PRESS CUTTING

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THE LONDON LAWYER: U.K. Law Firms Feel the Squeeze

On Monday, Linklaters became the latest firm to announce its revenues for the first half of the current financial year, reporting a slight increase from last year (for most English firms, the fiscal year runs from May 1 to April 30). Linklaters' billings for the period May 1 to October 31 totaled £653 million, or $980 million, a 3 percent increase from last year's £633 million, or $949 million.

Compared with the other English firms to report--and the vast majority of the top 25 already have--Linklaters falls into the any-growth-is-good-in-this-market group, but not quite in the double-digit-rise club headed by Allen & Overy and Norton Rose (both saw revenues increase by 11 percent in the first half).

The first half of the firm's fiscal year reflects its first six weeks of work on the collapse of Lehman Brothers (Linklaters is acting for the bankruptcy administrators in both Europe and Asia), so it's fair to assume that it hasn't yet seen the full boost from the Lehman work.

Managing partner Simon Davies was suitably muted in his comments on the first-half numbers.

"The economic landscape has changed profoundly in the past two months," Davies said in a statement. "Undoubtedly, this presents significant challenges to our clients and to us in 2009. Our priority is to offer the best possible support to our clients as we move forward in these very challenging times."

These challenging times are squeezing the U.K. legal market, though not quite to the degree they are hurting U.S. firms. Nothing in London comes close to the collapse of Heller Ehrman and Thelen, or the upheaval seen at Cadwalader. In this market, a lockstep partnership, the remuneration structure of choice for most English firms, looks like a better bet than the eat-what-you-kill systems in place at firms like Cadwalader.

But even without the fireworks, the news from London is bleak. There has been a steady stream of layoffs, principally among domestic U.K. practices, such as Eversheds and Hammonds, and from the London offices of some U.S. practices (both White & Case's and Mayer Brown's recently announced cutbacks are expected to include 10 and 11 London-based attorneys respectively).

Few doubt the gravity of the situation for U.K. firms. "We're seeing partners being asked to leave or being de-equitized," says Ronnie Fox, a partnership law specialist at Fox Solicitors. "I think it's worse than the early 1990s, and we'll see some firms go to the wall," he adds. Firm collapses are incredibly rare among the U.K.'s largest firms, partly because major firms have institutionalized their client relationships. Clients tend to be clients of the firm, not of individual partners, which mitigates the damage of large-scale partner departures. That makes Fox's prediction particularly stark.

Dominique Graham, a recruiter at Graham Gill in London, says that in contrast to the downturn of the early 1990s, when most City practices aggressively cut their associate ranks, today many firms are looking at both their associate and partner rosters. "Like any recession, this downturn has focused management's eye on talent," she says.

Entering into this recession, U.K. firms are very different businesses than they were in other downturns, far more prepared to cut costs and reshape their partnerships. A few, such as Freshfields Bruckhaus Deringer--which shrunk its equity partnership by around 100 between 2005 and 2007 and introduced a non-equity partner tier--have made their tough decisions during boom times. Others among the U.K.'s top 50 don't have that luxury.

Even without management coups or firm collapses, London's legal community is feeling the squeeze.