

THE RECORDER

YOUR BUSINESS



Founders of three San Francisco law firms talk about how it all began

How they were built

What does it take to start a law firm? What's it like? Was it easier a few decades ago? What has changed? Where do the pitfalls lie?

To try to answer some of these questions, Don Oppenheim, former law firm

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executive director and consultant to many California law firms, interviewed three founders or co-founders of leading Bay Area law firms, each now in the later stages of his career.

The three Bay Area firms: Gordon & Rees, which now has 550 attorneys spread nationally over 29 offices; Meyers Nave Riback Silver & Wilson is one of California's leading public agency

practices with more than 80 attorneys, operating from five offices across the state; and Shartsis Friese has one office in San Francisco, with more than 50 attorneys. All started in the 1970 or '80s. Each has become a solid institution in the Bay Area, but each has a very different operating model. Each is branded. Each is successful.

The interviews highlight some great

advice and insights from three individuals who took the big leap and started law firms. What can budding legal entrepreneurs learn from the founders' decades of experience? How did starting and managing a law firm affect the founders' personal lives?

Q: If you were starting a law firm today, would you do it? What has changed?

Steve Meyers (SM): My first partner was a credit card. I don't know that I'd do that again. I always saw myself as a professional with skills to offer, and if clients wanted my skills they would take it. That doesn't seem to cut it any more. There is much more competition now, and the level of competition is not as honorable as it used to be. I guess the fundamental question is: Why in today's environment would you be crazy enough to start a law firm? The world has changed. And the world in my area of law [public agency representation] has changed. Today, I don't think I would do what I did 25 years ago. The practice has changed more in the past 25 years than in the last 100.

Art Shartsis (AS): It's hard to project backwards. I'd been at Morrison & Foerster for three years, and a group of us decided to start a law firm. I wasn't particularly happy as an associate in a big firm, so it seemed like a good alternative. But you know, did I think I'd wind up at this firm, all these years later? We turned out to be good opportunists and hopefully good lawyers. I don't know why people are motivated to do it. In my case I was doing something I didn't like [at the big firm]. So I did something else, and for all that I could be a solo practitioner today. You don't know how these

things are going to work out.

Stu Gordon (SG): I'm not sure I would do it again unless the circumstances presented themselves to make it as easy as it was in 1974. We were working with a senior partner in a small firm who had very little integrity and was extremely difficult to get along with. So we had to make a move for our own sanity and our own sense of integrity. We had several clients that we knew would go with us wherever we went. If I had been in a good firm with good partners and making satisfactory money I would probably have stayed with that firm.

Q: OK, so you went home one day and told your family members I'm going to do this — was there pushback?

SM: It took two years to break that news — no pushback, it just took me a long time to figure out how to do it, when to do it, whether it made sense, time just worrying about it. It was not an easy decision.

AS: Half a year maybe.

SG: It probably took me and my partner, Donald Rees, longer than it should have. We probably took six months to make the decision. My wife at the time was very encouraging because she knew I was very unhappy. And she knew I had the entrepreneurial spirit to do well.

Q: And the banks were equally encouraging and willing to extend credit?

SM: Actually they were pretty friendly in those days.

AS: We had a very funny experience with Bank of America, where they had agreed to lend us \$10,000 and eventually I came down to ask them for the

money. We were expanding, much to our surprise, and some banker who looked like [he was] out of a bad movie shows up and explains to me that the bank wants to have oversight above all of our decisions. It was a movie kind of scene. And I remember standing up and saying, "I'm never doing business with you people again," and walking out. So we expanded from two to seven lawyers within a year. We landed some big accounts and things went well, and the [same] banker shows up to try and offer us more services, and Bob Friese throws him out.

SG: Ours was fun, too, but did not involve a banker. We had a valid claim to accounts receivable of the firm we were leaving. So we walked across the street with \$300,000 worth of A/Rs and in those days clients used to pay them every 30 or 45 days, not like they do now. So we really didn't need money from the bank.

Q: So, all these years later — the three of you hatched three law firms, all very different — have they met your expectations?

SM: It's funny you should ask that, because people say to me, aren't you proud of what you accomplished? I say, "Yeah," but I never really had any prediction about what was going to happen; never had a five-year master plan. I'm very happy with what's happened, but I can't say that I planned it.

Q: My guess is you other two would say the same thing?

SG: Exactly right. You always want to have some growth. But I don't know if any of us thought we'd grow to be where we are now [29 offices nationwide, with 500 attorneys].

AS: We're the low-growth representative of this group [50-plus attorneys in one office]. I think we [midsized firms] were all declared dead in the late 1980s, right? But if you look around San Francisco some firms in the midsized level have disappeared [Howard Rice, Bronson], but big firms are also gone — Brobeck, Heller, Thelen. Your chance of surviving is about the same I think between a midsized firm and a large firm, at least in this city. I'm not sure there is a rationale to it. In 100 years, none of us are going to be here.

Q: Art, you decided not to adopt a fast-growth or regional expansion model. How do you remain profitable, as just one office in San Francisco, with 50 attorneys, in a grow-or-die business?

AS: [All that growth at all those other firms] is a lot to manage. I can't even relate to doing that. We settled on having these really specialty elite practices. We pick a person here, or there, we just grow really slowly and that seems fine. We're all busy[.] Our rates are high. We try to look to practices where you can hit premium rates and still be real efficient. We are also very stable — we haven't had a partner leave the firm for another firm in 20 years.

SM: Growth is a tough decision. As I said earlier, our initial growth was sort of organic and unplanned. But we did reach a point where growth for growth's sake simply didn't make sense for the way we ran the firm.

Q: Steve, how has the recent contraction of public agencies affected your firm? Is this an example of changing with changing times?

SM: Boy, have they contracted. We

never experienced a contraction like we had in the last few years. And fortunately we managed to do well. We had gone up to as high as 95 lawyers and are now down a bit as public agencies have contracted. The challenge is that public agencies, for the most part, do many of the things oth-

er entities do: They hire people, [they] fire people, they litigate, they build things, they take things down, they run enterprises like sewage treatment plants, and airports[.] Even my mother at 91 years old still doesn't understand what I do. She still thinks I am a DA.

STARTING A FIRM TODAY

Fast forward to the 21st Century: What's it like to start a law practice today? We asked many of the same questions to Joshua Stein, a prominent commercial real estate lawyer in New York (www.joshuastein.com), who started his own practice in 2010, after more than two decades as a partner at a global megafirm.

Joshua Stein: When I made my move to my own practice in mid-2010, it wasn't that hard. I had been fortunate to develop a reputation and client base in my practice area, commercial real estate. It's a practice area that doesn't require all the resources of a large firm.

Technology made it really easy to start my practice and deliver a service level that matches or beats the big firms. I closed one of the largest NYC real estate transactions of 2012 sitting at my sister's dining room table "on vacation" in California, with two computers, an Internet phone, and a cellphone. Couldn't have done that 10 years ago. And I was opposite two major NYC law firms, with a third as my co-counsel.

If you want to start your own practice, you have different ways you can go. It doesn't take much of a client base or a capital outlay to set up a one-person shop in your apartment or — probably a better choice — in an executive suite. And the overhead is incredibly low today. You just don't need that much. Assuming you are in a practice area like mine, where a small practice can work, you don't need that many clients to have a reasonable shot of doing well. And you don't have to work that hard!

The big firms are stuck with incredible overhead. Half of every dollar coming in goes to over-

head. When you have your own practice, it's much, much lower — even if you make the decisions I did, to rent proper office space at a good location, use a professional graphic designer, have a good website, buy 15 computers and a file server, hire a publicist, hand out promotional goodies, all that stuff.

I admit a lot of this was not strictly necessary. But it sends a message that I'm serious and I plan to do this for a while. I actually have a logo and it has some recognition out in the marketplace. But you don't have to do everything I did, and you can still do fine, especially if you have 2 or 3 clients ready to give you work.

My capital cost to start was around \$100,000, but as I mentioned you can do it for a lot less. And it'll also be a lot less if you're not in Midtown Manhattan.

I love the flexibility, the freedom, the lack of committees, the lack of partners who have other points of view I have to deal with. I'm all the committees myself. I make every decision, whether right or wrong. I've done some things I never could have gotten approved at my old firm.

I don't plan to grow. That's my choice. I don't want partners. I have four hourly contract attorneys, plus an hourly paralegal, and assistants who help on an hourly basis. I have a bookkeeper in Seattle, whom I pay hourly. I have never met her. For the attorneys, I pay when there's work to do, and when there isn't I don't have expensive mouths I have to feed. It works great.

Why would I do anything else?

Q: I didn't really plan to drill down to your parents, but now I'm sort of curious, were any of your parents attorneys?

AS: No.

SM: You should ask if our children are. I have a daughter, son-in-law, daughter-in-law — oh, and another daughter-in-law — all lawyers.

AS: I have a son in law school.

SG: My kids saw me and said, "No way am I working that hard." None became lawyers. My father was the master county clerk for L.A. County and they all loved him; I met so many lawyers through him, that's what really spurred me on.

Q: Let's look at another twist of life in starting and running a law firm. One of the considerations for today's would-be legal entrepreneurs is work-life balance. If they don't perceive much of a balance now, as practitioners, how can they achieve it with the added load of starting a firm? How have you? Have you?

AS: You just work harder. You just make it happen. For many, many years I'd get home to see the kids before they went to sleep, do their homework with them, and then I'd go back to work. You work from 9 to 11 p.m. Go to sleep, get up, go to work. But I never missed a kid's game or a show at school or anything.

Q: When you took a vacation, did you actually ever have a vacation?

AS: No. Look, you spend time with the kids, and you spend time working. It's hard. Social life got shorted badly. Oh, and along the way I held public office for 12 years [BART board].

SG: I'm the same way. My life has

been fairly balanced, although much more emphasis on work life. But I've run 54 marathons, and run 65,000 recorded miles, and that certainly took a lot of time. I think I was a good father to my two boys, but I don't sleep very much.

Q: You two just might have just chased off every future law firm founder.

SM: I found balance. Somebody told me that you don't want on your tombstone "billed the most hours." I took that to heart. I decided I would work hard to build the firm, but I would not compromise or sacrifice family. I'm not a marathoner, but I'm a big hiker. My wife and I have traveled extensively. I think that lawyers make a big mistake sacrificing their families, or sacrificing the normal attributes of life. We are given such a short period of time on this earth, we should cherish every minute of it. A few years ago I climbed Kilimanjaro — it's not a question of ability[.] You have to want it. Anyone who is starting a firm should really think hard [about] how much time and commitment you want to put into it. Yes, you want to be successful, but you also want to have a balance in your life.

Q: On "compensation," one of your firms has a purely formula system (Sharstis). How has that worked out?

AS: The more you work the more you get paid. Some people elect to raise families or do other things. The less they work the less they get paid. It just takes care of itself. Our compensation committee spends maybe a dozen hours a year at most as a

group deciding what to do. Of the six or eight lateral partners who have come to the firm none of them haven't done greatly better, I mean increased their income by 30 to 40 percent.

Q: On your legacy...

SM: One of the important legacies if somebody starts a firm is to put the firm in a position where it can prosper when you are gone. Those who start firms (should install) mechanisms and the people and systems so the firm can run effectively as you reduce your involvement.

Q: Starting a firm is a huge life experience. Let's skip to the exit strategy — can you ever see yourselves leaving the scene completely?

SG: I'm not walking out, but cutting back to some extent is very likely. I have been a lawyer since 1966. And I've been here at Gordon & Rees for 38 years now.

AS: It's just too much fun: the idea that you don't do this every day. I am not a golf player. Other things just aren't as attractive.

SM: My fondest hope is that 20 years from now there will still be a firm and I'll be long gone. And if there isn't it'll probably be my fault.

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