One thing's clear: Second Hundred firms are on a hiring binge. What's not certain is when—or whether—it'll pay off.

BETTING ON **BULK**

By Victor Li

ILLUSTRATIONS BY AAD GOUDAPPEL

SELDOM HAS THE STRATEGIC DIVIDE BETWEEN THE Am Law 100 and the Second Hundred been so stark. Faced with a tepid economic recovery in 2012, the big boys played it safe—and their smaller competitors gambled on growth.

After a disappointing 2011, the Second Hundred—firms 101–200 on *The American Lawyer*'s list of the nation's highest-grossing firms—took in $18.51 billion in gross revenue, an all-time high. It was a 3.2 percent increase from 2011, nearly on par with The Am Law 100's gross revenue growth rate of 3.4 percent.

But that's where the similarities end. Almost all of the Second Hundred's top-line growth was achieved through leverage. Total head count grew by 885 lawyers, a 3 percent increase that more than reversed a 2.5 percent drop in head count in 2011. Many of those lawyers flowed into the partnership ranks: The Second Hundred's total number of equity partners rose 1 percent (by 108 partners), while its number of nonequity partners increased 10.1 percent (by 584).

The result was weak growth for the Second Hundred in per-lawyer and per-partner metrics. The Second Hundred's average revenue per lawyer increased just 0.2 percent, to $611,658, while average profits per partner rose 2.4 percent, to $696,576, and average compensation–all partners increased 0.3 percent, to $546,955.

Compare that to The Am Law 100, where firm leaders rigorously kept a lid on leverage. There, total head count increased just 0.8 percent, and the total number of equity partners was flat, at 19,221, while the number of nonequity partners increased just 2.5 percent, to 12,909. Average revenue per lawyer grew 2.6 percent, to $844,245, while average profits per partner increased 4.2 percent, to $1.5 million, and average compensation–all partners rose 3.0 percent, to $1.1 million ["Spring Awakening," May].

Second Hundred firms are wagering that, as the economy improves, their lower rates— compared to The Am Law 100's—will drive work their way, and that their investment in new partners will ultimately pay off. "As a result of the recession, far more work from major corporations gets put out for competitive bidding now, and our rates are so much lower that there has been a great influx of work for us," says Roger Quillen, managing partner at labor and employment firm Fisher & Phillips, where gross revenue increased by 9.9 percent and head count increased by 8 percent.

The Second Hundred's biggest top-line gains were at Indianapolis's Ice Miller, where gross revenue grew 32.5 percent, to $169 million; head count rose 37.4 percent, to 301; and equity partner ranks increased 29.9 percent, to 126. The firm merged with Ohio-based Schottenstein Zox and Dunn in 2012, and at least in the short term, the combination was dilutive: Revenue per lawyer decreased 3.4 percent, to $560,000; profits per partner dropped 2.4 percent, to $620,000; and average compensation–all partners dropped 7.1 percent, to $520,000.

"We are looking to grow RPL over time, but understand that each market and each practice group is different and the economic climate remains challenging," says Ice Miller's chief managing partner, Phillip Bayt. Besides, Bayt noted, the combination, which was finalized in

January 2012, has already brought in new work that neither predecessor firm would have been able to secure on its own, including public/private partnership work on road and bridge projects in Ohio.

In addition to Ice Miller, four firms—Fenwick & West, Gordon & Rees, Polsinelli, and Winstead—posted double-digit percentage increases in both gross revenue and lawyer head count. However, all four saw revenue per lawyer grow by less than 3.5 percent, and in the case of Gordon & Rees, RPL declined.

At Polsinelli, gross revenue grew 17.2 percent—the Second Hundred's third-largest increase, behind Ice Miller and Holland & Hart, which had a contingency award [see "Farm Aid," page 53]—and head count increased 13.9 percent. The Kansas City, Missouri, firm has embarked on an aggressive strategy of lateral partner recruitment and expansion fueled by its work in the health care market [see "Healthy Living," page 54].

Fenwick, meanwhile, attributed its 13.1 percent increase in gross revenue—the Second Hundred's fifth-highest—to a strengthening market for technology initial public offerings. The Mountain View, California, firm worked on the top three tech IPOs of 2012, as ranked by VentureBeat, and six of the top 10, including Facebook's ["Facebook's Friend," June 2012]. Managing partner Kathryn Fritz says that the additional revenue allowed Fenwick to hire aggressively (head count increased 11.7 percent). "We've added a number of lawyers over the last couple of years, but that's to match the increased growth our clients have demanded," Fritz says.

Winstead, where gross revenue grew 12.1 percent, and Gordon & Rees, where it rose 10.8 percent, are among the Second Hundred firms that have loaded up recently on Am Law 100 partners. Over the last couple of years, the market has been inundated with lawyers leaving the Am Law 100 due to a combination of factors, including rate pressure and incompatibility with a global business model ["A Rebuilding Year," June 2011, and "This Time It's Personal," February 2012].

Winstead chairman Kevin Sullivan says he first noticed Am Law 100 lawyers leaving for smaller firms three years ago and made it a point to recruit those partners for his firm. The firm, which has brought on 18 partners from Am Law 100 firms since 2010, posted a 10.1 percent increase in head count in 2012, and a 2.5 percent rise in revenue per lawyer.

At Gordon & Rees, meanwhile, head count rose 13.4 percent, while revenue per lawyer fell 2.2 percent. "There's always going to be a lag

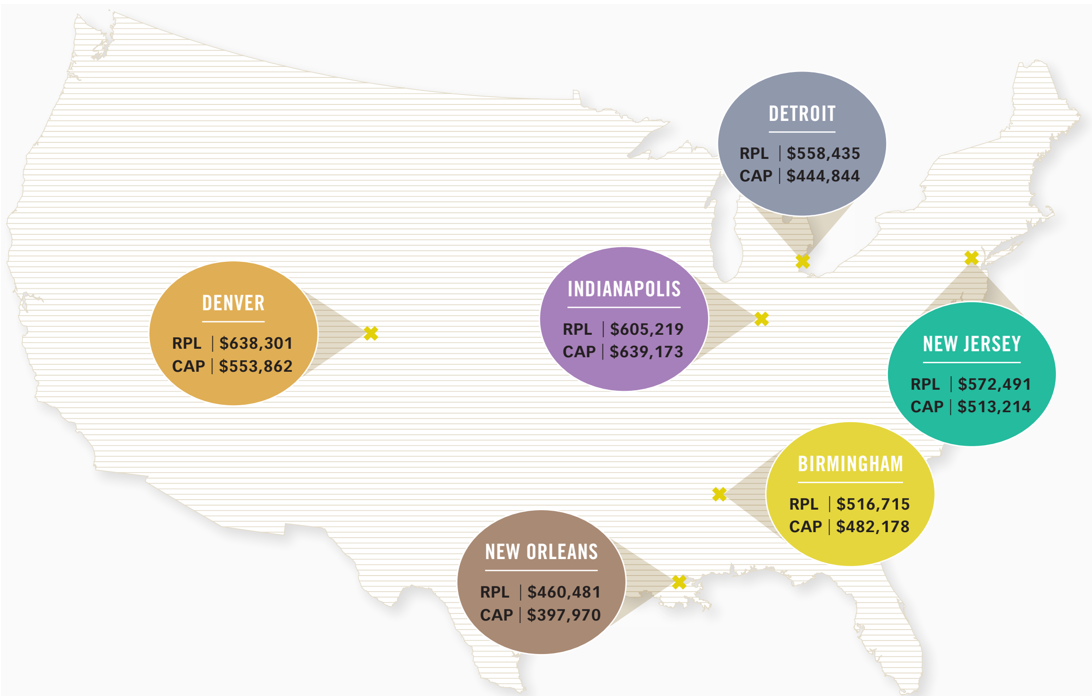
THE BIG PICTURE

Combined revenues at the nation's 200 highest-grossing firms edged above $90 billion in 2012 and exceeded the rate of growth in head count.

AM LAW 200	TOTAL	INCREASE
Gross Revenue	$91.9 billion	3.4%
Head Count	117,199	1.3%
Equity Partners	28,976	0.4%

SECOND HUNDRED STRONGHOLDS

Average revenue per lawyer and compensation–all partners in six markets with at least two Second Hundred firms but no native Am Law 100 firms.



time when you bring in a new group," says managing partner Dion Cominos. "You're immediately paying for their expenses, but you won't see their revenue for a few months."

Ice Miller's experience notwithstanding, Second Hundred mergers were not always dilutive, Birmingham's Burr & Forman, for instance, acquired Tampa's Williams Schifino Mangione & Steady's 23 lawyers, 14 of whom were partners. Despite a 7.3 percent increase in head count and 6.9 percent increase in equity partner count, Burr & Forman's revenue per lawyer grew 2.1 percent and profits per partner increased 2.2 percent. "After we moved to Tampa [via the merger], one client moved over 140 litigation matters to us immediately," says managing partner Lee Thuston. "To me, that is validation in its truest form."

Other firms went to the merger well in 2012 but came up dry. "We spent a good deal of time looking from a position of strength for merger partners and appropriate laterals in various markets," says Mark Hinderks, managing partner at Kansas City, Missouri's Stinson Morrison Hecker, where gross revenue rose by 3.8 percent, revenue per lawyer rose by 1.9 percent, and profits per partner increased by 6.9 percent. "We weren't able to pull off a larger merger, in part because we were looking for a firm that was pretty equivalent to us in terms of economics and being cautious about growth." Hinderks says his firm is still looking at, and talking to, potential partners.

New York's Herrick, Feinstein, which posted the Second Hundred's largest drop in profits per partner (23 percent) is also looking at smaller firms or groups of laterals to acquire, as well as individual laterals from Am Law 100 firms. "We hope to continue to pick off excellent practitioners from larger firms looking to service middle-market clients," says chairman Irwin Kishner. About the firm's decline in PPP, Kishner says, "The bottom line is, we're in a five-to-six-year recessionary cycle. We've noticed an uptick in the work, but in the last couple of years, we'd been bolstered by a number of contingency matters. Last year, there was no big ground-mover in terms of contingencies."

Among all Second Hundred firms, the second-largest gain in revenue per lawyer—9.6 percent—was posted by Columbia, South Carolina's Nelson Mullins Riley & Scarborough. (Holland & Hart had the largest.) Nelson Mullins posted healthy gains in other key metrics as well: Gross revenue rose 14.3 percent, to $271 million; profits per partner climbed 13.3 percent, to $680,000; and average compensation–all partners rose 7.6 percent, to $495,000. (Revenue per lawyer was $625,000.)

While Nelson Mullins expanded in 2012, as demonstrated by its office openings in Nashville and Boston, it constrained its increase in head count relative to its counterparts, adding only 4.6 percent to its roster of lawyers, and aggressively continued a decadelong campaign to lower overhead, managing partner James Lehman says. Among other things, the firm has relocated back-office staffers scattered across the country to South Carolina. "Being careful on costs allows us to offer a value proposition to our clients, whether through an alternative fee arrangement or a rate structure that's more attractive in this environment," Lehman told *The Am Law Daily* in February. "That creates a lot of demand for our professionals." And that, in turn, allows partners' wallets to expand faster than their firms' head counts.

MORE BODIES, SMALLER PAYOFF

Last year the Second Hundred's total head count and equity partner ranks grew more than The Am Law 100's, but total gross revenue did not.

METRIC	AM LAW 100	INCREASE	SECOND HUNDRED	INCREASE
Gross Revenue	$73.4 billion	3.4%	$18.5 billion	3.2%
Head Count	86,941	0.8%	30,258	3.0%
Equity Partners	19,221	0.0%	9,755	1.1%

TALE OF THE TAPE

In 2012 the Second Hundred's gains trailed The Am Law 100's in all major per capita financial metrics.

METRIC	AM LAW 100	INCREASE	SECOND HUNDRED	INCREASE
Average RPL	$844,245	2.6%	$611,658	0.2%
Average PPP	$1,466,922	4.2%	$696,576	2.4%
Average CAP	$1,058,381	3.0%	$546,955	0.3%
Average VPL	$391,136	3.2%	$291,662	1.8%

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