

Saul Ewing, Arnstein & Lehr in Merger Talks

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Philadelphia-based Saul Ewing and Chicago-based Arnstein & Lehr are in talks to combine, both firms have confirmed. The merger would create a firm of more than 400 lawyers spread across the Northeast, Midwest and Florida. Sources said a vote on the deal is possible as early as this week.

Arnstein & Lehr would be the second largest U.S. law firm to be acquired in 2017, according to Altman Weil MergerLine. The largest is 300-lawyer Chadbourne & Parke, which announced a merger with Norton Rose Fulbright in February.

The firms have no overlap in geographic footprint. Philadelphia-based Saul Ewing is concentrated in the Northeast, with all of its offices located between Washington, D.C., and Boston. Its westernmost office is in Pittsburgh. By adding Arnstein & Lehr's approximately 150 lawyers, Saul Ewing would gain significant presence in both Chicago and Florida.

Founded in 1893, Arnstein & Lehr now has about 90 lawyers in Chicago and another 50-plus in Florida, split between offices in Miami, Boca Raton, Fort Lauderdale and West Palm Beach. The full-service firm focuses on five main practices: business, litigation, local government, tax and estate planning and real estate. Arnstein & Lehr opened its Florida offices about 15 years ago, and the firm's leadership is split between the two bases. Chairman Jeffrey Shapiro is based in Miami and Michael Gesas is managing partner of the Chicago office.

Saul Ewing has expanded several times through mergers with smaller firms. In 1998 it merged with Baltimore-based Weinberg & Green, which increased its head count from 159 lawyers to 222. In 2006, it grew its Washington, D.C., office by merging with Schmeltzer Aptaker & Shepard, a 17-lawyer boutique. It added a Boston office in 2011 by merging with seven-lawyer Dionne & Gass. It also acquired a small gaming firm based in Bethesda, Maryland, in 2010.

Saul Ewing had lackluster financial results in 2016, as the firm experienced a slight decline in revenue and a sharper decrease in profits per partner. In a March interview, chairman Barry Levin said 2016 was a "repositioning" year, and he expected growth to resume in 2017.

Kent Zimmermann, a consultant at The Zeughauser Group, said a number of firms have approached Arnstein & Lehr over the years. A deal with Saul Ewing would be "a monumental step forward for both firms," he said, calling it another instance of growing consolidation in the Chicago legal market. "This is a big step because Arnstein is a well-known firm in the city and of some size as well," Zimmermann said. "You don't see this every day, but there have been others and there's more to come."

The combination would make sense for both firms, said Frank D'Amore of Attorney Career Catalysts. Saul Ewing has established itself as a strong regional presence on the East Coast, he said, but a significant presence in Chicago is a step toward becoming a truly national firm.

The proposed merger would also allow Saul Ewing to step into a new peer group in terms of its firm size, D'Amore said. The advantages of running a 200- to 300-lawyer firm are disappearing, he said, as firms with 400 to 600 lawyers become more competitive on rates, and continue to offer more client resources than their smaller competitors.

"Because of relatively flat demand for legal services, the reality is right now it's grow or die," D'Amore said. "One day the music is going to stop and not every firm is going to have a chair to sit in."

In general, larger firms have more quickly adapted to the changing legal market than their smaller competitors, according to a survey released Tuesday by Altman Weil. For instance, larger firms are more actively tracking data around their costs—a process that can ultimately lead to more profitable alternative fee-based engagements. Of firms with more than 250 lawyers, 87 percent of respondents told Altman Weil they use data to manage individual clients' profitability, compared to 54 percent of smaller firms.