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Firm partnership ranks at K&L Gates being trimmed

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By Gina Passarella / The Legal Intelligencer

When more than 90 partners in seven months leave a law firm, no matter how large, eyebrows are raised and at least 91 different stories can be had about the cause.

For K&L Gates, those stories have played out publicly across legal media in recent weeks as former partners and the firm's chairman offer up their explanations for departures across the 2,000-lawyer firm's increasingly global platform.

What legal community observers and firm chairman Peter Kalis have boiled the moves down to is a concerted effort to trim the nonequity partner ranks of those who weren't generating enough business. That is a business decision currently taking place at large firms across the country and something legal consultants have been urging the often more collegial Pennsylvania law firm community to do for some time.

According to those who spoke to The Legal, the departures at K&L Gates in recent months have most typically been either nonequity partners being asked to leave or nonequity partners who were unhappy with compensation decisions or "saw the writing on the wall."

"It's my understanding that they are taking a serious look at their partnership and, at times, concluding equity partnership is for those who are primarily generating significant books of business," said Lori Carpenter of Pittsburgh-based Carpenter Legal Search.

Ms. Carpenter said the firm was giving attorneys upward of a year to improve their books of business or find new positions, which she said was a good amount of time. But she said that asking a service partner who has never truly been a business generator to suddenly generate a practice, particularly in a market like Pittsburgh where rates are lower, is not the best time to have that conversation.

Ms. Carpenter said discussions on business expectations and partnership requirements need to happen with sixth- through eighth-year associates who can then be paired with partner mentors who have met the firm's business generation expectations.

When asked in June about the 90 partner departures in the first half of the year, a K&L Gates spokesman declined to comment but forwarded a press release about the firm's midyear promotion of 50 associates to the partnership ranks.

In an interview with Bloomberg, Mr. Kalis said, "We have a bond with our best performing associates that they are going to get promoted. The performance evaluation of income partners can be viewed as part of that bond we have with associates. Of course, if you're going to be rational about evaluations, significant numbers will be in transition because we intend to continue to promote up associates and to drive a high-performance culture."

Mr. Kalis, through a spokesman, declined to comment for this article.

In a July 30 memo to the firm that was reported by Above the Law, Mr. Kalis said the firm's overall head count was down 1.3 percent from its 2015 business plan, with partner head count being down 2.5 percent from that plan. He also noted that more than 50 lateral partners and government affairs professionals joined the firm since Jan. 1.

Not all of the departures, however, have been the one-offs that would be expected when individual partners are asked or encouraged to leave. In March, Morgan, Lewis & Bockius hired eight white-collar and corporate litigation attorneys from K&L Gates in Dallas, including three partners. Since the start of the year, at least 15 partners have left K&L Gates' Dallas office for a variety of firms.

K&L Gates has seen declines in profits per equity partner (PPP) over the past few years, moving from $900,000 in 2012 to $830,000 in 2014. Mr. Kalis said in the memo that, based on midyear results, the firm is predicting a 15 percent rise in PPP for 2015, which would bring PPP to about $955,000. Mr. Kalis has often noted that the firm's revenue per lawyer (RPL) is lower than many of its counterparts because of the number of K&L Gates offices in lower-rate markets. The firm's RPL in 2014 was $585,000, ranking it 92nd out of the top 100 law firms ranked by RPL.

Mr. Kalis has led his Pittsburgh-based firm since 1997, when there were a few offices in the Mid-Atlantic region, about 600 lawyers and $282 million in gross revenue. Now the firm has more than 40 offices, 2,000 lawyers and $1.14 billion in gross revenue. Mr. Kalis has led the firm through international mergers in places like Australia and in domestic mergers in smaller markets such as Charlotte, N.C.

Mr. Kalis disputed the firm's growth was anything but sound and necessary.

"With about 30 percent of our firmwide revenue drawn from work sourced in one office and performed in another, much of which is international in nature, it seems clear that your law firm is substantially benefiting from the platform that we've all worked so hard to build," Mr. Kalis said in the memo to the firm. "Need I add that we're likely the only major law firm that has never had a dollar of short-term or long-term third-party debt from a bank or otherwise?"

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