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Fearing Recession, Law Firms Tighten Belts

BY THOMAS FERNANDEZ - Special to the Sun
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Over the past several years, with the economy booming and business brisk, New York City's best law firms scrambled to hire as many lawyers as they could out of school, and from each other, pushing up starting salaries to more than \$160,000 a year, plus bonuses. Now the same firms are slowing their staffing efforts, and those with big Wall Street departments are downsizing.

Earlier this month, Manhattan-based Cadwalader Wickersham & Taft laid off 35 lawyers, 26 of them in New York City, and late last year, Thatcher Proffitt & Wood cut 50 associates' jobs. The cuts have spurred other firms to follow suit, experts said.

"I'm hearing more and more that many law firms are beginning to tighten their belts, especially in the area of associate ranks," the chairman and managing partner of the law firm Morrison Cohen, David Scherl, said. White-shoe firms with large securities groups that could be at risk include Sidley Austin; Orrick, Herrington & Sutcliffe; Cleary Gottlieb Steen & Hamilton; and McKee Nelson.

The industry's woes started last summer with the credit crunch, when investor access to the capital markets was curtailed and the city's big-ticket mergers and real estate deals dried up. The four-year race to woo the best associates at all costs also has

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become untenable for many firms, experts said.

A full-blown recession could lead to a splintering of salaries, with weaker firms forced to abstain from further pay increases. Such firms will be vulnerable to poaching by competitors and some established names would fall in a recession.

"Many firms have generally proven themselves to be not recession-proof," a managing partner at Pryor Cashman, Ronald Shechtman, said.

In order to avoid the negative publicity associated with layoffs, firms are seeking first to winnow their teams by elevating performance standards and quietly letting go those lawyers who fail to meet the standards, the chairman of the legal consultancy firm Hildebrandt International, Brad Hildebrandt, said. But such tactics may not be enough if the economy and Wall Street institutions continue to flounder.

Many of today's lawyers have never experienced a true recession and are already having a tough time. "Many don't know how to react or recognize what's starting to happen around them," a co-founder and chief executive of the recruiting firm Vintage Legal, David Anderson, said. "Some have already been caught flatfooted."

Still, it is not all bad news for lawyers. Areas such as bankruptcy and litigation benefit during an economic downturn, and attorneys with corporate experience can turn to hedge funds that are scrambling to hire in-house lawyers to address increasing regulatory pressures, a managing partner of the New York office of the recruiting firm Major Lindsey & Africa, Jonathan Lindsey, said.

Mr. Lindsey said his office has handled as many hedge fund placements in January as it did in the previous six months. "The demand is tremendous," he said, adding, "the right person can make seven figures."

A handful of medium-size firms are aggressively hiring. Morrison Cohen, for example, hired 20 attorneys last year, including six associates during the last three months of the year; it is already set to bring on at least another seven this year. Morrison's corporate practice is growing because it focuses on the middle market: Deals under \$1 billion haven't been hurt as much by the debt crisis. Moreover, the 100-lawyer firm has a low associate-to-partner ratio, translating into lower costs.

Pryor Cashman hired five attorneys during the last half of 2007 and plans to hire at least as many the first half of this year. Herrick Feinstein is still hiring in real estate because it steered clear of structured finance and has focused instead on leasing activity, loans, and now distressed enterprises.

"There is still plenty of real estate work to be done," a member of Herrick's executive committee, Carl Schwartz, said.

Duane Morris is also on a hiring spree. It has taken on at least 14 attorneys since April and plans to hire another 20 in the next year and a half. "We're going full-blown and will continue to hire irrespective of the market," the firm's New York hiring partner, Michael Grohman, said.

"It creates great opportunities for us," he said.

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