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Manhattan Project

D.C. firms have invested millions in New York offices. Is it really paying off?

By Nathan Carlile

For decades, New York's bright lights and iconic skyline have lured in outsiders who dream of making their fortune in Manhattan. Washington law firms are no exception.

D.C. shops have spent millions trying to establish and expand their brand in New York, and they will spend millions more in coming years. Earlier this year, Covington & Burling committed more than $200 million to a 20-year lease in one of Manhattan's most glamorous buildings. A few blocks northeast, Dickstein Shapiro signed its own $8-million-per-year lease, with a goal of doubling head count in key practice areas over the next five years. Arnold & Porter, despite years of lackluster growth in New York, has grabbed another floor in its midtown digs, upping its yearly New York nut by a couple of million. Even Crowell & Moring, which just got to town, is already looking to upgrade its address.

What in the name of Fiorello LaGuardia is driving this action? Should firms known for their expertise in dealing with regulatory and government matters really place a big bet in Manhattan? If they do, how can they compete for talent with native New York firms, many of which enjoy much higher profits? Is it simply the case that firms find they have to be in New York to satisfy client demands, whether or not it's profitable?

In a New York State of Mind

Firm	Year Founded In New York	Current NY Head Count
Arnold & Porter	1987	85
Covington & Burling	1999	92
Crowell & Moring	2006	32
Dickstein Shapiro	2001	85
Hogan & Hartson	1998	150

Source: Legal Times

"Every Am Law 200 firm wants to build a New York-style corporate practice," says a consultant to top Washington firms. "For 98 percent of them, it's a dream."

Legal Times recently went to New York to check out the operations of five Washington firms with New York ambitions—Arnold & Porter, Covington & Burling, Crowell & Moring, Dickstein Shapiro, and Hogan & Hartson. All, in their way, hope to be the next Latham & Watkins (probably the only out-of-town firm to truly make it in Manhattan).

We found among the five a mix of reasons for being there. Some harbor ambitions of becoming major players in New York. Others have more modest goals. But all are pursuing their own kind of New York fairy tale.

The Steady Hand

Arnold & Porter has had a New York presence since 1987. Yet despite more than two decades in the market, the 85-lawyer outpost hasn't made much of a dent. That doesn't mean the firm is ready to pack up and go home. In fact, earlier this year it took an extra 24,000 square feet of space, enough to house about 30 more lawyers. The firm, however, declined to provide revenue numbers for the office.

For much of this decade, the office's head count has hovered between 65 and 75 lawyers. It's ticked up recently, says Michael Gerrard, the office's managing partner, because of a renewed emphasis by the firm, led by Chairman Thomas Milch, to grow the New York office. That starts with filling out the securities, intellectual property, and transactional practices, which added seven partners from Dorsey & Whitney in 2005.

Asked about signature work in New York, the firm cites its representation of Silverstein Properties on environmental matters during the reconstruction of the World Trade Center site, though that was clearly a secondary issue in the WTC dust-up. The real juice was the multibillion-dollar insurance battle.

"We're never going to be Sullivan & Cromwell or Cravath, [Swaine & Moore,]" says Gerrard. "But we do have advantages we can offer transaction lawyers through our regulatory practice who are No. 2 at another firm and can come here and blossom."

That blossoming might need to happen quickly. Real estate agents estimate the price tag on Arnold & Porter's additional space at about $2.8 million a year. The firm called that number "way too high" but declined to discuss what it was paying.

The Incrementalist

The new *New York Times* building in midtown Manhattan is an eye-catching tapestry of glass. Designed by famed architect Renzo Piano, the tower's floor-to-ceiling windows and thousands of reflective tubes lend a sleek, modernist accent to the surrounding cityscape.

Which makes it somewhat surprising that Covington & Burling, a staid D.C. firm known for regulatory and litigation work, chose the new showpiece building as its New York home. Covington took four floors at about $11.5 million annually, the firm says. The current space can hold about 170 lawyers, and the firm has options on space that would house 300 lawyers. Clearly, Covington is looking to grow.

"We're committed to having a pre-eminent mergers and acquisitions practice," says Scott Smith, the office's managing partner. Smith was a name partner at 60-lawyer Howard, Smith & Levin, a well-regarded transactional boutique that Covington acquired in 1999. He has been tasked with recruiting top-tier M&A talent. That's no small feat, given the firm's profits per partner—which are good by D.C. standards but decidedly modest when compared to those of the top New York firms—and relatively thin bench. Of the firm's 92 full-time New York lawyers, about 40 are in the corporate transactional practice. Last year the office grossed just under $70 million, with revenue per lawyer of about $823,000 and profits per partner of $1.1 million (both numbers are just slightly below those of Covington's Washington office). In recent years, the office has added South American corporate transactional partner Ruben Kraiem from Paul, Weiss, Rifkind, Wharton & Garrison and M&A partner Jack Bodner from Dewey Ballantine. The office hasn't lost a partner in more than two years, but Smith says he knows that adding talent won't be easy.

"Very few lawyers can really walk out and take business with them," says Smith. "We don't believe in a star system.

The plan for growth does not depend on luring a partner over for X amount of dollars."

To build a corporate practice, Covington is trying to tap into its regulatory and litigation client base. That includes The Kerr-McGee Corp. and Pfizer Inc., which last week acquired Coley Pharmaceutical Group for $168 million. Covington's New York crew was lead firm on the transaction. "Ten years ago Pfizer was purely a regulatory client, and we wouldn't have been a part of the deal," says Smith.

Not everyone is impressed. "New York partners get fired for bragging about a deal like that," says a New York-based consultant.

Smith understands those kind of numbers won't shake up the street, but he says it's just one example "of the opportunities we're getting in New York."

To get the top transactional work, Smith knows that the firm will have to forge relationships with investment bankers. It's a tall order, but one Smith says Covington is determined to meet.

The Newcomer

Crowell & Moring is a latecomer to New York. Spurred by pressure from clients such as DuPont and AT&T Communications Inc., the firm opened a New York office in September 2006, luring William McSherry over from Arent Fox, where he had headed the New York office and co-chaired the litigation department. Crowell has 37 lawyers in temporary accommodations while it looks for permanent digs. Like other D.C. firms in Manhattan, Crowell sees New York as an appendage to its existing practice. "Our principal reason to be here is to service our clients in a new market," says John Macleod, a partner in the New York office and former chairman of the firm. "And if you're an Am Law 200 firm, you have to be in New York to be viewed as credible."

Crowell, which declined to provide office revenue numbers, is hoping to build off its Washington corporate practice. Earlier this year the firm lured over financial services partner William O'Connor, who brought a nine-lawyer group with him from Buchanan Ingersoll & Rooney. And earlier this month Crowell's transactional practice was touted in a survey from Wellesley, Mass.-based BTI Consulting Group as being one of the industry leaders. The firm ranked 11th nationally, according to a survey of general counsel of Fortune 1000 companies. The in-house counsel pointed to the firm's quality work when handling smaller, less complicated M&A deals. "They're doing medium-sized transactions right in the middle of the marketplace," says Michael Rynowecer, president of BTI. "It's deals that are largely under $500 million, and they do a very good job at it."

Earlier this year Crowell & Moring represented brokerage firm ICAP in its purchase of independent foreign-exchange-processing firm Traiana Inc. for $238 million. And Crowell & Moring was part of the corporate team that advised AT&T on its $1 billion deal with IBM to use AT&T's telecommunications and network management services.

The Fast Riser

Dickstein Shapiro has shown significant growth, going from being little more than a New York post office box in 2001 to housing 85 lawyers now.

In 2001, the firm grabbed Roberts, Sheridan & Kotel, a corporate transactional boutique and Cravath spinoff, giving the firm a modest corporate finance practice in New York. The same year, Howard Graff joined from Baer Marks & Upham with three other partners to head the firm's business litigation practice. And in 2005, the office brought in Ira Sorkin from Carter, Ledyard & Milburn to begin building its securities practice, which now has about 20 attorneys.

"To be a top-flight law firm, you have to be here. Our clients also told us they want us here," says Dickstein's Michael Nannes. "Now, Davis Polk isn't worried about us stealing their franchise. But there is work we get into through IP and insurance where we can be very profitable. We know who we are. Firms have tanked when they try being what they're not."

"Stay narrow—but aggressive—in practice scope" is the mantra. Which is why the office has continued to focus on its core areas of intellectual property and insurance. Robin Cohen, the office's managing partner, says she wants to double the head count in those practices over the next five years.

Though the firm is mum about New York-specific revenue, Nannes says the office has been an asset to Washington in helping workflow. He points to a stock-options-backdating case involving Comverse Technologies, handled by Washington partner Howard Schiffman. "It's the largest billable matter by the firm in the last two years," says Schiffman. "We've had all of our securities lawyers working on it at one time or another."

Dickstein landed the work because New York-based Comverse had a relationship with the New York office's IP practice. "The reason we got that case is because of our relationship with Comverse in New York," says Nannes. "That doesn't happen otherwise."

Contender or Pretender?

For Hogan & Hartson, which is further along in New York than its Washington competition, the math is slightly different. With 150 lawyers and revenue in 2006 of $115 million, Hogan & Hartson has the largest New York presence of any D.C.-based firm. (Hogan's Washington office had revenue of $390 million in 2006.) To achieve those New York numbers, Hogan has merged twice with small firms: first in 2000 with 35 lawyers from litigation boutique Davis Weber & Edwards, and then again in 2002 with litigation boutique Squadron Ellenoff Plesent & Sheinfeld.

About 60 of its lawyers work on corporate transactions or M&A deals. The other 90 are litigators. The firm boasts News Corp., IBM United States, and KPMG International as key clients in both transactional work and litigation and reports profits per partner at $1.1 million with revenue per lawyer of $905,000. Both are slightly higher than the firm's D.C. numbers. By comparison, New York-based Simpson Thacher & Bartlett, a high-end transactional firm, had profits per partner of $2.5 million and revenue per lawyer of $1.2 million last year. That kind of spread is what makes recruiting top laterals in New York an uphill battle for D.C. firms, though last week Hogan & Hartson announced the addition of partner Waajid Siddiqui from Weil, Gotshal & Manges, which had profits per partner of $1.9 million.

A key to Hogan's strategy in New York is the bona fides of its chairman, J. Warren Gorrell Jr.

"Gorrell has a New York-style corporate practice based outside of New York," says a New York consultant. "There are only a few people, like [Latham & Watkins partner] Alan Mendelson and [Wilson Sonsini Goodrich & Rosati name partner] Larry Sonsini [both are in Silicon Valley] that have that kind of practice. And Hogan has been able to leverage itself into a New York practice off of Gorrell."

Gorrell is also a primary reason that Hogan & Hartson's partner profits ratio is more than 20-to-1. That kind of spread allows Hogan & Hartson to embrace the star system that Covington says is anathema to its culture. And the firm says it will pay top dollar for a lateral, though recruiters say Hogan & Hartson has not been throwing money at big-name partners too readily.

Gorrell works hard to minimize the image of Hogan as a one-man band. "The corporate practice hasn't been built off of what any one person has done," he says, adding that his practice accounts for less than 10 percent of the New York office's revenue, though consultants contend a partner carrying more than 5 percent of an office's revenue is not healthy. "Sometimes you get a little more credit than you deserve." Last year Thomson Financial ranked Hogan & Hartson among the top 15 law firms for completed M&A deals.

"When it comes to Washington firms in New York," say a New York recruiter, "Gorrell is the 800-pound gorilla in the room."

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