

The Legal Intelligencer

THE OLDEST LAW JOURNAL IN THE UNITED STATES 1843-2013

PHILADELPHIA, TUESDAY, OCTOBER 29, 2013

VOL 248 • NO. 85

An **ALM** Publication

Law Firm Leaders Optimistic About Fourth Quarter of 2013

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Of the Legal Staff

The significant fourth-quarter boost many law firms experienced last year was the result of a unique political climate and will not be repeated this year, but law firm leaders said they're still optimistic they'll finish out 2013 with respectable numbers.

Last December, midsized and large firms across the state reported a flurry of deal activity as clients sought to close transactions ahead of the looming fiscal cliff deadline in an attempt to take advantage of the more favorable tax structure that had been in place.

But heading into the fourth quarter of 2013, firm heads and legal watchers told The Legal on Monday, firms should not expect the same type of drastic increase in work.

"I don't think there's anything out there that's going to result in a bulge in the fourth quarter like last year," said Altman Weil consultant Ward Bower, adding that he's anticipating little to no growth in the fourth quarter for most firms.

Bower said clients continue to sit on trillions of dollars of cash that they're afraid to spend in a still uncertain economy and with a less-than-stable federal government.

According to Bower, most firms can probably expect to finish up the year with flat revenue or, at most, 3 percent growth.

"I sense it was a sluggish year for a lot of firms," Bower said. "Most firms will probably meet their income goals, but they were pretty conservative income goals to start with."

However, a few firms will see revenue growth as high as about 5 percent, while others will experience dips as low as 5 percent, Bower added.

"There are some firms that are behind and they're panicking because of it," Bower said. But while none of the firms The Legal spoke to predicted blockbuster years, nearly all of them had a decidedly more upbeat outlook for the fourth quarter than Bower's take might suggest.

"We're looking for a bounce, as is typically seen in the fourth quarter, but nothing as extreme as we saw in 2012," said Duane Morris Chairman John J. Soroko, but added that the firm has "a very good volume of deals in the pipeline" that are on pace to close by year's end. It remains to be seen how many of those deals will in fact wrap up by the end of the 2013 fiscal year and how they'll affect Duane Morris' bottom line, but Soroko said the firm has thus far experienced better realization rates this year than ever before.



BARBOUR



SPIRGEL

Jack Barbour, chief executive officer and managing director of Pittsburgh-based Buchanan Ingersoll & Rooney, said, "Every deal that could get done in 2012, got done in 2012," resulting in a slowdown in transactional work at the beginning of 2013.

Since then, however, deal work has picked up some, even if it "hasn't set the world on fire," according to Barbour.

"I would say it has returned to more of whatever today's normal is," Barbour said.

Still, Barbour said he's optimistic that the firm will beat budget for 2013.

"At this time every year you become a little concerned about your need to collect your receivables, but I don't find this year any different than any other year I've been in management of a law firm," Barbour said. "We have good quality receivables and we've adjusted overhead and expenses so we can succeed even if we don't have quite the gross dollar volume we've had in years past."

Timothy P. Ryan, chief executive officer of Eckert Seamans Cherin & Mellott in Pittsburgh, described his firm as “guardedly optimistic” about the fourth quarter, noting that converting the bulk of its clients to quarterly and electronic billing has evened out cash flow and tempered some of the usual end-of-year collections chaos.

Ryan said the firm added attorneys in nearly all of its offices in 2013, which always creates unease until the new lawyers begin billing.

But now that the new hires have been fully integrated into the firm, Ryan said he’s anticipating “a very solid year.”

Smaller firms across the state also had positive things to say about how they’ve performed this year, even if they haven’t necessarily maintained the same level of work they saw at the height of last year’s fourth-quarter push.

Peter R. Spigel, managing shareholder and chief operating officer of Flaster Greenberg in Cherry Hill, N.J., said that, because of the political climate at the time, his firm was so busy with transactional matters related to trusts and estates last December that it actually had to turn some of the work down.

But while the work did not maintain that pace as 2013 got under way, it didn’t totally drop off either, Spigel said.

“We all went into January saying, ‘Well this can’t continue’ and it didn’t, but our corporate group consistently was busy throughout the year on deal activity,” Spigel said. “Corporate and tax work for business clients has been pretty good this year, all things considered, and it’s not showing any signs of being a blip.”

In addition, according to Spigel, clients no longer seem to be as

timid about spending money on litigation as they had been at the height of the recession.

“I think things are continuing in a positive direction, I really do,” Spigel said.

Like Spigel, Chester R. “Chip” Babst III, managing shareholder of Pittsburgh-based Babst Calland, noted that while his firm did see an uptick in fiscal-cliff-driven deal activity at the end of 2012 and a slowdown in that work at the beginning of 2013, transactions have continued throughout the year.

“If you looked at the fourth quarter of 2012 versus the first quarter of 2013, my recollection is that there was probably a pretty significant difference,” Babst said. “But as the year progressed, I really felt that the number of deals and the size of the deals we were involved in were really consistent with a good year for us and a very healthy part of our business this year.”

Babst also said his firm’s realization rates have remained steady in 2013.

“I think we anticipate a good finish,” Babst said, adding that his firm, which has a large energy and environmental law practice, is expecting a “good deal” of environmental and title work in the fourth quarter.

Babst said the firm also has a large, non-energy-sector client that recently announced a deal it’s hoping to close by the end of the fiscal year.

“That’s going to keep us very busy,” Babst said.

Maury B. Reiter, managing principal of Kaplin Stewart Meloff Reiter & Stein in Blue Bell, Pa., said corporate work, which represents a large portion of his firm’s overall practice, never dropped off following the surge at the end of 2012.

“Transactions have been very consistent,” Reiter said. “We haven’t seen any slowdown at all.”

And while clients continue to be slower to pay bills than they had been pre-recession, realization rates have largely bounced back following the economic downturn, according to Reiter.

“I think we’re going to be up this year,” Reiter said of his firm’s revenue.

David M. Kleppinger, chairman of McNeese Wallace & Nurick in Harrisburg, Pa., said a number of the metrics his firm tracks, including new file openings, under 60-day accounts receivable and works in progress, are all at “very nice, high levels.”

Kleppinger said that, rather than the sharp spike in transactional work his firm saw at the end of 2012, his firm is currently noticing a steadier uptick across all of its practice areas, which seems to be indicative of greater confidence in the business community even if some uncertainty persists in Washington, D.C.

Unlike Bower, Kleppinger said he believes the business community has become less given to panic.

“I think many clients have gotten used to the federal government getting close to the edge without ever actually falling off because they’re not foolish enough to do so,” Kleppinger said.

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