The 21st Century Law Firm Model

The District of Columbia Bar
Practice 360| A Day for Lawyers and Law Firms
May 15, 2015
CHANGING WINDS IN THE LEGAL INDUSTRY CREATING FAVORABLE CONDITIONS FOR NEW MODELS

Growing client dissatisfaction with legal fees

Evolving views on work/life balance

Advances in systems and technology

Ready supply of experienced, pedigreed attorneys

Pressure on the traditional law firm model; opportunities for new entrants
RISING LEGAL FEES: CLIENTS UNEASY

As outside legal costs have skyrocketed:

- Years of steady rate hikes
- Growing need for legal services
  - Increased regulation
  - Greater litigiousness
  - Globalization
  - More papering

...clients have brought more work in house...

- Increased interest in alternative fee arrangements
- Resistance to paying for junior attorneys
- Refusal to pay copier, research, and other add-ons
- Openness to BigLaw alternatives

In-house lawyers per $1 billion of revenue

- 2005: 2.93
- 2007: 3.52

Source: Altman Weil Legal Department Benchmarking Survey, companies with annual US revenue >$5B
## READY SUPPLY OF LEGAL TALENT: NOTABLE DISSOLUTIONS 2008-2012

<table>
<thead>
<tr>
<th>Firm</th>
<th>Description</th>
<th>Contributing factor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOWREY LLP</strong> 1956-2011</td>
<td>• Litigation, IP, Antitrust giant&lt;br&gt;• 700 attys; $600M rev&lt;br&gt;• 17 offices worldwide</td>
<td>• Guaranteed minimums to lateral partners&lt;br&gt;• Large contingent fee case wrapped up</td>
</tr>
<tr>
<td><strong>Heller Ehrman</strong> 1890-2008</td>
<td>• General practice firm&lt;br&gt;• 730 attys; $500M rev&lt;br&gt;• American Lawyer Top 20 “A-List” firm</td>
<td>Contingent of 15 intellectual property partners defected to Covington &amp; Burling</td>
</tr>
<tr>
<td><strong>Dewey &amp; LeBoeuf</strong> 1909-2012</td>
<td>• General practice firm&lt;br&gt;• 1,040 attys; $800M rev&lt;br&gt;• 26 offices worldwide</td>
<td>• Difficulty meshing firm cultures post-merger&lt;br&gt;• High-priced laterals</td>
</tr>
<tr>
<td><strong>THELENI</strong> 1924-2008</td>
<td>• Infrastructure projects, electrical utilities&lt;br&gt;• 550 attys; $400M rev&lt;br&gt;• 8 offices worldwide</td>
<td>• Post-merger integration troubles&lt;br&gt;• Ill-timed partner defections</td>
</tr>
</tbody>
</table>
ADVANCES IN SYSTEMS AND TECHNOLOGY REDUCE THE NEED FOR A CENTRALIZED WORKPLACE

- Bill4Time
- Clio
- Box for Business

- Huron
- Logickull
- HLP Integration

- Google Apps for Work
- Fonality
- Skype

- State court systems
- PACER
GROWING DISAFFECTION AND CHANGING PREFERENCES AMONG BIGLAW ATTORNEYS

• Increased annual billable hour requirements
• Lengthened partner track
• Longer odds of making partner
• Introduction and proliferation of 2-tier partnerships
• Rigid work schedules
• Greater lateral movement leading to less collaborative behavior
• Heightened attorney interest in work/life balance
"We do all those old tricks electronically now."
NEW LEGAL SERVICE PROVIDERS: A PARTIAL TAXONOMY

Degree of integration

Low

High

Networks of solos

Lawyer marketplaces

High-end staffing firms

Virtual law firms

Description

Network of freelance attorneys

Platforms matching legal consumers and providers (individuals)

Upgraded staffing model – pedigreed lawyers, high price points

True law firm, with a distributed, experienced workforce

Example(s)

Bespoke

Priori Legal

Axiom

Potomac Law

Facilitating access to legal services

More efficient access to lawyers

Helping clients keep more work in house

Chipping away at big firm demand

Our focus

Networks of solos

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More efficient access to lawyers

Helping clients keep more work in house

Chipping away at big firm demand
### LAW FIRMS: BIGLAW v. NEWLAW

<table>
<thead>
<tr>
<th>BigLaw</th>
<th>Dimension</th>
<th>New Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Based largely on high hourly rate</td>
<td><strong>Fees</strong></td>
<td>• Significantly reduced rates</td>
</tr>
<tr>
<td>• Steeply leveraged</td>
<td></td>
<td>• Fixed fee, tiered billing, other innovative fee structures</td>
</tr>
<tr>
<td>• Legacy IT systems</td>
<td><strong>Technology</strong></td>
<td>• Cloud-based/thin client</td>
</tr>
<tr>
<td>• Staff-reliant</td>
<td></td>
<td>• Software as a service</td>
</tr>
<tr>
<td>• Incremental change</td>
<td><strong>Office space</strong></td>
<td>• Home offices</td>
</tr>
<tr>
<td>• “Trophy” space in urban centers</td>
<td></td>
<td>• Flex space arrangements</td>
</tr>
<tr>
<td>• Excess capacity</td>
<td><strong>Lifestyle</strong></td>
<td>• No minimum billables</td>
</tr>
<tr>
<td>• Minimum billables</td>
<td></td>
<td>• Flexible schedules</td>
</tr>
<tr>
<td>• Rigid schedules</td>
<td></td>
<td>• Telecommuting</td>
</tr>
<tr>
<td>• Client development expectations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Up-or-out culture</td>
<td></td>
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</tbody>
</table>
NEW MODEL FIRMS ARE BASED ON THE EFFICIENT DELIVERY OF SOPHISTICATED LEGAL ADVICE

Example attorney: Former BigLaw senior associate
Hourly bill rate ($)

Billing rate at Sidley  Savings on office space, furnishings  Reduced partner leverage  Elimination of summer program, etc.  No junior associates to train  Comp savings  Billing rate in new law

Note: Figures approximate and in current dollars.
WHO SEEKS NEW MODELS?  COMMON ATTORNEY PROFILES

Big firm escapee

- Enjoys the practice of law, but not the big firm environment; appreciates community of colleagues

Balance seeker

- Values outside pursuits, in addition to practice of law
- May want to practice on a flexible schedule

Semi-retired

- Typically rose through the ranks at a big firm
- Looking to stay engaged in law without rigid requirements for hours, business development

Attorney entrepreneur

- Novel ideas for developing business that don’t fit BigLaw mold
- May be interested in nurturing a business, sometimes legal-related, on the side
CLIENT PERSPECTIVE: HIRING A NEW MODEL LAW FIRM

Advantages
- Cost efficiency
- Partner-level experience
- Client focus

Disadvantages
- Name recognition
- Infrastructure
- Degree of integration
PLG AT A GLANCE

**Model**
- Traditional law firm with a modern twist: experienced lawyers in a flexible, low-overhead environment w/o min. billables
- Advise corporate clients on complex issues

**Attorneys**
- 55 attorneys, drawn from top global firms
- Minimum eight-year tenure

**Client base**
- National base of 300 public and private companies and institutions

**Practices**
- Full service firm, including corporate, litigation and regulatory practices
FULL SERVICE OFFERING
No. of attorneys, by subject area

<table>
<thead>
<tr>
<th>Subject Area</th>
<th>No. of Attorneys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Litigation</td>
<td>12</td>
</tr>
<tr>
<td>Contracts/Licensing</td>
<td>6</td>
</tr>
<tr>
<td>Government Contracts</td>
<td>5</td>
</tr>
<tr>
<td>Tax</td>
<td>5</td>
</tr>
<tr>
<td>Corporate</td>
<td>5</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
</tr>
<tr>
<td>Labor &amp; Employment</td>
<td>4</td>
</tr>
<tr>
<td>Real estate</td>
<td>2</td>
</tr>
<tr>
<td>Trademark</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
</tbody>
</table>
### LAWYERS: BIGLAW vs. NEWLAW

<table>
<thead>
<tr>
<th>Dimension</th>
<th>BigLaw</th>
<th>PLG</th>
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<tbody>
<tr>
<td>Experience</td>
<td>• Range of levels: junior associate to senior partner</td>
<td>• Minimum of 8 years experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Average 15 years experience</td>
</tr>
<tr>
<td>Compensation</td>
<td>• Often opaque determinations</td>
<td>• Transparent</td>
</tr>
<tr>
<td></td>
<td>• High salaries</td>
<td>• Formula-based</td>
</tr>
<tr>
<td></td>
<td>• Opportunities for mentorship</td>
<td>• No salaries</td>
</tr>
<tr>
<td></td>
<td>• Work as teams</td>
<td></td>
</tr>
<tr>
<td>Diversity</td>
<td>• 21% of partners are women</td>
<td>• Work as “virtual” teams</td>
</tr>
<tr>
<td></td>
<td>• 12.5% of attorneys are minorities</td>
<td>• Not an apprenticeship model</td>
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FIRM OPERATIONS
# POTOMAC LAW GROUP: SAMPLE FEE ARRANGEMENTS

<table>
<thead>
<tr>
<th>Fee type</th>
<th>Example client</th>
<th>Matter</th>
<th>Fee detail</th>
<th>PLG attys on matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure hourly</td>
<td>Cloud technology provider</td>
<td>Gov’t contracts compliance; 100-150 hrs/mo.</td>
<td>$350/hour</td>
<td>1</td>
</tr>
<tr>
<td>Hourly w/vol. discounts</td>
<td>Large technology company</td>
<td>Appellate brief</td>
<td>$275/hour; add’l volume-based reductions</td>
<td>2</td>
</tr>
<tr>
<td>Fixed</td>
<td>Individual</td>
<td>Patent infringement litigation</td>
<td>$20k fixed</td>
<td>1</td>
</tr>
<tr>
<td>Contingent</td>
<td>Overhead garage door mfr.</td>
<td>33% of recovery for pre-trial resolutions</td>
<td>33% of recovery for pre-trial resolutions</td>
<td>4</td>
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</tbody>
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Increasing degree of risk sharing
PLG MARKET RECEPTION SINCE LAUNCH

Clients engaged inception-to-date, at quarter-end

Notable public company clients

- U.K.-based global pharmaceutical company
- Major consumer electronics retailer
- Global management consulting and technology services company
- Name brand software and cloud services provider
- Multinational management software company

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>2Q11</td>
<td>8</td>
</tr>
<tr>
<td>4Q11</td>
<td>18</td>
</tr>
<tr>
<td>2Q12</td>
<td>39</td>
</tr>
<tr>
<td>4Q12</td>
<td>65</td>
</tr>
<tr>
<td>2Q13</td>
<td>94</td>
</tr>
<tr>
<td>4Q13</td>
<td>139</td>
</tr>
<tr>
<td>2Q14</td>
<td>191</td>
</tr>
<tr>
<td>4Q14</td>
<td>270</td>
</tr>
</tbody>
</table>
RISING LEGAL FEES: FIRMS SQUEEZING MORE OUT OF CLIENTS

Average annual profits per partner vs. inflation
AMLAW 100; $ Thousands

Profits double in real terms

Source: AMLAW 100 Survey (end points, middle years estimated); Bureau of Labor Statistics.
READY SUPPLY OF TALENT: PROMINENT BIGLAW LAYOFFS
Total attorneys and staff laid off, by firm, 2008-2011

Announced layoffs at 76 of the AMLAW 100 firms

PLG: MAJOR PRACTICE AREAS

Corporate/transactional
- Technology Transactions
- Corporate Governance
- Commercial Contracts
- Mergers & Acquisitions
- Government contracts
- Corporate Finance
- Real Estate

Intellectual property
- IP/Software Licensing
- Trademark Counseling
- Trademark Portfolio Management
- Copyright Protection
- Trade Secret

Labor and employment
- Compliance, Training
- Employment Advice
- Employment litigation
- Executive Compensation and Employee Benefits

Litigation/Controversy
- Appellate
- Commercial Litigation
- Corporate Investigations
- White Collar Defense
- Bid Protest
- Life Sciences
- Tax Controversy

Regulatory
- FCPA
- Education
- Privacy and Data Security
- Life Sciences/FDA
- FAR/DFAR
- Corporate Tax
- Trusts & Estates
- International Trade
- '40 Act
- Energy, Natural Resources, Environment