2013

Enterprise Legal Management Trends Report

2013 Mid-Year Edition

The Rise of "Large Enough" Law Firms

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Executive Highlights

- **"Large Enough" law firms are eating into market share of the "Largest 50."**
  Among firms with 201-500 lawyers, referred to as "Large Enough" firms in this report, the share of U.S. legal fees paid by clients has grown from 18% three years ago (July 1, 2009 – June 30, 2010) to 22% in the trailing 12 months that ended June 30, 2013. Simultaneously, the share of U.S. legal fees paid by clients to firms with more than 750 lawyers, the "Largest 50," has gone in the opposite direction – dropping from 26% to 20% over the same period.

- **Even more dramatic shift in higher fee legal work.**
  The shift in legal work from the "Largest 50" firms (> 750 lawyers) to the "Large Enough" (201-500 lawyers) category is far more dramatic when examining specific categories of matters. "Large Enough" firms have almost doubled the share of high fee litigation matters – those matters generating outside counsel fees totaling $1 million or more (High Fee Work). "Large Enough" firms grew their portion of U.S. High Fee Work from 22% three years ago to 41% in the trailing 12 months.

- **"Large Enough" firms twice as likely to use AFAs.**
  As a % of their billings, firms with 201-500 lawyers billed nearly twice as much under alternative fee arrangements as did the "Largest 50" firms over the trailing 12 months.

- **Average U.S. law firm partner bills at $381 per hour.**
  In terms of billed hourly rates paid by clients, the average hourly billing rate of a partner in a U.S. law firm increased 2.7% over the previous year to $381 per hour. The partner's practice area, however, has a dramatic impact on her hourly billing rate. For example, advice and counsel for mergers and acquisitions commands a higher-than-average billing rate of $630.

- **U.S. cities with greatest billable rate increases.**
  Among the 15 largest U.S. cities, Philadelphia, Detroit, San Francisco, Atlanta and New York are the five cities where law firm hourly billing rates increased above 2.5% in both year-over -year and three-year compound annual growth rate. Phoenix, Boston, Houston, Dallas and Minneapolis lagged behind.

Introduction

This report is the first edition of the Enterprise Legal Management Trends Report, powered by LexisNexis® CounselLink®. It sets the baseline for what will be a semi-annual update of several key metrics that can inform the decisions and subsequent actions of corporate counsel and law firms.

The report represents analysis of a snapshot of data available via the CounselLink Enterprise Legal Management platform. Currently, the collective stream of data and processed invoices represents more than $10 billion in legal spend, 2 million invoices, and well over 300,000 matters gathered over the past 4 years, with the volume of data available for analysis growing at a rapid pace.

Details about the methodologies used, definitions and expert contributors conducting the analysis are presented at the end of the report. Unless noted otherwise, information is based on the trailing 12 months ending June 30, 2013.

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Market Insights: "Large Enough" Firms Taking Share from the "Largest 50" Law Firms

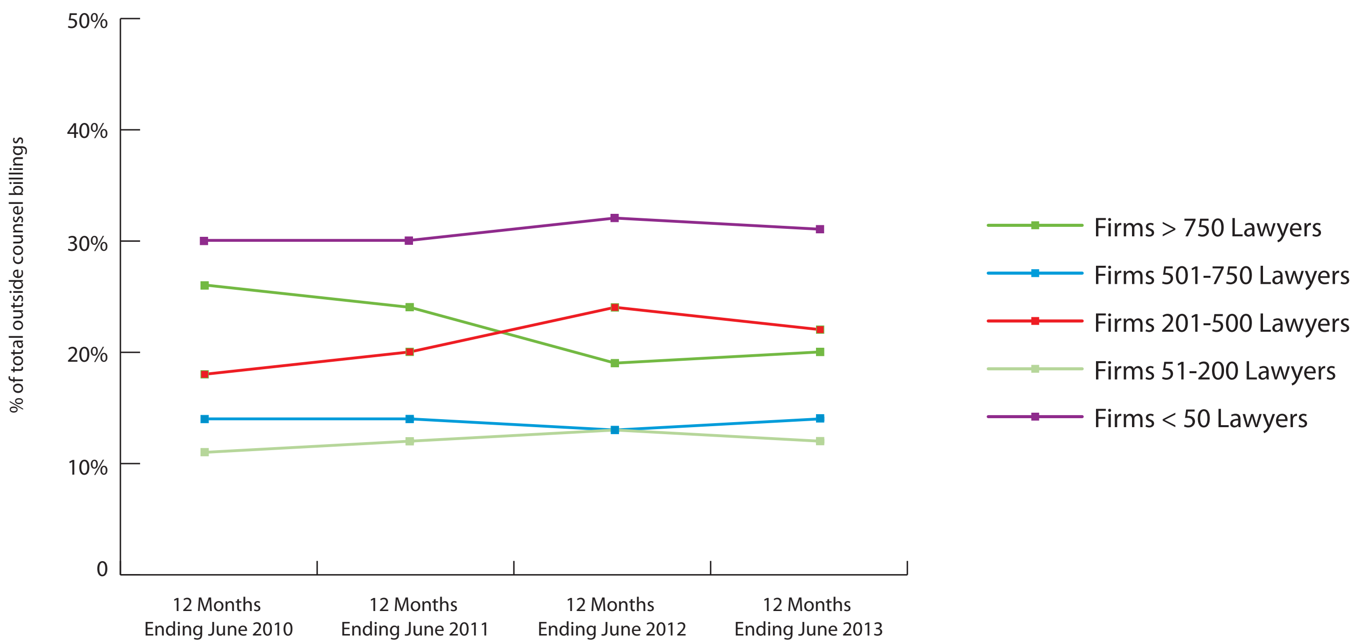
CounselLink data reflects a growing portion of legal work being handled by firms with 201-500 lawyers, or "Large Enough" firms. The term "large enough" is applied to these firms because firms of this size generally have full-service capabilities across a broad array of practice areas and have the capacity to appropriately staff and handle complex and also high-volume, repetitive legal matters. Which firms are on the losing end of this trend? It's the very high end of the size spectrum, called the "Largest 50" ... represented by the approximately 50 firms in the U.S. with more than 750 lawyers. This market share shift is reinforced by the findings associated with law firm consolidation and alternative fee arrangements (AFAs) described later in this report.

Figure 1: Enterprise Legal Management Trends Report

Macro Trend: Legal work is moving from the "Largest 50" to "Large Enough" firms

Based on rolling 12-month totals ending June 30 for years 2010 to 2013

This chart shows the % of legal fees billed to CounselLink customers by law firms of different sizes, as measured by the number of attorneys at the firm, over the past 4 years. Each line shows the % of total billings that firms of that particular size captured in each of the past 4 years. For example, in the 12 months ending June 2013, 22% of spend was directed to firms with 201-500 attorneys.



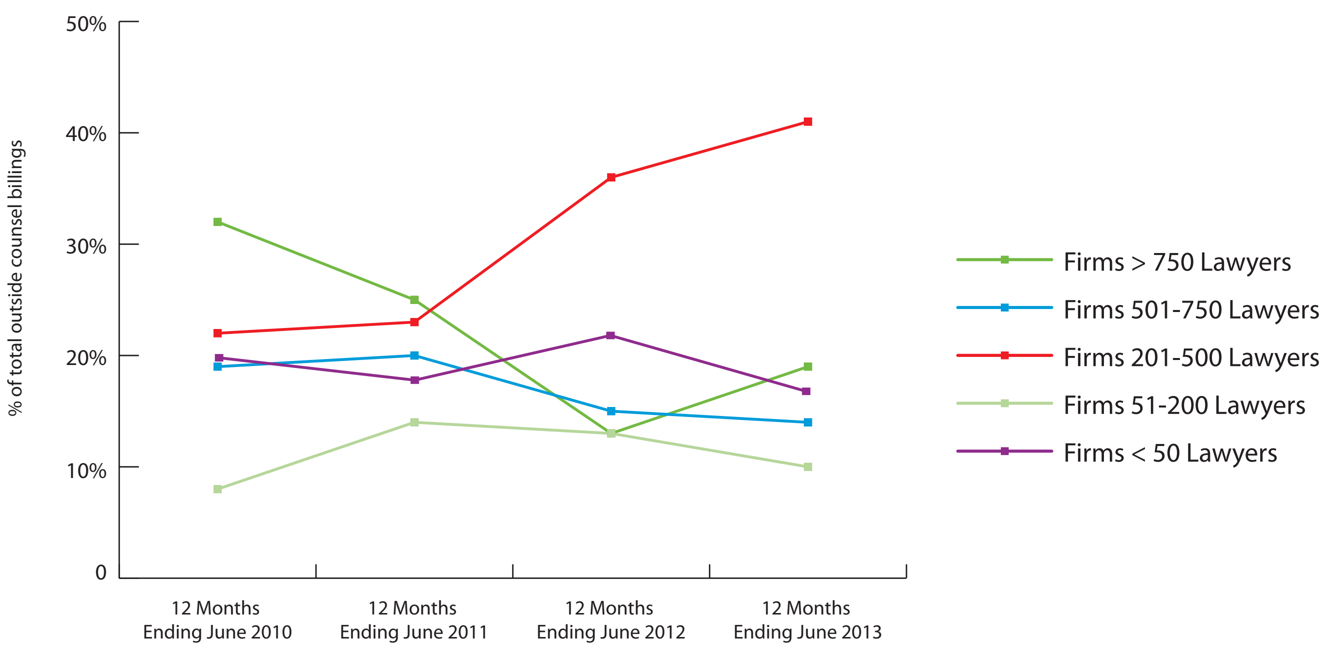
Three years ago, "Large Enough" firms were responsible for 18% of overall legal billings. In the most recent 12 months, the same firms are now responsible for 22% of legal billings. At the same time, the relative portion of legal work given to the "Largest 50" U.S. firms has trended downward over the past three years from 26% to 20%.

Figure 2: Enterprise Legal Management Trends Report

Macro Trend: "Large Enough" firms increasing share dramatically in litigation matters with high billings

Based on rolling 12-month totals ending June 30 for years 2010 to 2013

This chart shows the % of legal fees billed to CounselLink customers on litigation matters on which the total outside counsel billings were >$1M. Each line shows the % of these billings that firms of that particular size captured in each of the past 4 years. For example, in the last 12 months 41% of all outside counsel spend on these matters went to firms with 201-500 attorneys.



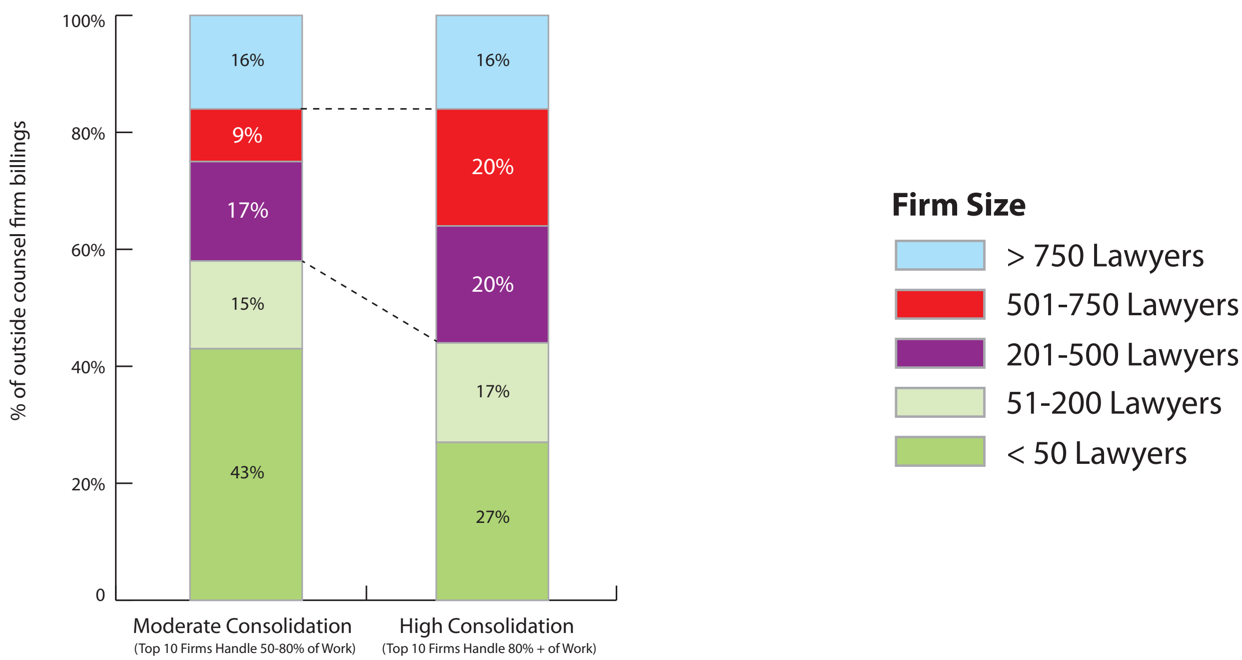
Overall billings, however, include multiple types of matters generating varying amounts of aggregate fees for law firms. An indication that high fee work is shifting from the "Largest 50" firms to "Large Enough" firms can be found in high fee litigation matters. Evaluating the trend for the same time periods for litigation matters with at least $1 million in billings yields compelling evidence that "Large Enough" firms are winning high fee work. Firms with 201-500 lawyers have nearly doubled the portion they receive of such work, from 22% to 41% over the last three years.

Figure 3: Enterprise Legal Management Trends Report

Supporting Point 1: Legal Departments Not Consolidating with "Largest 50"

Based on trailing 12-months ending June 30, 2013

This chart groups corporate legal departments into two buckets – highly and moderately consolidated. The buckets are determined by the % of legal work handled by the department's top 10 law firms.



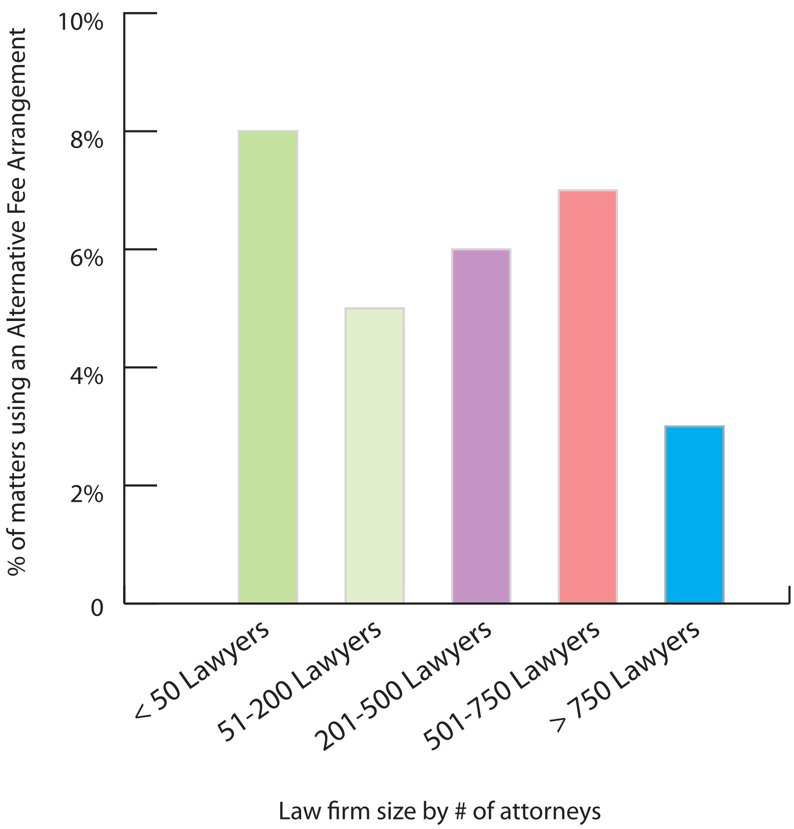
What may be driving the shift in market share away from the "Largest 50" to the "Large Enough" firms? One key metric tracked in the Enterprise Legal Management Trends Report is the percentage of legal work a client provides to its top 10 law firms (for more context refer to Key Metric #2, page 11). The data indicates that the "Largest 50" firms are not the ones benefiting when companies direct more of their work to fewer firms; both highly and moderately consolidated companies provide 16% of work to firms with greater than 750 lawyers. Rather, firms with 501-750 lawyers and 201-500 lawyers increase their share of billings. Highly consolidated companies send 40% of their work to firms in these two size categories, while moderately consolidated companies and companies with high law firm fragmentation send 26% and 11%, respectively, to these firms.

Figure 4: Enterprise Legal Management Trends Report

Supporting Point 2: "Largest 50" firms less likely to execute matter under an AFA

Based on trailing 12-months ending June 30, 2013

This chart shows the % of billings under an Alternative Fee Arrangement (AFA) by firms of different sizes.



Another factor that may be driving this shift in spend from "Largest 50" to "Large Enough" firms, is the frequency with which the "Large Enough" Firms offer AFAs to their clients relative to the frequency with which the "Largest 50" offer AFAs. "Largest 50" firms bill less than 3% of their fees under AFAs. On the other hand, "Large Enough" firms bill nearly twice the percent of fees under AFA arrangements. The "Largest 50" firms lag behind in offering and implementing AFAs regardless of the aggregate anticipated fees or types of legal expertise or work involved. (See details on how matters are determined to be subject to an AFA at the end of the Report.)

Overall, the battle to win business is being won by "Large Enough" firms with strong reputations, diverse practices, multiple locations, lower rates and a greater willingness to offer, use and implement AFAs that meet client needs. "Large Enough" firms deliver a broad range of capabilities at lower price points than their larger counterparts. The median partner rate for firms with greater than 750 lawyers is 60% higher than median rates for the 201-500 lawyer group.

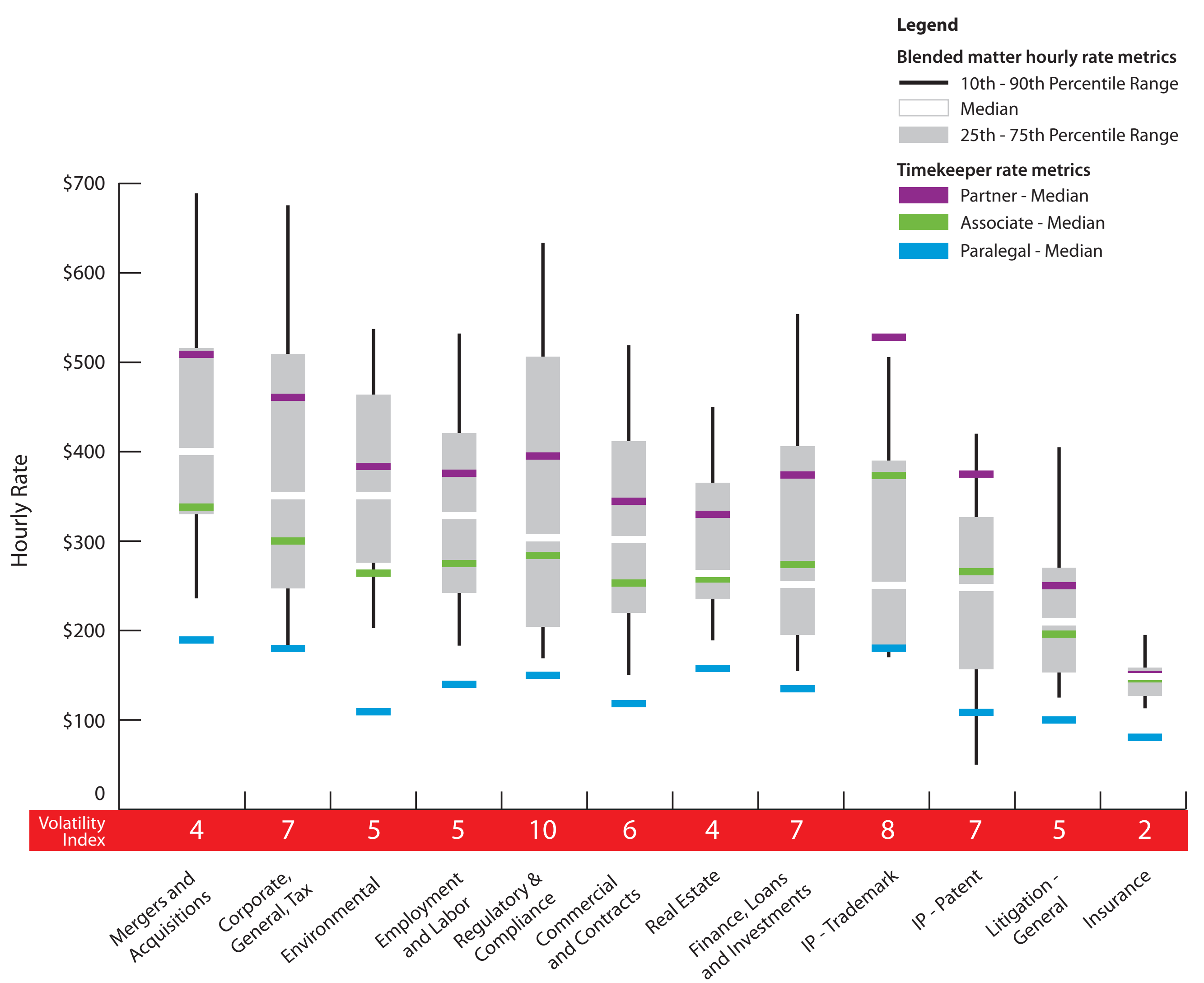
The Key Metrics

Each update of the semi-annual Enterprise Legal Management Trends Report will cover a standard set of key metrics that are measurements of hourly legal rates and clients' procurement of legal services from law firms. Perspectives offered in the report represent views of the team of experts at LexisNexis as well as those of contributing practitioners in law firms and corporate legal departments.

Figure 5: Enterprise Legal Management Trends Report

Key Metric #1: Blended hourly rates and rate volatility differ by type of work

Based on trailing 12-months ending June 30, 2013



See following page for guidance on interpreting this chart.

Interpreting the Chart:

This chart captures median rates for three different groups of timekeepers (partners, associates and paralegals) and the range of the blended average rate across multiple matter types. As a guide to interpreting the output, consider IP Patent compared to Labor & Employment. Both matter types have the same median partner rate - $375. But the range of the overall blended rate of these matters is significantly different. IP Patent work – U.S. and international prosecution work, but not litigation – ends up costing significantly less per hour using a blended rate model than does Labor & Employment work, because transactional IP Patent matters typically require far less partner time.

An additional metric provided in this section is called Volatility. The Volatility Index is a calculated marker indicating the variability encountered in blended matter rates. Based on a 10-point scale, the Index reflects how broad the rate spread is between the 25th and 75th percentiles of hourly rates. Higher volatility scores indicate greater variance in prices paid as a result of both the mix of timekeepers and individual hourly rates.

Again, consider IP Patent compared to Labor & Employment. The range between the 25th and 75th percentile for IP Patent rates is broader than the range paid for Employment and Labor work relative to the 25th percentile rate. On a 10 point scale, IP Patent has a volatility index of a 7, indicating that the mix of timekeepers and rates that are paid on these matters vary quite significantly. Some of the variance is likely explained by differences in rates for area of expertise based on the patented technology being protected.

While there is considerable focus in the industry on individual lawyer rates, it is equally, or arguably more, important to pay attention to the big picture – the aggregate effect of the mix of timekeepers that work on a matter, and their resulting blended average rate. The median blended rate is highest in Mergers & Acquisitions, where the most expensive firms are more often engaged and where the quatity of partner engagement in the work is higher.

Three matter types have relatively low rate volatility and are less likely to have rates subject to negotiation between corporations and firms:

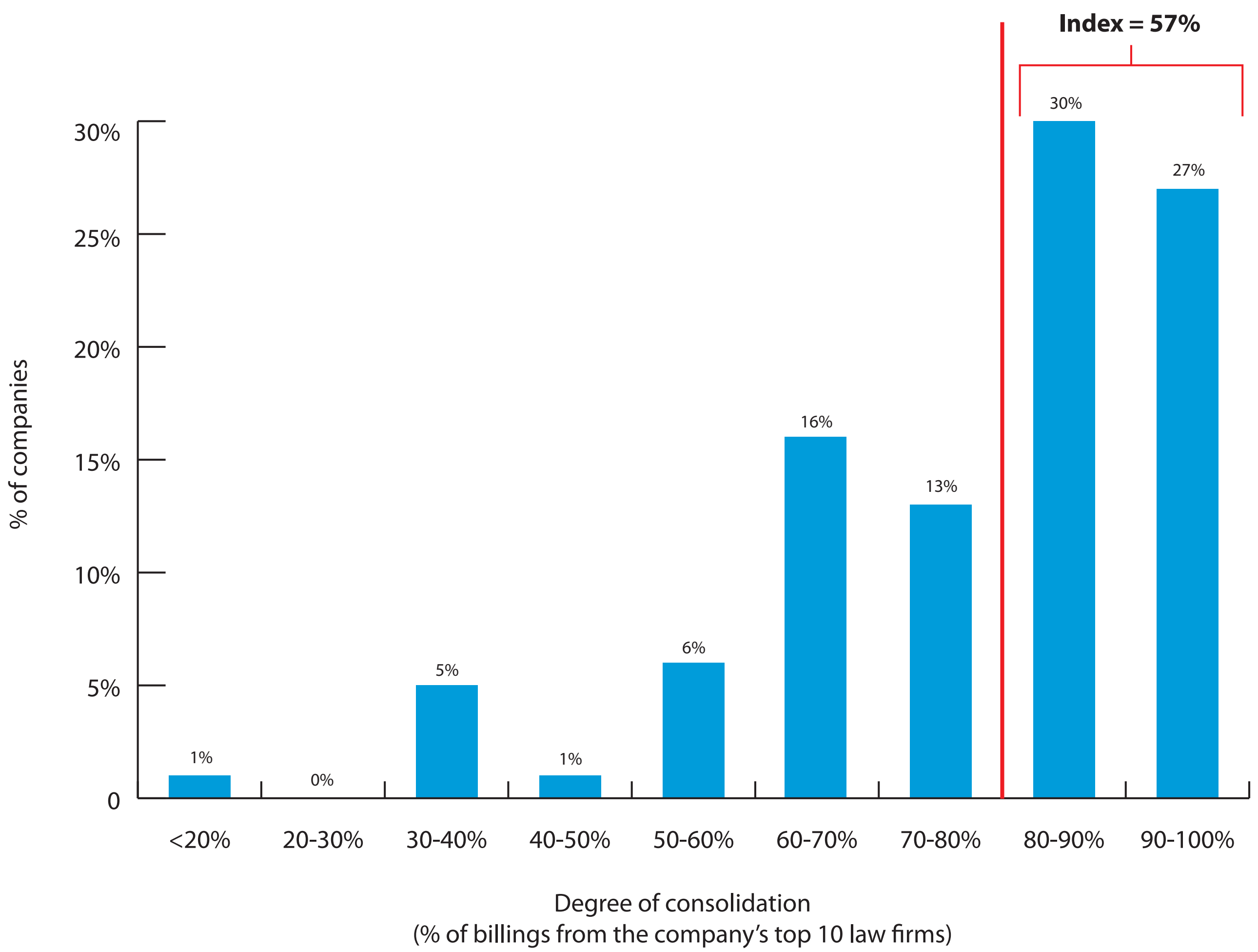
- Insurance
- Mergers and Acquisitions
- Real Estate

Legal departments can compare their own data against these ranges of rates. For example, rates paid on IP Patent work submitted and processed through CounselLink are highly volatile (7 out of 10). Depending on the area of patent expertise required, legal departments paying average matter rates on the high end of the range may have the opportunity to negotiate lower rates or a different mix of timekeepers.

Figure 6: Enterprise Legal Management Trends Report

Key Metric #2: 57% of companies in the data pool have 10 firms or fewer accounting for at least 80% of outside counsel fees

Based on trailing 12-months ending June 30, 2013



Interpreting the Chart:

This chart shows the degree of law firm consolidation among companies. The horizontal axis aligns participating companies into 9 segments, each addressing different degrees of consolidation. For example, the bar on the far right indicates 27% of participating companies have 90%-100% of their legal billings with 10 or fewer vendors ... representing the most consolidated legal departments. On the other hand, the far left bar shows the least consolidated companies; only 1% of companies have less than 20% of their legal billings with 10 or fewer firms.

57% is the baseline index for this first Trends Report measurement of law firm consolidation – that's the percentage of total companies in the CounselLink data set who are paying at least 80% of their legal fees to 10 or fewer outside law firms. These companies are "highly consolidated". Digging deeper into the cross-sections of companies provides more revealing information about where consolidation is occurring:

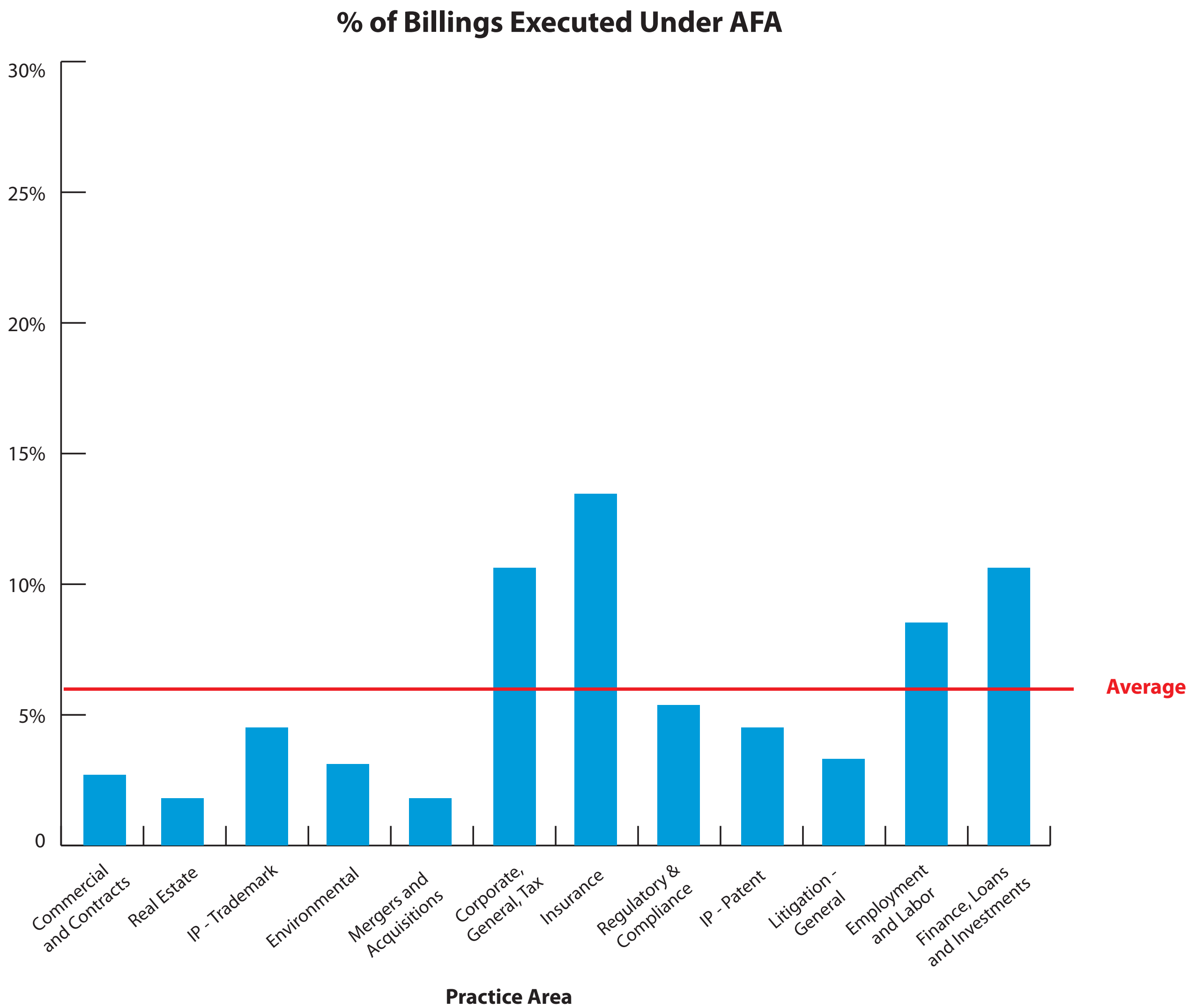
- 63% of large companies (>$10 billion in revenue) are highly consolidated. The largest companies are more frequently limiting the number of firms used for the bulk of their legal work.
- 80% of manufacturing companies (including Pharma and Biotech) are highly consolidated.
- Insurance companies – at 43% versus the overall index of 57% – demonstrate the least consolidation, handling high volumes of matters across multiple jurisdictions with multiple firms.

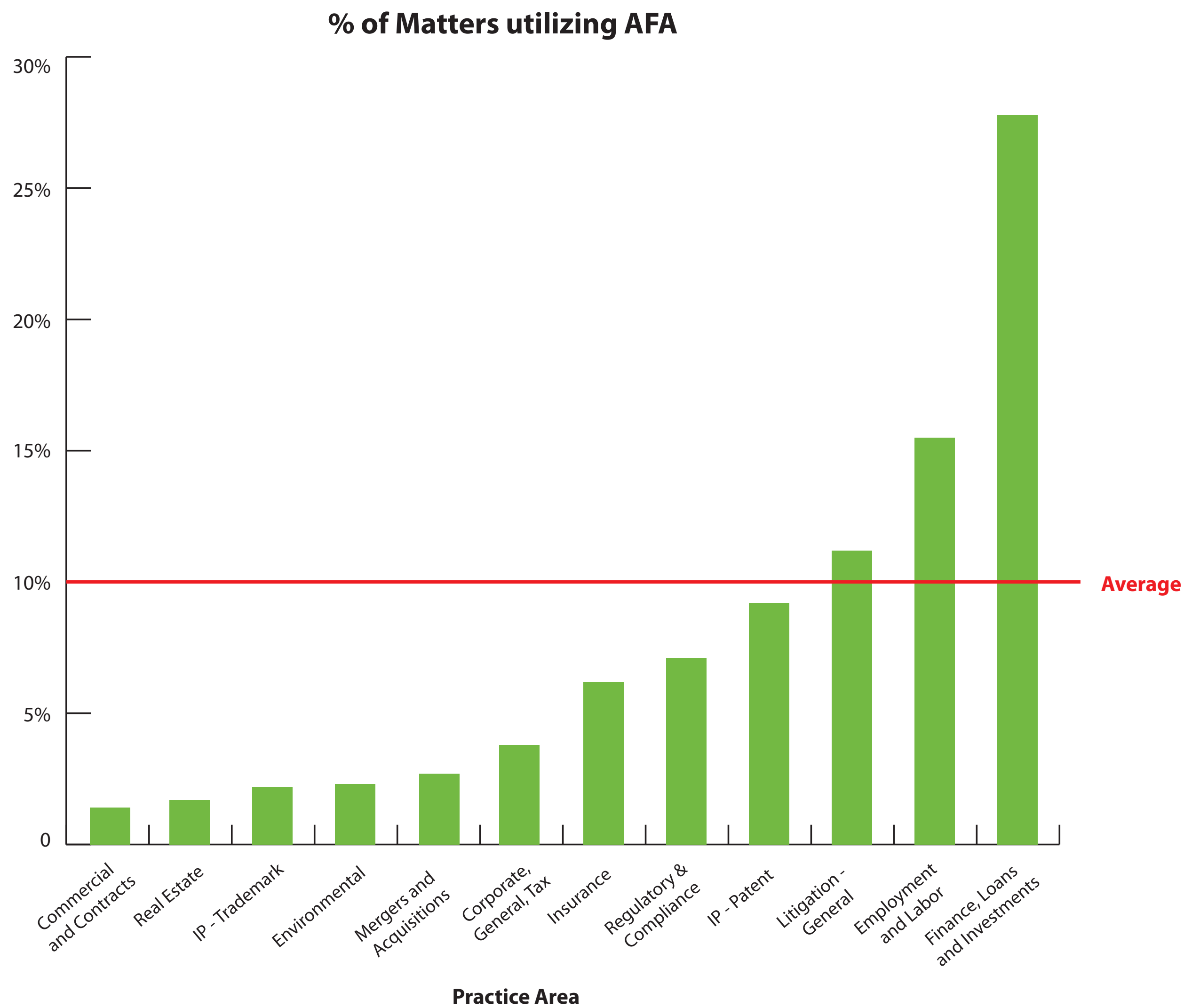
Figure 7: Enterprise Legal Management Trends Report

Key Metric #3: Alternative Fee Arrangements used in 10% of matters and 6% of billings in the past year

Based on trailing 12-months ending June 30, 2013

These charts show the frequency with which Alternative Fee Arrangements (AFAs) are used by practice area. One chart shows the % of billings executed under AFA and the other is the % of matters utilizing AFA.





The use of AFAs varies significantly by legal matter type. Over the 12-month period ending June 2013, 9.7% of matters submitted and processed via the CounselLink solution were invoiced, at least in part, under a fee arrangement other than traditional hourly billing. The category of legal work referred to as Finance, Loans and Investments occupies the top spot for categories of matters where AFAs are most often in place, driven largely by debt collection matters.

The total amount of invoiced legal fees attributed to AFAs is smaller than the 9.7% of matters cited above, reaching 6.0% for this Trends Report. Two factors affect this result:

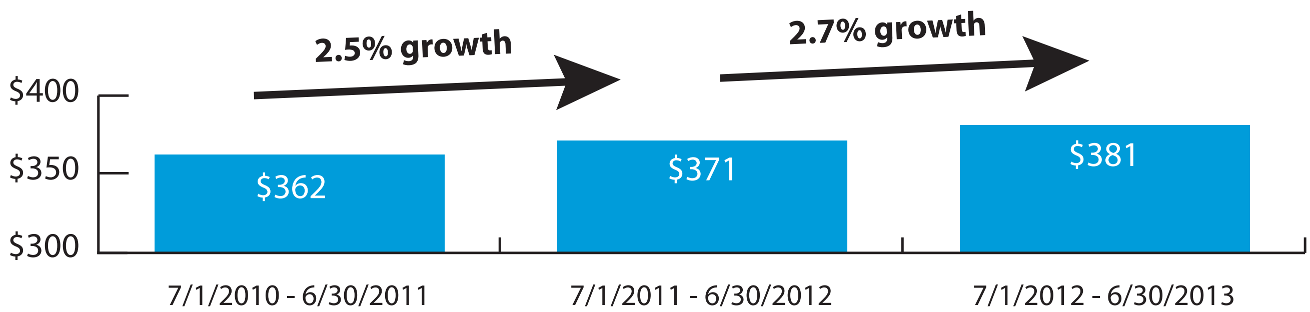
- Matters that generate lower aggregate fees are more frequently set up under an AFA than are matters that generate, or are anticipated to generate, larger aggregate fees.
- Clients frequently put AFAs into place with respect to a portion or subset of work on a matter or project, rather than use an AFA for an entire matter or project, particularly with respect to dispute resolution or litigation matters.

Figure 8: Enterprise Legal Management Trends Report

Key Metric #4: Average rate for law firm Partners across all practice areas and geographies is $381, up 2.7% year over year.

Based on rolling 12-month totals ending June 30 for years 2011 to 2013

This chart shows the average rate for a law firm partner in the U.S., excluding work on insurance matters.



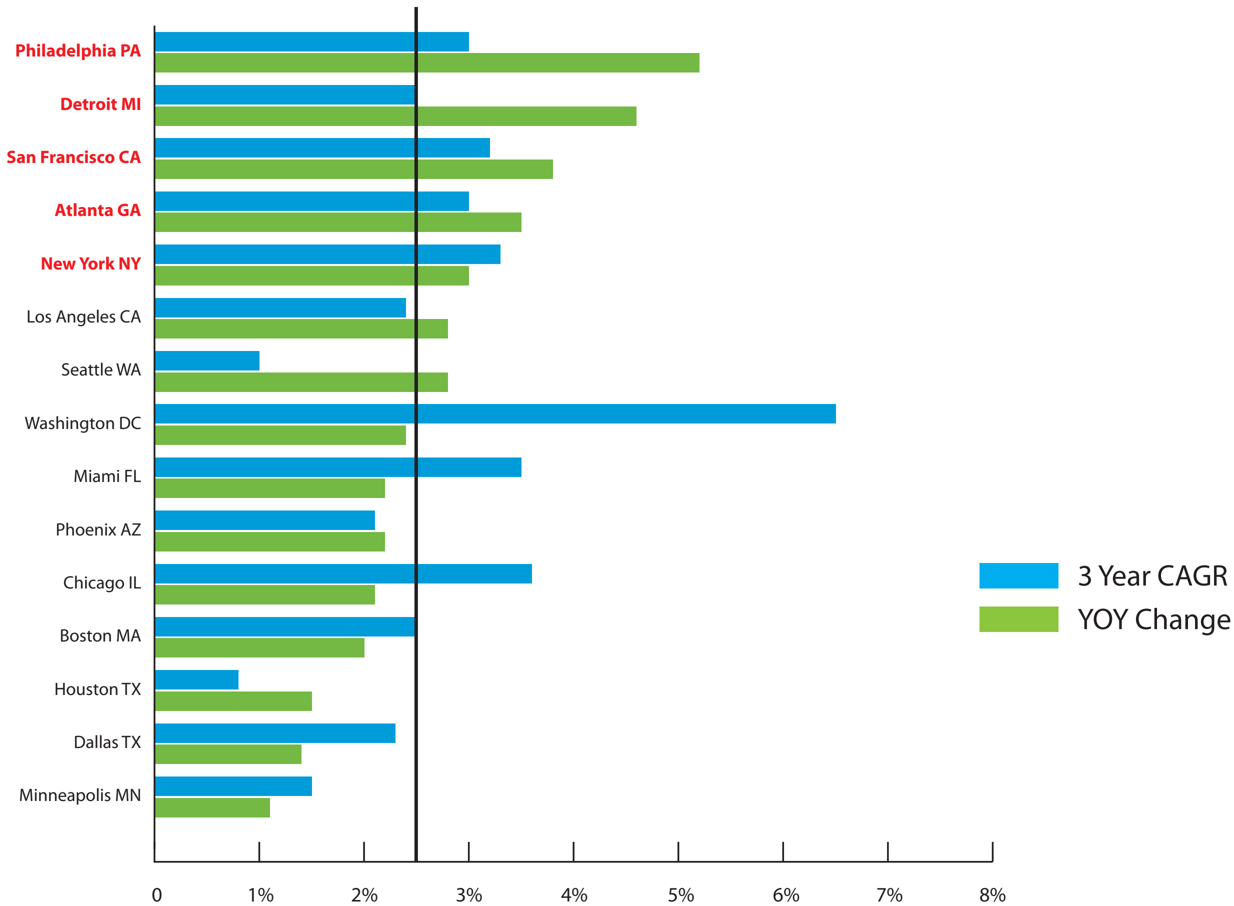
Across the U.S., for the 12 month period ending June 30, 2013, the average partner billing rate was $381 per hour for the 12 months ending June 30, 2013, which is up 2.7% from the prior 12 months.

As an amalgam of different law firm sizes, practice areas and locations, it's a reasonable indicator of how hourly rates are trending. Hourly rates continue to climb, even if growth has slowed. However, these growth rates are well below the high single-digit growth the industry garnered during peak periods prior to 2008.

Figure 9: Enterprise Legal Management Trends Report

Key Metric #5: 5 major cities show rate growth of 2.5% or more both over the last year and over the last 3 years

Based on rolling 12-month totals ending June 30 for years 2010 to 2013



Interpreting the Chart:

In looking at partner hourly rates across 15 major metro areas, two indicators were plotted for each location to show both the compound annual growth rate (CAGR) over a three-year span, and the year-over-year change. A vertical line marker was added at the 2.5% growth rate as a guide to highlight locations operating above and below that rate.

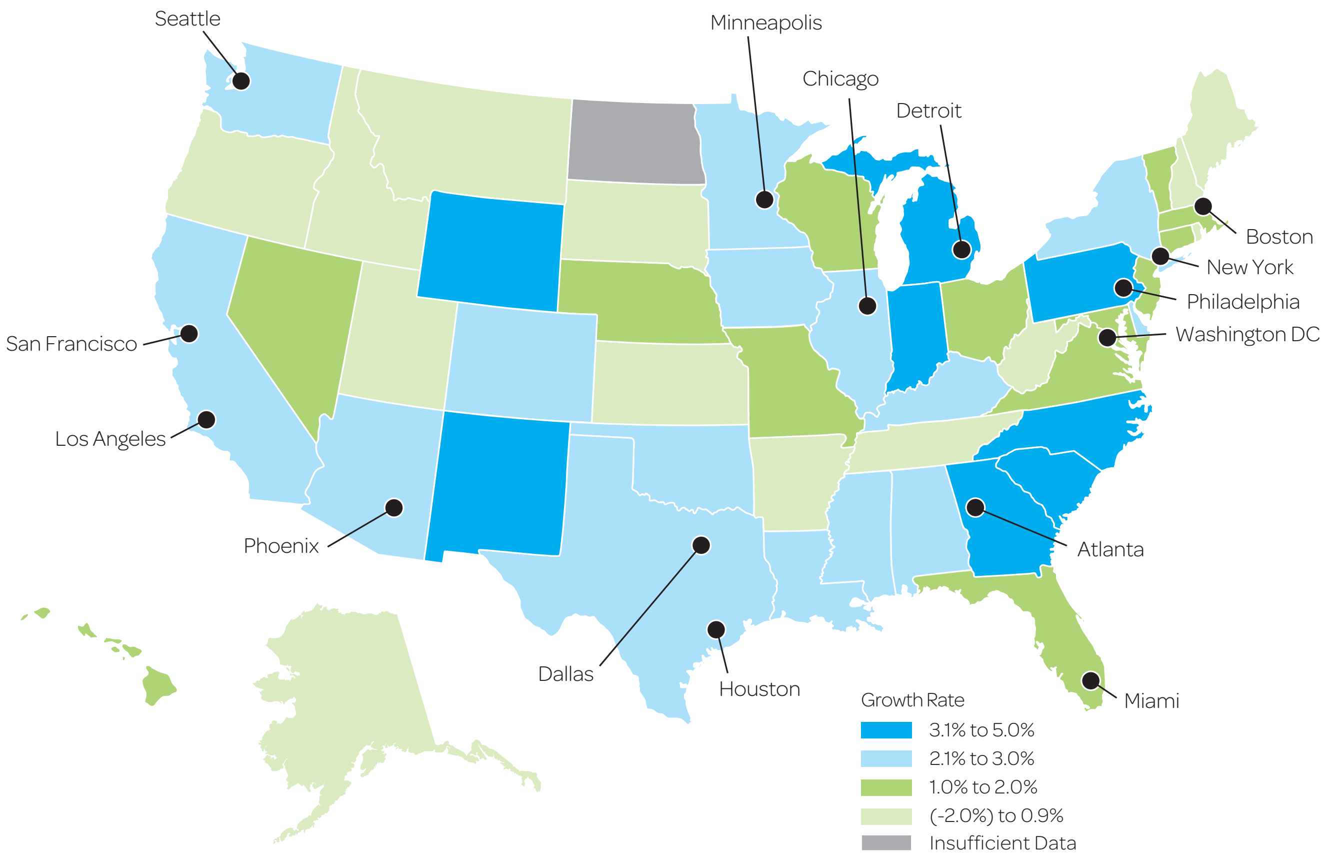
Data for attorney rate growth by major U.S. city show that Philadelphia, Detroit, San Francisco, Atlanta and New York are at or above 2.5% in both compound annual growth rate (CAGR) and annual growth rate. On the opposite end of the spectrum, five cities saw hourly rate growth below 2.5%: Phoenix, Boston, Houston, Dallas and Minneapolis.

Figure 10: Enterprise Legal Management Trends Report

Key Metric #5: Growth in average partner rates varies by state, averaging 2-3% year over year growth

Based on rolling 12-month totals ending June 30 for years 2012 to 2013

This chart shows the annual growth over the past year in partner billing rate by state.

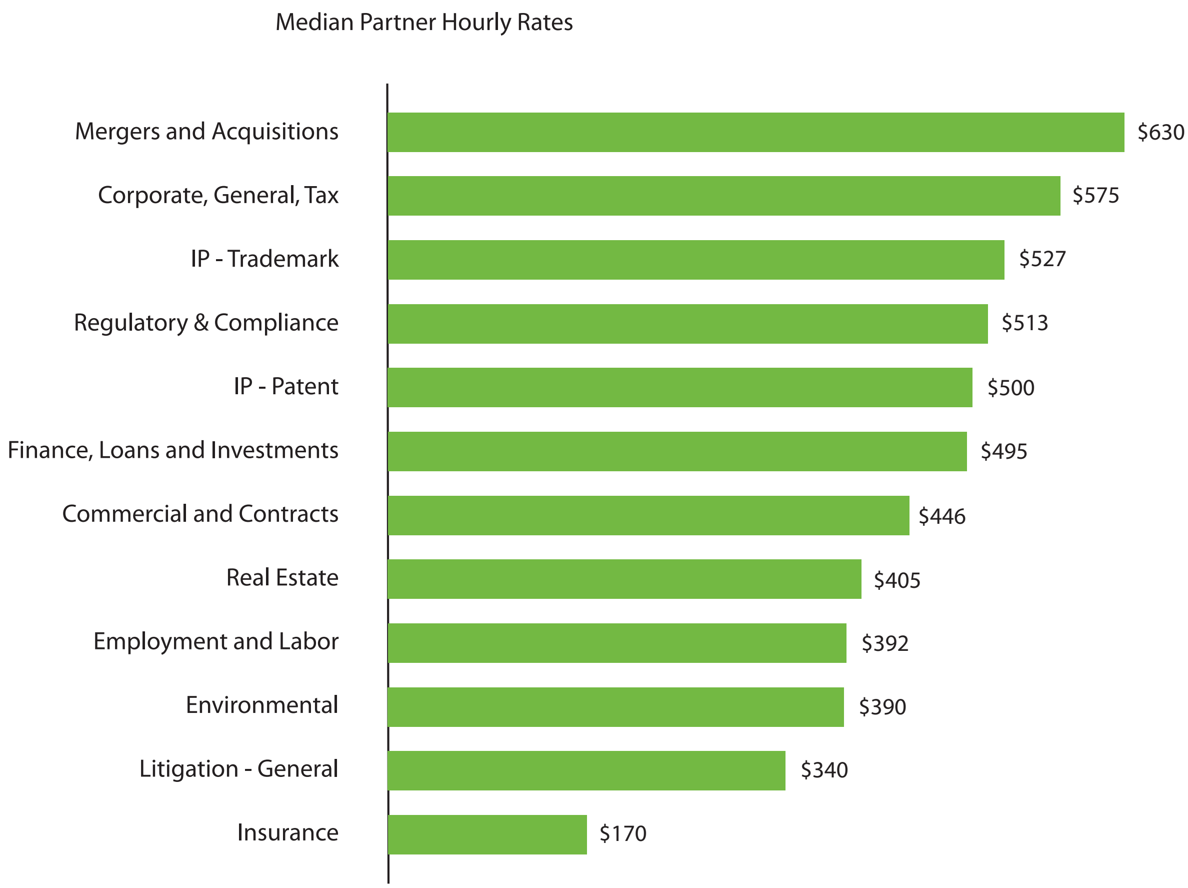


Across all states, the median year-over-year growth for partner hourly rates is 2.2%. The compound annual growth rate over the past three years is 2.7%.

Figure 11: Enterprise Legal Management Trends Report

Key Metric #6: Partner Hourly Rate – by Practice Area

Based on trailing 12-months ending June 30, 2013



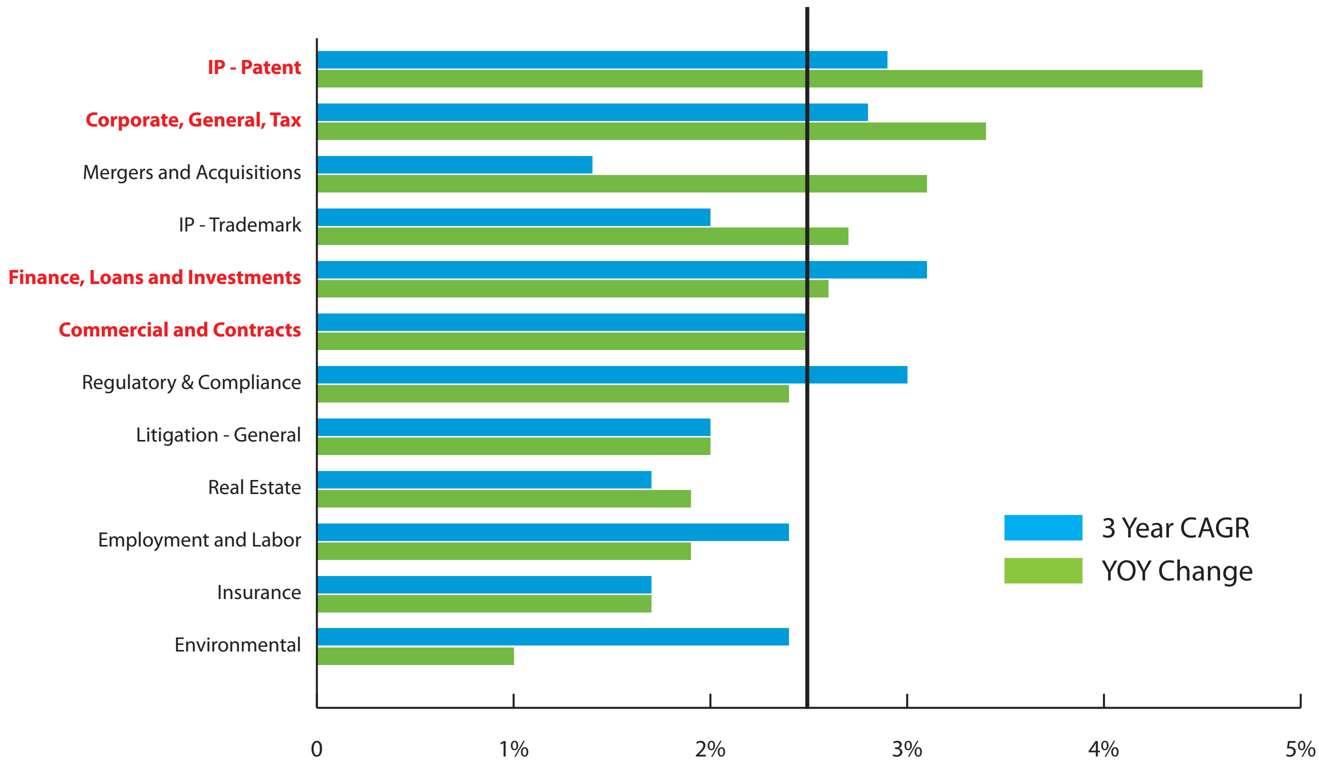
Aggregate statistics based on CounselLink solution invoice data submitted during the last 12 months identify Mergers and Acquisition as the practice area with the highest average hourly partner rate – $630. Next is General Corporate which includes advice and counsel, antitrust work and tax-related matters. In part, both practice areas at the top occupy those spaces because companies often use larger firms for these kinds of matters. In the last 12 months, the "Largest 50" firms handled 33% of Merger & Acquisition and Corporate legal work, versus 20% for all types of legal work. At the lower end of the average hourly rate spectrum is Insurance work. Insurance companies demand, and negotiate aggressively for, low rates on their commodity defense matters.

Figure 12: Enterprise Legal Management Trends Report

Key Metric #6: Four practice areas showing 2.5%+ partner rate growth both over the last year and over the last 3 years

Based on rolling 12-month totals ending June 30 for years 2010 to 2013

This chart shows the 3 year cumulative annual growth rate (CAGR) and the year over year growth in partner rates by practice area.



Turning to partner rate growth by practice area, four of the 12 practice area categories have shown growth at or exceeding a 2.5% rate during the past year and over the previous three-year period: IP – Patent; Corporate, General, Tax; Finance, Loans and Investments; and Commercial and Contracts. Partner rates for Environmental and Insurance matters are growing more slowly than rates in other practice areas.

About the Trends Report

Terminology:

- **Matter Categorization** – CounselLink users define the types of work associated with various matters that were analyzed and categorized into legal practice areas. For this analysis, all types of litigation matters are classified as litigation; e.g., a patent litigation matter is classified as litigation, not as patent work. Data in this report has been mapped to one of 14 practice areas:
    - Commercial and Contracts, including matters on contracting of deal terms for non-M&A transactions
    - Insurance, including medical malpractice, workers compensation, auto claims, title insurance claims, et al.
    - Employment and Labor, including immigration, non-compete, benefits and general human resources related matters
    - Mergers and Acquisitions, narrowly defined to encompass M&A transactions
    - Real Estate, includes real estate transactions
    - Regulatory and Compliance, covering matters that companies define as regulatory, compliance, government affairs or a government action/investigation
    - Litigation, as a broad category covering litigation matters with patents, personal injury, breach of contract, product liability and others
    - IP Patent, patent prosecution and counseling, including filings in the U.S. and internationally, excluding patent litigation
    - IP-Trademark, for work classified as Trademark matters, including registrations and protection
    - IP-Other, covering IP matters not classified as Patents or Trademarks
    - Finance, Loans and Investments, includes securities, credit and collections, and other funding activities
    - Environmental, for all matters defined as environmental or energy related
    - Corporate, General & Tax, to include antitrust, restructuring, bankruptcy, tax and other general corporate work
    - Other, as an open category for all other matters and bills not already addressed
- **Insurance Matters** – For comparison purposes, charges on Insurance matters were removed from two pieces of analysis covering Partner Hourly Rate – Overall, and Partner Hourly Rate Growth – by Location.
- **Cities and States** – To capture location of billing timekeepers, timekeepers were mapped based on their law firm office zip codes. Where city locations are used, they include any zip code within that city's metropolitan division as defined by the U.S. Census Bureau.

- **Law Firm Roles** – In referencing partners, associates, and paralegals, the underlying data included some discrete roles, such as "senior partner" or "junior associate." In such instances, those timekeepers were placed within the broader partner, associate, and paralegal segments. Non-partner lawyer titles, such as "of counsel," were classified as associates.
- **Alternative Fee Arrangements (AFAs)** – Invoice charges are categorized within fee structures utilized in the CounselLink solution. Those charges in non-hourly fee structures were classified as alternative fee arrangements (AFAs). Additionally, charges coded as hourly were classified as AFA if the timekeeper level was a partner and the calculated hourly rate exceeded $1500. For timekeeper levels other than partner, charges with rates of greater than $1000 were categorized as AFAs. Lastly, work for which invoiced-time narratives included terms such as flat fee, fixed fee or similar key words, was categorized as a matter subject to AFAs.
- **Company Size** – Based on 2012 revenue cited in public sources, companies were grouped into these three size categories:
    - $10 Billion
    - $1-10 Billion
    - < $1 Billion
- **Company Industry** – Companies were mapped into the highest level of NAICS codes based on publically-available information, resulting in this arrangement:
    - Finance and Insurance
    - Manufacturing
    - Retail Trade
    - Other

Expert Contributors:

The CounselLink solution has earned an industry reputation for enabling corporate counsel to use data effectively as a basis for improving legal department performance and outcomes. Two factors validate these customer opinions and perceptions:

- Specific legal spend and matter management features in the CounselLink solution give corporate clients robust capabilities to evaluate legal department performance and metrics on an ongoing basis, entirely on their own.
- LexisNexis invests significant resources in professional consulting and service offerings that add a valuable layer of expertise in analytics, benchmarking and best practices. The overall goal with these optimization programs is to help clients translate data-driven analysis into actions that improve efficiency and bottom-line results.

CounselLink is an Enterprise Legal Management solution suite for matter management, legal spend management, legal hold, analytics and strategic consulting services.

Several LexisNexis individuals played a major role in analyzing the latest CounselLink data and compiling this first Enterprise Legal Management Trends Report, specifically:

Principal Author

Kris Satkunas
Director of Strategic Consulting

As Director of Strategic Consulting at LexisNexis, Kris leads the CounselLink team in advising corporate legal department managers on improving operations with data-driven decisions. Kris is an expert in managing the business of law and in data mining, with specific expertise in matter pricing and staffing, practice area metrics and scorecards.

Prior to joining CounselLink, Kris served as Director of the LexisNexis Redwood Think Tank, which she also established. For five years, Kris worked closely with thought leaders in large law firms conducting unbiased data-based research studies focused on finding solutions to legal industry management issues. Earlier, she led the Redwood Analytics services group and the business of law consulting practice for large law firms. During this time she worked with key management at over a hundred law firms to evolve the financial models and analyses developed by Redwood Analytics for large law firms.

Kris has authored numerous articles and spoken at legal industry conferences and events. She came to LexisNexis in 2000 after having honed her finance skills as a Senior Vice President in Strategic Finance at Suntrust Bank. She holds a B.B.A. in Finance from The College of William & Mary.

Kris may be reached at **kristina.satkunas@lexisnexis.com** or **804.955.4034**.

Key Contributors

Jonah Paransky
Vice President & Managing Director

As Vice President, Managing Director for LexisNexis CounselLink, Jonah is responsible for the delivery of superior enterprise legal management solutions and services to the corporate legal industry. Jonah has extensive experience and success in business-to-business product management and marketing, with expertise in identifying market opportunities and bringing new products and services to market. He is a recognized expert in the legal software, SaaS (software-as-a-service), information security and IT infrastructure markets. Jonah received a Bachelor of Science in electrical engineering and a Bachelor of Arts in economics from the University of Pennsylvania.

Justin Silverman

Senior Director & Product Champion of Data Analytics

As Senior Director & Product Champion, Data Analytics for LexisNexis, Justin is responsible for the development of solutions to help the legal industry make better use of available data to inform decision-making. Prior to LexisNexis, Justin managed a professional services business at Gerson Lehrman Group. He has more than six years of management consulting experience, including three years at Oliver Wyman and three years at the Boston Consulting Group. Justin has a JD from Northwestern University Law School and an MBA from the Kellogg School of Management.

Mike Haysley

Director of Strategic Services

As Director of Strategic Services at LexisNexis CounselLink, Mike helps corporate legal departments manage the business of law. He has more than 15 years of experience in roles that include an in-house position as the Director of Legal Operations for a large legal department, and consulting to large legal organizations. This background provides a unique perspective of having personally addressed and managed many of the issues facing legal departments today, as well as understanding best practices and varying needs of legal departments. Mike works with an expert team at LexisNexis to advise legal departments on improving operations and results. He joined LexisNexis CounselLink from Waste Management, where he was the Director of Legal Operations. Mike graduated from Texas A&M University with a business degree, received his law degree from the University of Houston, and is licensed to practice law in Texas.

If you have questions or comments about the Trends Report, or want to learn more about CounselLink software and services, visit **www.lexisnexis.com/counsellink**, or contact us via email: **LNcounsellink@lexisnexis.com** or phone: **855.974.7774**. For media inquiries, please contact: **BLSSSocial@lexisnexis.com**.

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