

2012
Law Firms in Transition
An Altman Weil Flash Survey



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Contributing Authors

Thomas S. Clay

Eric A. Seeger

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Law Firms in Transition 2012

The fourth annual Altman Weil *Law Firms in Transition Survey* finds that a dramatic shift in attitudes has occurred among US law firm leaders since the survey was first launched in spring 2009, just six months after the first shocks of the economic meltdown.

The 2012 survey reveals a striking change in how law firm leaders view the competitive environment and the appropriate organizational responses since 2009. Trends that showed clear momentum in interim years have become deeply entrenched in 2012. The following table shows examples of the remarkable shift in opinion.

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

<u>"YES" – PERMANENT TREND</u>	2009 Response	2012 Response	Change in %	Magnitude Increase
More price competition	42.4%	91.6%	+49.2	2.2x
More commoditized legal work	25.5%	83.6%	+58.1	3.3x
More non-hourly billing	27.9%	80.0%	+52.1	2.9x
Fewer equity partners	22.8%	67.6%	+44.8	3.0x
More contract lawyers	28.3%	66.2%	+37.9	2.3x
Reduced leverage	12.1%	57.7%	+45.6	4.8x
Smaller first-year classes	11.4%	55.4%	+44.0	4.9x
Lower PPP/Slowdown in PPP	13.2%	47.7%	+34.5	3.6x
Outsourcing legal work	11.5%	45.5%	+34.0	4.0x
Lower / Hold line on associate comp	9.5%	21.5%	+12.0	2.3x

After four annual surveys, many of the challenges facing law firm leaders are now well defined and largely agreed upon, yet the best way to respond to this array of changes is still being debated.

Many of this year's findings take the form of good news/bad news.

- Revenue was up in most firms, but so were expenses.
- Profits were up, but at a pace that is likely to be permanently slowed.

- Firms are raising their rates, but many do not expect to realize the full increase.
- Fewer law firms expect to make personnel cuts, but in those that do, equity partners are among the most vulnerable.
- Associate compensation may begin to rise again, but will be spread across smaller incoming classes.
- Firms are gaining experience with alternative fee arrangements, but most firms are still using AFAs reactively and less profitably than hourly billing.
- Firms have profitability data available, but they don't use it as well as they might.
- Law firm leaders have moderate to high confidence about their own ability to navigate the changes ahead, but they are less sure that their partners are paying adequate attention.

FINDINGS AND RECOMMENDATIONS

The transition in the legal profession is seen to be increasing in intensity and pace.

- Fully 96% of law firm leaders expect the pace of change in the profession to remain the same or accelerate.
- Leaders in firms of 250 or more lawyers were especially likely to believe that the recession served as a “permanent accelerator of trends that already existed” or a “game changer.” More than 90% of these firms held that opinion.
- Three quarters of firms of less than 250 lawyers also agreed.

These findings suggest that change management will be a required core competency of law firm leadership going forward. The leadership challenge will be to drive change, not just react prudently to external conditions.

Managing partners feel up to the challenge.

- When asked about their overall level of confidence that their firms are fully prepared to keep pace with the challenges of the new legal marketplace, law firm

leaders gave themselves a median rating of 7 on a scale of 0 (not at all confident) to 10 (completely confident), with 88% of responses between 6 and 9.

- The median self-assessment rating slipped from 8 in 2011 to 7 this year.
- The slight decrease in confidence may indicate a greater recognition of the difficulty of bringing their partners along. Leaders assessed their “partners’ awareness of the challenges of the new legal market” at a median rating of 6, with not a single response of “10.”

Leaders’ relatively high confidence in the face of uncertainty is not unfounded. Law firms and lawyers are still making money and profitability has held up relatively well. But this chapter in the history of the legal profession is still being written. Overconfidence can make a law firm vulnerable, and leaders need to keep their edge.

True advances in practice efficiency are required.

- 96% of respondents said a greater focus on improved practice efficiency will be a permanent trend.

Achieving greater efficiency in the delivery of legal services has become an imperative. Whether in response to requests for non-hourly pricing or as a proactive initiative to boost profitability, firms have recognized that efficiency in legal services delivery must improve.

Firms that begin to rethink their service delivery model, practice by practice, matter type by matter type, will be well positioned to capitalize on clients’ demands for greater transparency and greater value at a consistently high level of service. Practice groups can be laboratories for this kind of change. Firms won’t need to overhaul everything, but every firm can try to improve in this way.

We expect to see firms investing in business-savvy lawyers and non-lawyer professionals to drive the needed changes in structure, staffing, systems and processes. We believe the benefits will greatly outweigh the costs.

Opportunity still exists for firms that are willing to make the effort to figure out how to use AFAs effectively.

- 62% of firms believe that smaller annual billing rate increases will be a permanent reality.
- Alternative fee arrangements are now in use at almost every law firm, but only 14% of firms report that their non-hourly projects are more profitable than their hourly projects.
- The 33% of firms that are proactive rather than reactive in their use of AFAs are more than three times as likely to enjoy higher profitability on their non-hourly work.

Although the billable hour is by no means dead, the use of AFAs will continue to rise. Law firms must lead the way on designing and offering non-hourly options rather than wait for clients to tell them what to do or what they want. As with electronic billing a decade ago, firms that embrace (rather than resist) non-hourly pricing and recommend creative, win/win pricing programs to clients can build competitive advantage.

Law firms should price their services, whether using hourly or non-hourly fees, based upon the profit margin they desire. Firms should acquire the tools needed to fully understand costs and margin, learn to use the tools effectively and educate their lawyers.

The effective use of internal profitability data can improve management decisions leading to greater focus, clearer priorities and improved performance.

- Majorities of firms reported having profitability data available at the client level, practice group level and matter level, but few firms are using the data as effectively as they might to make strategic management decisions.
- Only 5% of firms gave themselves a highly-effective rating of 9 or 10 on a 0 to 10 scale. There is clearly need for improvement here.

Our experience is that despite resistance and skepticism from partners about the proper use of such data, profitability reviews at the client, practice group and matter levels can be a highly effective management tool.

The pre-recession associate hiring binge is over, replaced by much more cautious and conservative hiring policies.

- A quarter of firms reduced or discontinued hiring first-year associates and four in ten firms shrank their summer programs in 2011, on top of cuts already made in previous years.
- Only 21% of firms plan to hire more first-years in 2012 than they did in 2011, even after the deep cuts made in 2009 and 2010.
- The percentage of firms that expect to see smaller first-year classes as a permanent trend jumped sharply from 40% last year to 55% in 2012, an increase of 15 points.
- Likewise, the number of firms that think reduced associate leverage is a permanent trend jumped 13 points to 58%.

Concern for the next generation of associates is well founded. Although a majority of firms plan to add partner-track associates to their ranks in 2012, the news for law school graduates remains generally daunting.

Firms continue to explore and invest in alternatives to hiring and developing newly minted lawyers.

- Nearly a quarter of firms intend to increase their number of non-partner-track associates in 2012.
- More than 80% of firms plan to maintain or increase their number of contract lawyers and paralegals in 2012, who in many cases will do work that associates used to do.
- Two-thirds of firms (66%) think increased use of contract lawyers is a permanent trend—a 14-point jump since 2010.
- Looking five years ahead, firms expect more reductions in partner-track associates than in non-partner-track associates or paralegals.

The cost of training will shift from the backs of clients to law firms. “Accidental training” while billing huge numbers of hours is not a workable strategy going forward. Clients won’t allow it.

Law firms will need to redefine professional staffing requirements, recruiting methods and professional development. Efficiency is the new paradigm, rivaling quality and excellence in the minds of clients.

Before firms hire expensive new lawyers, they will have to consider whether someone else – lawyer or non-lawyer – could do the job more effectively or efficiently.

Few firms are pursuing transformational change because they feel pressure but not pain.

- Overall, law firms report only modest pressure from clients (a median rating of 5 on a scale of 0 to 10) to change their service delivery model as opposed to simply reducing rates.
- Law firms report they are only making modest efforts to improve service delivery (again, a median rating of 5).
- Firms’ assessment of pressure from clients is consistent with clients’ self-assessment as indicated in a recent Altman Weil survey of Chief Legal Officers.
- However in the CLO Survey, clients rated law firms substantially lower (a median score of 3) in assessing firms’ seriousness about change.

Despite broad agreement that a new set of competitive trends has taken root, most law firms haven’t done everything they can to change or provide greater value—and their clients know it.

In our experience, firms are more likely to be looking at the operational, cultural and political difficulties associated with change, rather than the opportunities change presents. This is a mistake. In an environment where clients’ expectations of law firms’ change efforts are low, there exists a clear opportunity to exceed their expectations and set your firm apart.

Firms are committed to growth, but not at all costs. Lateral hiring remains the preferred growth strategy.

- Firms are more expansive in their thinking in 2012, with larger numbers declaring their intentions to hire groups of lawyers, acquire smaller law firms and open new offices.
- Consistent with previous surveys, nearly all law firms intend to grow by lateral hiring in 2012.

It is unclear whether law firms will re-engage in growth efforts on the same scale as in past years. The growth imperative is really an imperative to keep existing business and acquire new business, and firms will seek to adjust their headcounts according to their circumstances and goals. If firms resume their quest for size, they should also focus on improving overall quality and upgrading their rosters (replacing lower quality with higher quality lawyers) rather than simply adding players.

When it comes to major mergers, the combination should matter to clients, position the combined firm among a demonstrably superior class of peer firms, elevate the firm's competitive capabilities, expand its reach and significantly improve performance.

The retirement of the Baby Boom generation is a significant concern.

- In the 2011 survey, firm leaders identified retirement and succession of Baby Boomers as a top concern.
- In 2012, failure to successfully transition key clients and the resulting loss of revenue are top succession planning concerns, followed by leadership succession and loss of expertise.

There are serious economic ramifications associated with the accelerating loss of Baby Boom partners who have contributed enormously to wealth and growth in the profession over the last three decades. Firms must have clear written succession plans for key departing rainmakers and plans to transition their clients. Such planning should begin at least five years before expected departure or phase-down of key partners.

CONCLUSION

Altman Weil's *Law Firms in Transition Surveys* have chronicled an unprecedented shift in thinking among law firm leaders. The question is no longer whether to expect permanent changes in the competitive environment—those changes have arrived and are here to stay. Strong majorities of law firm leaders believe the practice of law will be permanently characterized by pricing pressures, further commoditization of legal work, new forms of competition and thus a need for improved practice efficiency.

Firms have done the urgent things necessary to support profitability in the short term. Maintaining and growing profitability will be much more difficult going forward and will require addressing key elements of the business model.

As for growth in volume, a return to the previous level of legal matters – *if that occurs* – will not result in previous levels of billable hours at high billing rates. The forces of commoditization have taken hold.

This is an exciting time in a profession not prone to exuberance, a time when risk-takers have the potential to capture attention, talent, momentum and market share. Firms that wait for perfect conditions, ideal timing or the best plan will fall behind. We look forward to seeing firms embracing innovation and flexibility and pushing ahead with optimism and confidence.

Do law firms need to throw out the old model today? No. But successful firms need to understand how the competitive landscape has changed, determine appropriate organizational responses to those changes and make short- and long-term plans to at least keep pace and, at best, stake the competitive high ground for themselves. A wider range of alternatives may come into play as Generation X lawyers move into law firm leadership roles, setting aside old norms and biases.

Significant, positive change is possible if firms embrace the transition at manageable levels and develop systems and incentives to drive, support and reward change efforts. Experiment, learn, adapt and improve — it won't always be easy, but there's no turning back now.

SURVEY METHODOLOGY

Conducted in March and April 2012, the survey polled Managing Partners and Chairs at 792 US law firms with 50 or more lawyers. Completed surveys were received from 238 firms (30%), including 40% of the 250 largest US law firms.

The full survey is available online to download at: www.altmanweil.com/LFiT2012. Special reports based on law firm size ranges are available exclusively to survey participants.

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About the Authors

Thomas S. Clay is a principal of Altman Weil, Inc. With 30 years 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. In 2008, Mr Clay was named as one of the "100 Legal Consultants You Need to Know."

Eric A. Seeger is a principal of Altman Weil, Inc. He works with large and small law firms in the areas of strategy formulation, practice group planning, merger search, merger assessment and organizational audit. Mr. Seeger directs Altman Weil's market research department. Over the years he has managed hundreds of strategic research projects for law firms and legal vendors.

Prior to joining Altman Weil, Mr. Seeger was an independent consultant to law firm and corporate executives. He served as strategic planning officer of an AmLaw 200 law firm for four years. Previously, he performed market analysis for a global manufacturer, holding leadership positions in the industry's trade association, and served in budgeting and planning capacities for a major university.

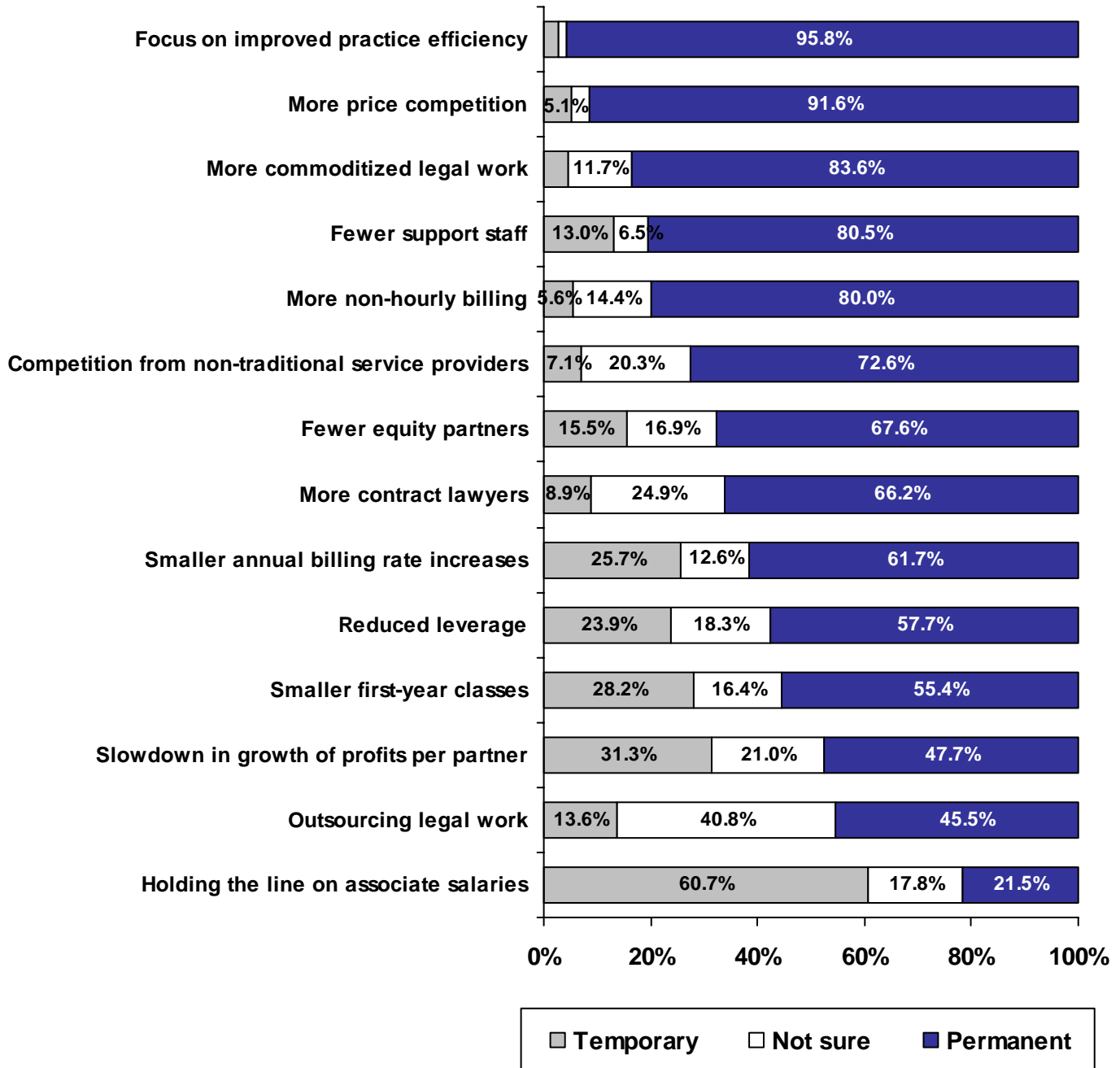
About Altman Weil, Inc.

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 2012

2012 Trends

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



2009 – 2012: Law Firms in Transition

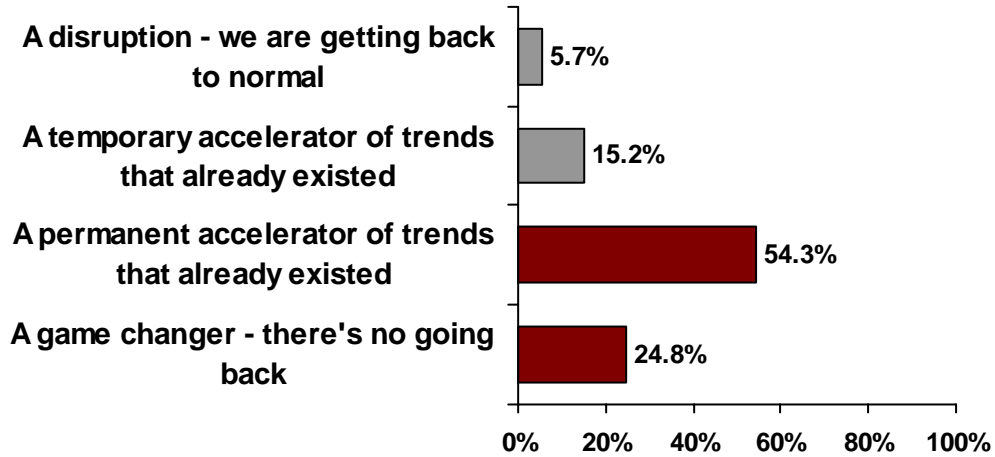
In May 2009, we launched the first *Law Firms in Transition Survey* to measure the impact of the financial crisis and emerging recession on the legal profession. That year, and in each subsequent year, we have asked law firm leaders to assess a series of trends as either temporary or permanent. The following table provides a window into the ‘conventional wisdom’ of 2009 and a look at how far we’ve come.

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

‘Yes’ - Permanent Change	2009	2012
More price competition	42.4%	91.6%
More commoditized legal work	25.5%	83.6%
More non-hourly billing	27.9%	80.0%
Fewer equity partners	22.8%	67.6%
More contract lawyers	28.3%	66.2%
Reduced leverage	12.1%	57.7%
Smaller first year classes	11.4%	55.4%
Lower PPP/Slowdown in PPP	13.2%	47.7%
Outsourcing legal work	11.5%	45.5%
Lower / Hold line on associate comp	9.5%	21.5%

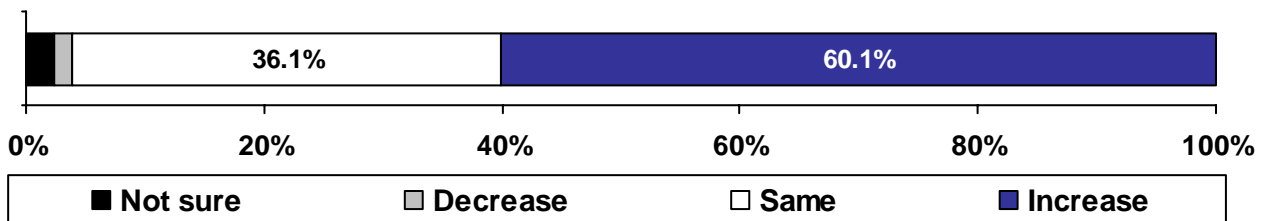
Change in the Profession

The imperative for change in the profession may seem less urgent to some firms than it did a year or two ago. In retrospect, do you think the recent recession was:



Impact of recession		All firms
TEMPORARY	A disruption	20.9%
	A temporary accelerator	
PERMANENT	A permanent accelerator	79.1%
	A game changer	

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



Change in the Profession

Comparison of 2011 and 2012 survey results assessing the impact of the recession on the legal profession:

Impact of recession	2011	2012
A disruption	6.1%	5.7%
A temporary accelerator	28.1%	15.2%
A permanent accelerator	43.7%	54.3%
A game changer	22.1%	24.8%

Comparison of 2012 survey results assessing the impact of the recession on the legal profession by firm size:

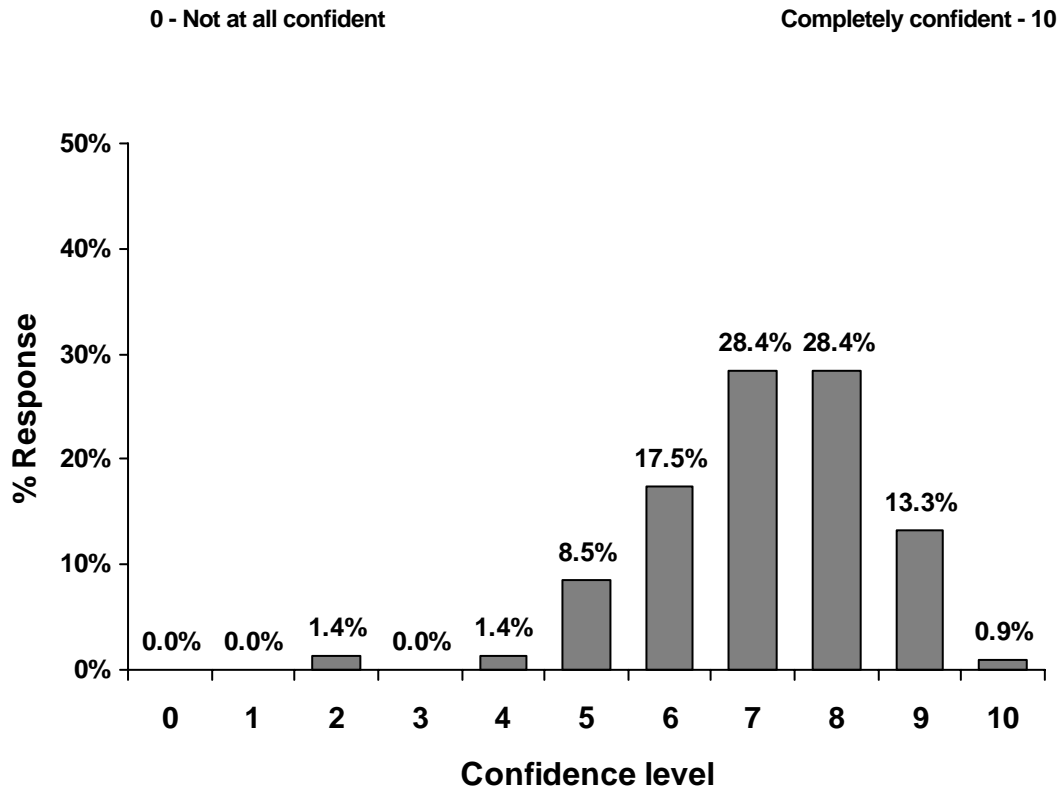
Impact of recession – by firm size		Under 250 lawyers	250 or more lawyers
TEMPORARY	A disruption	25.7%	9.7%
	A temporary accelerator		
PERMANENT	A permanent accelerator	74.3%	90.3%
	A game changer		

Comparison of 2012 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	54.8%	72.6%
About the same	41.8%	22.6%
Decrease	1.4%	1.6%
Not sure	2.1%	3.2%

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?

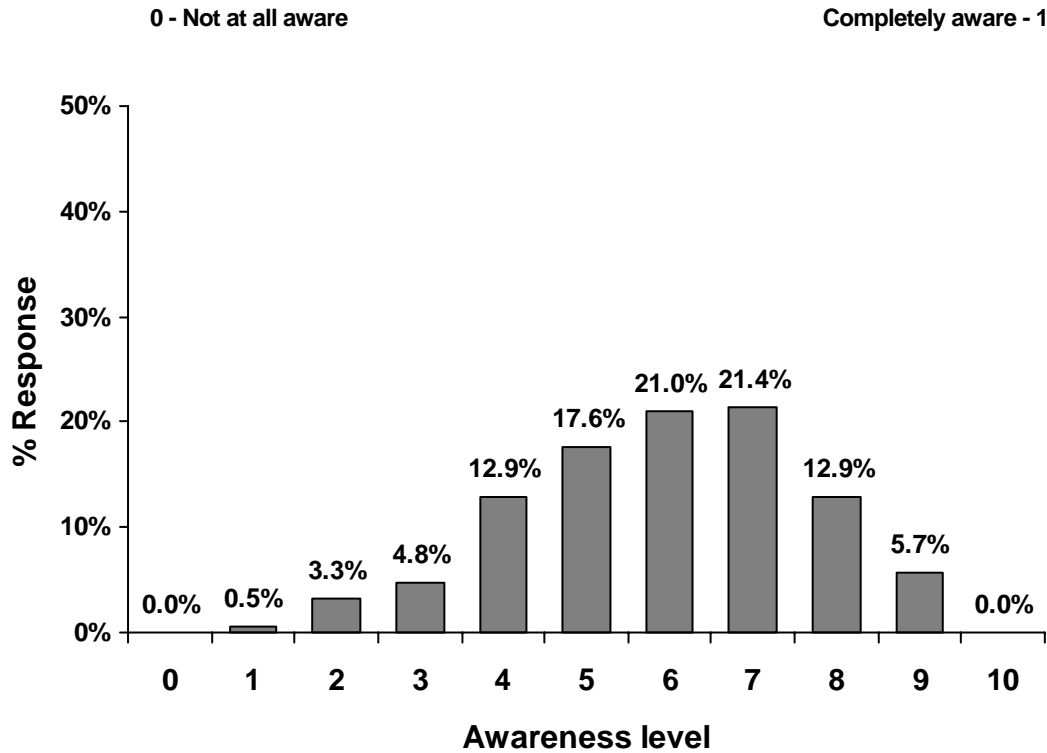


CONFIDENCE	LOW					MODERATE			HIGH		
	0	1	2	3	4	5	6	7	8	9	10
RATING											
RESPONSE	11.3%					74.3%			14.2%		

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	39.1%					55.3%			5.7%		

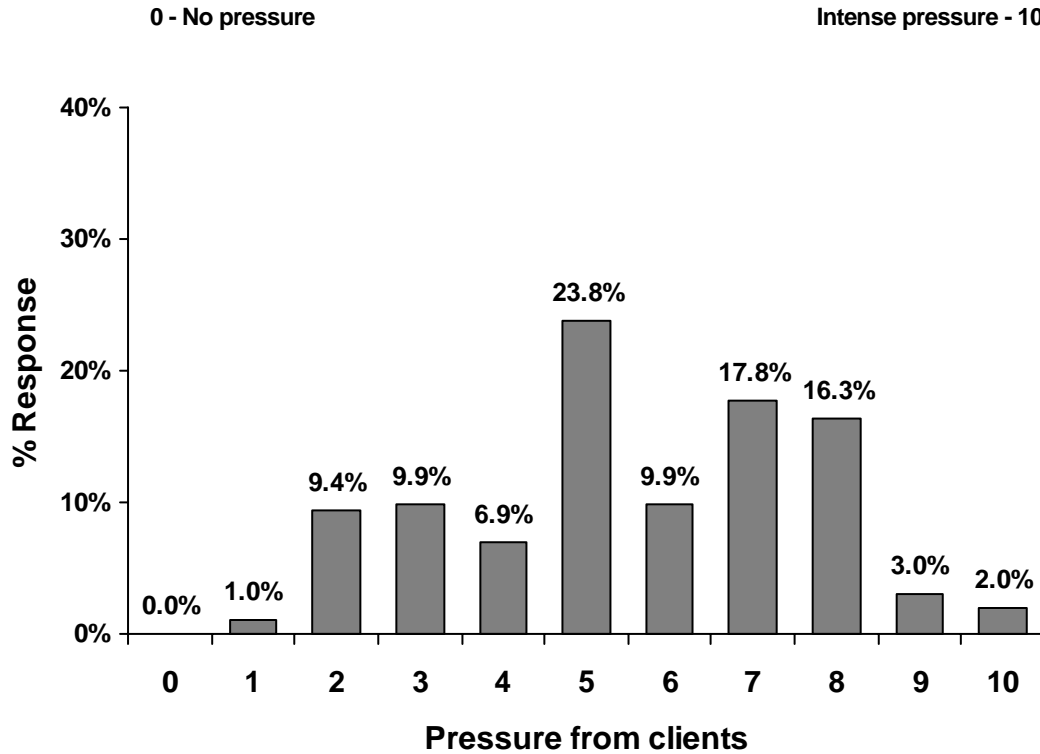
Median rating: 6

Clients & Value

Law Firms in Transition 2012

Clients and the Value Proposition

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)?

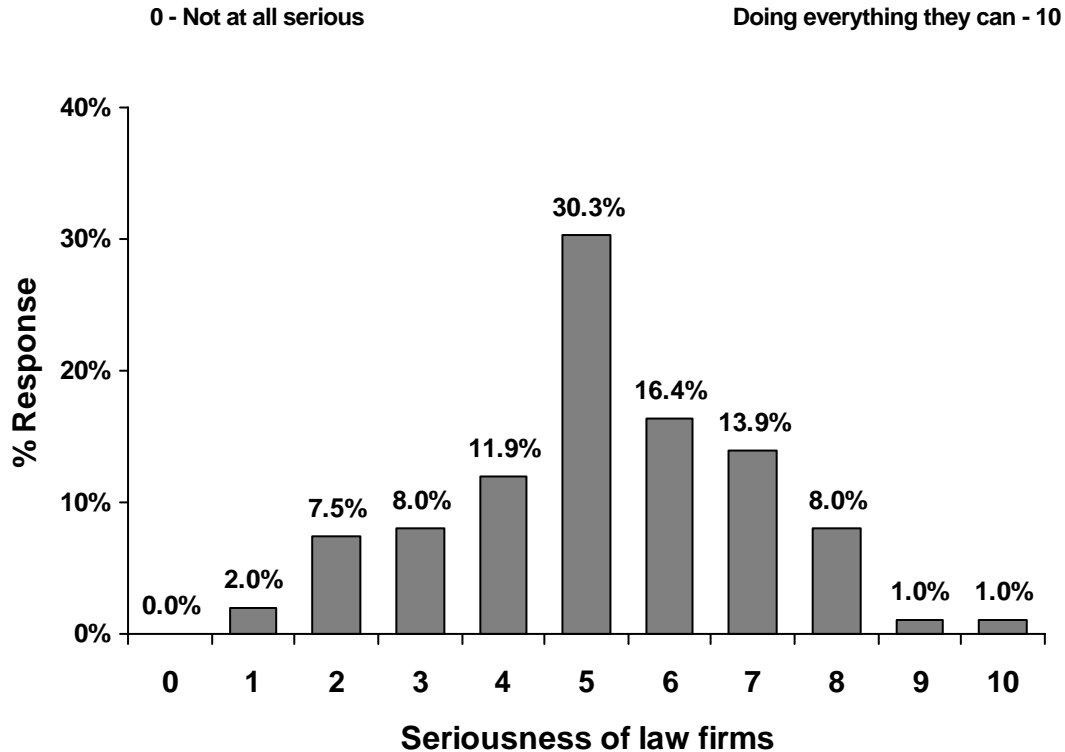


PRESSURE	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	51.0%					44.0%			5.0%		

Median rating: 5

Clients and the Value Proposition

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)?



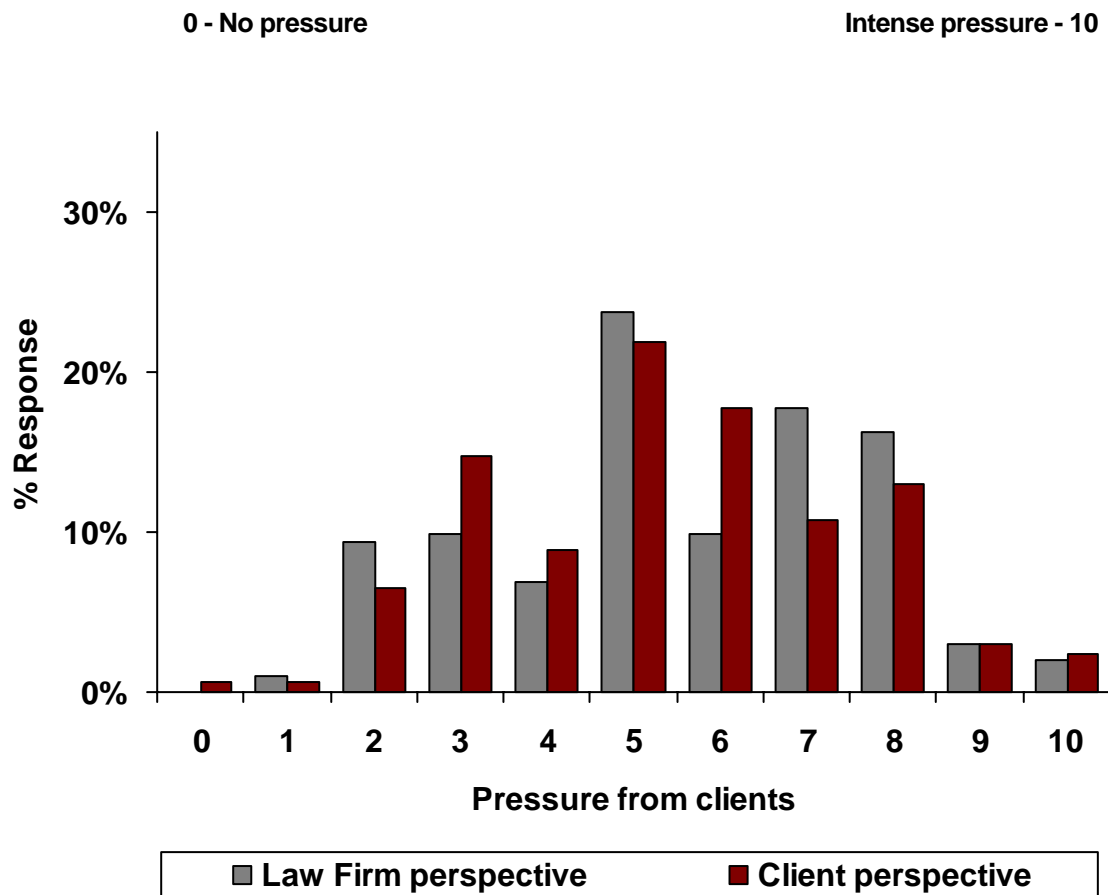
SERIOUSNESS	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	59.7%					38.3%			2.0%		

Median rating: 5

BONUS: The Client Perspective

In October 2011, 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 2011 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)?



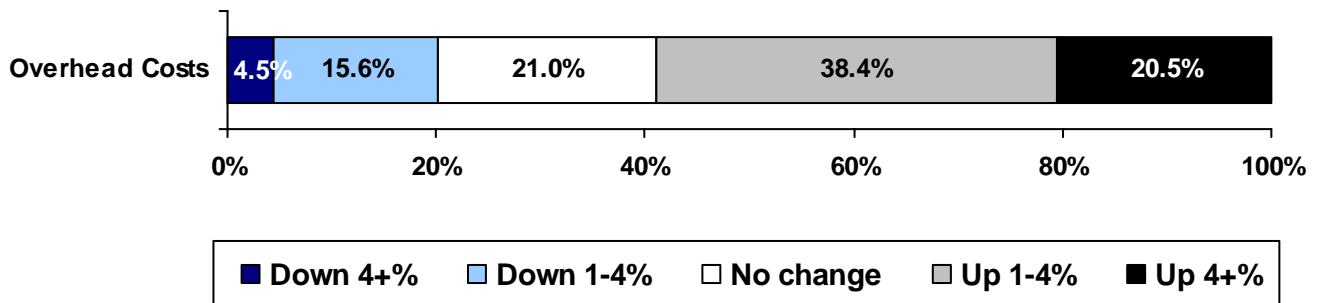
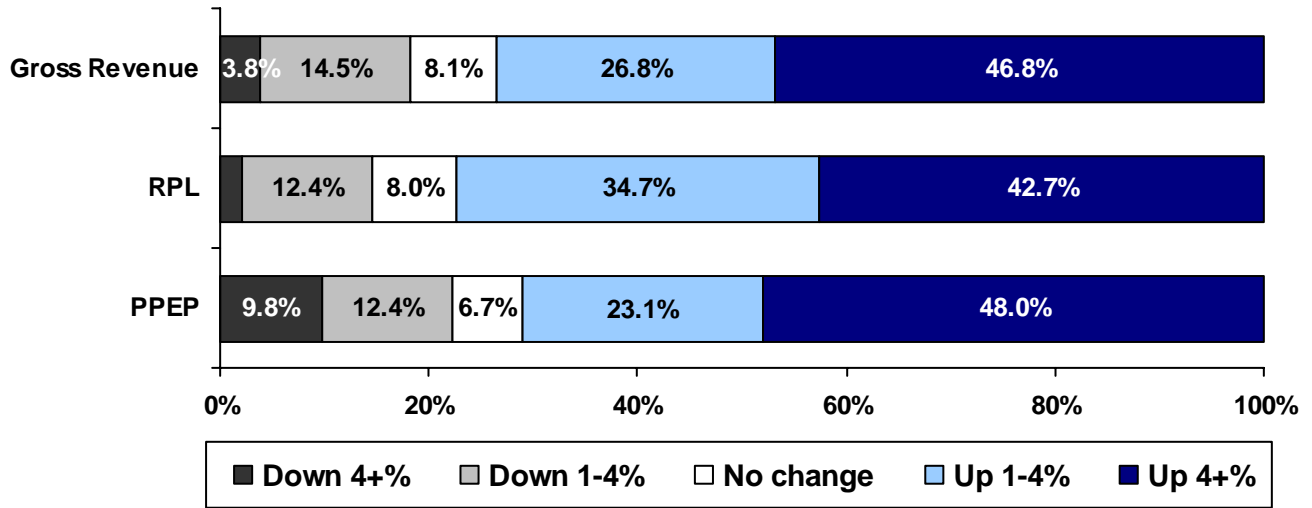
Pressure from clients	Median
Law firm perspective	5
Client perspective	5

Economics & Profitability

Law Firms in Transition 2012

2011 Economic Performance

How did your law firm perform in 2011 compared to 2010?



Economic Trends

Comparison of 2010, 2011 and 2012 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
2011	18.3%	8.1%	73.6%
2010	21.7%	11.7%	66.5%
2009	44.2%	9.8%	46.1%

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

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

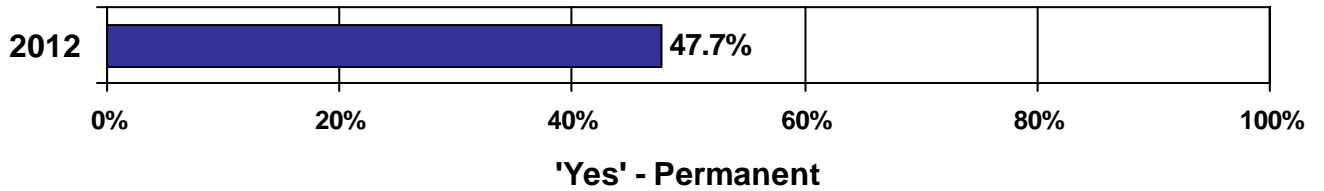
Overhead	Down	No change	Up
2011	20.1%	21.0%	58.9%
2010	52.8%	12.7%	34.5%
2009	69.0%	11.5%	19.5%

Comparison of 2012 survey results for 2011 Profits per Equity Partner by firm size. Figures indicate percentage of responses in each category (not the percentage change in performance)

2011 PPEP – by firm size	Down	No change	Up
ALL	22.2%	6.7%	71.1%
50-99	23.1%	7.2%	69.5%
100-249	22.1%	8.1%	69.8%
250-499	33.3%	2.6%	64.1%
500-999	8.7%	8.7%	82.6%
1000+	0.0%	0.0%	100%

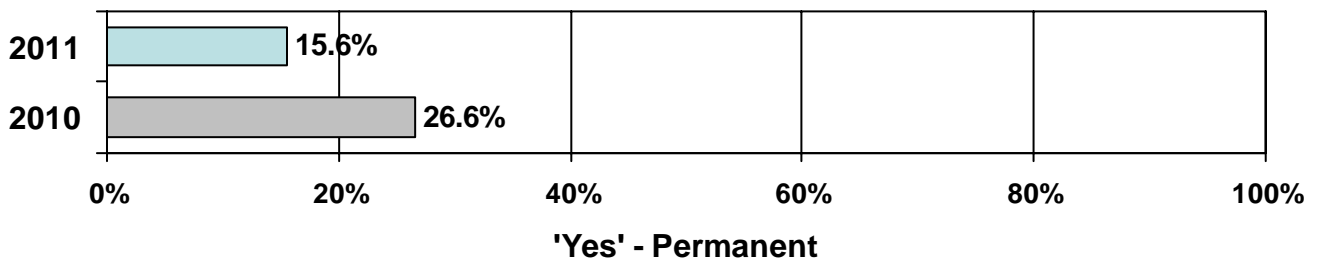
Economic Trends

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



Slowdown in PPEP – by firm size 2012	Permanent Trend
ALL	47.7%
50-99	48.6%
100-249	40.0%
250-499	51.4%
500-999	55.0%
1000+	85.7%

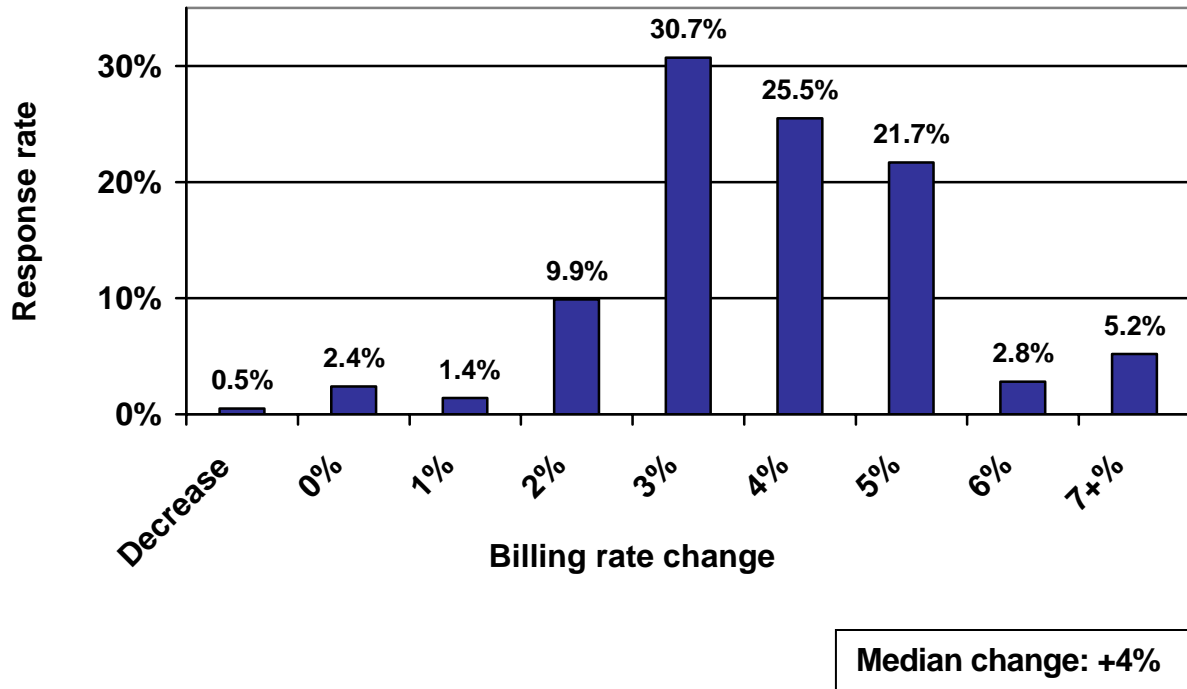
Do you think lower profits per partner will be a permanent trend going forward?



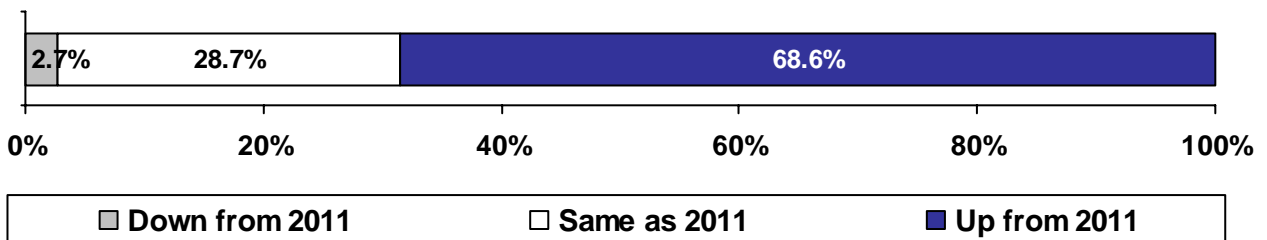
2012 Billing Rates and Realization

What is your firm's actual or estimated change in standard hourly billing rates for 2012?

(Responses were rounded to the nearest percent.)



Overall, do you expect your firm's effective (realized) rates for 2012 to be up or down?



Effective Realized Rate

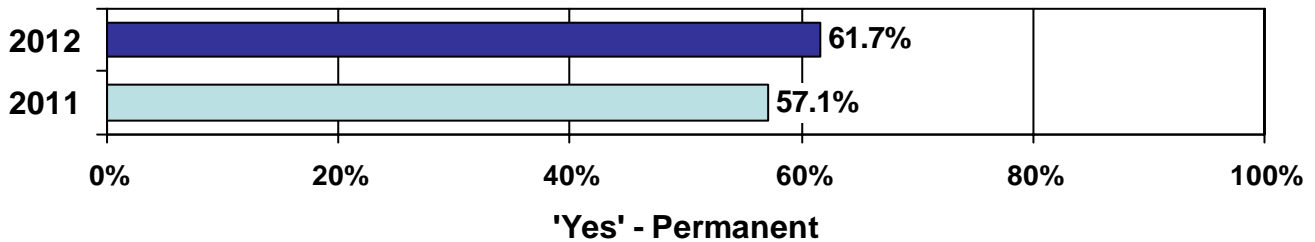
Billing Rate Trends

Comparison of 2010, 2011 and 2012 survey results for billing rates and realization:

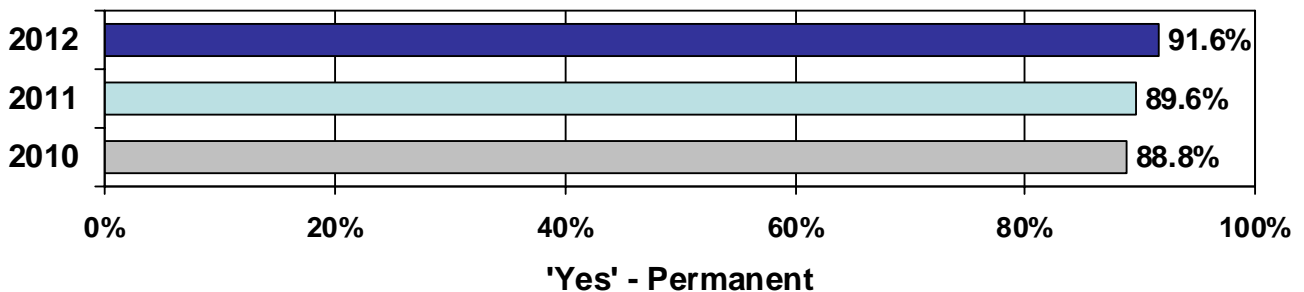
Rate increase	Average	Median
2012	3.8%	4%
2011	4.1%	4%
2010	3.1%	3%

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

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

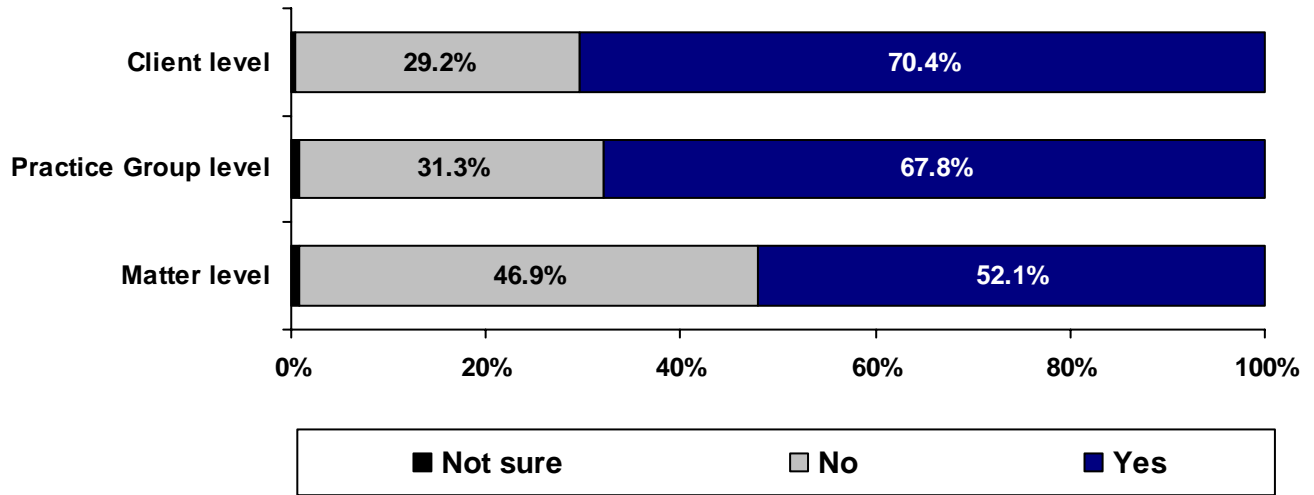


Do you think more price competition will be a permanent trend going forward?



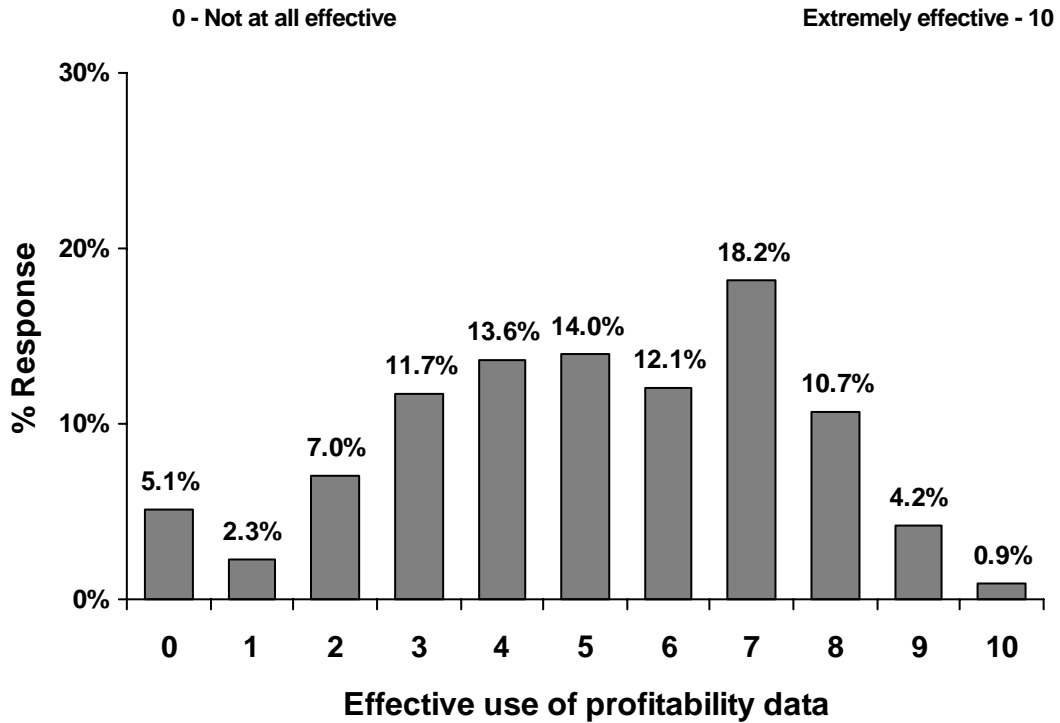
Profitability Data

Does your law firm produce profitability data at the client, practice group and matter levels?



Profitability Data

How effectively is your management team using profitability data to make strategic management decisions?



EFFECTIVENESS	LOW					MODERATE			HIGH		
	0	1	2	3	4	5	6	7	8	9	10
RATING											
RESPONSE	53.7%					41.0%			5.1%		

Profitability Data

A comparison of effective use of profitability data to make strategic management decisions – by firm size.

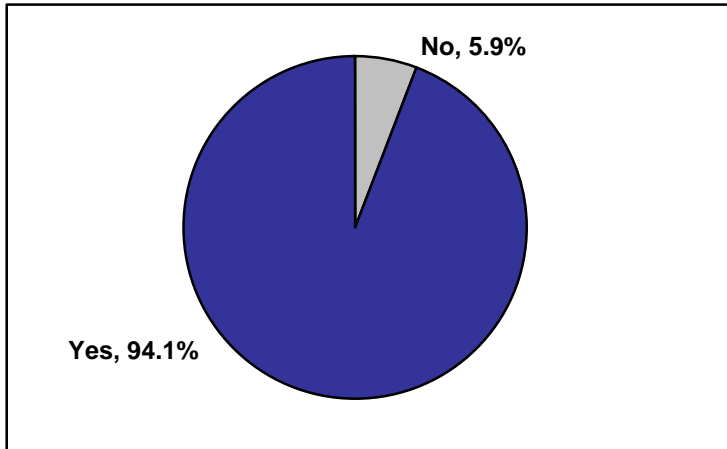
Effective use by firm size	Average rating
All firms	6.1
50-99	5.9
100-249	5.8
250-499	6.5
500-999	7.0
1000+	7.3

Alternative Fees

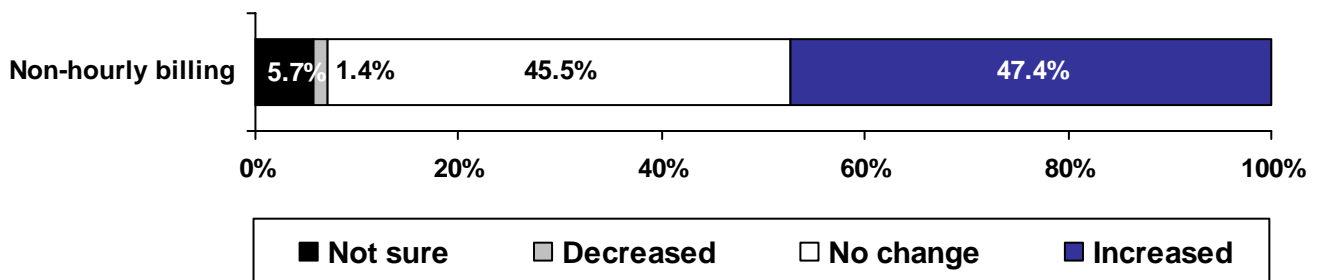
Law Firms in Transition 2012

Alternative Fees

Does your firm use any non-hourly based billing?

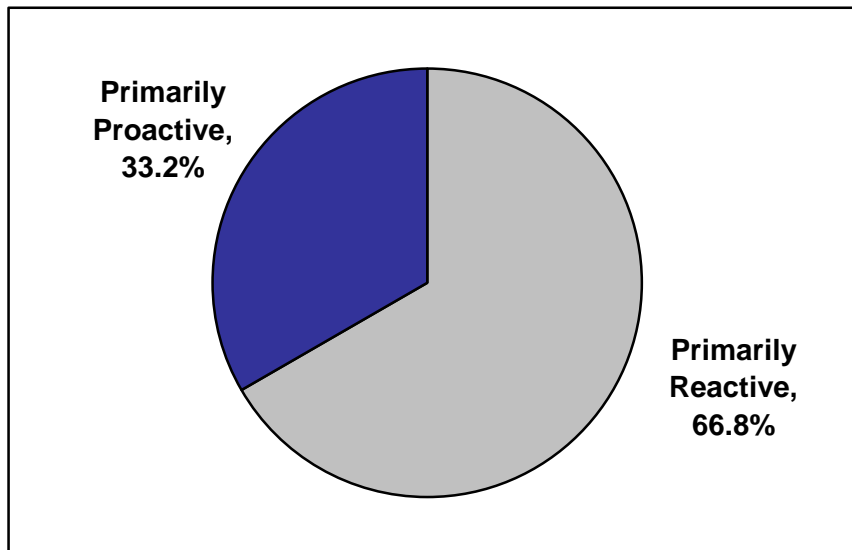


In 2011, did your firm increase its amount of non-hourly based billing (measured as a percentage of revenue)?

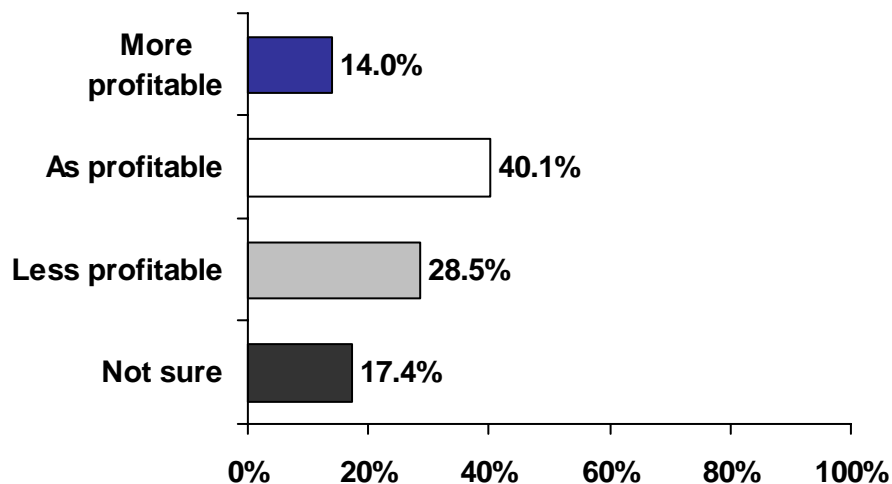


Alternative Fees

If you use any non-hourly based billing, is your firm's 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)?

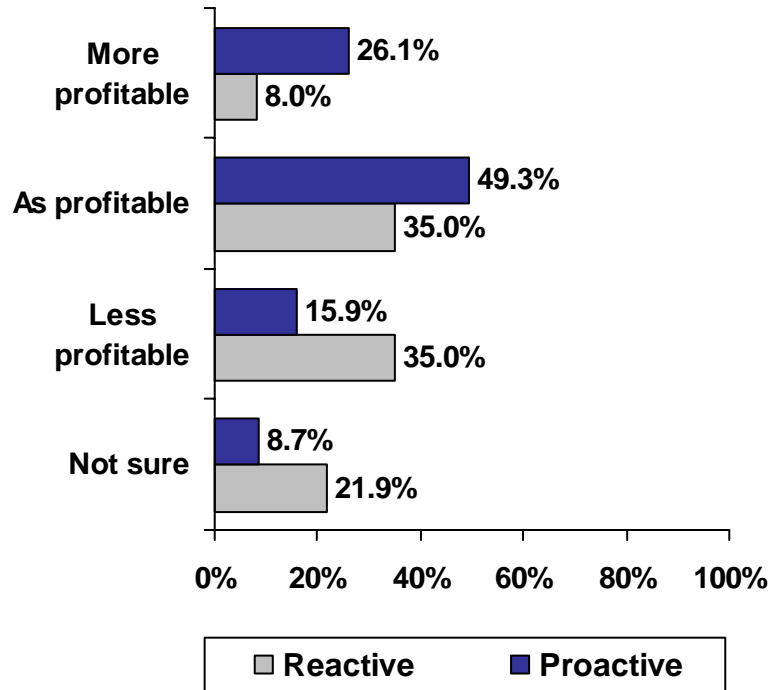


Overall, compared to projects billed at an hourly rate, are your firm's non-hourly projects more profitable or less profitable?



Alternative Fees

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 2010, 2011 and 2012 survey results for use of alternative fee arrangements:

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

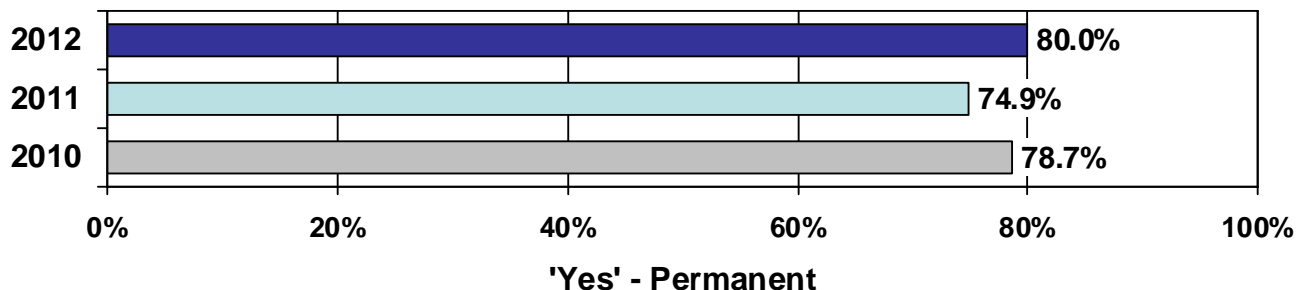
A comparison of 2011 and 2012 survey results for change in the amount of non-hourly billing in the prior year (measured as a percentage of revenue)

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

A comparison of 2011 and 2012 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
2012	14.0%	40.1%	28.5%	17.4%
2011	11.7%	36.5%	32.0%	19.8%

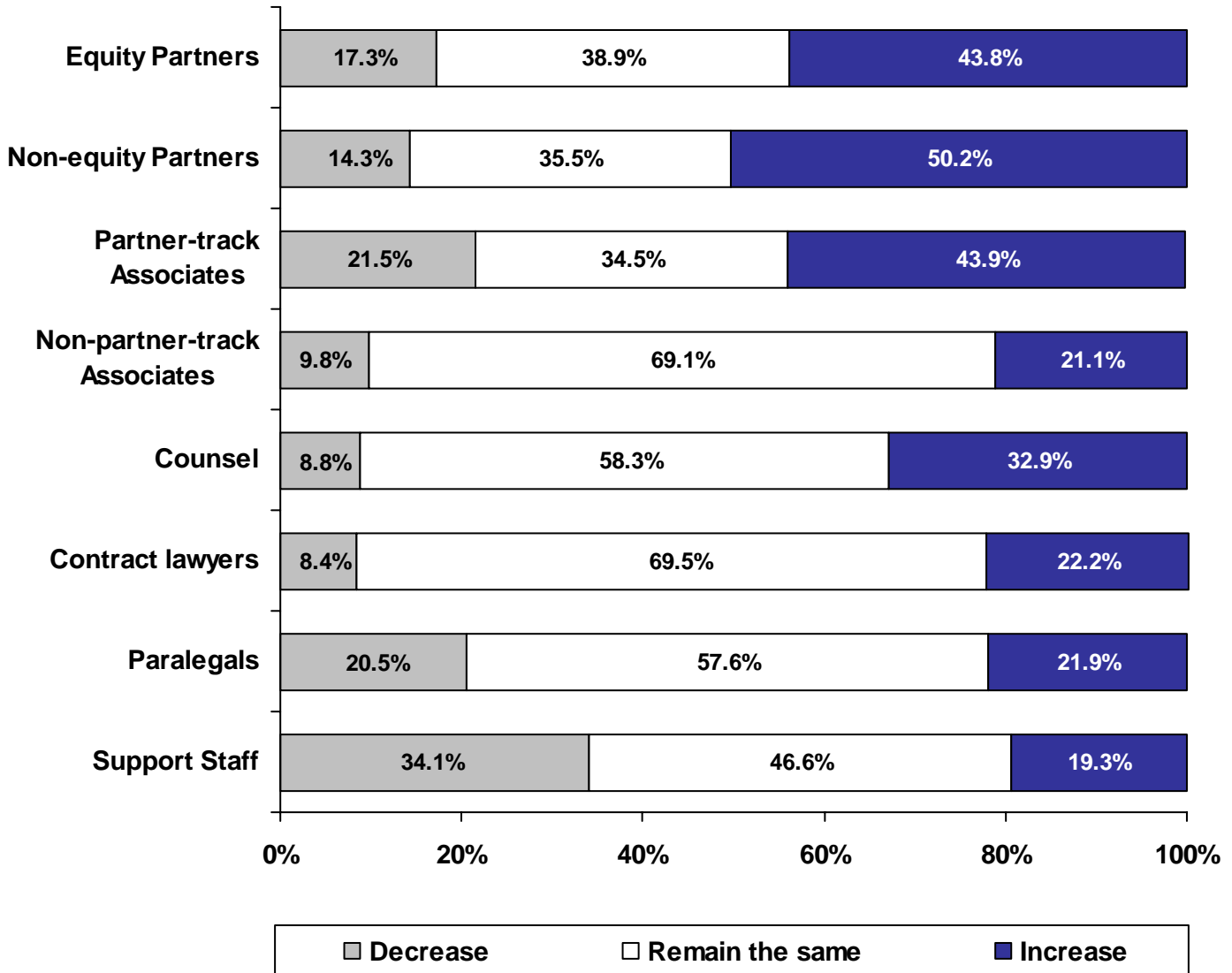
Do you think more non-hourly billing will be a permanent trend going forward?



Lawyers & Staff
Law Firms in Transition 2012

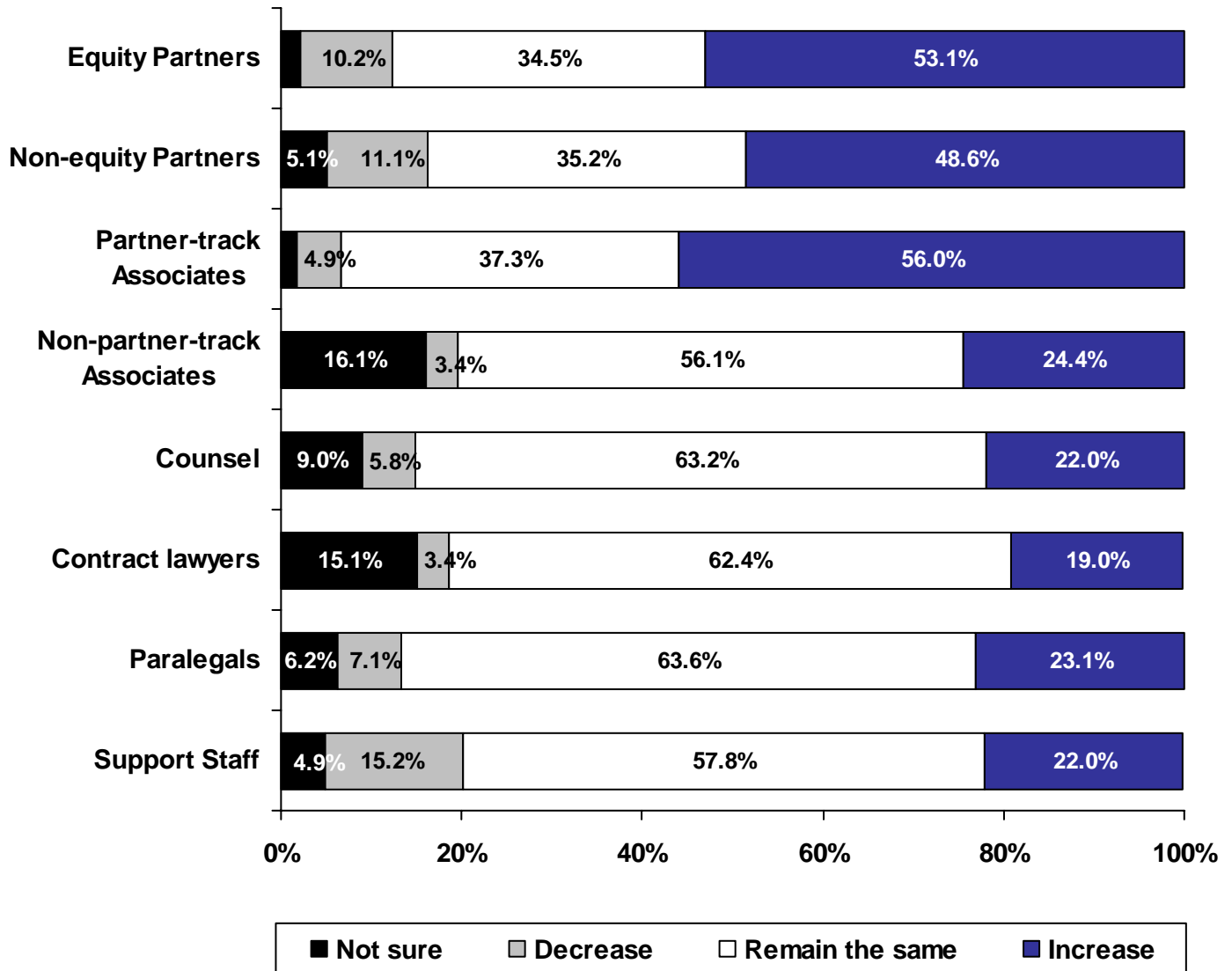
Law Firm Staffing 2011

For the following personnel classes, did the total number of people in your law firm increase, decrease or remain the same in 2011?



Law Firm Staffing 2012

For the following personnel classes, do you expect the total number of people in your law firm to increase, decrease or remain the same in 2012?



Law Firm Staffing Trends

Top three personnel categories that decreased in 2011:

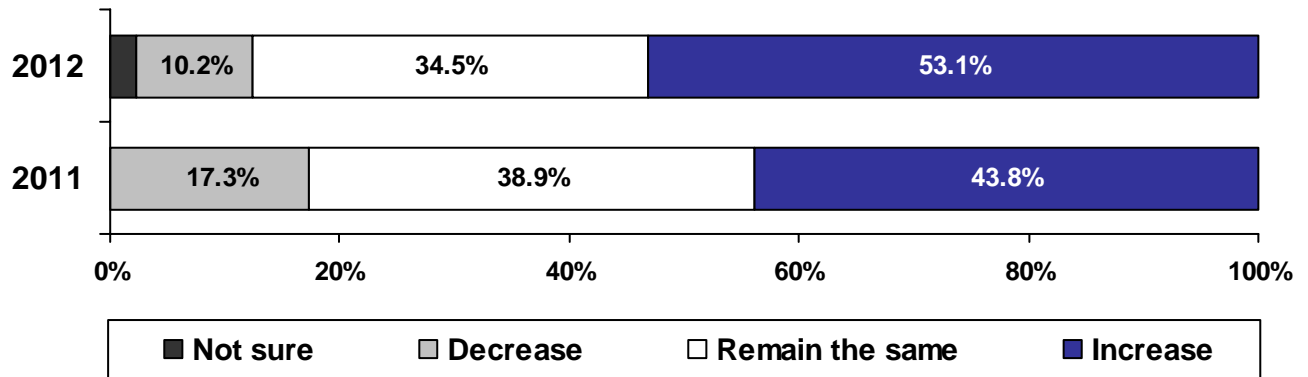
Decreased in 2011	% of firms
Support staff	34.1%
Partner-track associates	21.5%
Paralegals	20.5%

Top three personnel categories expected to decrease in 2012:

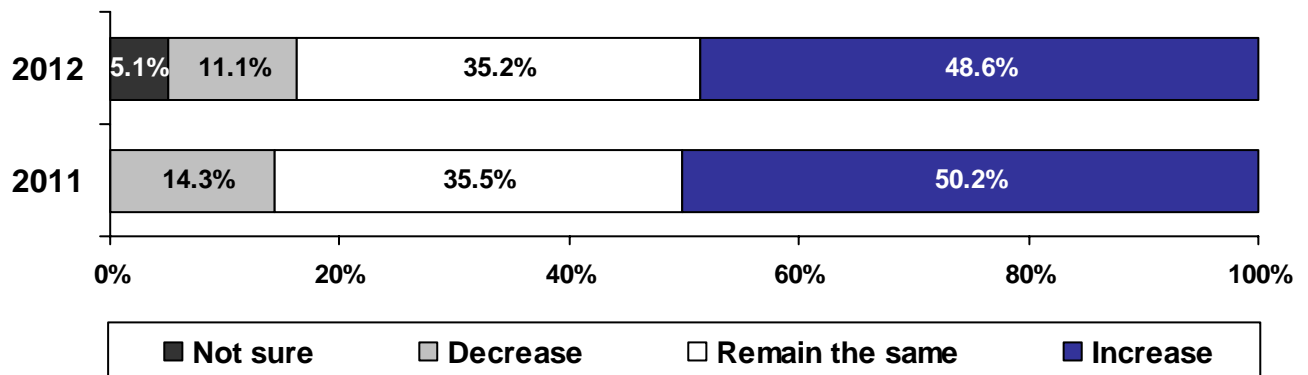
Will decrease in 2012	% of firms
Support staff	15.2%
Non-equity partners	11.1%
Equity partners	10.2%

Partners

Did the total number of Equity Partners in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

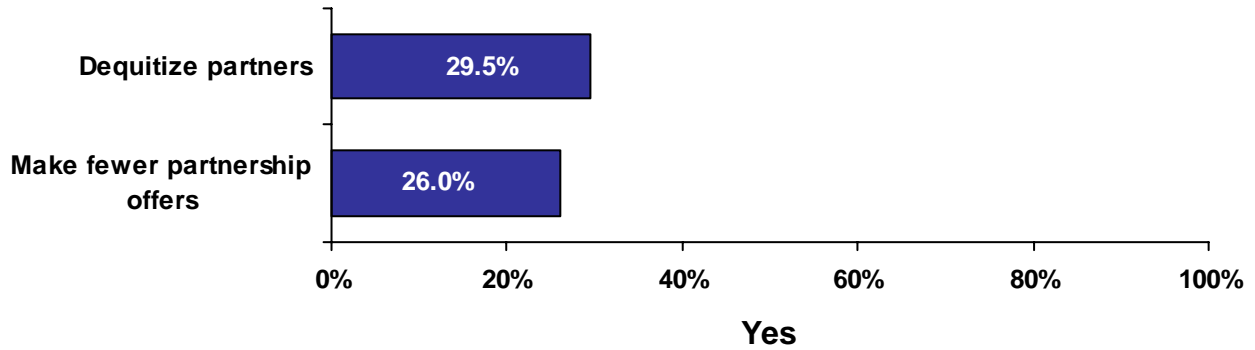


Did the total number of Non-Equity Partners in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

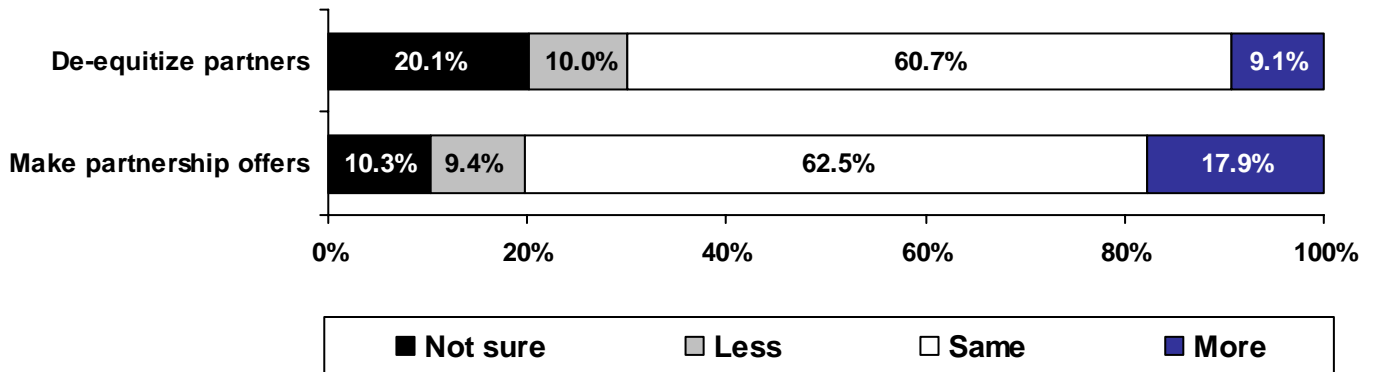


Partnership Status

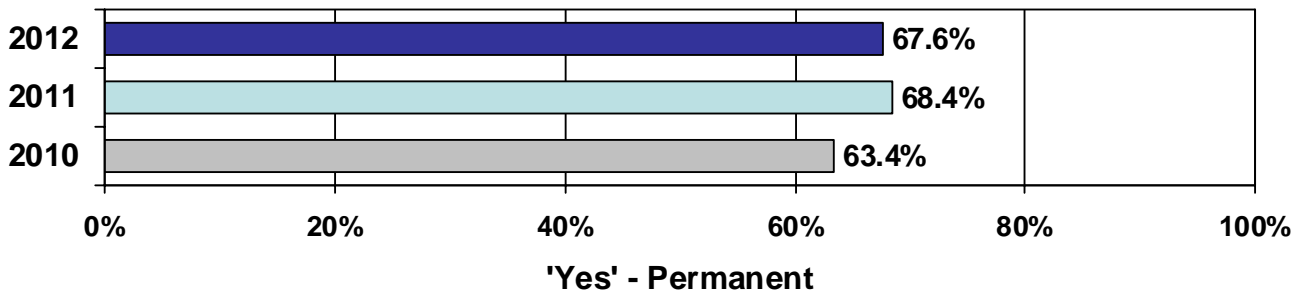
Did your law firm do any of the following in 2011?



Will you do more or less of the following in 2012, compared to what you did in 2011?

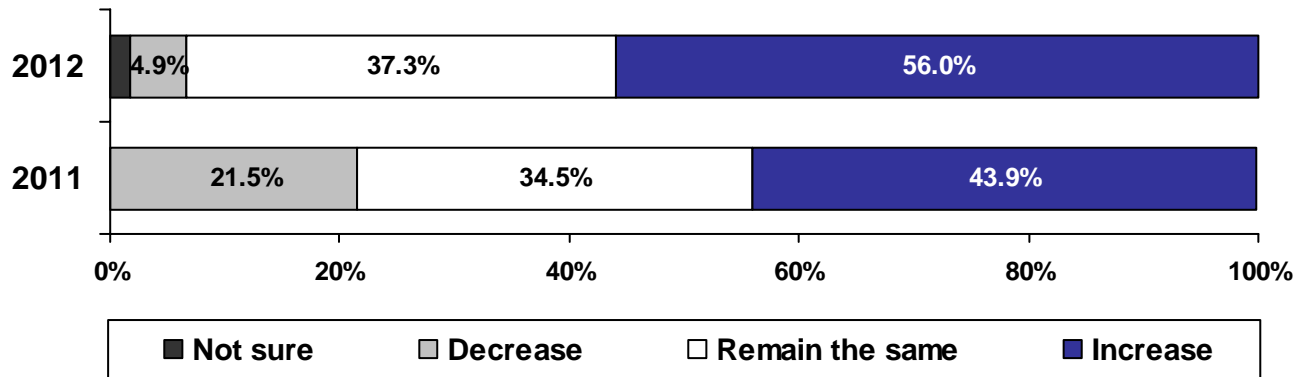


Do you think fewer equity partners will be a permanent trend going forward?

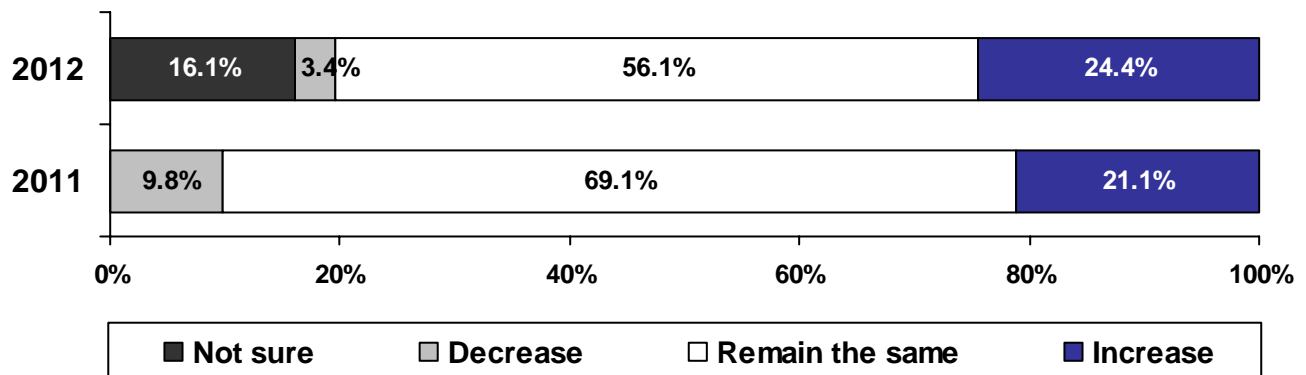


Associates

Did the total number of Partner-Track Associates in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

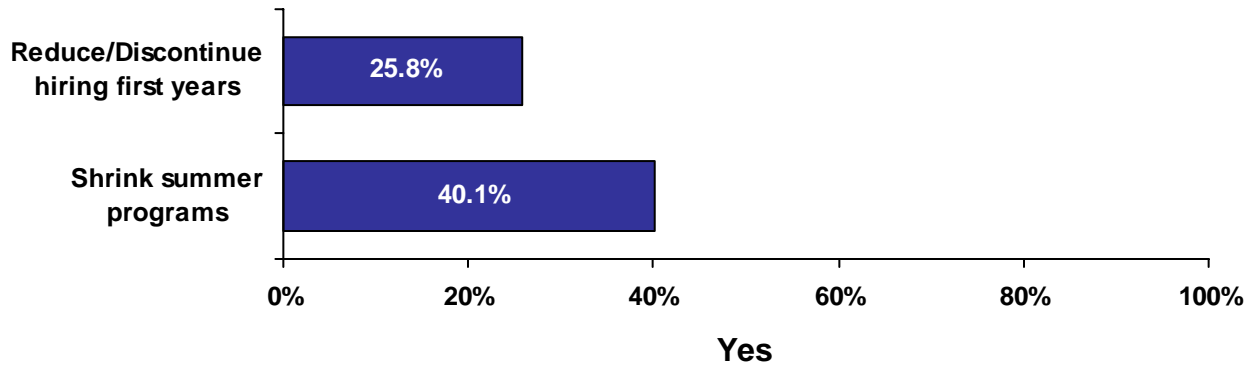


Did the total number of Non-Partner-Track Associates in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

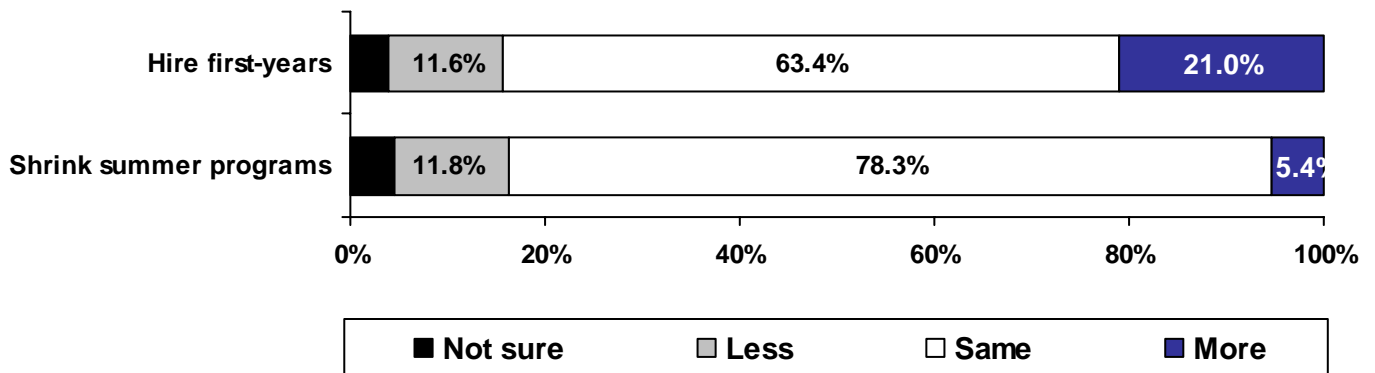


Associate Programs

Did your law firm do any of the following in 2011?

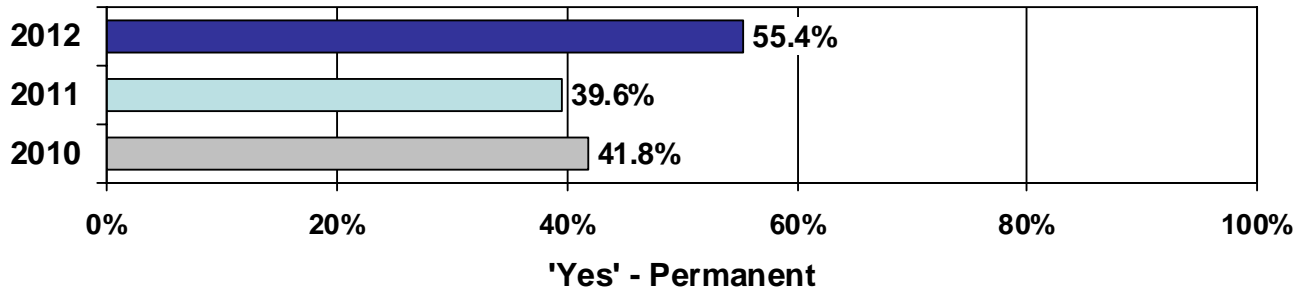


Will you do more or less of the following in 2012, compared to what you did in 2011?

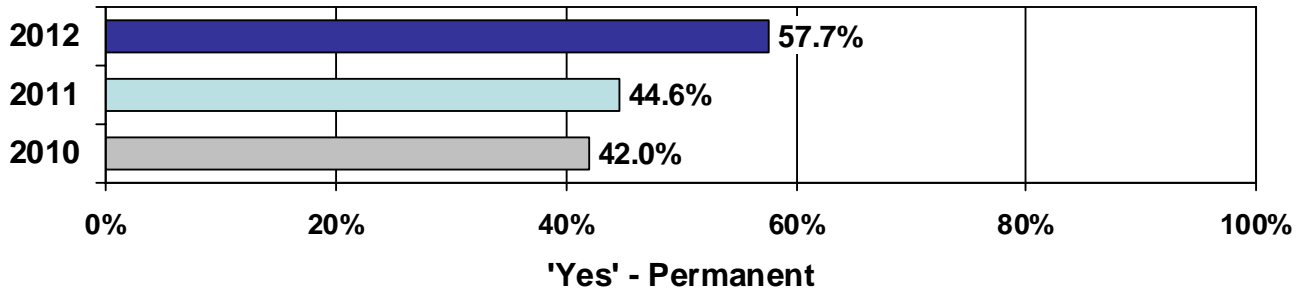


Associate Trends

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

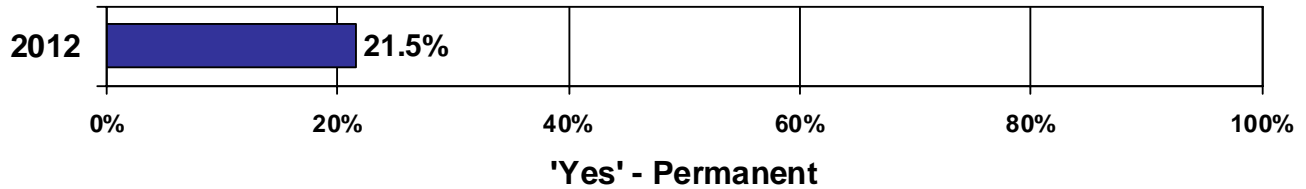


Do you think reduced leverage will be a permanent trend going forward?

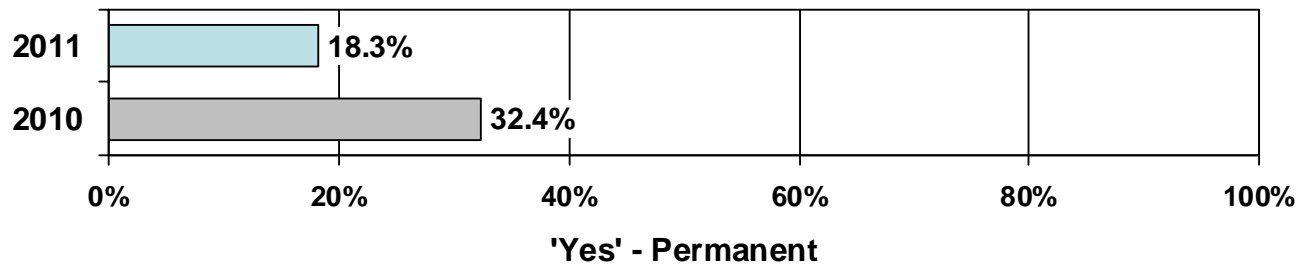


Associate Trends

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?



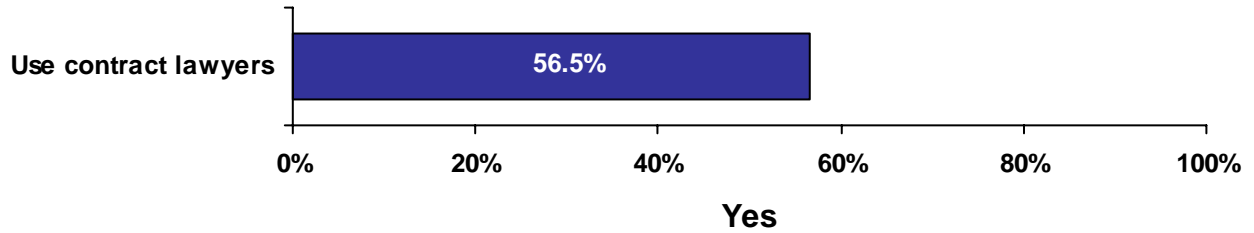
Comparison of survey results for increases in partner-track and non-partner track associates by firm size

Partner track associates	Increase 2011	Increase 2012
50-99	45.1%	60.3%
100-249	43.5%	55.8%
250-499	33.3%	47.4%
500-999	66.7%	71.4%
1000+	28.6%	14.3%

Non-Partner track associates	Increase 2011	Increase 2012
50-99	11.3%	11.3%
100-249	17.7%	21.5%
250-499	28.6%	33.3%
500-999	38.1%	52.4%
1000+	57.1%	42.9%

Contract Lawyers

Did your law firm use contract lawyers in 2011?



Comparison of survey results for use of contract lawyers by firm size

in 2011:

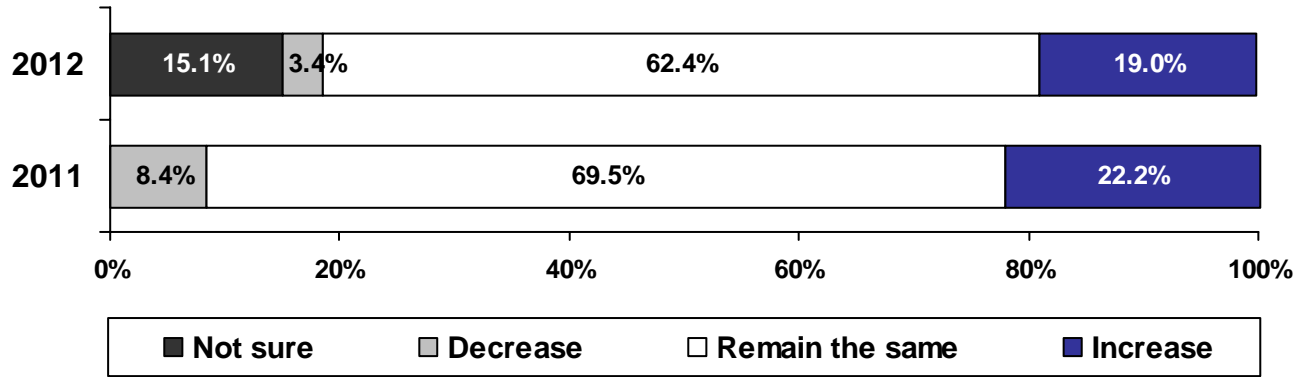
Used contract lawyers in 2011	Under 250 lawyers	250 or more lawyers
Yes	47.1%	78.8%
No	52.9%	21.2%

in 2010:

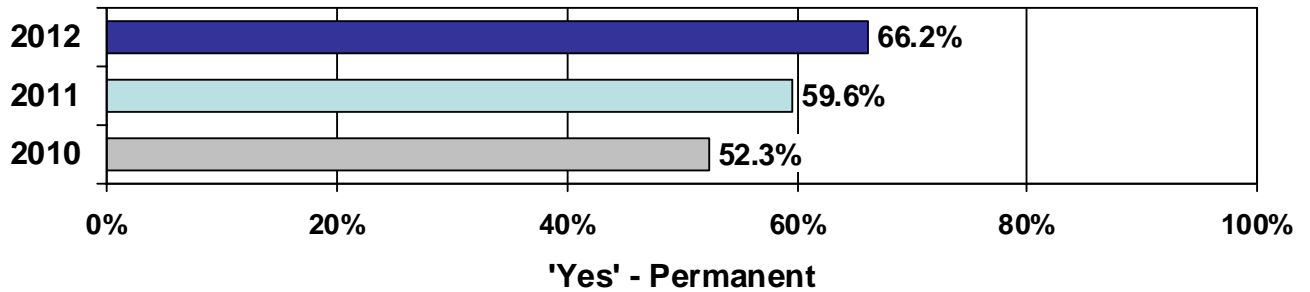
Used contract lawyers in 2010	Under 250 lawyers	250 or more lawyers
Yes	38.4%	61.9%
No	61.6%	38.1%

Contract Lawyers

Did the total number of Contract Lawyers in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

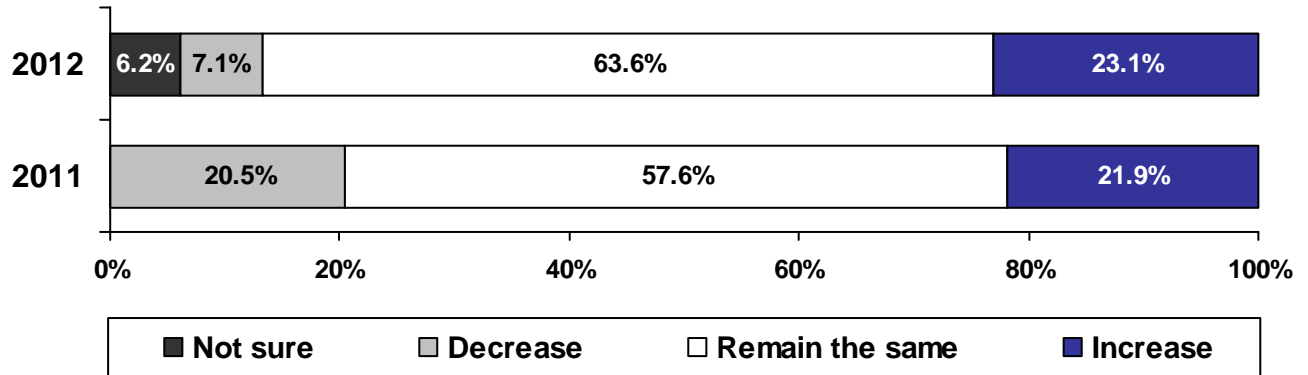


Do you think more contract lawyers will be a permanent trend going forward?

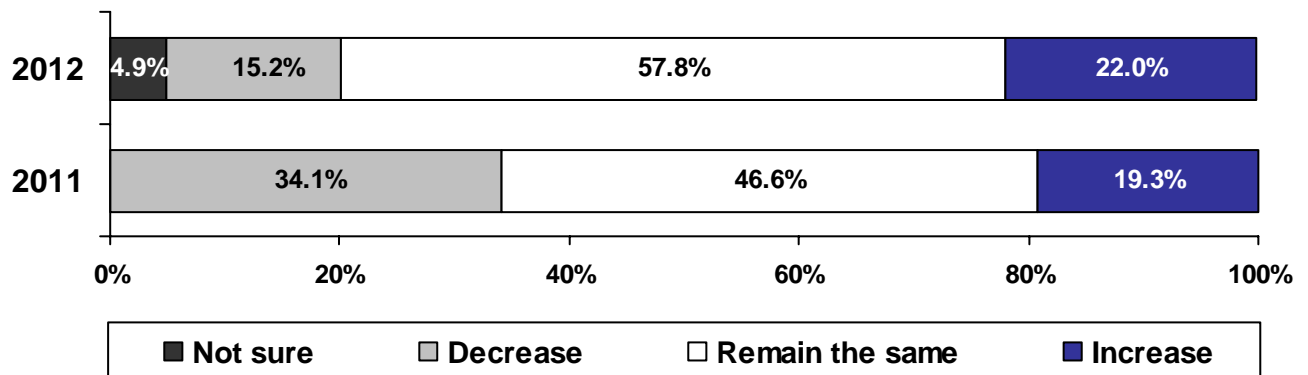


Non-Lawyer Staff

Did the total number of Paralegals in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?

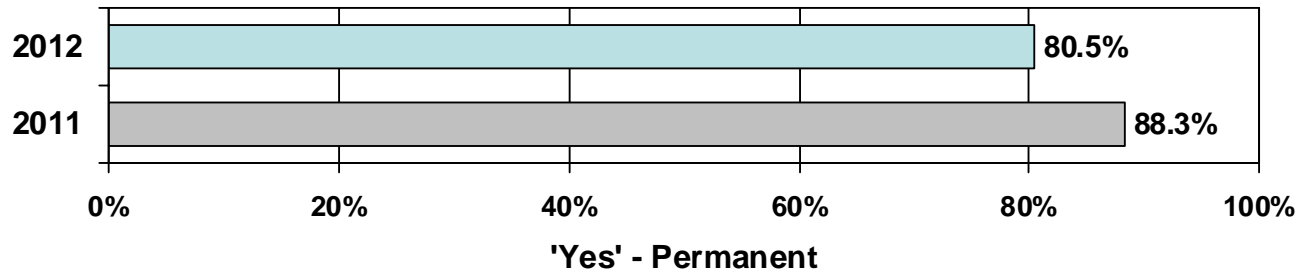


Did the total number of Support Staff in your law firm increase, decrease or remain the same in 2011? What change do you expect in 2012?



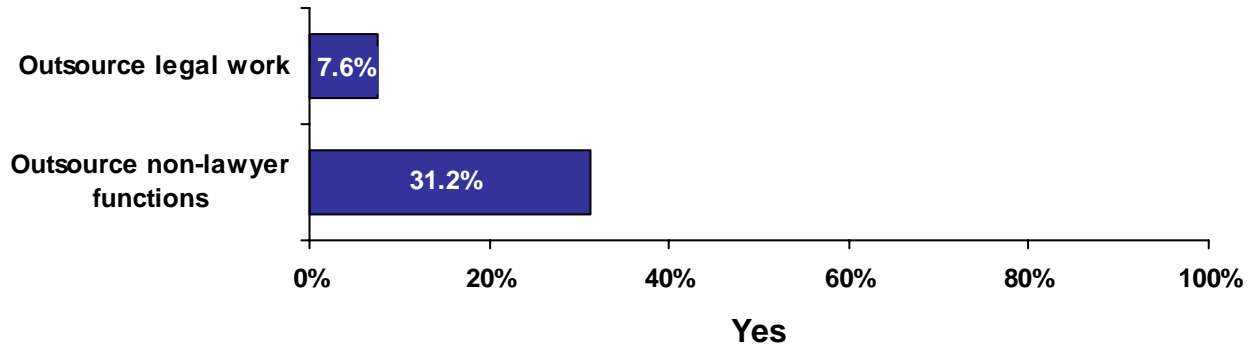
Support Staff Trends

Do you think fewer support staff will be a permanent trend going forward?

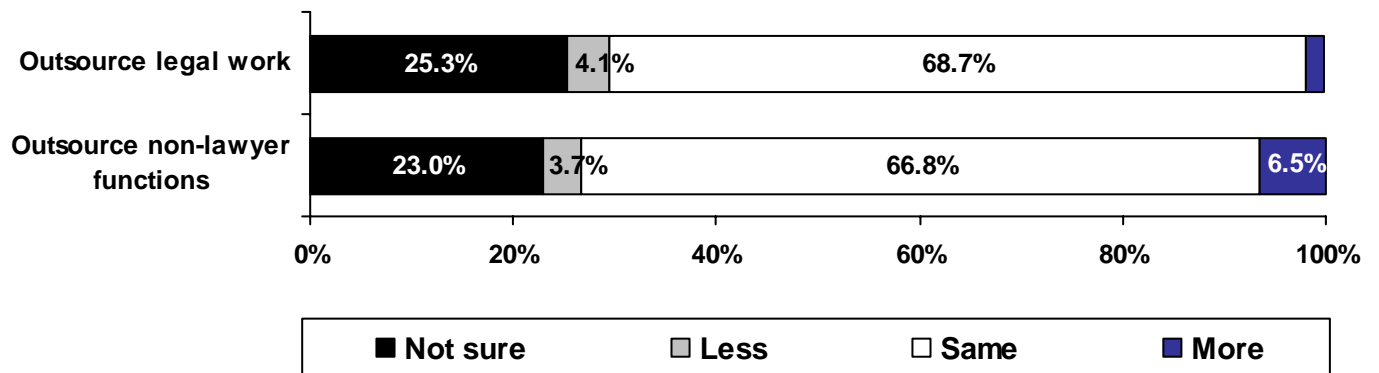


Outsourcing

Did your law firm do any of the following in 2011?



Will you do more or less of the following in 2012, compared to what you did in 2011?



Outsourcing Trends

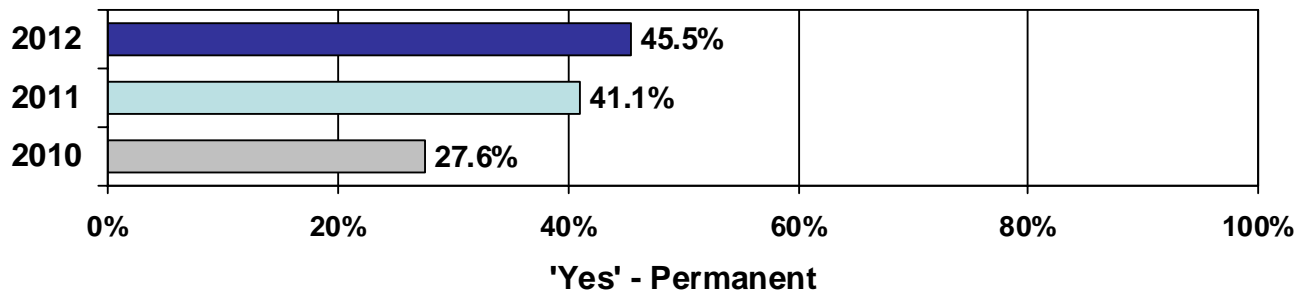
Comparison of survey results for Outsourcing legal work by firm size

Outsourced legal work in 2011	Under 250 lawyers	250 or more lawyers
Yes	1.9%	21.2%
No	98.1%	78.8%

Comparison of survey results for Outsourcing non-lawyer functions by firm size

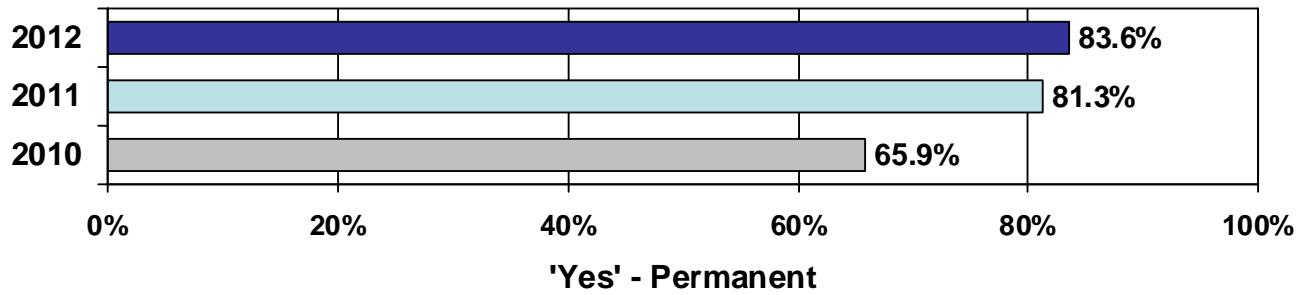
Outsourced non-lawyer functions in 2011	Under 250 lawyers	250 or more lawyers
Yes	25.9%	42.4%
No	74.1%	57.6%

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

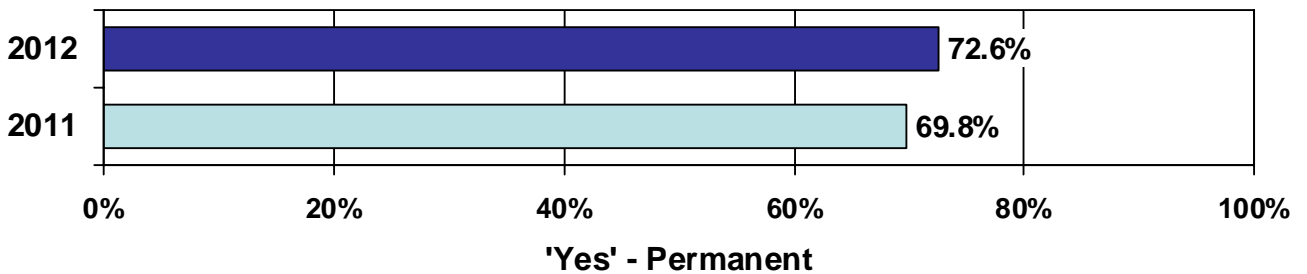


Practice Trends

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?

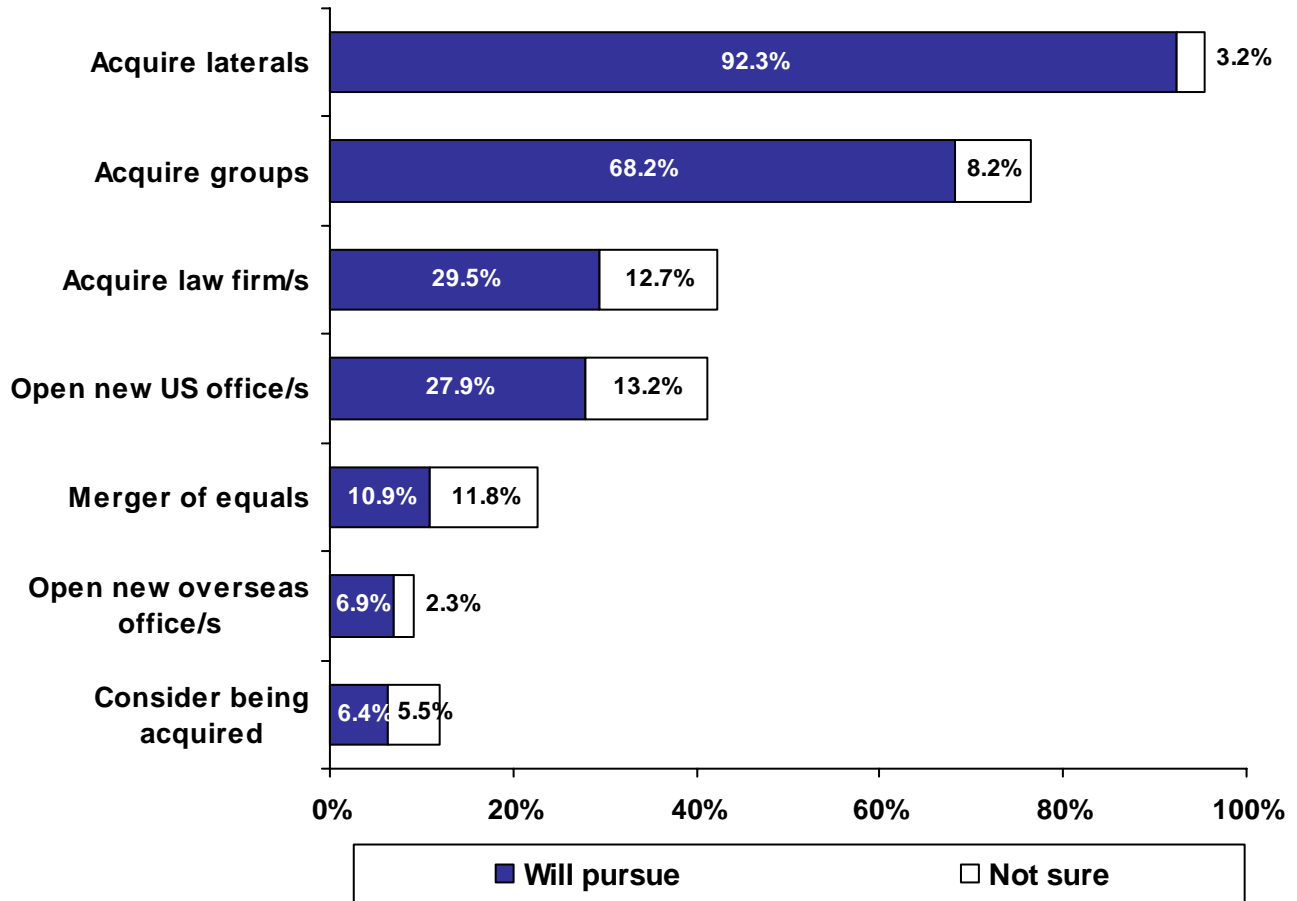


Growth

Law Firms in Transition 2012

Law Firm Growth - 2012

What growth options, if any, will your law firm pursue in 2012?



Law Firm Growth Trends

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

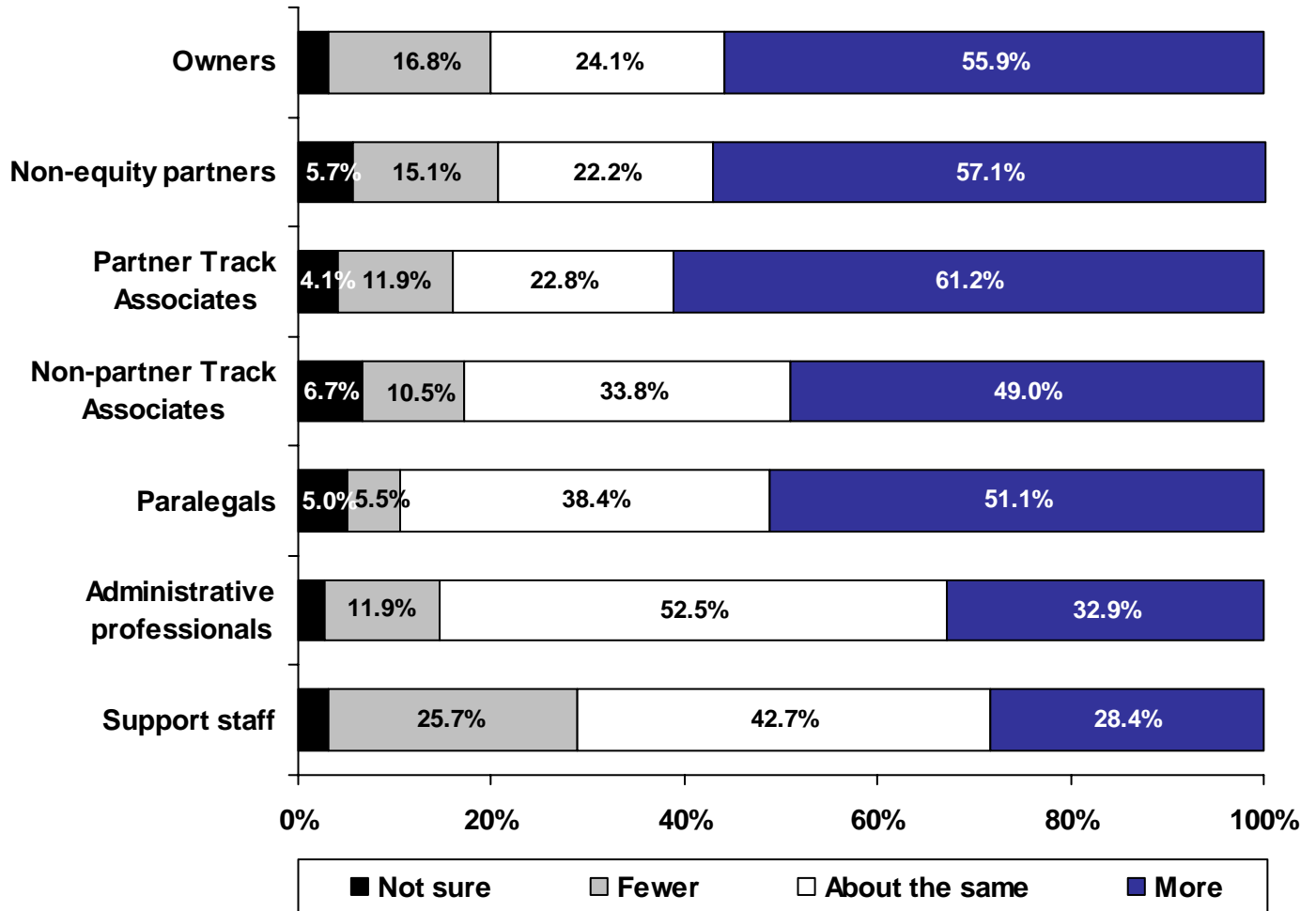
Top Growth Options	2010	2011	2012
Acquire laterals	85.3%	91.6%	92.3%
Acquire groups	54.8%	67.1%	68.2%
Acquire law firms	19.7%	23.0%	29.5%
Open new US offices/s	17.5%	24.6%	27.9%

Top 2012 growth options by firm size:

2012 Growth Options by firm size	Under 250 lawyers	250 or more lawyers
Acquire laterals	89.7%	98.5%
Acquire groups	57.4%	93.8%
Open new US offices/s	23.9%	37.5%
Acquire law firms	21.9%	47.7%

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?



Top three categories expected to decrease in five years:

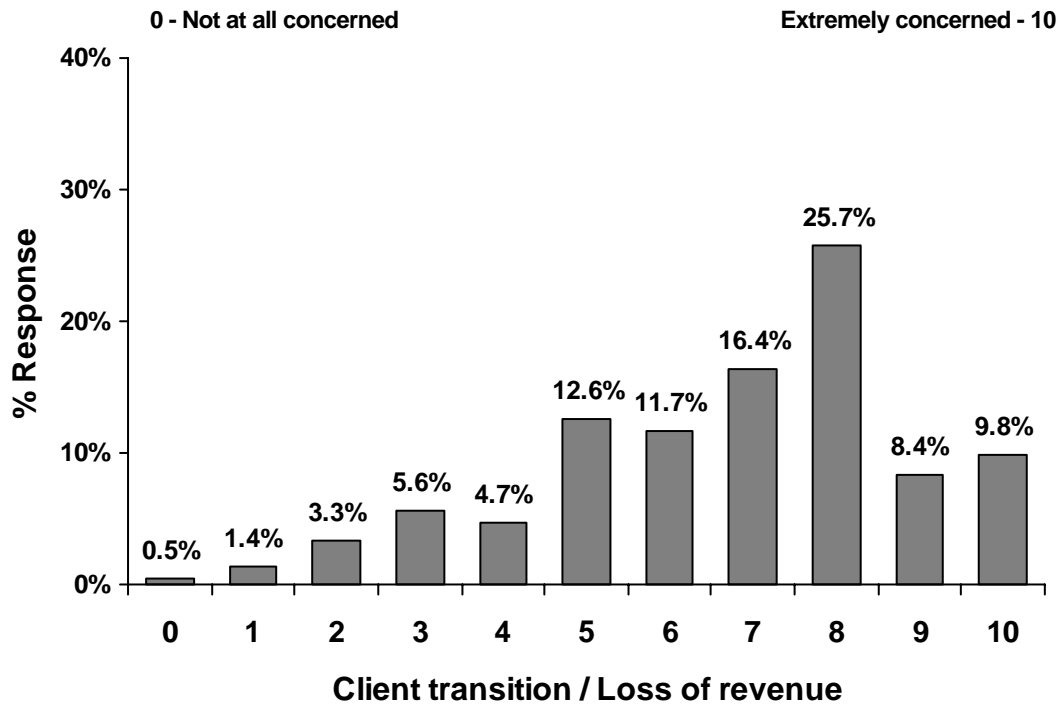
Will decrease in 5 years	% of firms
Support staff	25.7%
Owners	16.8%
Non-equity partners	15.1%

Succession Planning
Law Firms in Transition 2012

Retirement / Succession of Baby Boomers

In last year's *Law Firms in Transition Survey*, Managing Partners identified "Retirement / Succession of Baby Boomers" as a top concern. Please rate your level of concern with each of the following issues that may arise as your senior partners retire.

CLIENT TRANSITION / LOSS OF REVENUE



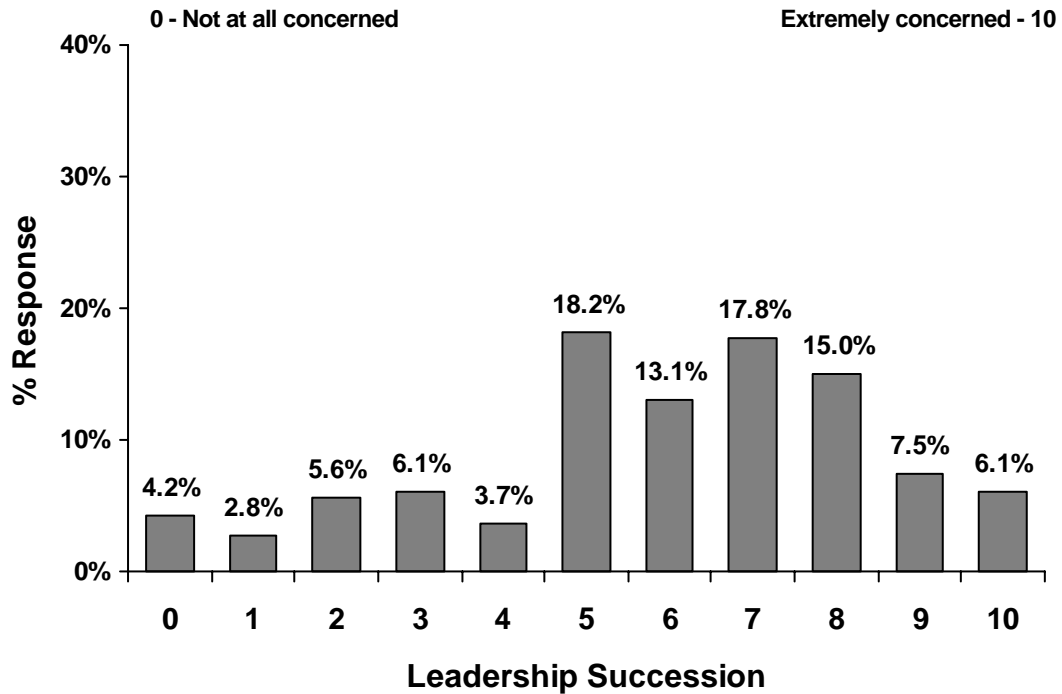
CONCERN	LOW					MODERATE			HIGH		
	0	1	2	3	4	5	6	7	8	9	10
RATING											
RESPONSE	28.1%					53.8%			18.2%		

Median rating: 7

Retirement / Succession of Baby Boomers

In last year's *Law Firms in Transition Survey*, Managing Partners identified "Retirement / Succession of Baby Boomers" as a top concern. Please rate your level of concern with each of the following issues that may arise as your senior partners retire.

LEADERSHIP SUCCESSION



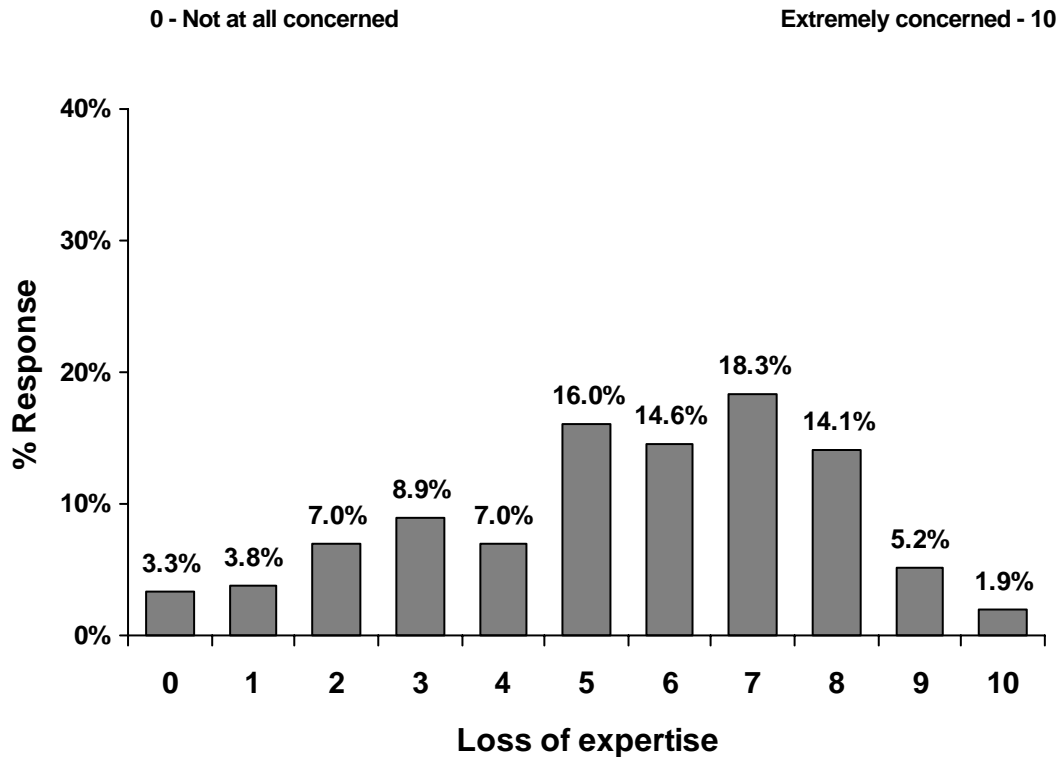
CONCERN	LOW					MODERATE			HIGH		
	0	1	2	3	4	5	6	7	8	9	10
RATING											
RESPONSE	40.6%					45.9%			13.6%		

Median rating: 6

Retirement / Succession of Baby Boomers

In last year's *Law Firms in Transition Survey*, Managing Partners identified "Retirement / Succession of Baby Boomers" as a top concern. Please rate your level of concern with each of the following issues that may arise as your senior partners retire.

LOSS OF EXPERTISE



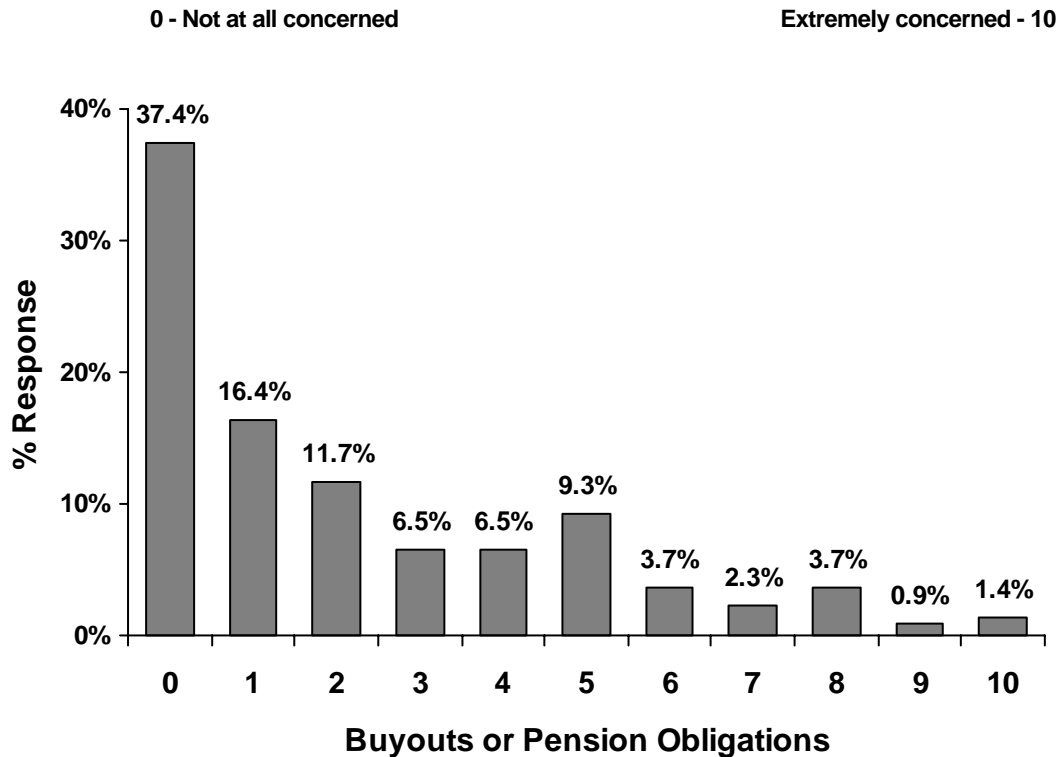
CONCERN	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	46.0%					47.0%			7.1%		

Median rating: 6

Retirement / Succession of Baby Boomers

In last year's *Law Firms in Transition Survey*, Managing Partners identified "Retirement / Succession of Baby Boomers" as a top concern. Please rate your level of concern with each of the following issues that may arise as your senior partners retire.

COST OF BUYOUTS OR PENSION OBLIGATIONS



CONCERN	LOW					MODERATE			HIGH		
	0	1	2	3	4	5	6	7	8	9	10
RATING											
RESPONSE	87.8%					9.7%			2.3%		

Median rating: 2

The Future

Law Firms in Transition 2012

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.

PROFITABILITY

- Maintaining our level of profitability in an increasingly price competitive market
- Maintaining profitability in a market with more client pressure on rates and total legal spend
- Sustained equity partner profitability at historical levels
- Profitability of alternative fee arrangements and getting hourly rates up

COMPETITION

- Obtaining a bigger slice of a shrinking pie; competing for work on a national level
- Competing with larger firms who are using creative billing arrangements to garner large quantities of client matters that used to go to midsize firms
- Increasing market share in an environment characterized by relentless price competition, while also developing and maintaining expertise in areas where there is less price sensitivity
- Business development and competition from national and regional firms that previously had not been significant in this geographic market
- Dealing with the volatility of the overall economy and with increased competition from additional firms in the marketplace

GROWTH

- Growing the firm and adjusting to the new normal in the process. Making sure the firm can grow while balancing the needs for client focus, perceived value and efficiency
- Continuing our growth in a thoughtful manner that will ensure long-term success of the firm, and avoiding any instinct to grow simply for the sake of growth
- Growth that is productive and not solely to have more lawyers

Areas of Concern

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

NEW BUSINESS

- Maintaining at least a constant share of a shrinking pie with traditional work, while making the right decisions concerning risk on developing areas of practice
- Finding new markets and other types of opportunities for expansion of services
- Generating quality business
- Institutionalizing urgency around business development.

CLIENTS

- Continuing to identify client needs and proactively meeting those needs
- Really learning our clients' businesses and industries and proactively helping them reduce risks and avoid problems
- Continuing to build broader, sustainable client relationships
- Improved client service and delivery of cost-efficient services as clients advance convergence programs

TALENT

- Attracting and retaining very highly talented professionals
- Attracting talented laterals to offset the inevitable loss of senior lawyers over the next 4-8 years
- Acquisition of quality lateral partners with a book of business, followed by full integration of those partners into the firm
- Maintaining level of profitability necessary to attract laterals and merger candidates required to continue to transition our firm away from commodity work and toward higher value work
- Hanging on to our best talent

Areas of Concern

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

SUCCESSION

- Looming retirement of equity partners and the transition of relationships
- Managing retirement of senior partners, transitioning client relationships
- Addressing the myriad of issues related to succession and transition as our Baby Boomers slowdown/retire
- Successorship for prominent members who are phasing out of the practice. Successorship in leadership, prominence and esteem

CHANGE

- Re-engineering the way we practice law, to continue to enhance the efficiency and effectiveness of our legal service delivery model, and to expand our use of value and performance-based fees structures
- Staying the course on positive changes we have implemented if the partners' "sense of urgency" declines
- Leading change towards project management, efficiency and realigning the model
- Managing expectations of partners and convincing them of the underlying industry-wide uncertainty in the business part of the profession
- Keeping our best work, keeping our best people, keeping our profitability up while maintaining roughly the same culture the firm has always had. The practice of law is just more difficult than it has been previously, and we are having to adjust to this reality.

Areas of Concern

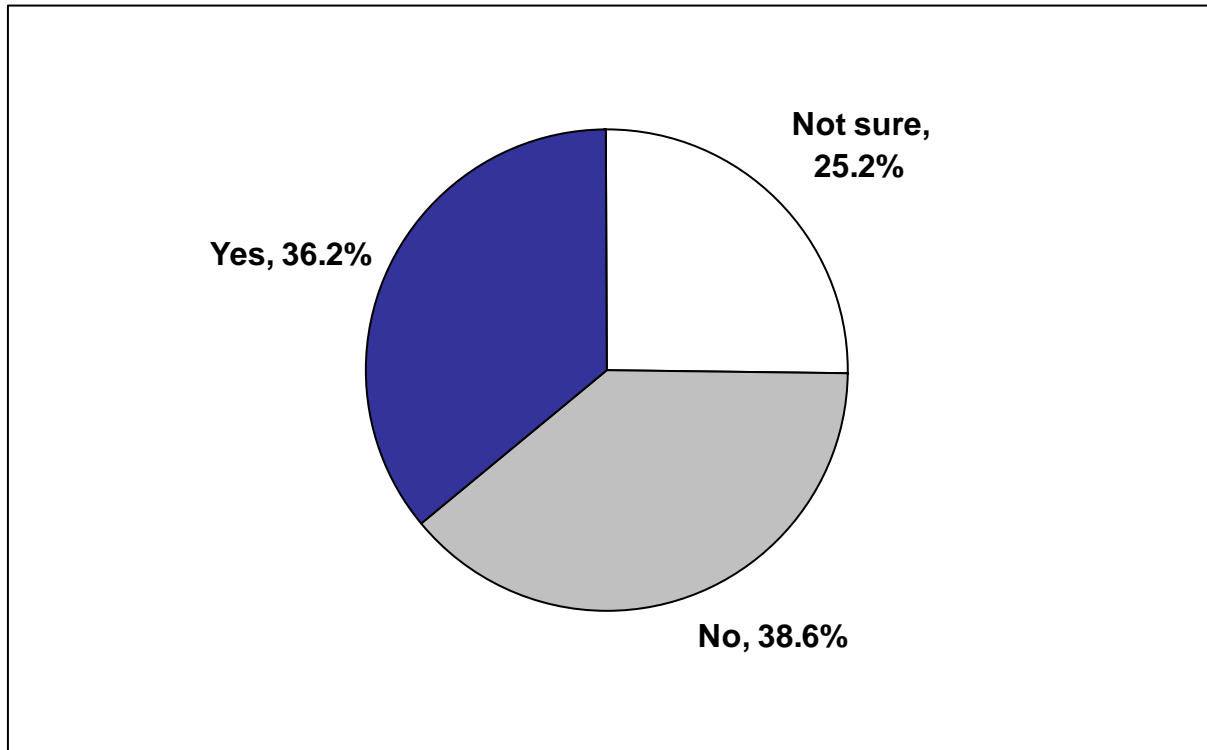
What will be your firm's greatest challenge in the next 24 months?

Following is a graphic depiction of responses to this open-ended question displayed as a "word cloud" – a computer-generated illustration of a large body of text in which words found more often appear larger than those less frequently used.



The Future of the Legal Profession

Considering all the changes and challenges the legal profession is facing, would you advise your son or daughter to attend law school in 2012?



Demographics

Law Firms in Transition 2012

2012 Survey Demographics

In March and April 2012, Altman Weil surveyed Managing Partners and Chairs of 792 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 +	22	8	36%
500 – 999	57	23	40%
250 – 499	85	42	49%
100 – 249	250	90	36%
50 – 99	378	75	20%
All	792	238	30%

The respondent group includes**:

- 40% of 2012 NLJ 250 law firms
- 34% of 2011 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 2012. Survey participants reported their own headcounts.

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

Contact Altman Weil

Two Campus Boulevard
Newtown Square, PA 19073
(610) 886-2000
www.altmanweil.com
info@altmanweil.com

Thomas S. Clay: tsclay@altmanweil.com
Eric A. Seeger: eseeger@altmanweil.com

