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MORE, PLEASE: "There is a consensus amongst the partners that we will grow more aggressively," says Guy Halgren, chairman of Sheppard, Mullin, Richter & Hampton's executive committee.

VIRGINIA LEE HUNTER

SHEPPARD'S PIE

L.A.'s Sheppard Mullin hopes to fill its plate with expansion plans

By Alexei Oreskovic
RECORDER STAFF WRITER

The blizzard that pounded Washington, D.C., one morning this February, burying the city under several feet of snow, didn't make for an ideal opening day.

Roads were impassable, the public transportation system was paralyzed, and the city's mayor even declared a state of emergency.

But for attorneys at Sheppard, Mullin, Richter & Hampton, whose D.C. office opened its doors for the first

time that morning, there was reason to take heart: It may have been the first time snow had ever fallen on a Sheppard Mullin office.

For more than 75 years, Sheppard Mullin has grown within the confines of California. Now the firm is venturing beyond the comforts of its home turf in a bid to become a national player.

At the same time that the firm is building up its fledgling D.C. outpost, it's also actively looking for a way to break into the New York market.

But going national is no simple feat — especially for a firm that has long espoused a conservative business philos-

L.A.'s Sheppard Mullin plans national growth



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EASTWARD, HO: Leading Sheppard, Mullin, Richter & Hampton's cross-country push are Guy Halgren, right, chairman of the firm's executive committee, and Joseph Coyne Jr., an executive committee member charged with growth and strategic planning initiatives.

ophy, favoring stability and risk reduction over growth. As Sheppard Mullin carries out its coast-to-coast expansion, the firm may have to shed more than just its regional label.

Leading the cross-country push are Guy Halgren, chairman of the firm's executive committee, and Joseph Coyne Jr., an executive committee member charged with growth and strategic planning initiatives. Both are Sheppard Mullin veterans, with long track records in the firm's management.

Halgren, a labor and employment law attorney, ascended to the chairmanship two years ago following stints on the firm's compensation committee and professional personnel committee.

"There is a consensus amongst the partners that we will grow more aggressively geographically and in terms of numbers, than perhaps we did in the '80s and '90s," Halgren says.

While some of its rivals aggressively grew their figures in *Recorder* affiliate The American Lawyer magazine's annual survey of the nation's 200 highest-grossing law firms, Sheppard Mullin marched at its own pace.

Paul, Hastings, Janofsky & Walker, another firm with Los Angeles roots, climbed from the 35th slot to the 22nd position on the survey between 1994 and 2001, boosting its revenues from \$163.5 million to \$455 million. Paul, Hastings' rising fortunes paralleled its zeal for playing on a national and international level, culminating with the firm's 2000 acquisition of 120 lawyers from New York's Battle Fowler.

By contrast, Sheppard Mullin fell from the 89th slot to No. 116 in the same seven-year period, netting \$145 million in revenues in 2001.

With 350 attorneys in seven California offices, Sheppard Mullin ranks among the firms with the largest presence in the state. But the firm achieved this California presence through steady and consistent growth, rather than as a result of a turbo-charged expansion plan, notes Halgren.

The streak of caution runs through many of the firm's operations. Sheppard Mullin carries no debt as a matter of policy. Rather than borrow money to even out bimonthly partner draws throughout the year, partner distributions are limited to whatever is in the firm's bank account. It's not

uncommon, says Halgren, for the firm to miss one payment during the year.

Tyler Paetkau, a Bingham McCutchen partner who left Sheppard Mullin in 2000, recalls that when he was at the firm, partners were always very cautious about growing and adding people or groups. "They were sort of the anti-Brobeck in that regard," says Paetkau.

Sheppard Mullin sat through the dot-com boom without a Silicon Valley office, and shows no signs of moving into the Valley any time soon. Its technology practice group is a cross-disciplinary collection of attorneys located in San Francisco and the firm's various Southern California offices.

In 1998, Sheppard Mullin's partnership rejected an offer to merge with Palo Alto's Wise & Shepard, a 14-lawyer technology and biotechnology corporate boutique.

And despite being headquartered in Los Angeles since its birth, the firm never made much of an effort to grab a piece of the glitzy entertainment industry in its backyard.

That changed in January, when Sheppard Mullin announced it was assembling a studio-side entertainment practice from scratch. Among the first hires: Walt Disney Co. General Counsel Louis Meisinger, as well as veteran entertainment lawyers Richard Troop and Robert Wynne.

The trio that had founded the prominent entertainment boutique Hill Wynne Troop & Meisinger almost three decades earlier, signed on as senior advisers. Under their direction, Sheppard Mullin's entertainment group has already grown to nearly 25 attorneys.

The entertainment practice has put some wind in Sheppard Mullin's sails. And the firm's partners are hoping that momentum will help carry the firm into New York, the centerpiece of Sheppard Mullin's national ambition.

Members of Sheppard Mullin's top brass have made repeated visits to New York to scout out opportunities. Coyne says he's traveled to New York every other week during the past month and a half, meeting with local attorneys and discussing potential business partnerships.

"We have clients that have encouraged us to go to New York and to go to the East Coast," says Coyne. "When you go to New York, you get better name recognition and you're perceived as being more national."

The ideal move, in Coyne's view, would be to annex a small New York firm, though he doesn't rule out assembling a team of local laterals, as the firm did in D.C.

For Sheppard Mullin, which has significant financial and bankruptcy practices, New York makes a lot of sense. Seven of the firm's 14 largest clients are financial institutions.

"It is the financial capital of the world, and we have a client base that's heavily populated with financial

SHEPPARD, MULLIN, RICHTER & HAMPTON

FOUNDED: 1927
HEADQUARTERS: Los Angeles

Offices: San Francisco, Orange County, San Diego, Del Mar Heights, Santa Barbara, West Los Angeles, Washington, D.C.

Core practices: Financial services, corporate and securities, litigation, bankruptcy, labor and employment law

Total attorneys: 375, including 126 equity partners and 28 non-equity partners

2002 Gross revenue:	\$166 million
2002 Net income:	\$63 million
2002 Average profits per equity partner:	\$580,000

institutions," says Coyne.

A number of Los Angeles outfits have recently directed their attention to New York. In July, O'Melveny & Myers doubled its Manhattan presence when it acquired private equity boutique O'Sullivan. And in January, Manatt, Phelps & Phillips acquired New York's Kalkines, Arky, Zall & Bernstein, a 42-attorney health care practice.

Of course, Sheppard Mullin lacks the financial wherewithal of some of its Los Angeles brethren. With 2002 average profits per equity partner of \$580,000, Sheppard Mullin may have difficulties trying to recruit in a high-priced city like New York.

"If they're coming into New York and they expect to pay the same rates of somewhere outside of New York, then it will be very difficult," says Jonathan Lindsey, the managing partner of legal recruiting firm Major, Hagen & Africa's New York office.

"If you want to be here, you've got to swallow hard and say, 'We'll pay people appropriately.'"

Coyne says the firm is prepared to compensate New York partners on a New York pay scale. "To the extent that New York lawyers have contributed more, they'll take more out," he says. Moreover, the firm's average profits per partners are on target this year to reach between \$625,000 and \$650,000, says Coyne, giving Sheppard Mullin a little more headroom as it courts local talent.

The move to New York will also test just how far the firm is prepared to stray from its insular and conservative roots. As it is, the project is clearly being run on Sheppard Mullin time. While partners at the firm insist that moving into New York is a priority, they also note that it's a goal which was set nearly

four years ago, in 1999.

“This firm is impressive for the way it considers things painstakingly, carefully,” says one former partner. “On balance it’s a strength — I say that as a partner. If I were a client wondering why I don’t yet have New York lawyers who can serve me, my answer can be different.”

Famously protective of its culture, Sheppard Mullin is extremely cautious about whom it brings in from the outside. It’s customary for lateral hires to tour the entire network of Sheppard Mullin offices so that every partner at the firm has an opportunity to meet, and vet, a potential colleague.

“We’ve carefully scrutinized the people we’ve brought in,” says Robert Beall II, the head of Sheppard Mullin’s business trial group. “None of us would like to see any of our culture diluted as a result of any growth initiatives.”

The firm’s partnership convenes every month to discuss strategic initiatives, and partners regularly vote on everything from new hires to office leases. In situations where a vote is not held, for instance a computer equipment purchase, partners have the ability to formally appeal any executive committee decision.

Halgren contends that this consensual approach has not hamstrung Sheppard Mullin in its quest to expand eastward.

“We’ve been able to come up with very comprehensive and thorough presentations to our partners on very short notice,” says Halgren. And every time the executive committee has made a proposal to the partners about a growth initiative, he adds, the partners have agreed to it.

But the system was clearly designed with a regional institution in mind. And while it has served the firm well up to the present, it could prove cumber-

some once Sheppard Mullin starts to manage far-flung offices and competes on a national level.

“Consensus can only go so far. If you’ve got 1,000 lawyers, you can’t talk to every partner before you make a decision,” says legal consultant Ron Beard. “But I think they’re doing OK right now, and they’ll just have to measure that as they move forward.”

As the firm has gotten larger and more spread out, the partnership has given the executive committee more discretion, says Halgren. And certain traditions, like the lateral partner office tours, have occasionally been streamlined to fit the new reality — in some cases, interviews at multiple offices have been confined to a single location, and the firm has also relied on videoconferencing.

Notwithstanding minor modifications, Sheppard Mullin partners say they’re committed to preserving the firm’s culture and democratic structure.

“As we get bigger we may have to reevaluate some things, but right now I think all of us are very comfortable with our management structure and the democratic nature of our partnership,” says Beall.

This devotion explains Sheppard Mullin’s resistance to being acquired by a larger East Coast or Midwest firm.

With its sizable California footprint, Sheppard Mullin is an appealing acquisition target for out-of-state firms. While combining with a bigger firm would offer Sheppard Mullin’s partners a quick route toward the national platform they seek, the notion is emphatically dismissed.

“We like what we’ve got; we’re growing,” says Coyne. “We don’t see the need to do it for any real reason.”

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