitability analysis is an excellent example of the value of proactive leadership on a business model issue. Law firms that are ‘first-movers’ here, will almost certainly strengthen their financial position internally and improve their competitive position.

Is Growth Dead?

A growth imperative was pervasive in the strategic planning of most US law firms for the two decades before the recession. That may be changing too.

In many firms, a more nuanced approach to smart strategic growth is replacing its full-throttle pursuit in prior years. Associate classes are smaller; contract and part-time lawyers have become viable alternatives, providing firms as-needed capacity; and, there are fewer seats at the table for owners. Selectively acquiring laterals and groups who come with their own ready-made books of business is the preferred growth strategy post-recession. Firms are beginning to think about ‘trading up’ to improve profitability, rather than ‘bulking up’ to drive gross revenues.

This year for the first time, we asked law firm leaders if they believe growth, in terms of lawyer headcount, is a requirement for their firms’ continued success. Only a little over half (56%) said ‘Yes;’ more than a third (36%) said ‘No;’ and the balance were not sure. We believe that if this question had been asked even five years ago, nearly all firm leaders would have replied with an emphatic ‘yes.’

Growth is not dead, but size alone is not a safety net. Every law firm should reassess their assumptions about growth, if they have not already done so.

Greatest Challenges

We asked firm leaders about their greatest challenge in the next 24 months.

Increasing revenue was their number one answer, followed by generating new business, law firm growth, and profitability. The top four answers constituted just over 50% of all responses. All four are internally-focused, tactical issues with the primary purpose of protecting the *status quo* in law firms.

It is striking (and disturbing) that delivering value to clients appears only at number eight on the list, mentioned by just 5.6% of law firm leaders. Improving efficiency is eleventh on the list of twelve challenges, cited by only 2.8% of respondents.

Law firms that do not put client needs at the top of their priority lists misunderstand what is driving the forces of change in the legal market in 2013. If firms would focus their considerable resources on truly understanding and aligning themselves with each client's interests, they would be much more likely to achieve their financial goals.

Law firms need to cultivate the opportunities in today's changing legal market, rather than hunkering down against the threats. This is difficult lesson for an inherently cautious profession, but it must be learned.

Leading Change

It has probably never been more challenging to lead a law firm than it is in 2013. One of the survey participants described navigating the current legal market as “a real test of leadership” — and we agree.

There are a few things all firm leaders can and should do:

- **Better educate your partners:** In a professional services firm, leaders must have the buy-in of their partners in order to affect change. Invest time in educating your partners about the realities of the changing legal marketplace.
- **Align with your clients' interests:** Recognize that every client is different and invest time in learning what each wants and needs (beyond the baseline expectation of excellent legal advice). Learn their business strategy, understand their operations, and become their partners.
- **Don't settle for quick fixes:** It is critical that firm leaders have a strategic, long-term outlook. While short-term, tactical successes can build momentum, they

are not a substitute for pragmatic firmwide planning for three- or five-year time horizons.

- Develop a proactive stance: It is easy to understand why busy leaders find themselves *reacting* to external and internal pressures rather than leading change in their firms and with their clients. However, it is a risky bet to assume you will always be able to stay ahead of the curve that way.

There is an opportunity for law firms now — *before the weight of change tips us into a permanently transformed marketplace* — to engage in new thinking and develop new approaches to ensure viability, stability and competitive advantage among their less prepared rivals.

SURVEY METHODOLOGY

Conducted in March and April 2013, the *Law Firms in Transition Survey* polled Managing Partners and Chairs at 791 US law firms with 50 or more lawyers. Completed surveys were received from 238 firms (30%), including 37% of the 250 largest US law firms.

The full survey is available online to download at: www.altmanweil.com/LFiT2013. Special reports based on law firm size ranges are available exclusively to survey participants.

May 2013
Altman Weil, Inc.

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About the Author

Thomas S. Clay is a principal of Altman Weil, Inc. With over 30 years of experience consulting to the legal profession, he is an acknowledged expert on law firm management principles and is a trusted advisor to law firms throughout the United States. Mr. Clay heads complex consulting assignments in strategic planning, law firm management and organization and law firm mergers and acquisitions. He is a thought-leader on the key issue of law firm practice group strategy and leadership.

He is Fellow of the College of Law Practice Management (COLPM) and has served as a Judge for the College's InnovAction Awards which recognize outstanding innovation in the delivery of legal services worldwide. He is a member of the COLPM Futures Committee. Mr. Clay has been named one of the "100 Legal Consultants You Need to Know."

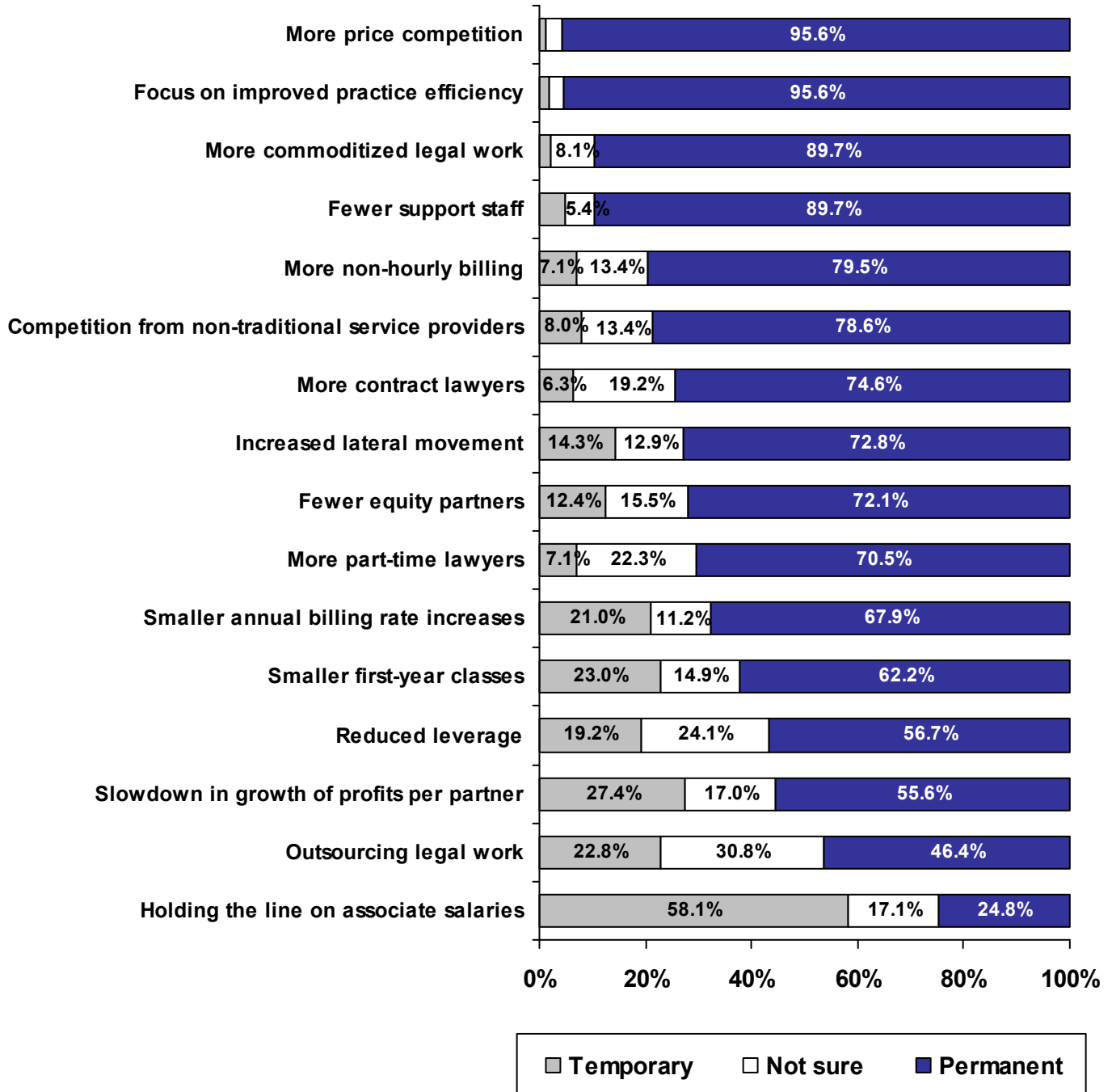
About Altman Weil, Inc.

Founded in 1970, Altman Weil, Inc. is dedicated exclusively to the legal profession. It provides management consulting services to law firms, law departments and legal vendors worldwide. The firm is independently owned by its professional consultants, who have backgrounds in law, industry, finance, marketing, administration and government. More information on Altman Weil can be found at www.altmanweil.com.

Transition & Change
Law Firms in Transition 2013

2013 Trends

Which of the following legal market trends do you think are temporary and which will be permanent?



2009 – 2013: Law Firms in Transition

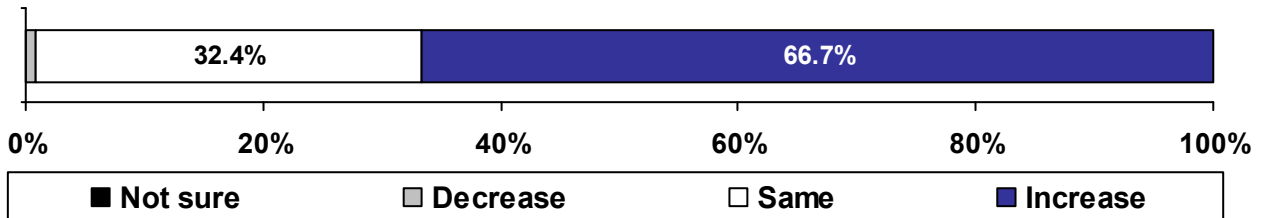
In May 2009, we launched the first *Law Firms in Transition Survey* to measure the impact of the financial crisis and emerging recession on the legal profession. That year, and in each subsequent year, we have asked law firm leaders to assess a series of trends as either temporary or permanent. The following table illustrates how opinions have changed.

The ten trends listed below are all those that have been asked in the survey each year since 2009.

'Yes' - Permanent Change	2009 Response	2013 Response	Change in %	Magnitude Increase
More price competition	42.4%	95.6%	+53.2	2.3x
More commoditized legal work	25.5%	89.7%	+64.2	3.5x
More non-hourly billing	27.9%	79.5%	+51.6	2.8x
More contract lawyers	28.3%	74.6%	+46.3	2.6x
Fewer equity partners	22.8%	72.1%	+49.3	3.2x
Smaller first year classes	11.4%	62.2%	+50.8	5.5x
Reduced leverage	12.1%	56.7%	+44.6	4.7x
Lower PPP/Slowdown in PPP	13.2%	55.6%	+42.4	4.2x
Outsourcing legal work	11.5%	46.4%	+34.9	4.0x
Lower / Hold line on associate comp	9.5%	24.8%	+15.3	2.6x

The Pace of Change

Going forward, do you think the pace of change in the profession will:



Comparison of 2013 survey results by firm size assessing the pace of change in the legal profession:

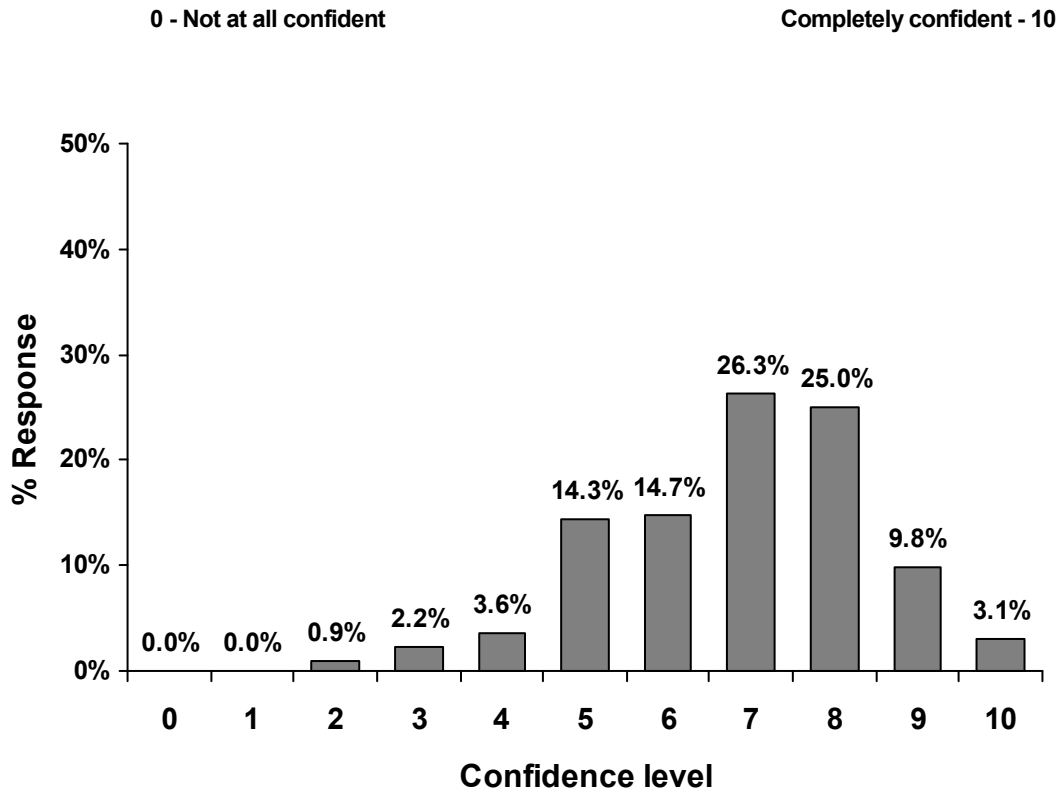
Pace of change	Under 250 lawyers	250 or more lawyers
Increase	64.7%	71.2%
About the same	34.0%	28.8%
Decrease	1.3%	0.0%
Not sure	0.0%	0.0%

Comparison of 2012 and 2013 survey results assessing the pace of change in the legal profession:

Pace of change	2012	2013
Increase	60.1%	66.7%
About the same	36.1%	32.4%
Decrease	1.4%	0.9%
Not sure	2.4%	0.0%

Keeping Pace with Change

What is your overall level of confidence that your firm is fully prepared to keep pace with the challenges of the new legal marketplace?

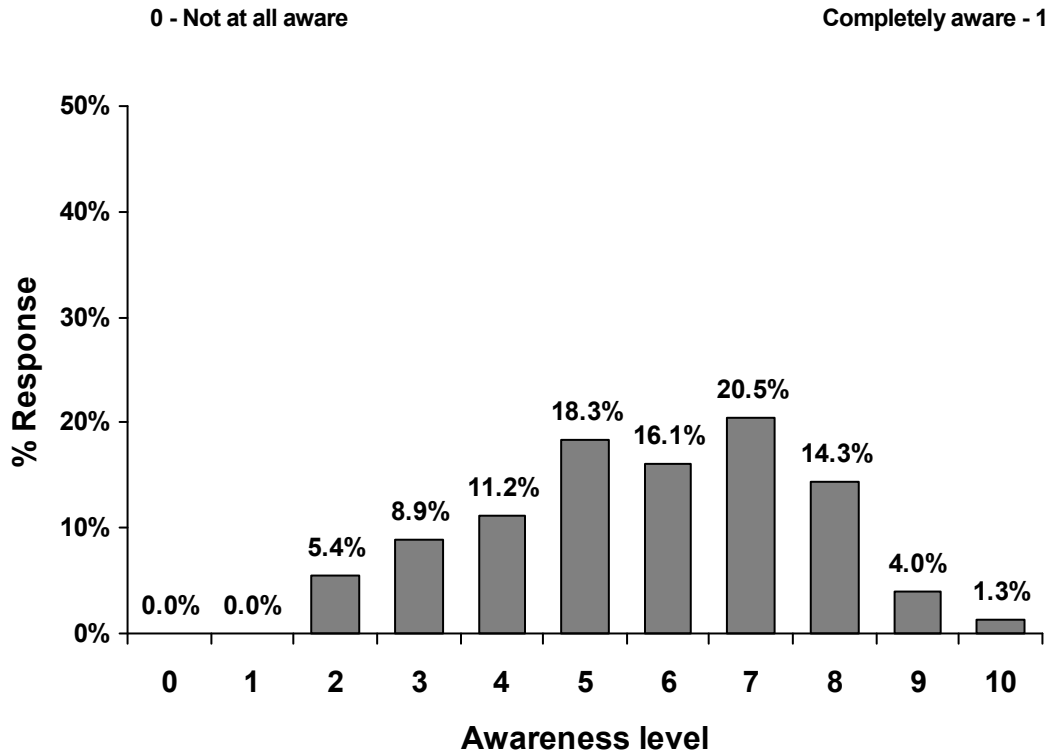


CONFIDENCE	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	21.0%					66.0%			12.9%		

Median rating: 7

Keeping Pace with Change

How would you rate your partners' awareness of the challenges of the new legal market?

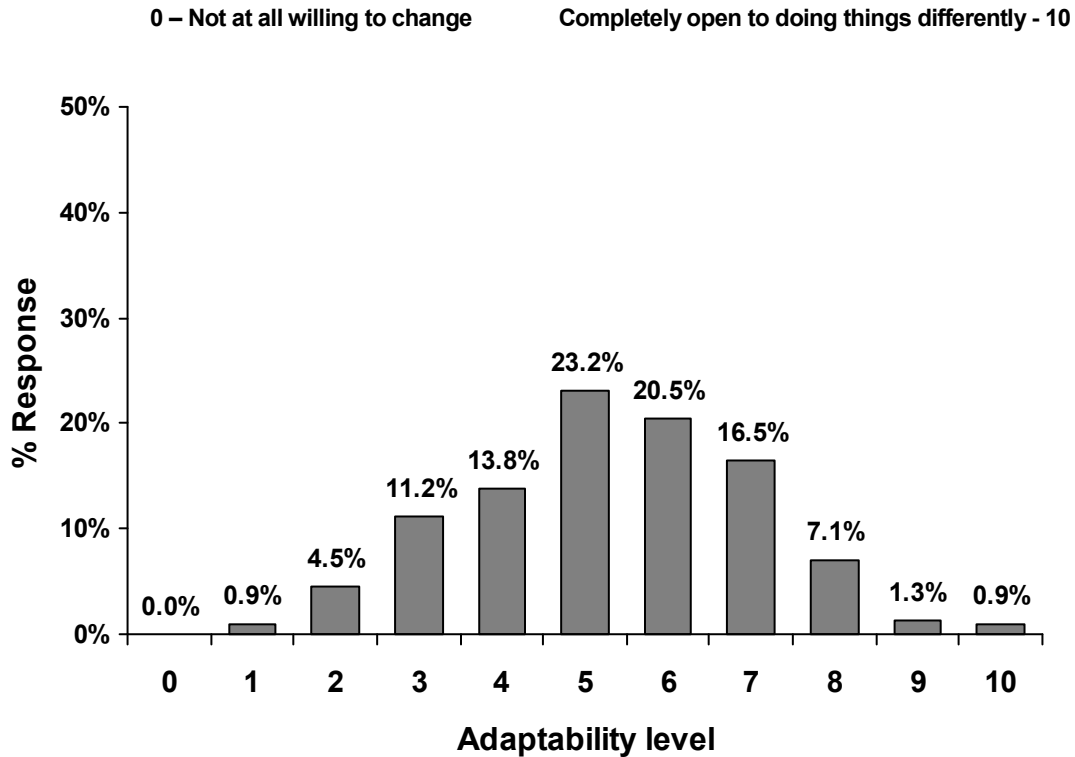


AWARENESS	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	43.8%					50.9%			5.3%		

Median rating: 6

Keeping Pace with Change

Most agree that competing in the new legal market will require some changes in how law firms are organized and how lawyers practice. How would you rate your partners' level of adaptability to change?



ADAPTABILITY	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	53.6%					44.1%			2.2%		

Median rating: 5

Keeping Pace with Change

Comparison of firm leader confidence by year:

Confidence	LOW	MODERATE	HIGH
2013	21.0%	66.0%	12.9%
2012	11.3%	74.3%	14.2%
2011	7.8%	68.3%	23.9%

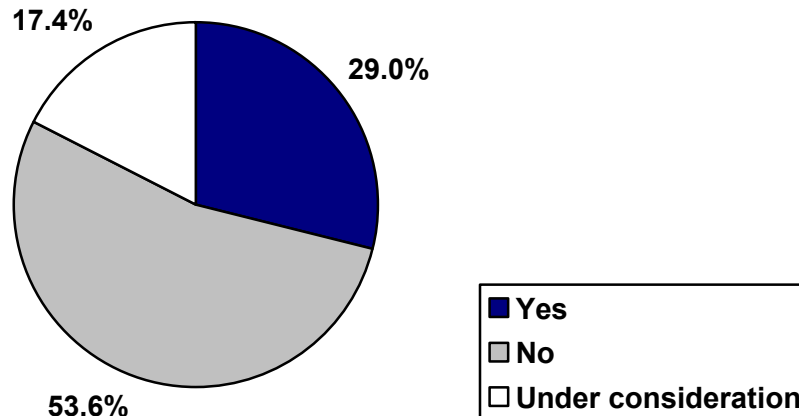
Comparison of 2013 change preparedness factors in the legal profession:

Change Preparedness	LOW	MODERATE	HIGH
Confidence of firm leader	21.0%	66.0%	12.9%
Awareness of partners	43.8%	50.9%	5.3%
Adaptability of partners	53.6%	44.1%	2.2%

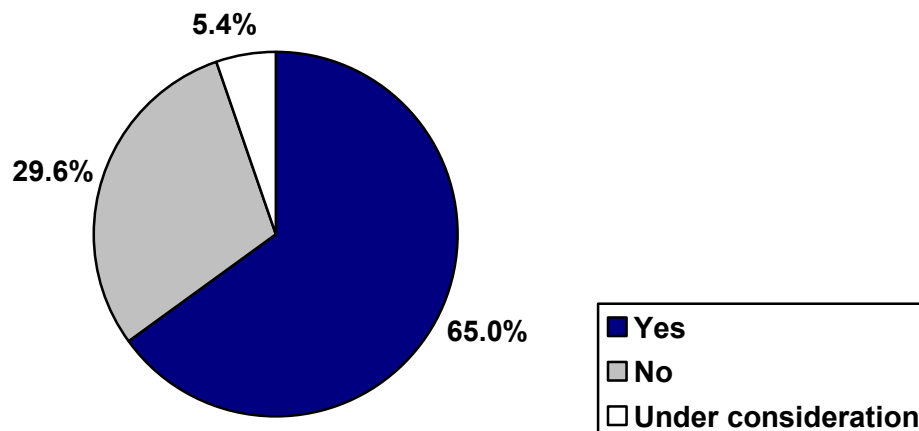
Change in Law Firm Business Model

Many law firms feel pressure to change their business model to stay competitive in the post-recession economy. Has your firm significantly changed its strategic approach to:

PRICING



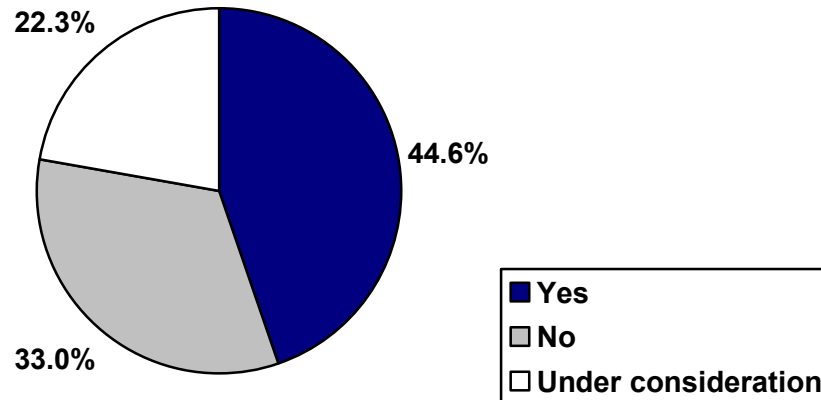
OVERHEAD COST MANAGEMENT



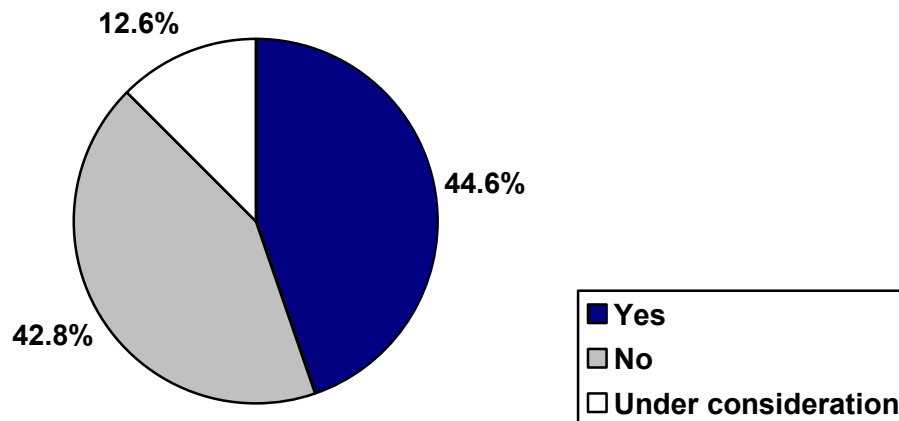
Change in Law Firm Business Model

Many law firms feel pressure to change their business model to stay competitive in the post-recession economy. Has your firm significantly changed its strategic approach to:

EFFICIENCY OF LEGAL SERVICE DELIVERY



PARTNERSHIP ADMISSION / RETENTION STANDARDS



Change in Law Firm Business Model

Comparison of business model changes by firm size:

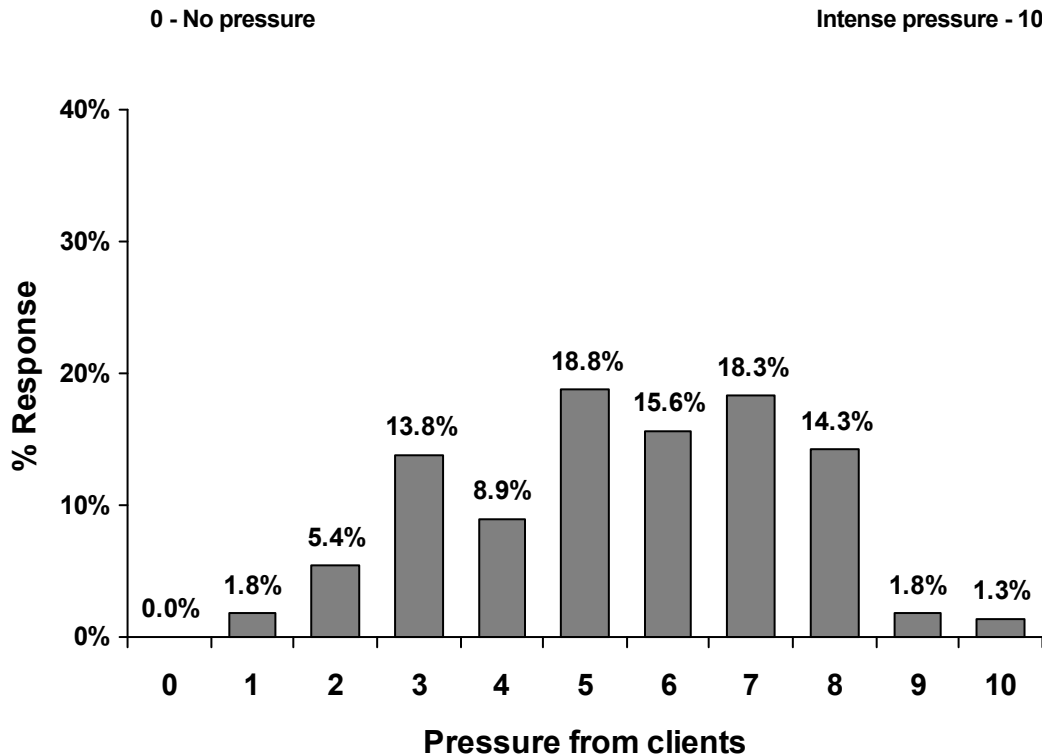
Significant change in strategic approach to:	Under 250 lawyers	250 or more lawyers	ALL
Pricing	21.0%	47.8%	29.0%
Partnership admission / retention standards	44.6%	44.6%	44.6%
Efficiency of legal service delivery	40.1%	55.2%	44.6%
Overhead cost management	60.9%	74.6%	65.0%

Clients & Value

Law Firms in Transition 2013

Clients and the Value Proposition

In your opinion, in 2013 how much pressure are corporations really putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?

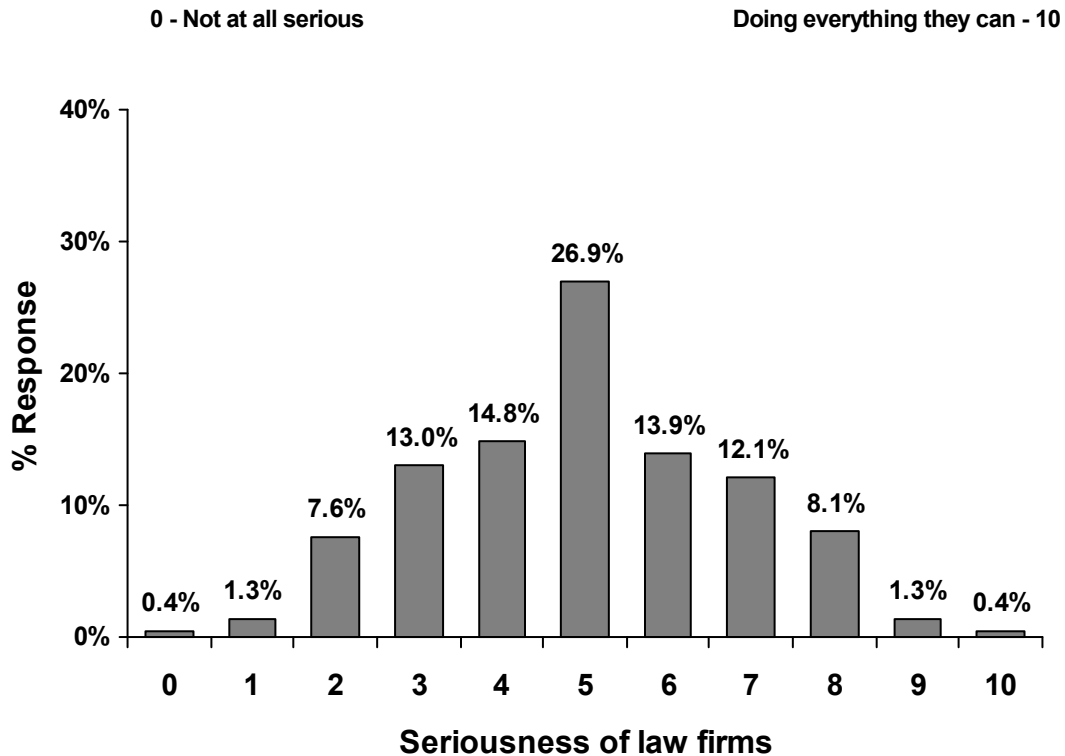


PRESSURE	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	48.7%					48.2%			3.1%		

Median rating: 6

Clients and the Value Proposition

In your opinion, in 2013 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?



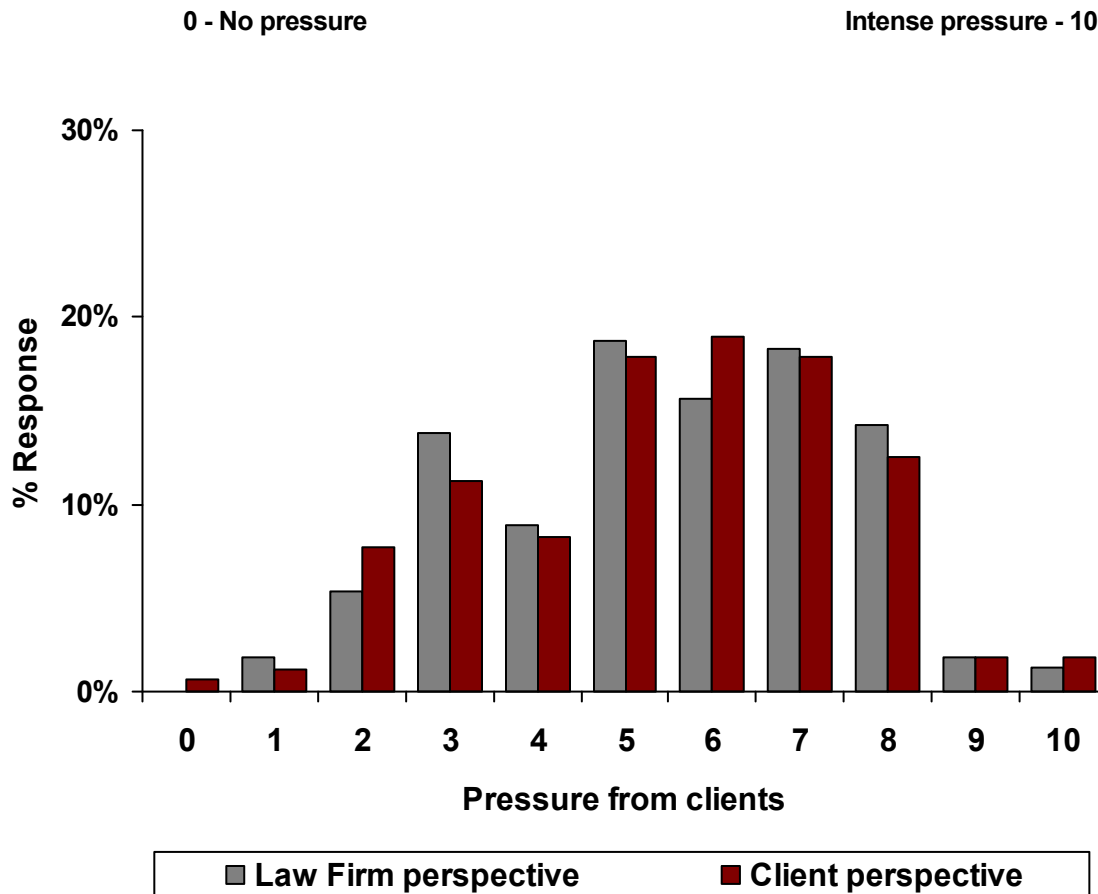
SERIOUSNESS	LOW					MODERATE			HIGH	
	0	1	2	3	4	5	6	7	8	9
RESPONSE	64.0%					34.1%			1.7%	

Median rating: 5

BONUS: The Client Perspective

In October 2012, we asked the same question of Chief Legal Officers. Following, in red, are their responses set against responses from law firm leaders in this survey:

In your opinion, in 2012 how much pressure are corporations really putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?

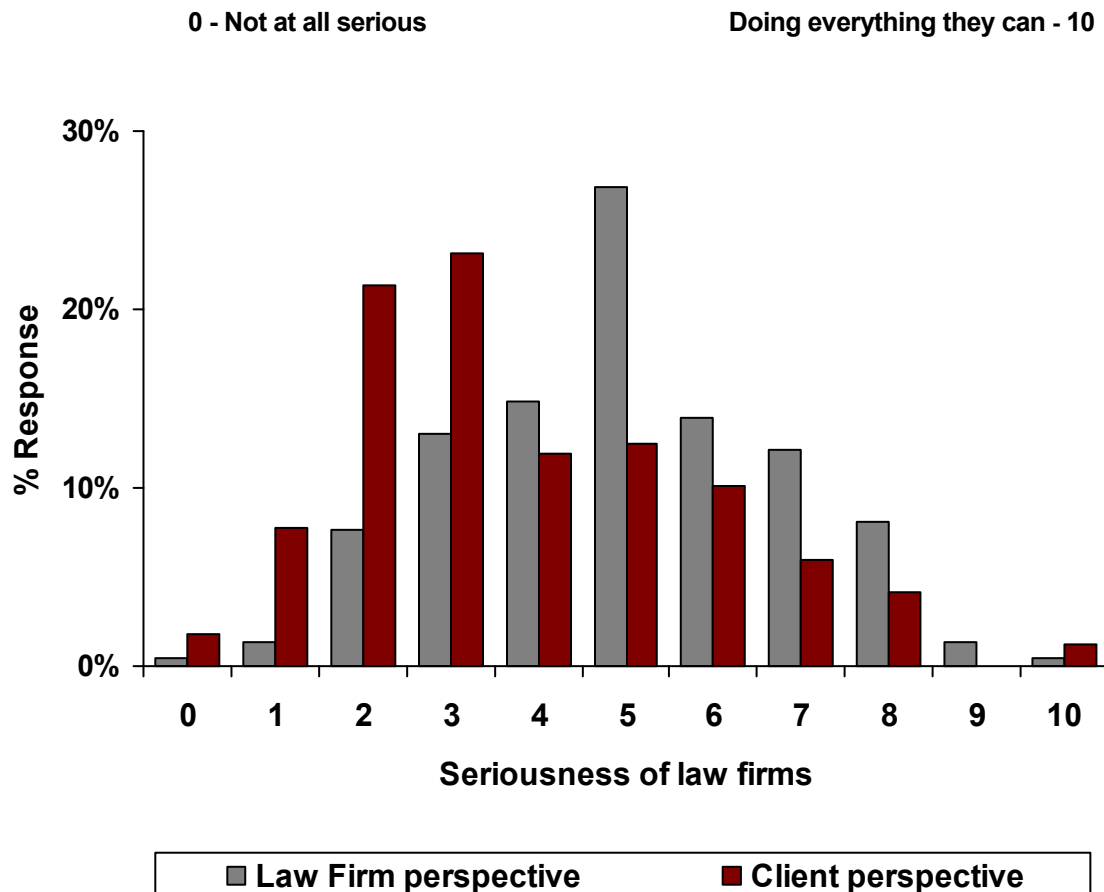


Pressure from clients	Median
Law firm perspective	6
Client perspective	6

BONUS: The Client Perspective

In October 2012, we asked the same question of Chief Legal Officers. Following, in red, are their responses set against responses from law firm leaders in this survey:

In your opinion, in 2012 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?



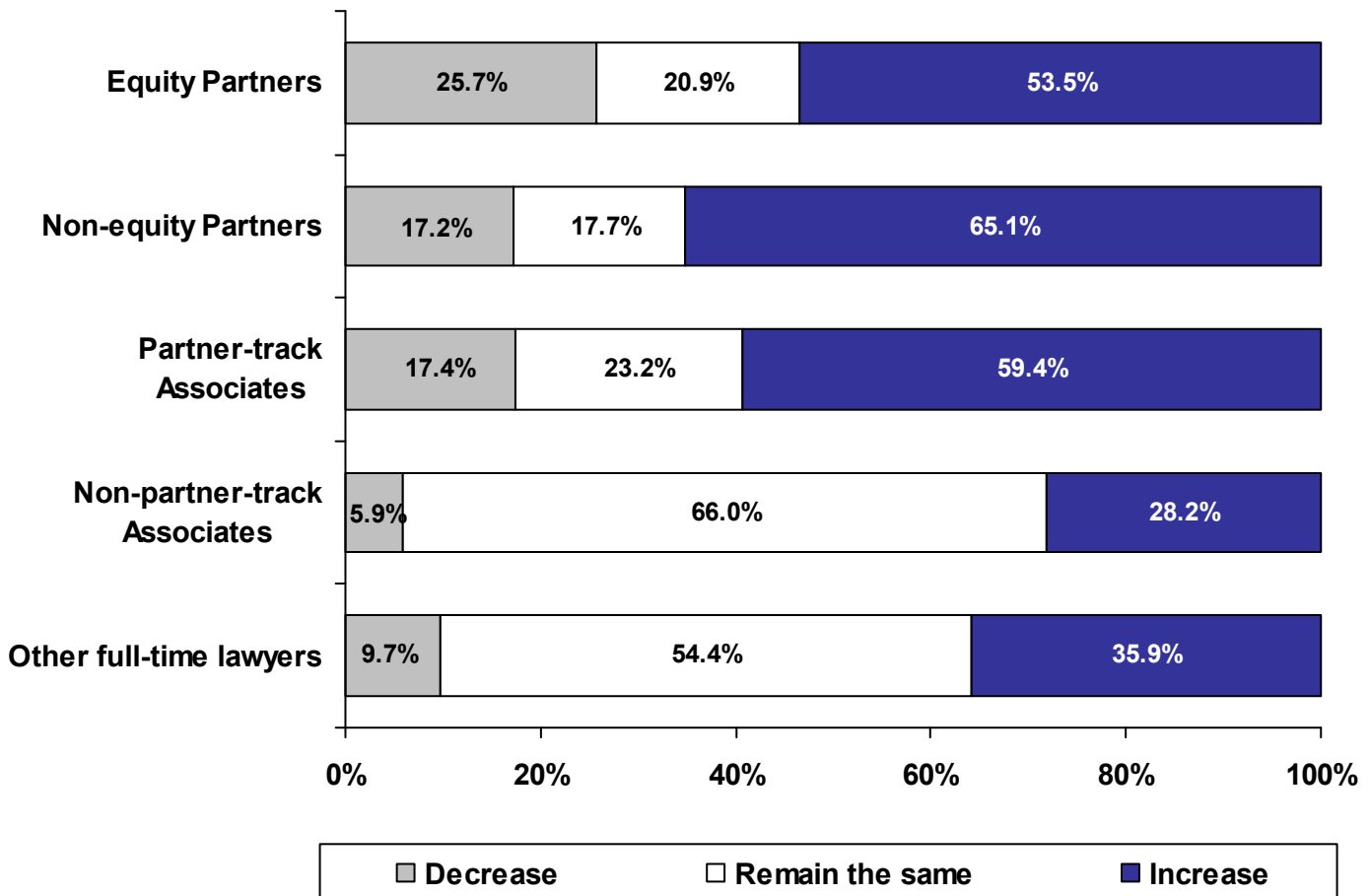
Seriousness of firms	Median
Law firm perspective	5
Client perspective	3

Lawyers

Law Firms in Transition 2013

Lawyer Staffing

What was your firm's approximate net change in lawyer headcount in each of the following categories in 2012?

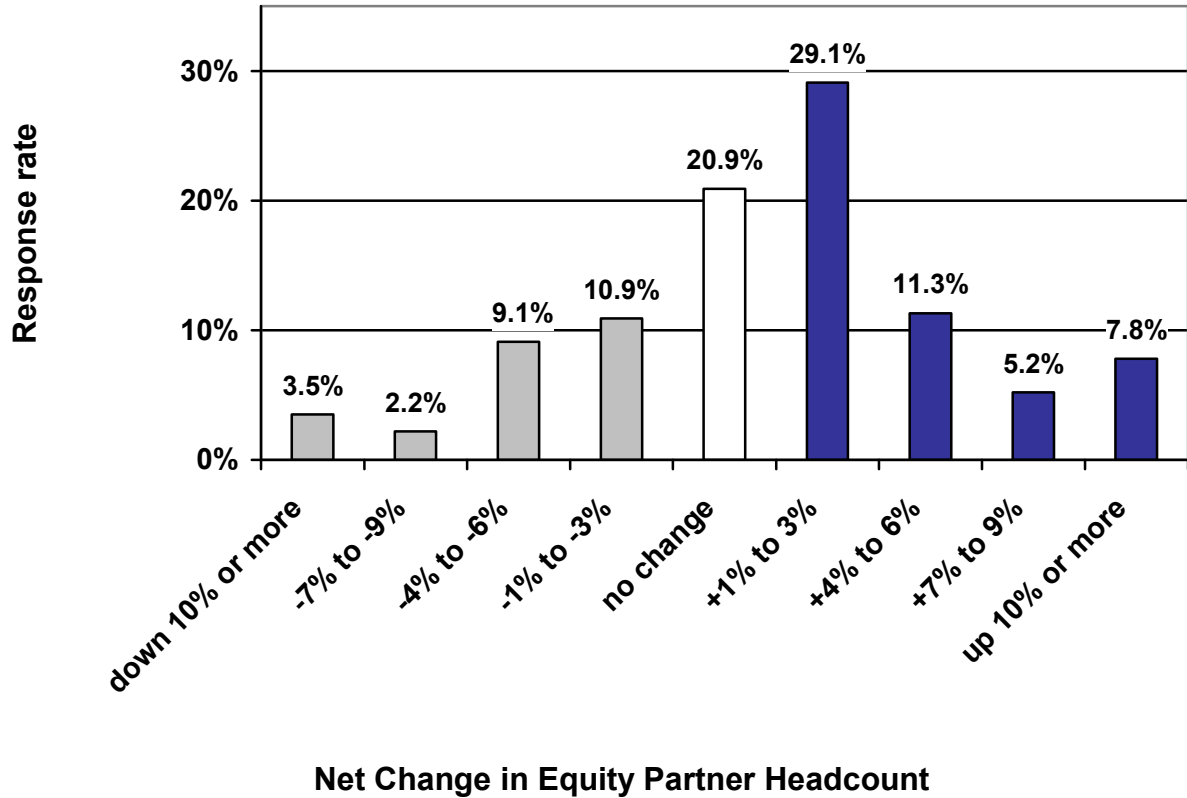


Net Change in Headcount	Median
Equity partners	+1%
Non-equity partners	+3%
Partner-track associates	+2%
Non-partner-track associates	No change
Other full-time lawyers	No change

Partners

What was your firm's approximate total net change in lawyer headcount in 2012?

DETAIL: EQUITY PARTNERS

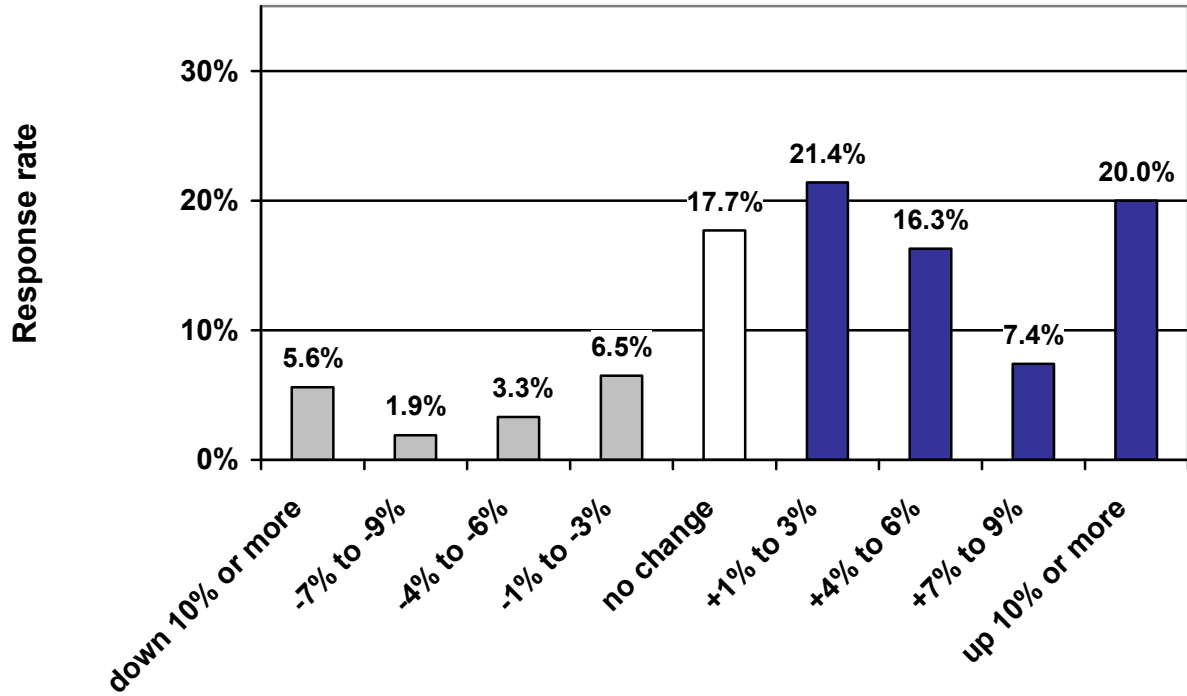


Median change: +1%

Partners

What was your firm's approximate total net change in lawyer headcount in 2012?

DETAIL: NON-EQUITY PARTNERS

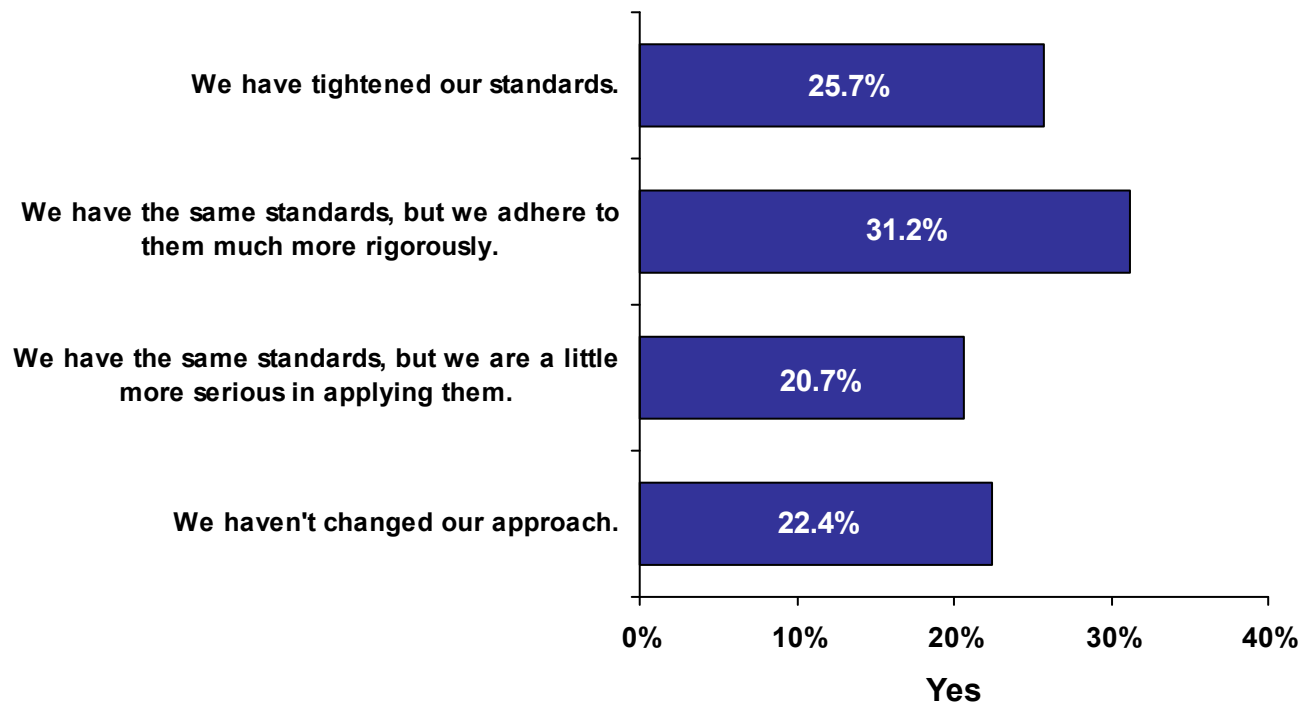


Net Change in Non-Equity Partner Headcount

Median change: +3%

Partner Strategy

Since the recession, has your firm changed its standards for admitting Equity Partners?

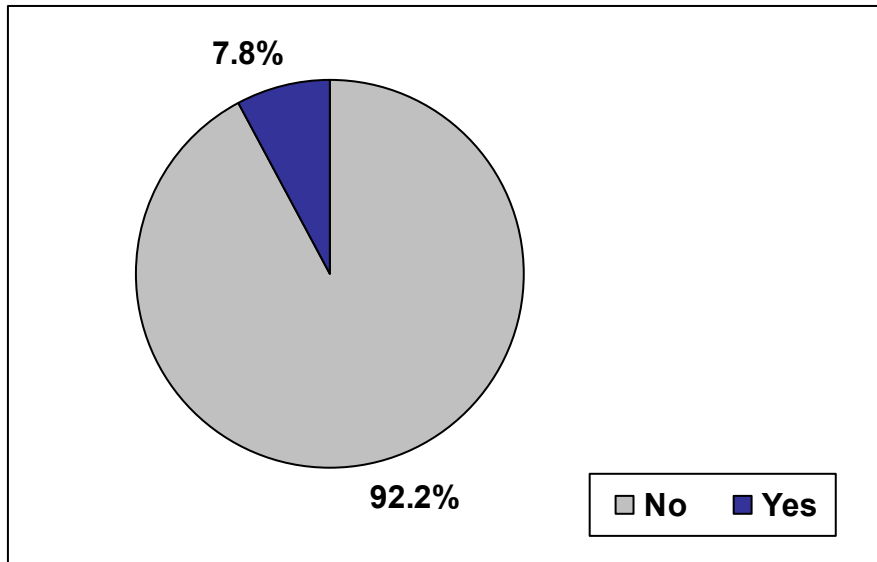


SAMPLE COMMENTS

- We take more seriously that the attorney either have a book of business or has in some manner shown an ability to sustain a strong independent practice.
- In the last four years the firm has implemented a two tier structure. The standards for entry into the first tier are the same standards as has always been used, but to go to the second tier (equity) the standards have been tightened, primarily in the client services and business development capability skills.
- We are focusing on generational changes... we are elevating [those] that can combine [substantial] business generation with transition of existing business.

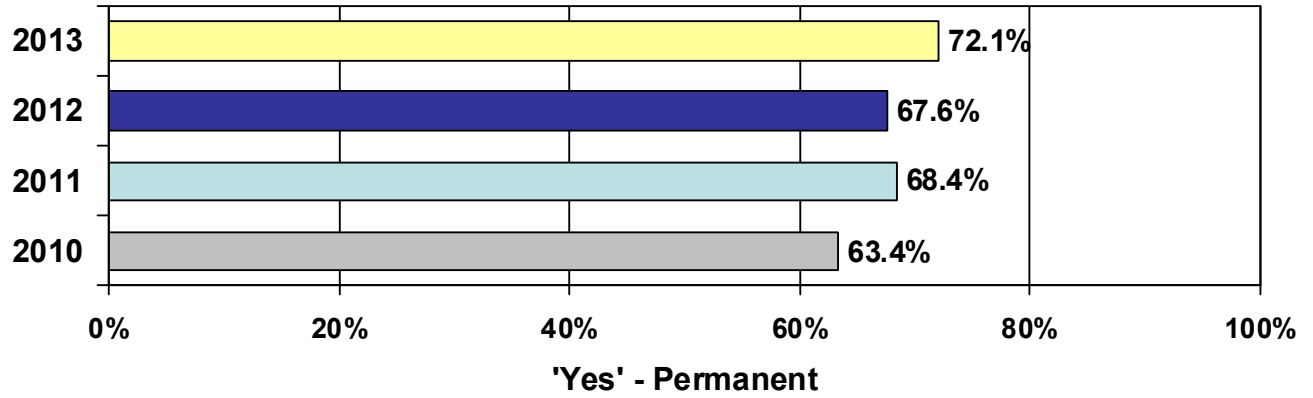
Partner Strategy

Do you have an 'up or out' policy for non-equity partners? (responses from two-tier firms)



Partner Trends

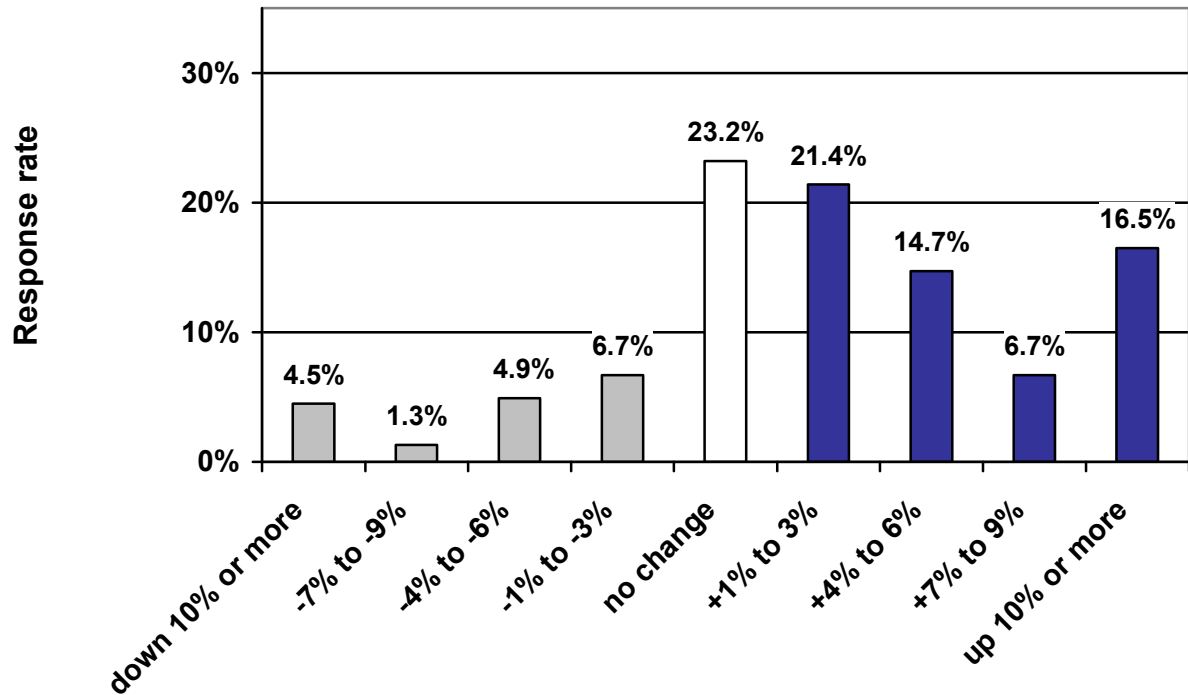
Do you think fewer equity partners will be a permanent trend going forward?



Associates

What was your firm's approximate total net change in lawyer headcount in 2012?

DETAIL: PARTNER-TRACK ASSOCIATES



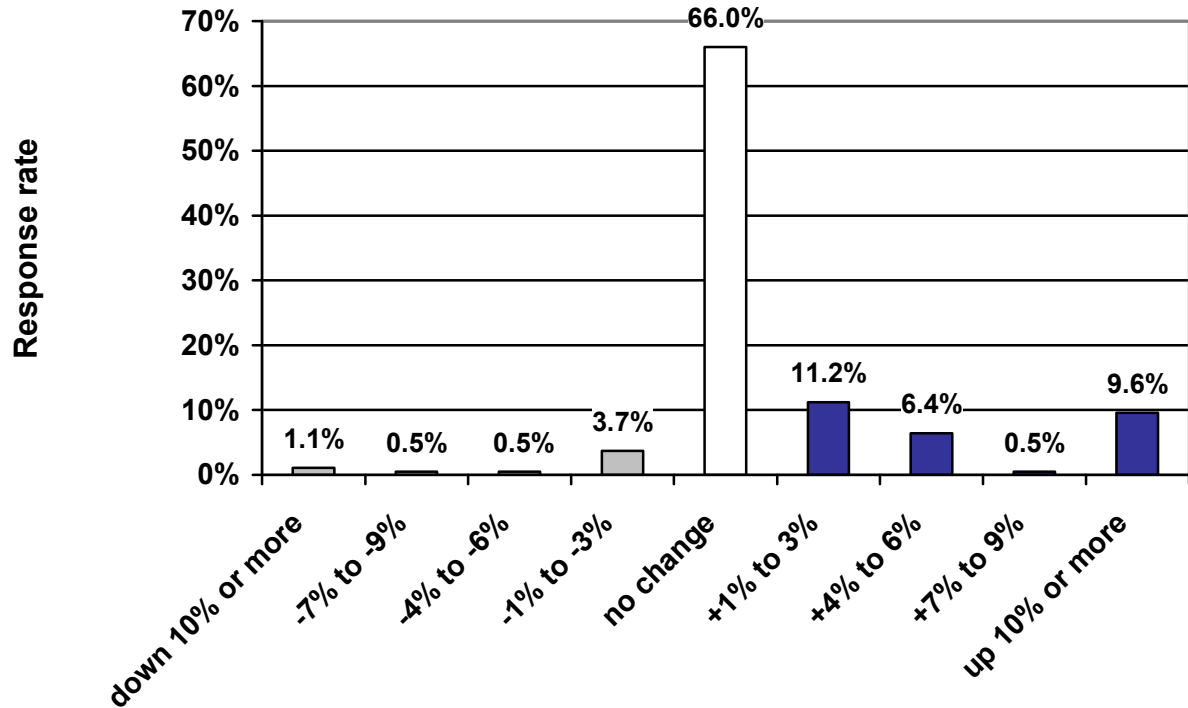
Net Change in Partner-Track Associate Headcount

Median change: +2%

Associates

What was your firm's approximate total net change in lawyer headcount in 2012?

DETAIL: NON-PARTNER-TRACK ASSOCIATES

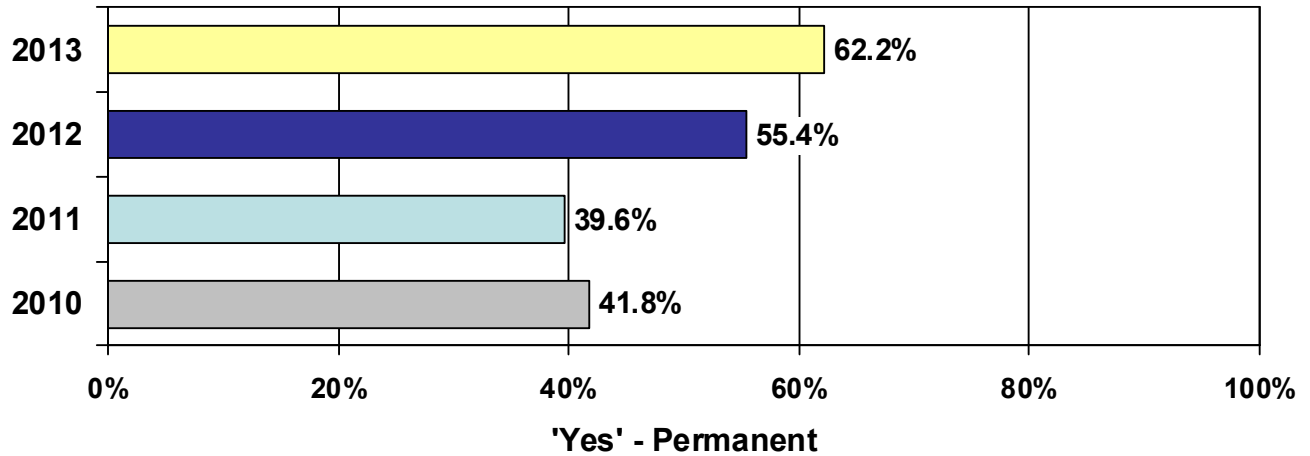


Net Change in Non-Partner-Track Associate Headcount

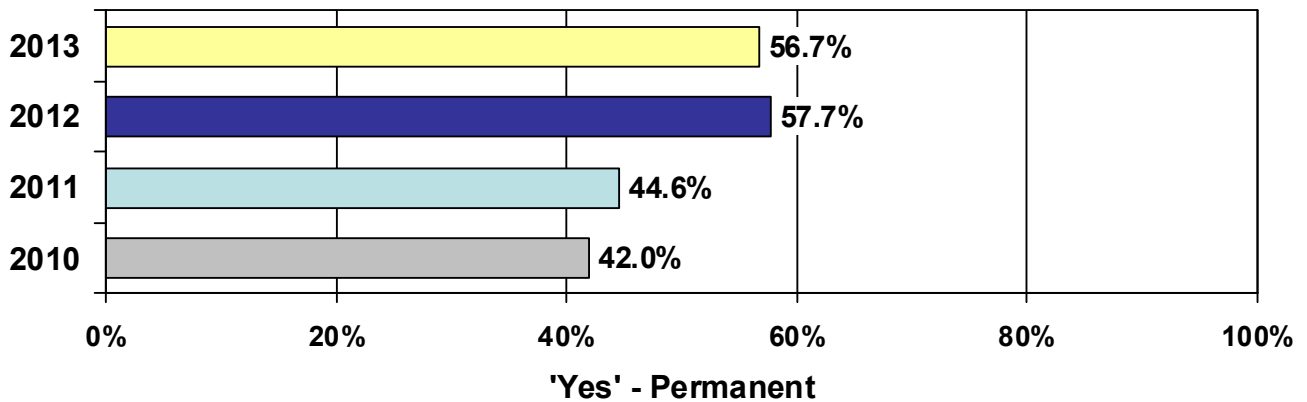
Median change: No change

Associate Trends

Do you think reduced first-year classes will be a permanent trend going forward?

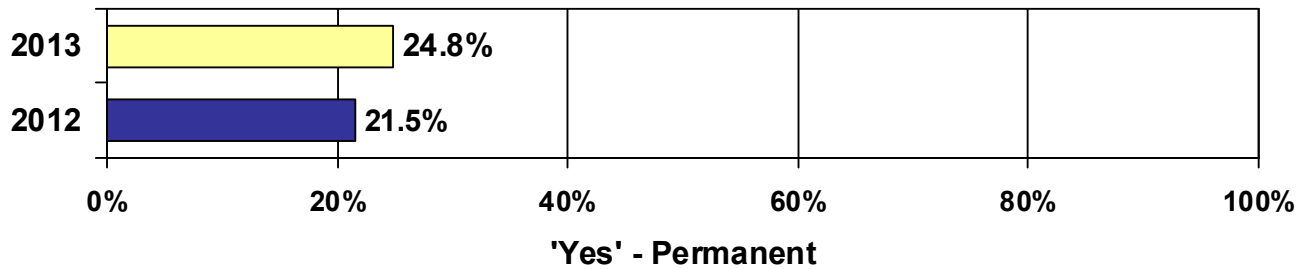


Do you think reduced leverage will be a permanent trend going forward?

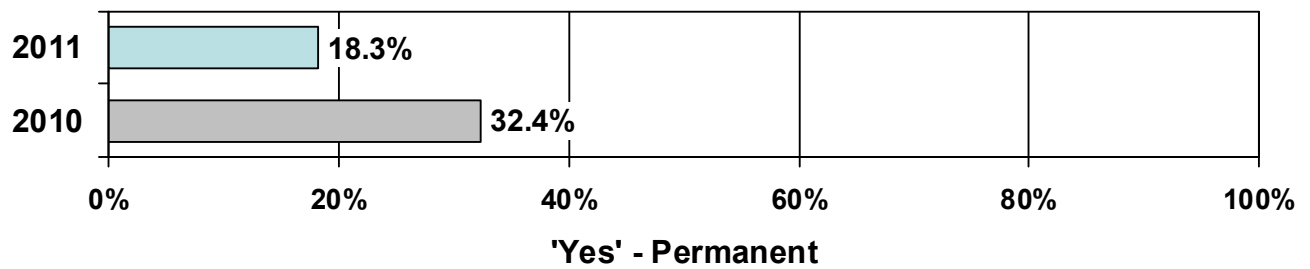


Associate Trends

Do you think holding the line on associates salaries will be a permanent trend going forward?



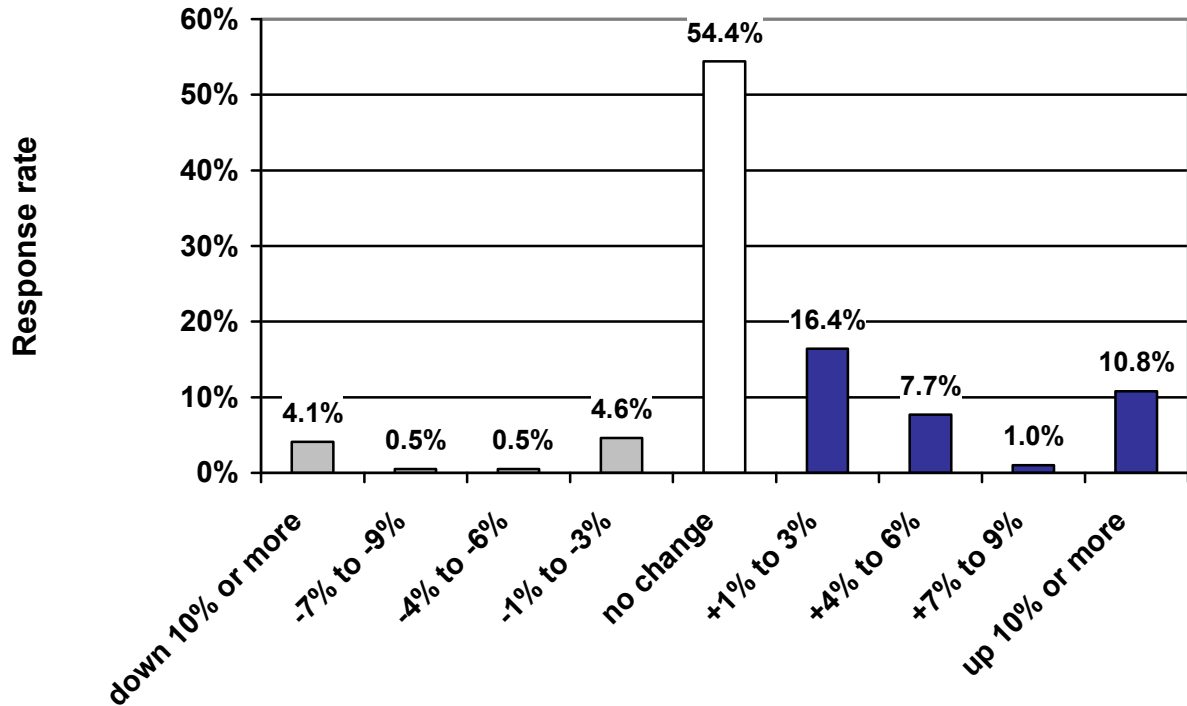
Do you think reduced associate salaries will be a permanent trend going forward?



Other Full-Time Lawyers

What was your firm's approximate total net change in lawyer headcount in 2012?

DETAIL: OTHER FULL-TIME LAWYERS

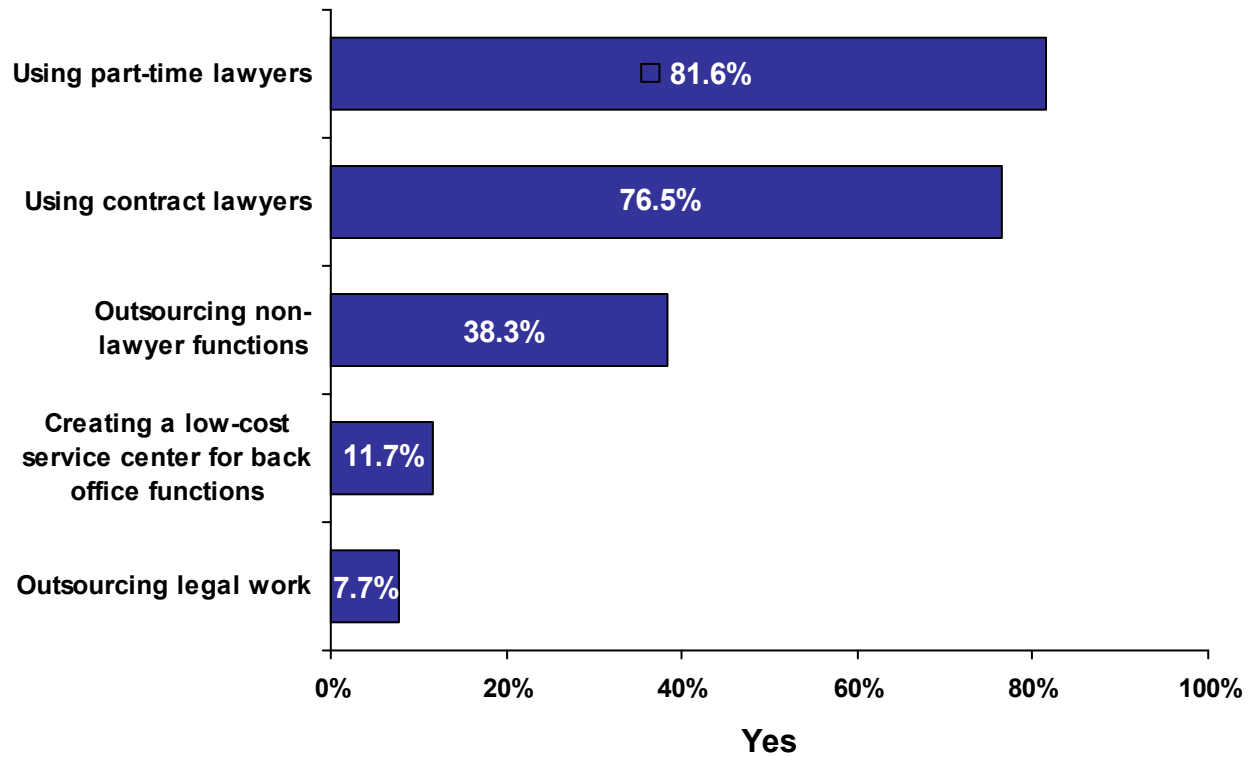


Net Change in Other Full-Time Lawyer Headcount

Median change: No change

Alternative Staffing Strategies

Is your firm currently pursuing any of the following alternative staffing strategies?
(Check all that apply)



Alternative Staffing Trends

Comparison of survey results for use of Contract lawyers:

Use contract lawyers	Under 250 lawyers	250 or more lawyers	ALL
2013	70.8%	87.9%	76.5%
2012	47.1%	78.8%	56.5%
2011	38.4%	61.9%	44.4%
2010	31.8%	56.9%	39.4%

Comparison of survey results for Outsourcing legal work:

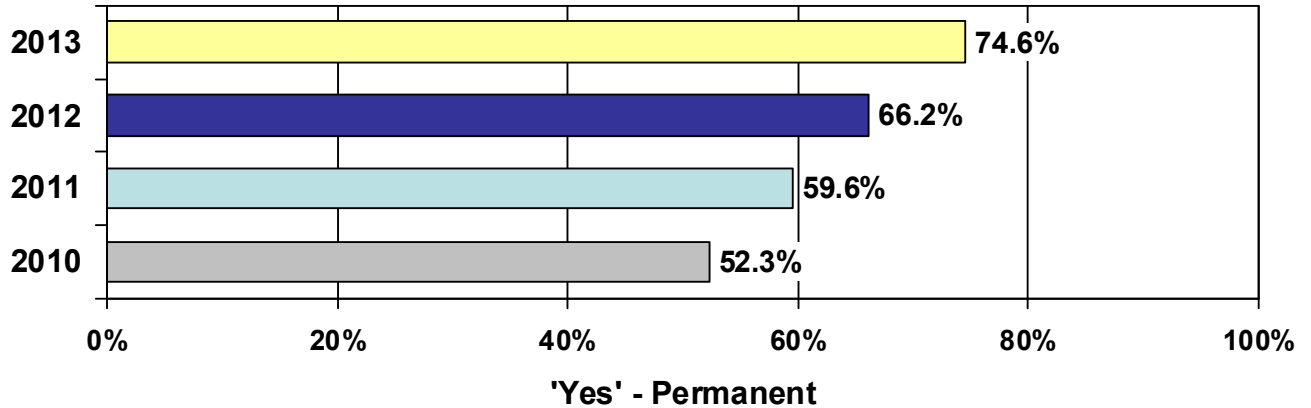
Outsource legal work	Under 250 lawyers	250 or more lawyers	ALL
2013	1.5%	19.7%	7.7%
2012	1.9%	21.2%	7.6%
2011	2.5%	7.8%	3.8%
2010	2.6%	6.1%	3.7%

Comparison of survey results for Outsourcing non-lawyer functions:

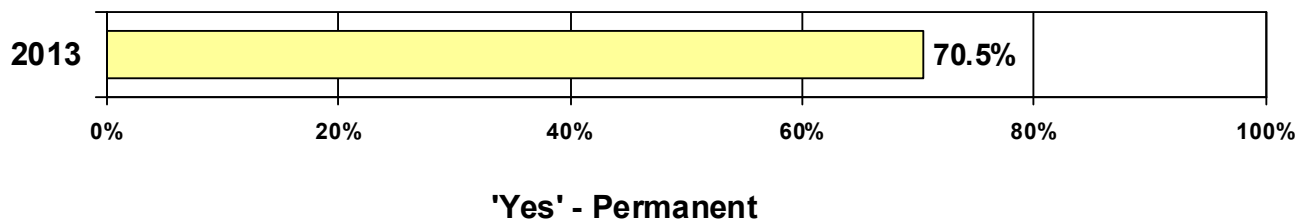
Outsource non-lawyer functions	Under 250 lawyers	250 or more lawyers	ALL
2013	33.1%	48.5%	38.3%
2012	25.9%	42.4%	31.2%
2011	15.7%	25.0%	17.9%
2010	11.2%	26.2%	15.7%

Alternative Staffing Trends

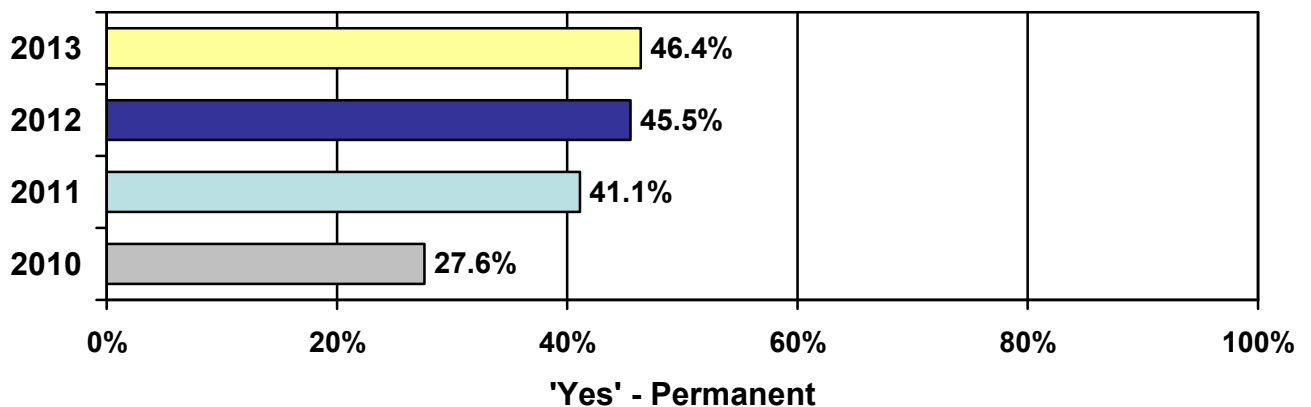
Do you think more contract lawyers will be a permanent trend going forward?



Do you think more part-time lawyers will be a permanent trend going forward?

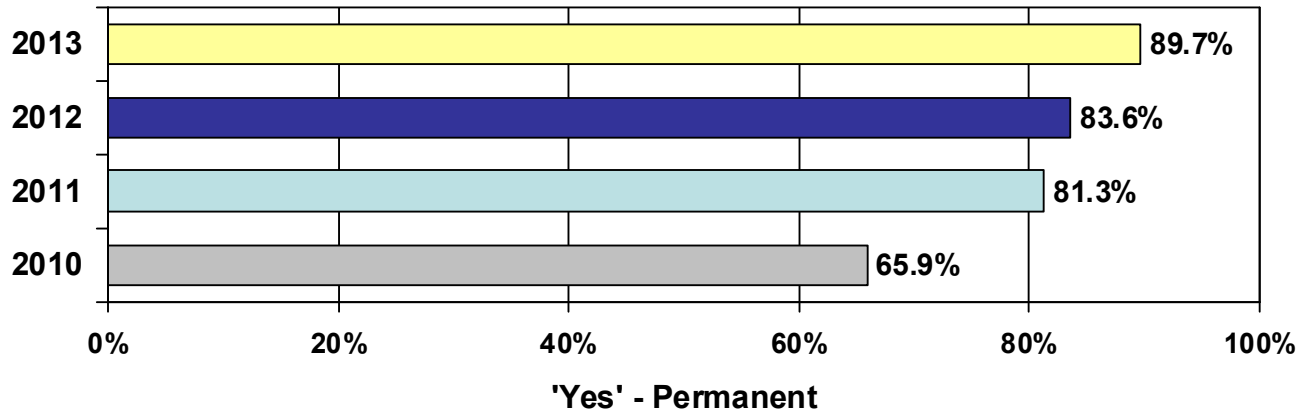


Do you think outsourcing legal work will be a permanent trend going forward?

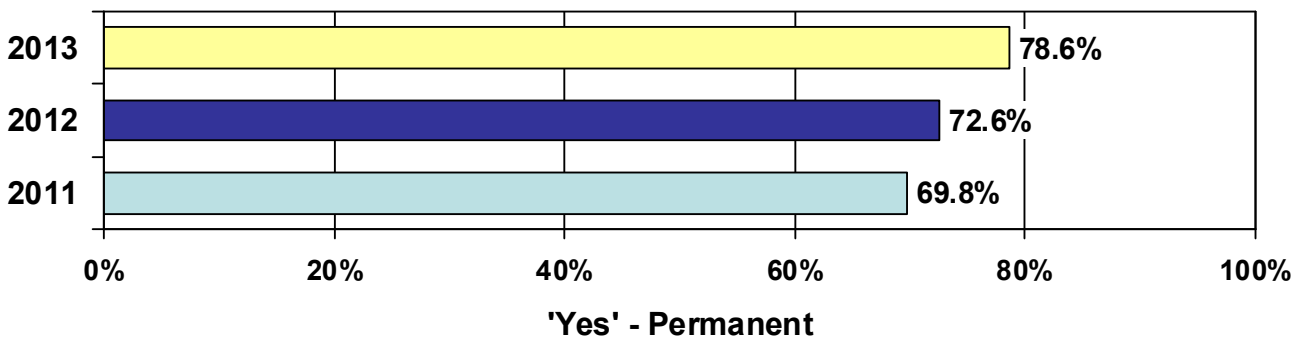


Practice Trends

Do you think more commoditized legal work will be a permanent trend going forward?



Do you think competition from non-traditional (including non-lawyer) service providers will be a permanent trend going forward?

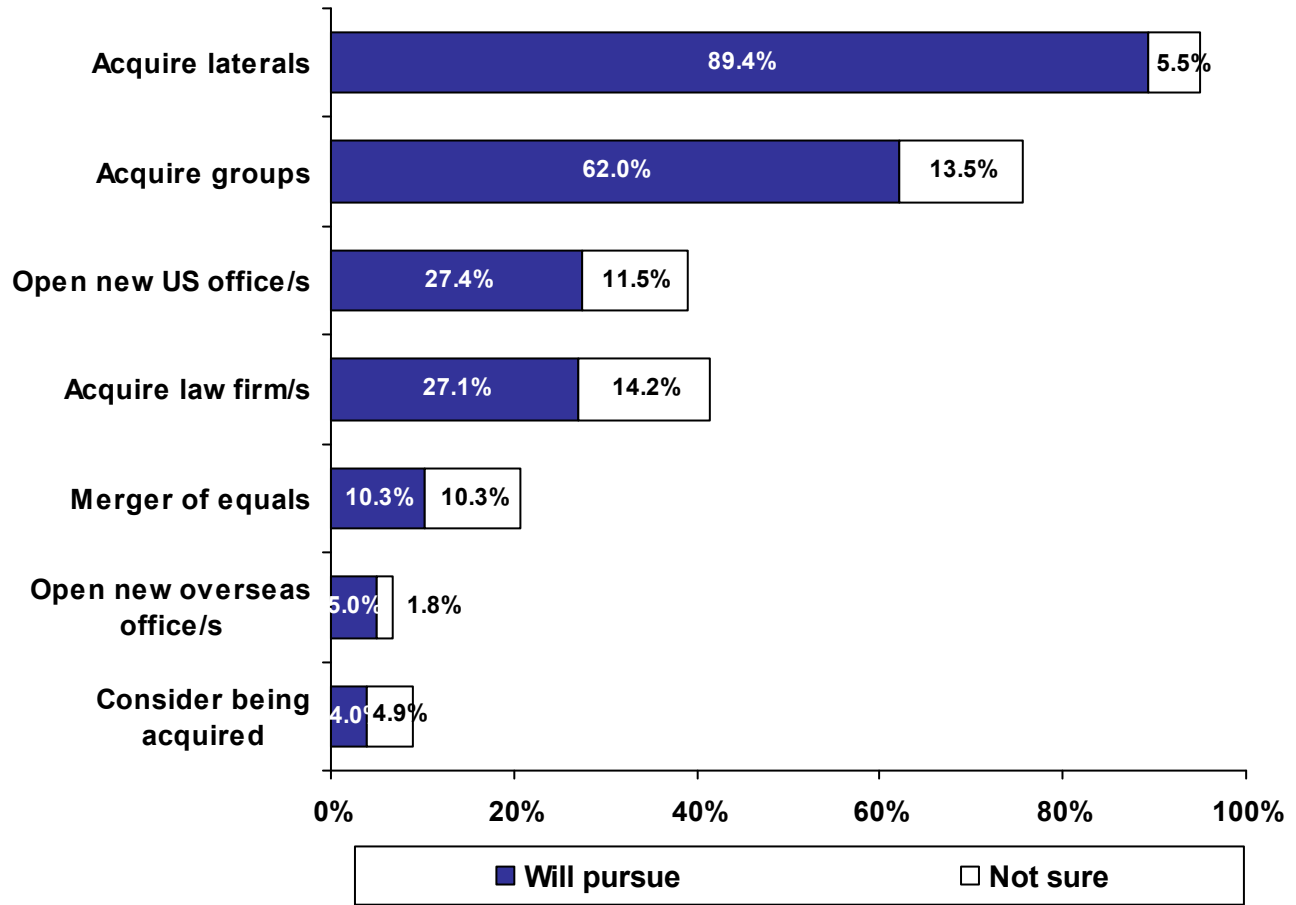


Growth

Law Firms in Transition 2013

Law Firm Growth - 2013

What growth options, if any, will your law firm pursue in 2013?



Law Firm Growth Trends

A comparison of 2010, 2011, 2012 and 2013 survey results for top growth options law firms will pursue:

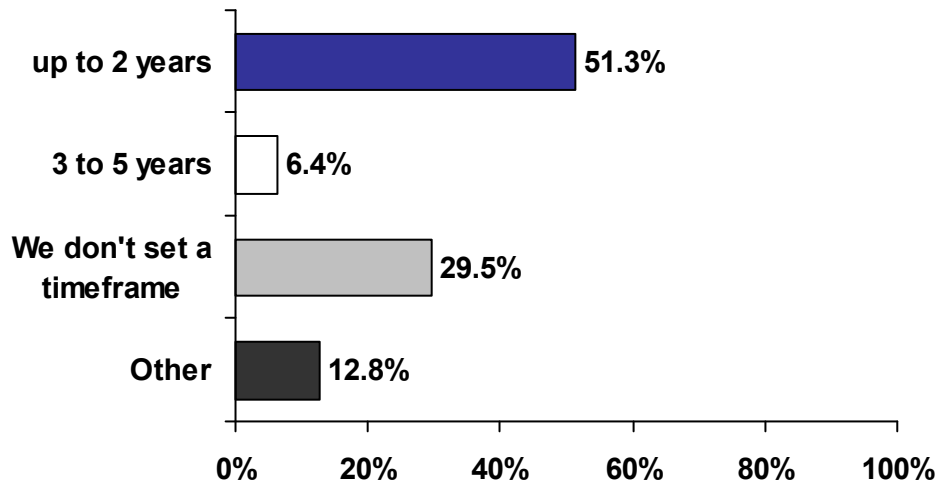
Top Growth Options	2010	2011	2012	2013
Acquire laterals	85.3%	91.6%	92.3%	89.4%
Acquire groups	54.8%	67.1%	68.2%	62.0%
Open new US office/s	17.5%	24.6%	27.9%	27.4%
Acquire law firm/s	19.7%	23.0%	29.5%	27.1%

Top 2013 growth options by firm size:

2013 Growth Options by firm size	Under 250 lawyers	250 or more lawyers
Acquire laterals	85.1%	100%
Acquire groups	49.7%	92.4%
Acquire law firms	20.0%	44.6%
Open new US offices/s	22.8%	39.1%

Laterals Strategy

When new laterals join your firm, approximately how long do you give them to ramp up before you expect them to meet performance expectations?



“Other” – Sample Comments

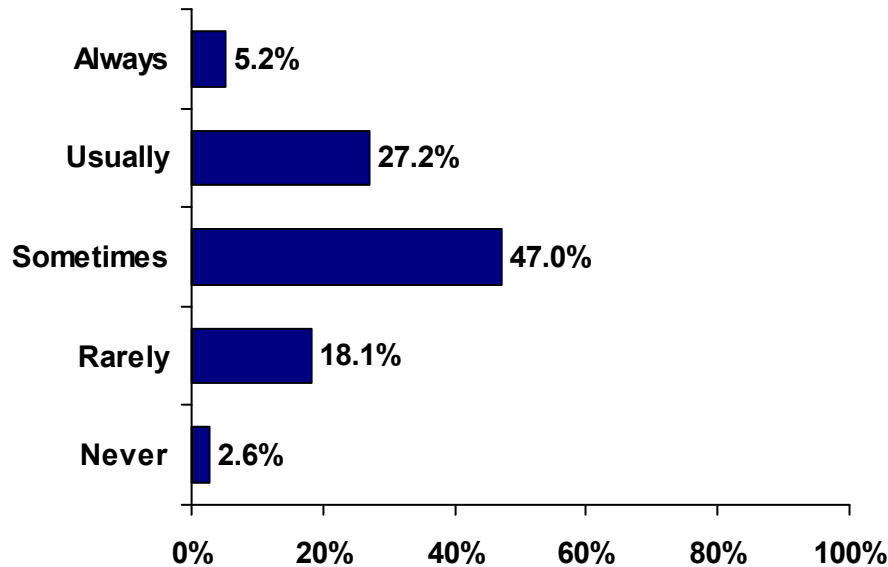
Most of those who selected “Other” described a shorter ramp-up period – either 3 to 6 months or up to one year at the most. Several indicated they assess each lateral on a case-by-case or practice-by-practice basis, rather than establishing a firm-wide standard.

Following are some sample comments:

- Years?? We expect them to produce in the first six months.
- We offer a probationary 6-month overhead moratorium, then (if approved as a shareholder) place on the full shareholder compensation formula.
- We give them one year at a set salary, and then they go into our comp system and they get paid based on what they produce.
- We expect them to ramp up quickly, however we do realize there is a lag in achieving their performance expectations. As long as we see the performance gravitating toward our expectations we will be satisfied.
- The timeframe varies by practice area and individual case but, generally one to three years.

Laterals Strategy

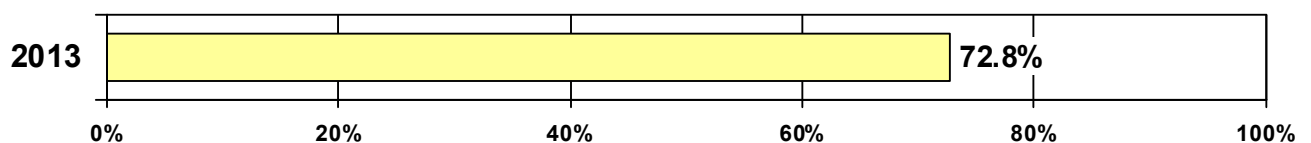
If a new lateral hasn't met expectations in a reasonable timeframe, do you let them go?



SAMPLE COMMENTS

- It definitely affects their comp pretty quickly.
- When we adjust their compensation to meet their performance, some choose to leave.
- It depends on the lateral's expertise. If it is unique, we are more inclined to give that person more time and assistance.
- In limited circumstances, where a skill is needed, we might not.
- The goal is to hire successful laterals and to make them successful, rather than to counsel them out as fast as possible if certain metrics are not met.

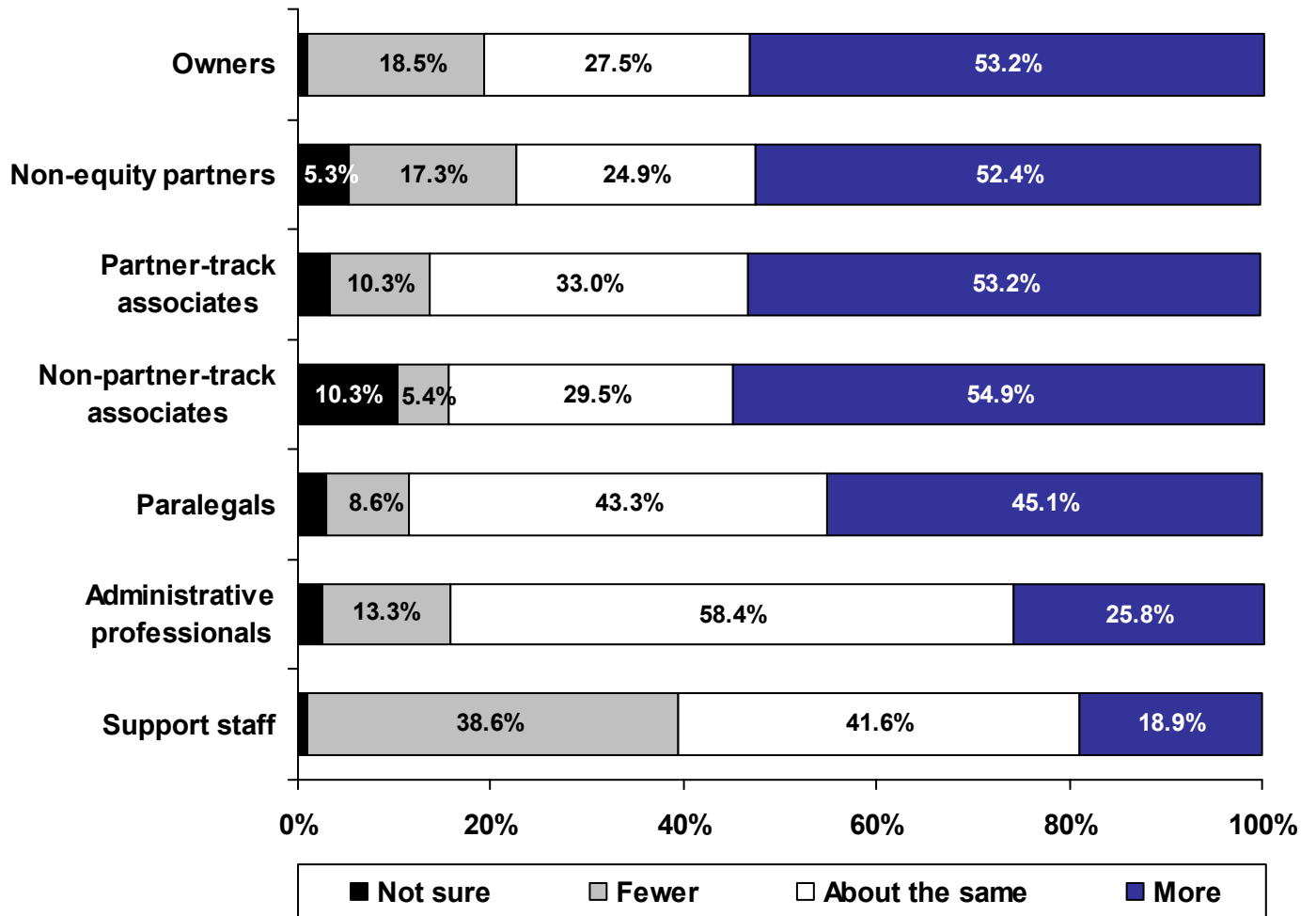
Do you think increased lateral movement will be a permanent trend going forward?



'Yes' - Permanent

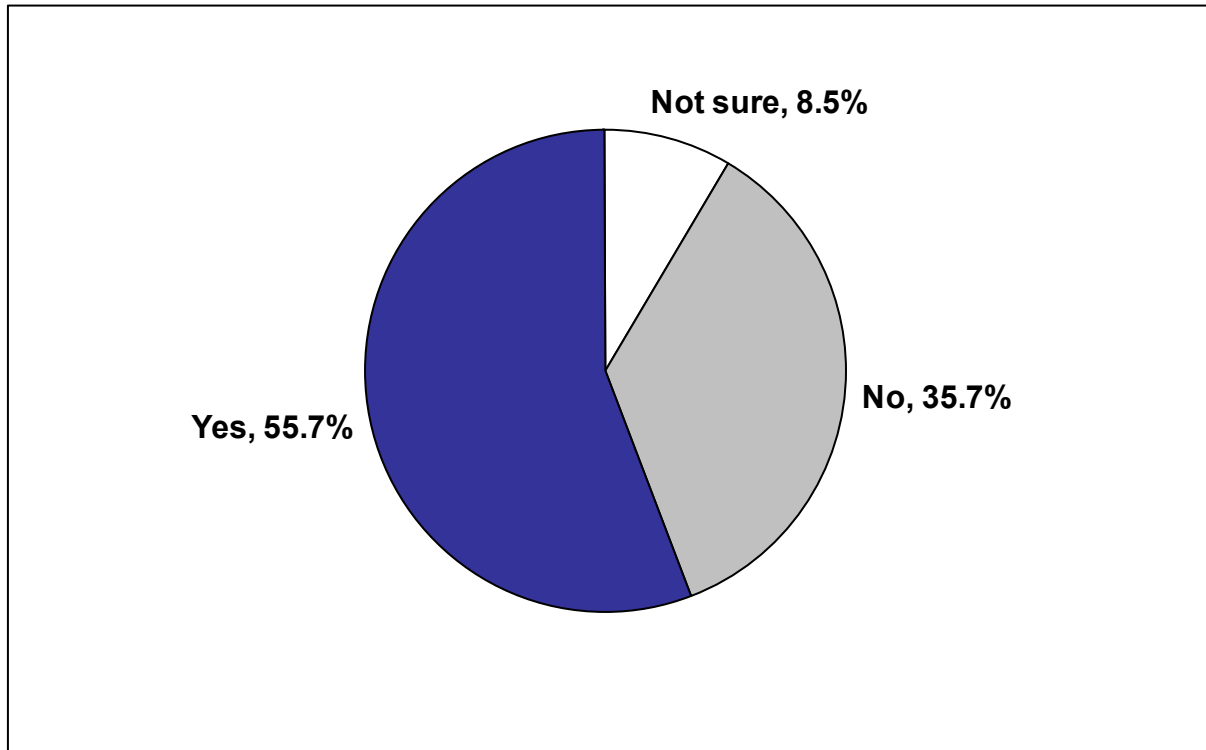
Law Firm Growth – Long Term

Five years from now, how do you think the core components of your law firm will have changed in size?



Law Firm Growth Strategy

Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?



Law Firm Growth Strategy

Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?

SAMPLE COMMENTS

Yes

- Important for litigation...need enough size to handle larger cases.
- We do a lot of insurance driven work. Our rates are basically locked, so in order to have more profitability we need more bodies.
- Our plans for growth are less than in our pre-recession strategic plan, but we still maintain an effort to grow strategically to provide opportunities for associates and younger partners. A no-growth policy would dramatically limit the opportunities for these people and there would be little reason for them to stay with the firm.
- The growth is likely to be in staff attorneys rather than associates and more contract partners and fewer equity and non-equity partners.
- Laterals with business, talented working lawyers in key areas and staff attorneys to perform more mundane tasks.
- Growth in terms of new/changing talent; not growth in net numbers. Replace retiring talent.
- Not big growth -- Slow, organic growth.

Not Sure

- Increased headcount *per se* is not a requirement. On the one hand, the firm must add talented individuals and spread out geographically (which increases headcount). On the other hand, individuals who represent excess capacity and are not raising their performance levels must move on. The net result might be the same number of lawyers.
- We are focused on profitable growth. We do not believe in growth for growth's sake and do not have a target size that we feel we need to attain in order to succeed.
- "Growth for the sake of growth" has been discredited as a paradigm; smart, synergistic growth still makes sense, but comes at a more measured pace.

Law Firm Growth Strategy

Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?

SAMPLE COMMENTS (*Continued...*)

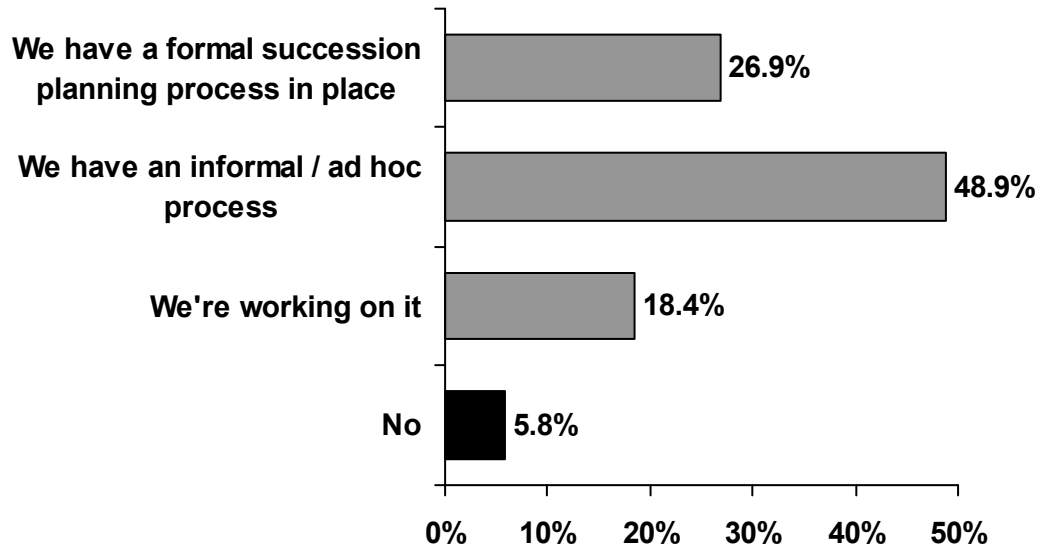
No

- Growth is important, but not a requirement. If we trade up in practice areas to acquire better paying work, we will grow and succeed economically without increasing in size.
- Increasing overall quality rather than growing headcount is required for success.
- Quality, not quantity. Expect growth in some practices and contraction in others.
- ...we are most concerned with increasing profit per equity owner which is not solely driven by size of the firm or the number of lawyers.

Succession Planning
Law Firms in Transition 2013

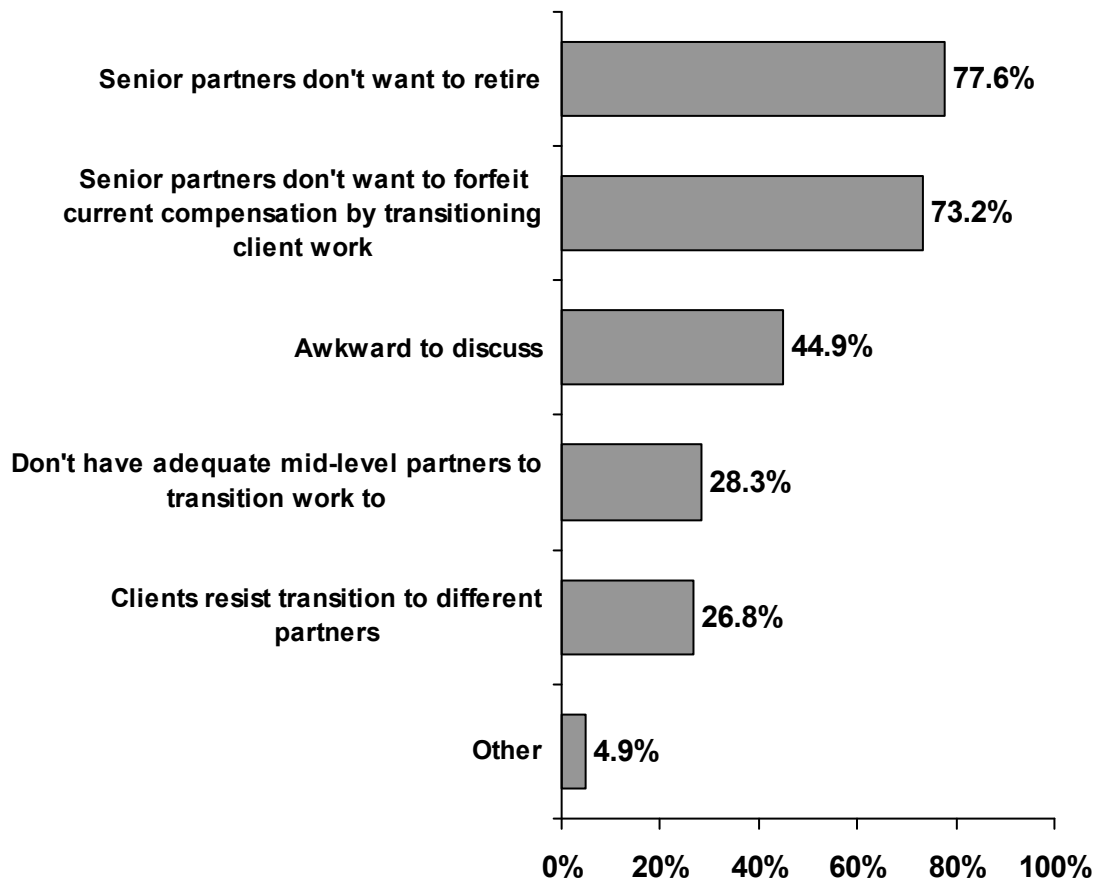
Succession Planning

Does your law firm have a succession planning process for lawyers approaching retirement?



Succession Planning

What are the stumbling blocks your firm has encountered in working through the issue of succession planning? (Check all that apply)



Succession Planning

What are the stumbling blocks your firm has encountered in working through the issue of succession planning? (Check all that apply)

“Other” – Sample Comments

- Senior partners have to trust mid-level partners to properly handle work.
- Inevitable friction between senior partners who want to hold on and mid-level partners who want to ascend
- How to handle compensation of partners slowing down and evergreen OA.
- Inadequate business and management skills
- Timing is tricky - initial estimates of retirement target always slip
- Successful transition takes a long time and senior partners are often unsure when they want to retire. They wait and give the firm notice without enough time to successfully transition clients.
- Some transition well; some hang on by the nails. Some clients tell us who they are comfortable with as relationship partner. It is truly dependent upon the individual.
- Each individual brings their own set of issues/concerns to the table. It is hard to find a one-size-fits-most program.
- The rationale and need for succession planning has been accepted as a general rule by partners. On an individual basis a few don't want to retire or haven't planned well financially to retire.
- This is a major life change for partners. The law firm can do only so much; the psychological pressures will be the key to the day.
- Senior partners believe that once they start the transition they are through.

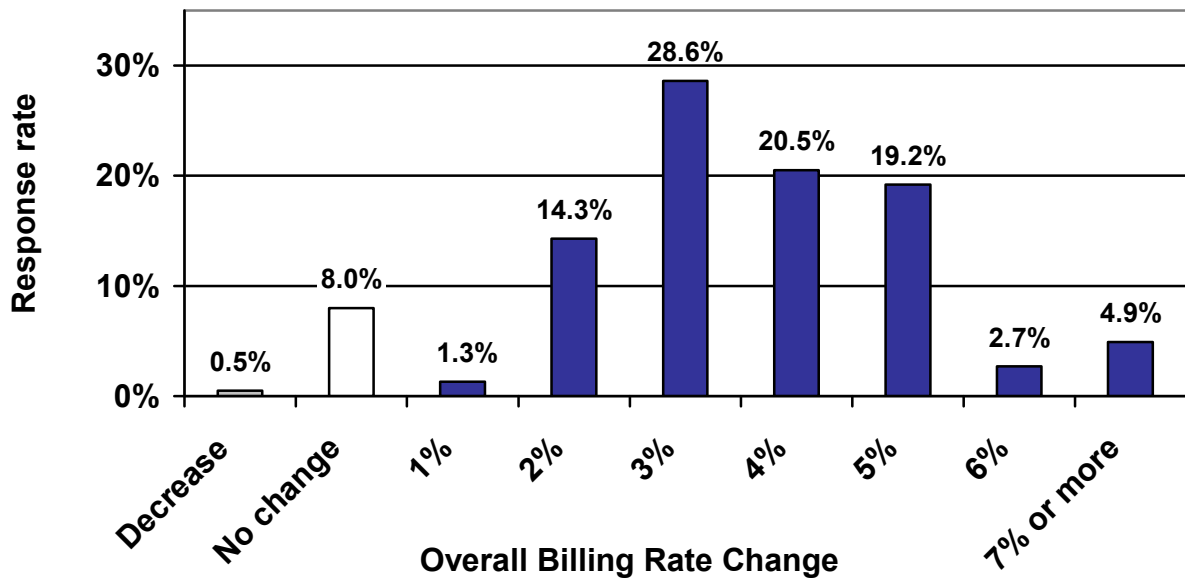
Pricing

Law Firms in Transition 2013

2013 Billing Rates

What is your firm's actual or estimated change in standard hourly billing rates for 2013?

CHANGE IN BILLING RATE – OVERALL CHANGE

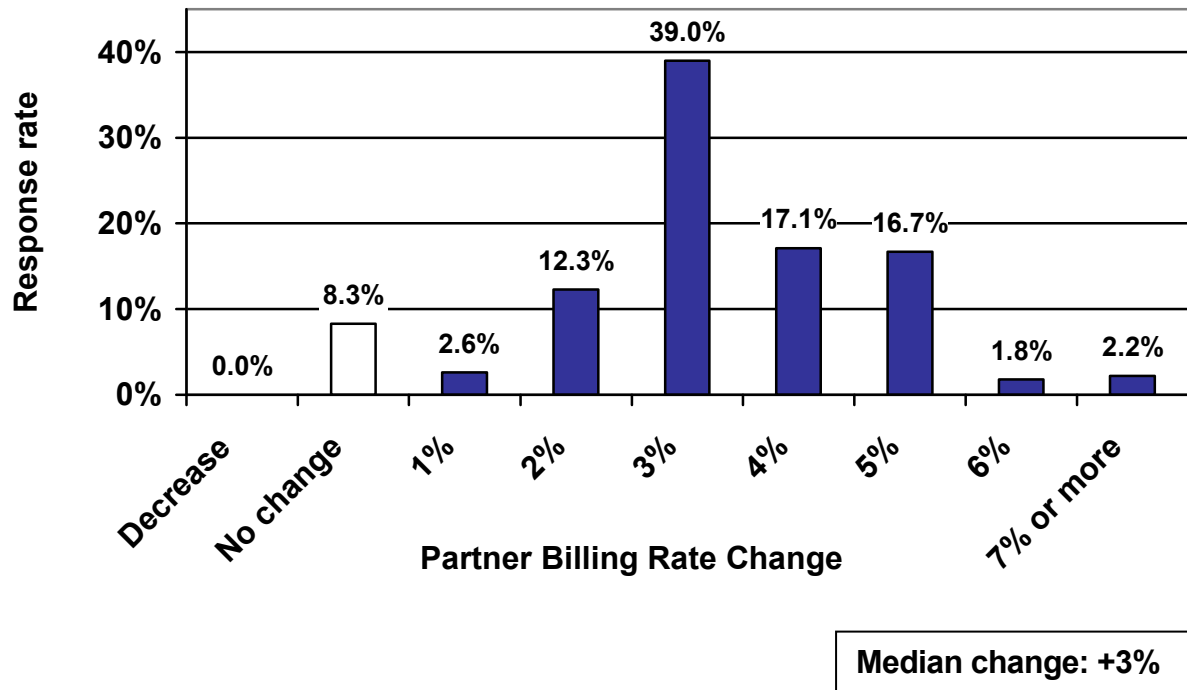


Median change: +3%

2013 Billing Rates

What is your firm's actual or estimated change in standard hourly billing rates for 2013?

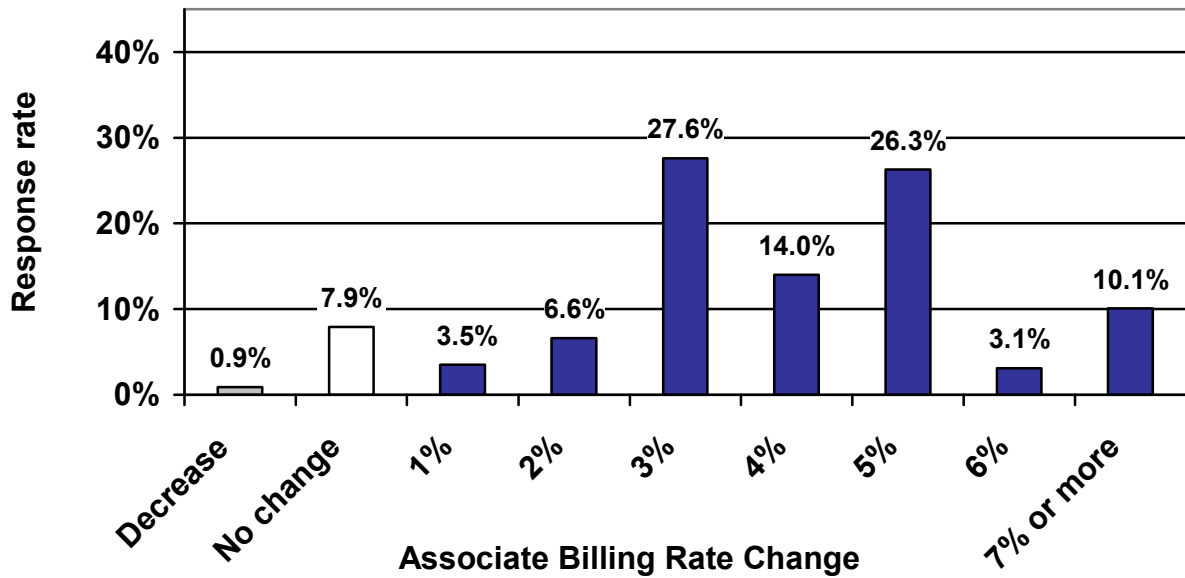
CHANGE IN BILLING RATE – PARTNER RATES



2013 Billing Rates

What is your firm's actual or estimated change in standard hourly billing rates for 2013?

CHANGE IN BILLING RATE – ASSOCIATE RATES



Median change: +4%

Billing Rate Trends

Comparison by category of median 2013 billing rate changes:

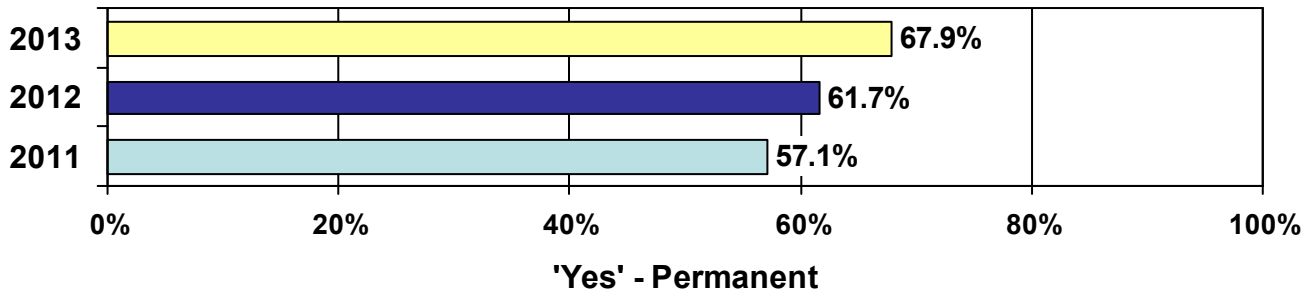
2013 rate change	Median
Overall	+3%
Partners	+3%
Associates	+4%

Comparison of four years of survey results for overall billing rate change:

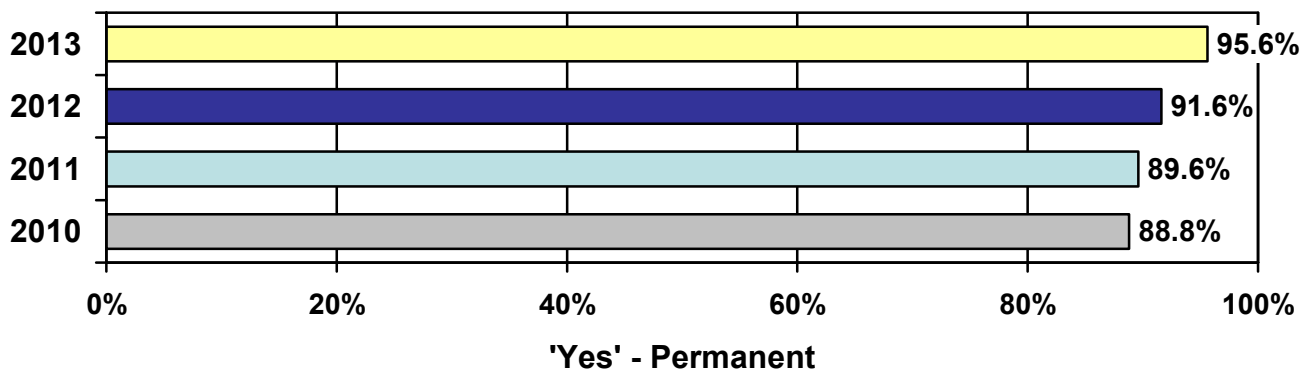
Overall Rate Increase	Median
2013	+3%
2012	+4%
2011	+4%
2010	+3%

Billing Rate Trends

Do you think smaller annual billing rate increases will be a permanent trend going forward?

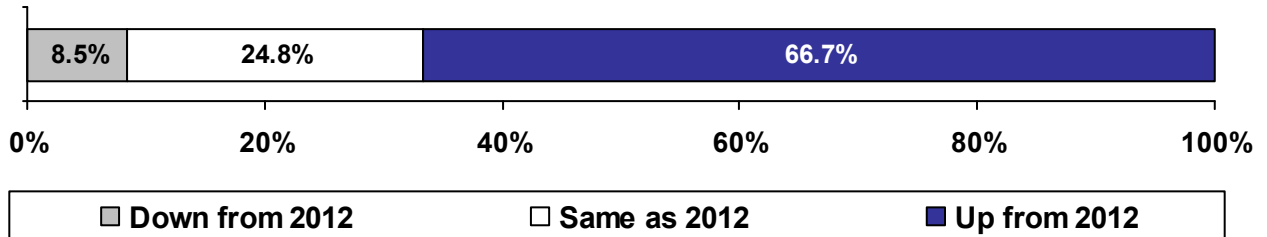


Do you think more price competition will be a permanent trend going forward?



Realization

Overall, do you expect your firm's effective (realized) rates for 2013 to be up or down?



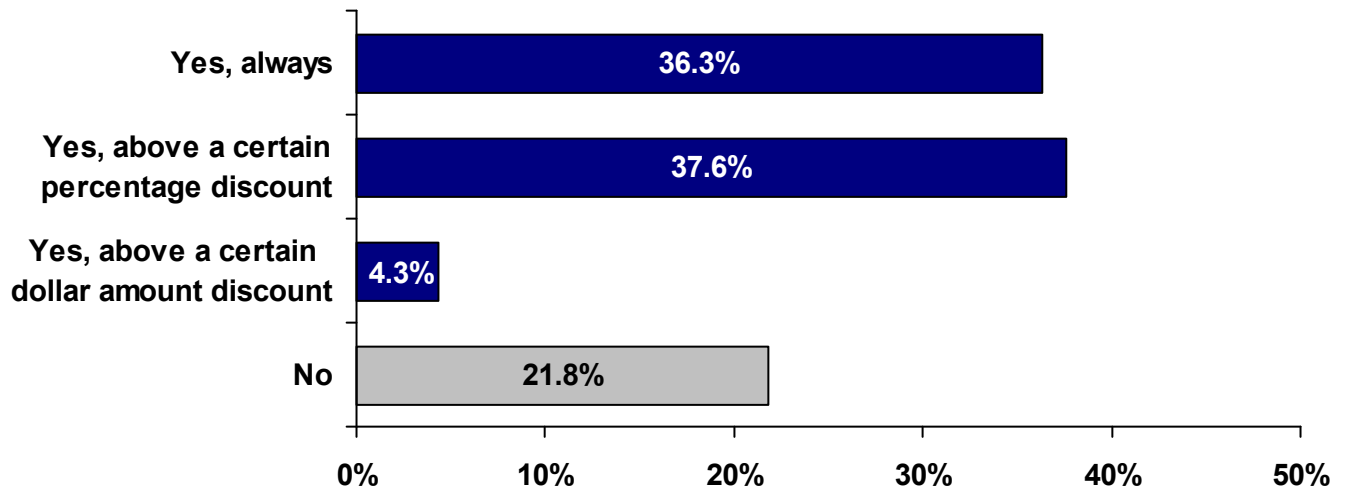
Effective Realized Rate

Comparison of four years of survey results for change in realization rate:

Realized Rate	Down	No change	Up
2013	8.5%	24.8%	66.7%
2012	2.7%	28.7%	68.6%
2011	2.9%	25.2%	71.8%
2010	6.0%	34.6%	59.4%

Pricing Discounts

Does your law firm require partners to get approval before offering discounts on their standard hourly rates?



Comparison by firm size: Is discount approval required (in any circumstance)?

Discount approval required	Under 250 lawyers	250 or more lawyers	ALL
Yes	72.7%	91.3%	78.2%
No	27.3%	8.7%	21.8%

Pricing Discounts

Does your law firm require partners to get approval before offering discounts on their standard hourly rates?

SAMPLE COMMENTS

Yes, Always

- Practice Group Leader approval is required.
- We are implementing a policy requiring such approval. Up to this point it was not required.
- We do allow substantial flexibility but Finance partner or CFO must approve.

Yes, Above a certain threshold

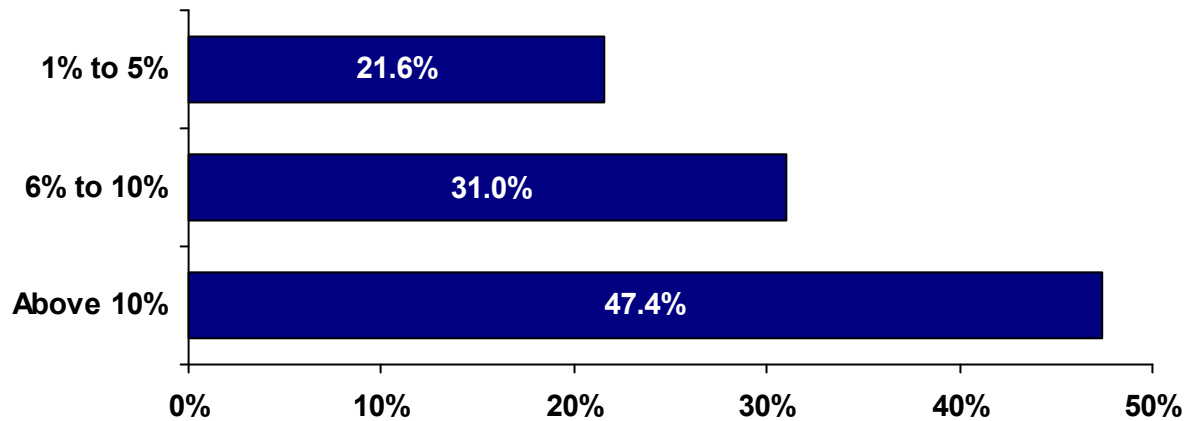
- Each equity partner is free to do what they want; however, non-equity partners have a minimum "Internal" rate that a partner may not go below without approval. Such rate is usually \$25-\$50/hour below the external hourly rate billed to clients.
- They are allowed to use their alternate rate without seeking approval.
- We do require approval of all negotiated discounts; however 10% is widely accepted.

No

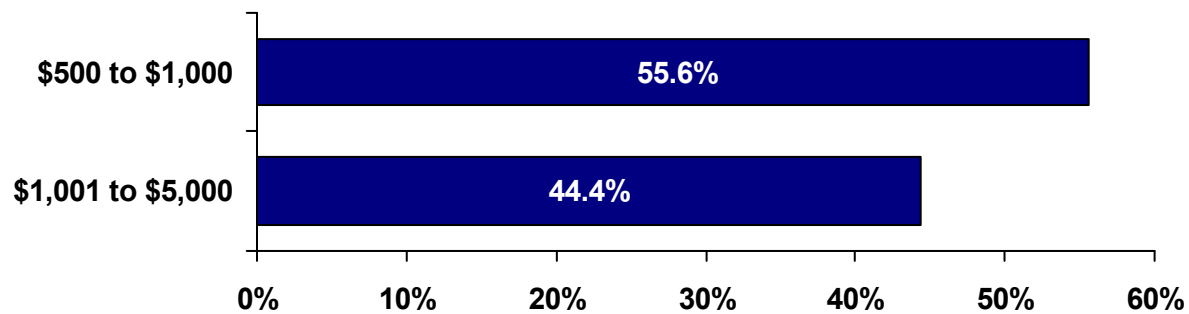
- However, management is consulted in most cases where the sums involved and relationships are significant
- Realization is part of partner compensation. Partners have an economic incentive not to discount.
- Some do, some don't. Many of our partners do not have even a basic understanding of law firm economics and will try to take any business regardless of price, collection risk, fit or any other criteria.
- Typically, discounts are negotiated between the partner and the clients, and approved within a certain range with the practice head. Any discount beyond the norm would be discussed with the Managing Partner and may be presented to the Executive Committee
- We give discretion to practice group leaders on this issue.
- We should. We're working on it!

Pricing Discounts

If you require approval of discounts above a certain percentage, what is the discount approval threshold?

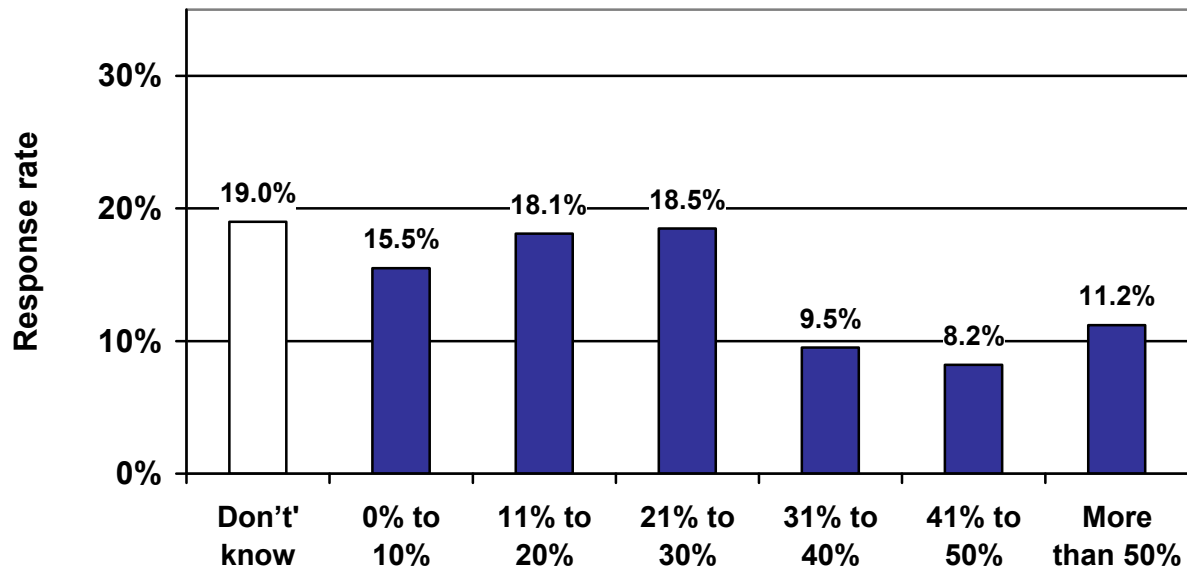


If you require approval of discounts above a certain dollar amount, what is the discount approval threshold?



Pricing Discounts

Do you know approximately what percentage of your firm’s legal fees come from discounted rates?



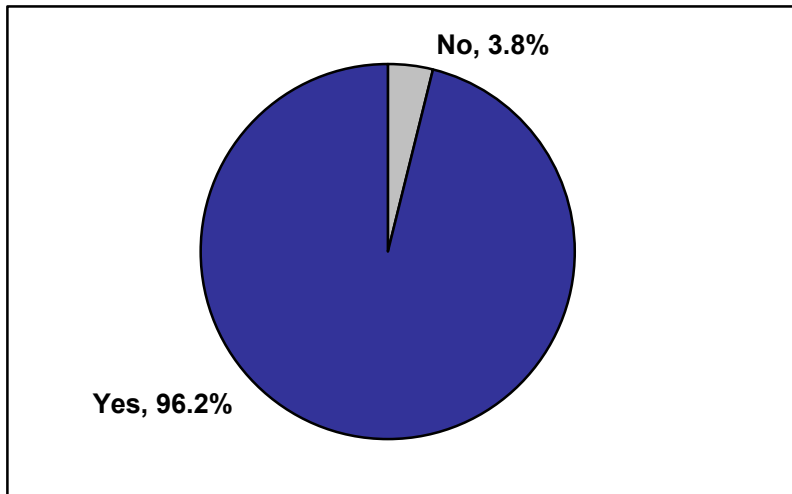
Median: 21% to 30%

Comparison by firm size: Percentage of legal fees from discounted rates:

% Fees from discounted rates	Under 250 lawyers	250 or more lawyers
Median	21% to 30%	31% to 40%

Alternative Fees

Does your firm use any non-hourly based billing?

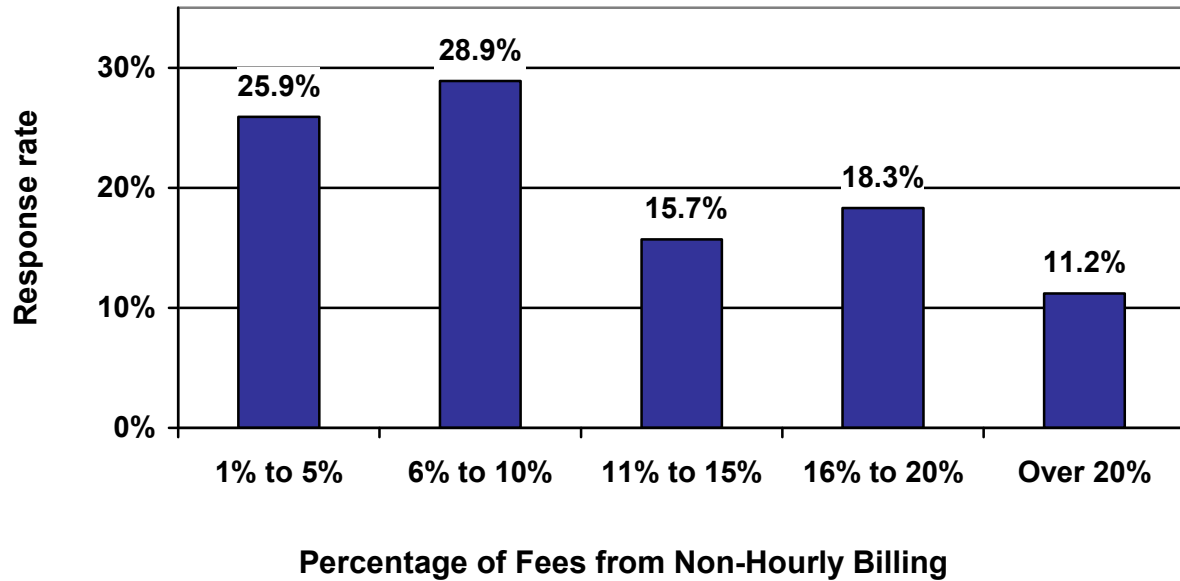


Use of non-hourly based billing - by firm size:

Use non-hourly based billing	YES
ALL	96.2%
50-99	91.7%
100-249	98.8%
250-499	97.4%
500-999	100%
1,000+	100%

Alternative Fees

Approximately what percent of your firm’s total fees in 2012 were generated by non-hourly based billing?



Median: 10%

Percentage of fees generated by non-hourly based billing – by firm size:

Non-hourly as a % of all fees	Under 250 lawyers	250 or more lawyers
1% to 10%	61.2%	41.3%
Over 10%	38.8%	58.7%

Alternative Fees

In 2012, did your firm increase its amount of non-hourly based billing (measured by percentage of revenue)?

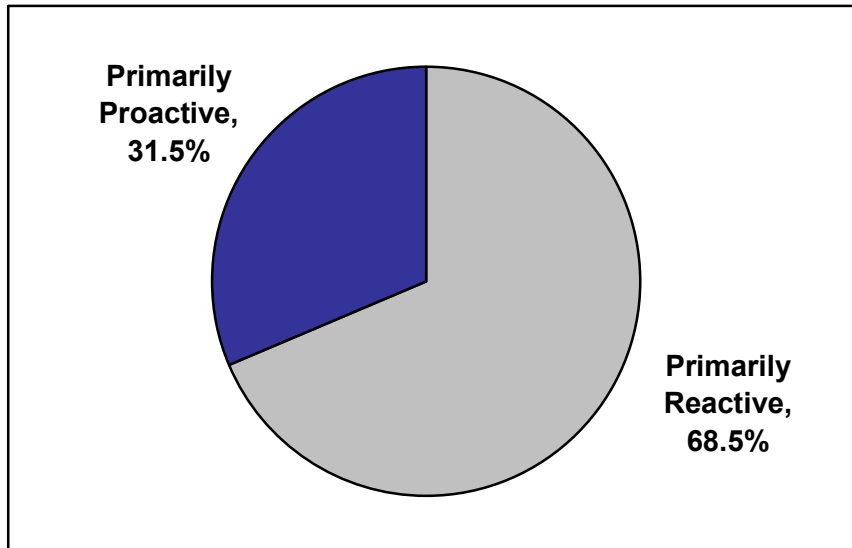


Increase in use of non-hourly based billing in 2012 – by firm size:

Use of non-hourly based billing	Increased
ALL	46.6%
50-99	43.8%
100-249	39.2%
250-499	48.6%
500-999	65.2%
1,000+	85.7%

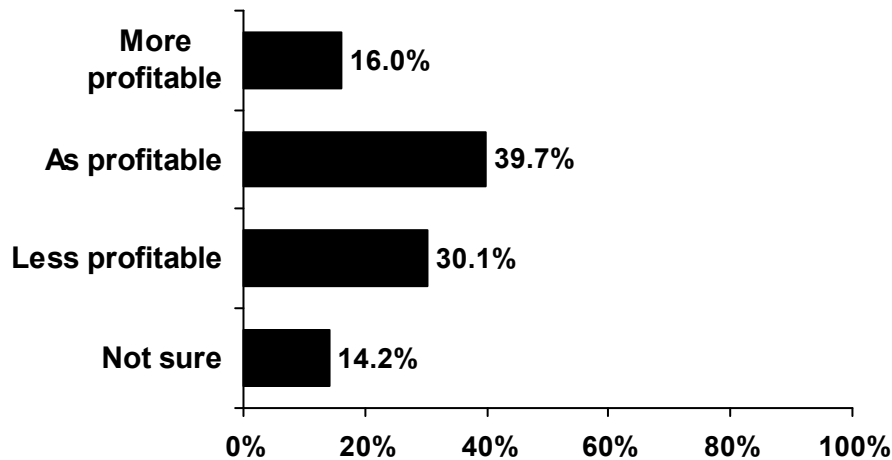
Alternative Fees Strategy

If your firm uses any non-hourly based billing, is your use of alternative fee arrangements primarily reactive (in response to client requests) or primarily proactive (arising from your belief in the competitive advantage of alternative fees)?

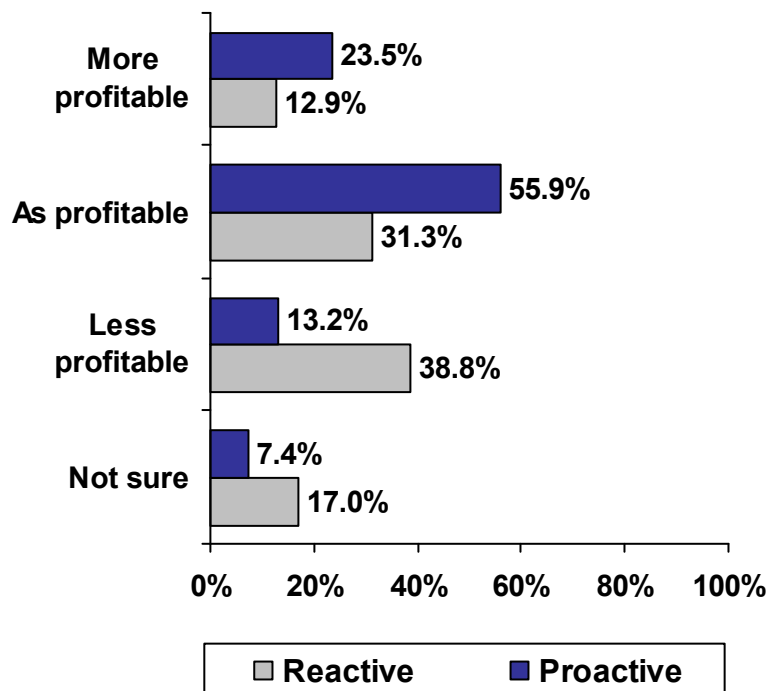


Alternative Fees Profitability

Overall, compared to projects billed at an hourly rate, are your firm's non-hourly projects more profitable or less profitable?



A comparison of the reported profitability of alternative fee arrangements in those firms that report they are proactive in their use of non-hourly billing versus those that are reactive.



Alternative Fee Trends

A comparison of four years of survey results for use of alternative fee arrangements:

AFAs	Yes	No
2013	96.2%	3.8%
2012	94.1%	5.9%
2011	95.0%	5.0%
2010	94.5%	5.5%

A comparison of 2011, 2012 and 2013 survey results for change in the amount of non-hourly billing in the prior year (measured as a percentage of revenue)

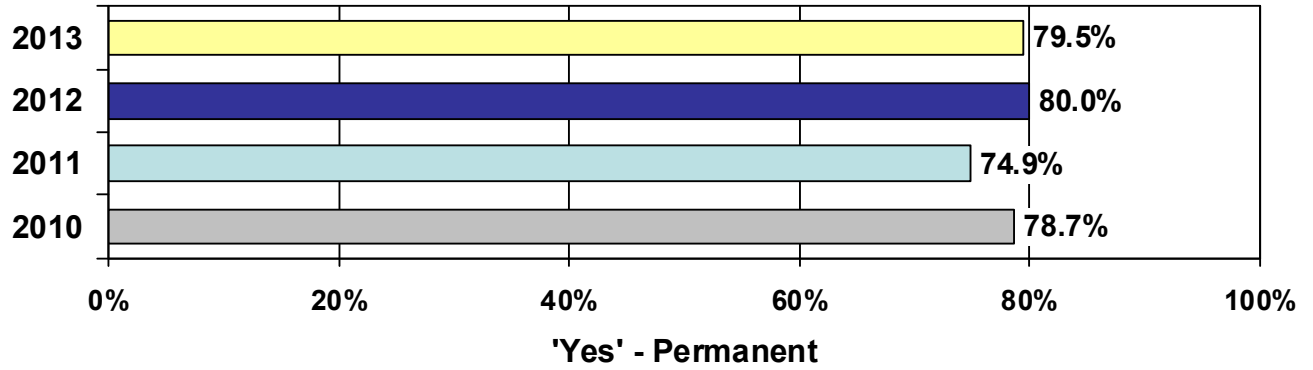
AFA as % of rev	Increase	No change	Decrease	Not sure
2013	46.6%	45.2%	2.7%	5.5%
2012	47.4%	45.5%	1.4%	5.7%
2011	57.9%	29.9%	1.8%	10.4%

A comparison of 2011, 2012 and 2013 survey results for profitability of non-hourly projects versus projects billed at an hourly rate

AFAs vs. Hourly	More profitable	As profitable	Less profitable	Not sure
2013	16.0%	39.7%	30.1%	14.2%
2012	14.0%	40.1%	28.5%	17.4%
2011	11.7%	36.5%	32.0%	19.8%

Alternative Fee Trends

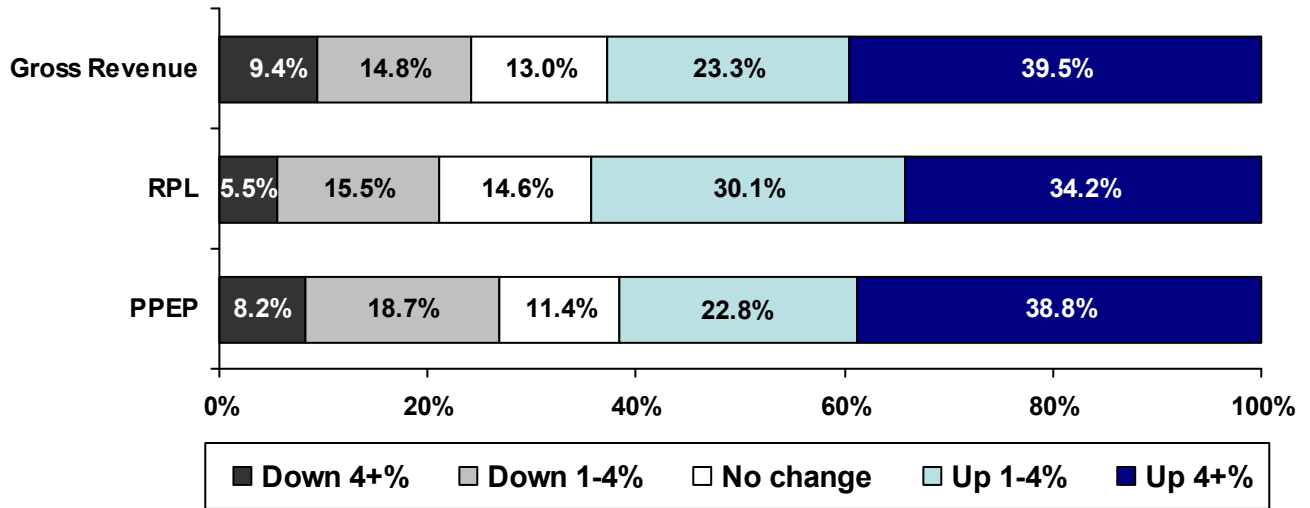
Do you think more non-hourly billing will be a permanent trend going forward?



Economic Performance
Law Firms in Transition 2013

2012 Economic Performance

How did your law firm perform in 2012 compared to 2011?



Performance Trends

Comparison of four years of survey results for economic performance in the prior year. Figures indicate the percentage of responses in each category (not the percentage change in performance).

Gross revenue	Down	No change	Up
2012	24.2%	13.0%	62.8%
2011	18.3%	8.1%	73.6%
2010	21.7%	11.7%	66.5%
2009	44.2%	9.8%	46.1%

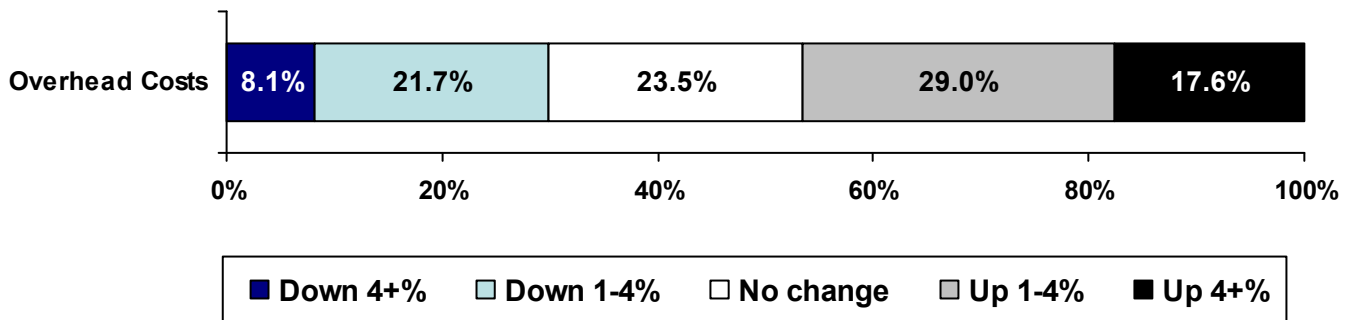
RPL	Down	No change	Up
2012	21.0%	14.6%	64.3%
2011	14.6%	8.0%	77.4%
2010	18.3%	9.1%	72.6%
2009	41.0%	12.5%	46.5%

PPEP	Down	No change	Up
2012	26.9%	11.4%	61.6%
2011	22.2%	6.7%	71.1%
2010	18.3%	8.7%	73.0%
2009	37.4%	6.6%	56.1%

2012 Overhead Costs

How did your law firm perform in 2012 compared to 2011?

OVERHEAD COSTS

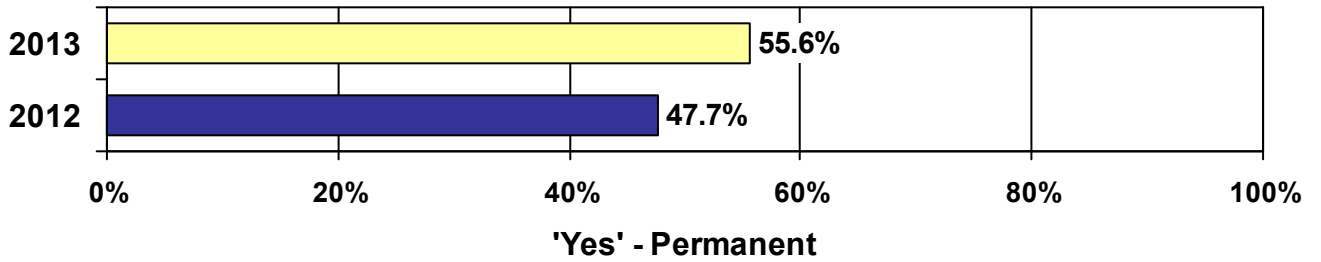


Comparison of four years of survey results on overhead costs. Figures indicate the percentage of responses in each category (not the percentage change in performance).

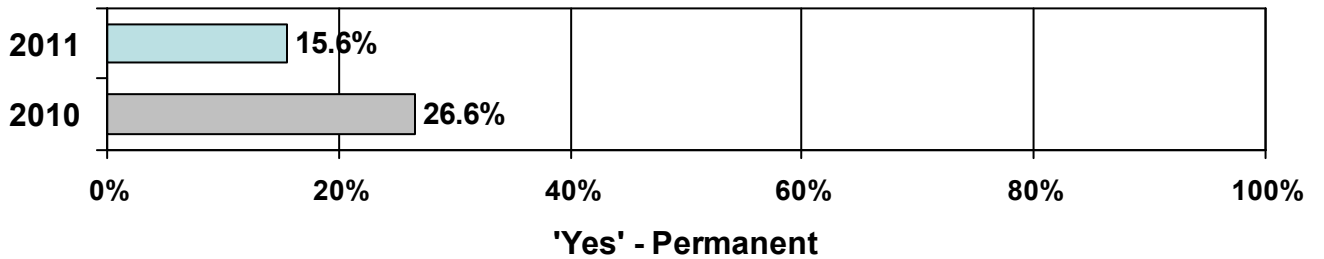
Overhead	Down	No change	Up
2012	29.8%	23.5%	46.6%
2011	20.1%	21.0%	58.9%
2010	52.8%	12.7%	34.5%
2009	69.0%	11.5%	19.5%

Economic Trends

Do you think a slowdown in the growth of profits per partner will be a permanent trend going forward?



Do you think lower profits per partner will be a permanent trend going forward?



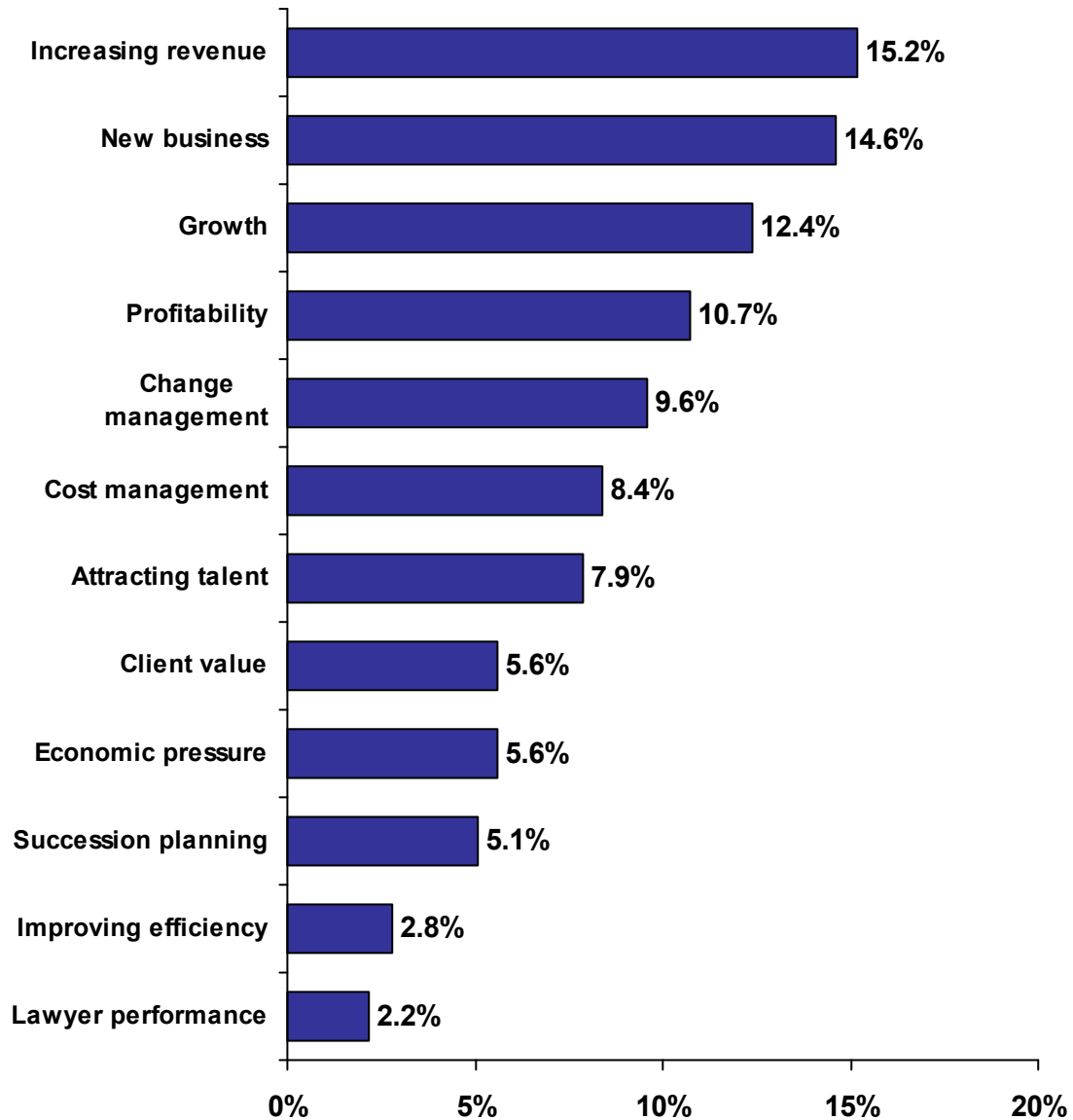
The Future

Law Firms in Transition 2013

Areas of Concern

What will be your firm's greatest challenge in the next 24 months?

Survey participants were invited to comment in an open-ended format. Following is a summary ranking of how often various topics were cited by firm leaders.



Areas of Concern

What will be your firm's greatest challenge in the next 24 months?

Survey participants were invited to comment in an open-ended format. Following is a sampling of comments, grouped by topic.

REVENUE

- Sustained revenue growth, and/or aligning the revenue base with the number of lawyers
- Growing revenues. Increase hours not just raise rates
- Increasing revenues per lawyer more than rate increase by increasing work/market share
- Finding new sources of revenue

NEW BUSINESS

- Having lots of good, challenging work
- Generating adequate new business at good margins
- Keeping our lawyers busy in a shrinking market
- Continuing to compete for a larger share of a relatively stagnant market for legal services

GROWTH

- Correct decision-making regarding plans for future growth
- Managing growth
- Thoughtful growth
- Maintaining quality while expanding into new markets or expanding further in existing markets particularly overseas.

Areas of Concern

What will be your firm's greatest challenge in the next 24 months? (*continued...*)

PROFITABILITY

- Accommodating the changes necessary to remain profitable
- Profitability in light of client demand
- Making revenue more profitable
- Growth in profits per partner

CHANGE MANAGEMENT

- Accelerating the pace of change in the law firm to accommodate the legal market - a real test of leadership
- Managing change... Keeping key partners educated and on board to assure long term success.
- Aggressively accepting/adapting to change
- To identify and conquer the next wave of legal industry changes

COST MANAGEMENT

- Manage costs while maintaining quality and capacity
- Dealing with health care costs
- Reduction of overhead per attorney by reducing costs and adding attorneys
- Managing the extra office space that we currently have

Areas of Concern

What will be your firm's greatest challenge in the next 24 months? (*continued...*)

ATTRACTING TALENT

- Growth in laterals that are profitable, productive and a cultural fit with the firm
- Increase our revenues by attracting laterals
- Properly assessing lateral partner opportunities that are presenting themselves to us
- Good, strategic hiring at all levels

CLIENT VALUE

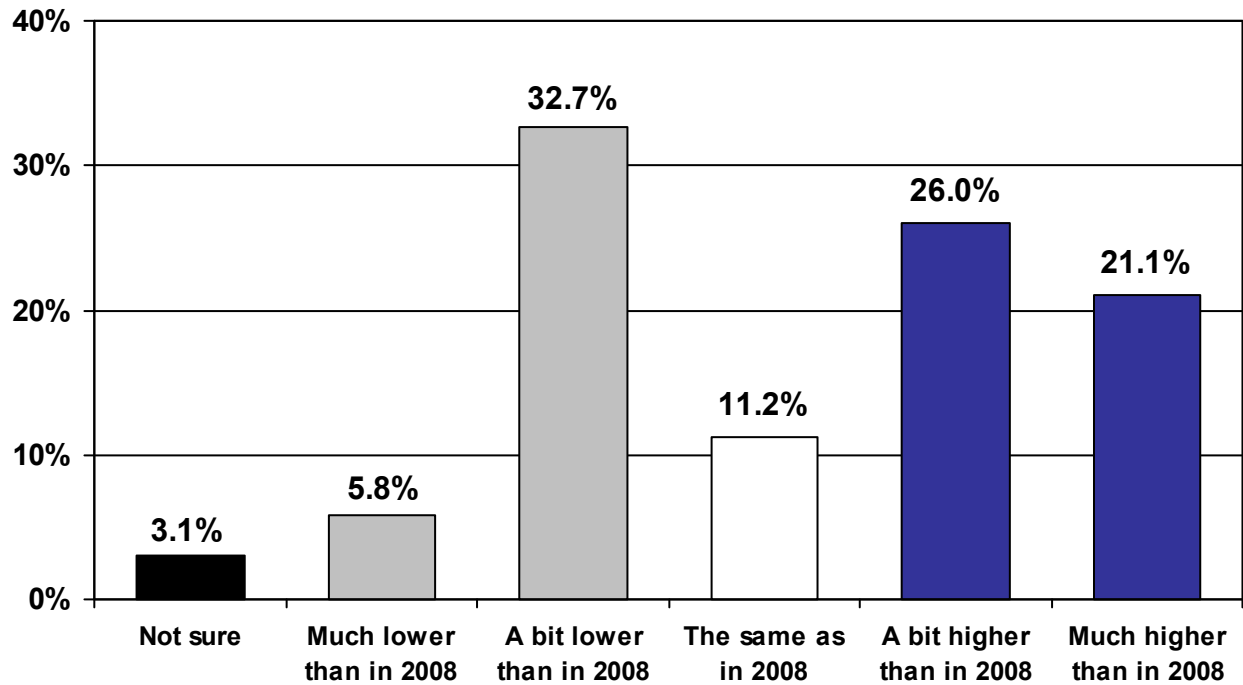
- Inculcating a client value proposition in everything we do
- Alignment with client business objectives
- Continuing to increase and communicate our value to our clients.
- Continue to build and sustain client relationships, identify client needs and proactively meet those needs.

ECONOMIC PRESSURES

- Environment dominated by client's demands for larger discounts/lower rates/alternative billing arrangements
- A market with more client pressure on reducing rates and total legal spend
- Competition increases pressures on rates
- Overall crappy economy

Morale in the Legal Profession

How would you assess your partners' morale overall as 2013 begins, compared to their morale at the beginning of 2008 (i.e. pre-recession)?



PARTNER MORALE 2013	
Lower	39.5%
Same	11.2%
Higher	47.1%

Demographics

Law Firms in Transition 2013

2013 Survey Demographics

In March and April 2013, Altman Weil surveyed Managing Partners and Chairs of 791 US law firms with 50 or more lawyers. We received responses from 238 firms, a 30% response rate.

Firm Size*	All US Law Firms	Survey Participants	% Response
1,000 +	21	7	33%
500 – 999	57	23	40%
250 – 499	85	39	46%
100 – 249	251	85	34%
50 – 99	377	84	22%
All	791	238	30%

The respondent group includes**:

- 37% of 2012 NLJ 250 law firms
- 34% of 2012 AmLaw 200 law firms

* The exact number of lawyers in a law firm changes frequently. The universe of law firms surveyed is based on published directories and league tables available in spring 2013. Survey participants reported their own headcounts.

** Some firms participated anonymously and therefore could not be assigned to NLJ or AmLaw categories.

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