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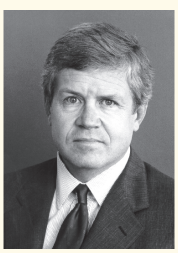
THE FIRMS

How a Move to Chicago Fueled Latham's Rise

Posted by Tom Huddleston Jr.

In 1982, Latham & Watkins was a precocious West Coast firm with 126 attorneys, outsize revenues, and four offices, only one of which—a 12-lawyer Washington, D.C., outpost—was outside California.

Robert Dell



John Walker Junior

Richard Levy

John Lynch

Today, Latham is among the world's wealthiest firms, with gross revenue of $2.15 billion in 2011, nearly 2,000 lawyers, and 31 offices around the world.

So how did the firm, which was founded in 1934 by two tax lawyers, get from there to here? In many ways, Latham's march to global prominence began 30 years ago last month, when it merged with a Chicago litigation boutique, Hedlund, Hunter & Lynch, formed in 1976 by three former Kirkland & Ellis partners.

Firm leaders past and present say the strategy used to launch the Chicago office—teaming local laterals with Latham lawyers imported from elsewhere to serve existing clients while wooing new work—would be repeated over and over in the years that followed, most notably with the 1985 opening of a New York office that is now the firm's largest.

"Frankly, I think that if they hadn't done it in Chicago, I don't know what would have happened to Latham," says John Lynch, who founded Hedlund Hunter with James Hunter and Reuben Hedlund. "If they [stayed] a small West Coast–presence firm, I don't know where they would be today."

The Stevenson Strategy

For Clinton Stevenson, Latham's managing partner from 1967 to 1988, growing beyond the firm's California's roots was a near-imperative.

Lynch calls Stevenson, who died in 2006, "one of the pioneers of national law firms." Jack Walker, who succeeded Stevenson as managing partner, calls his predecessor a visionary bent on creating what he called the "IBM of law firms'"—a global operation with thousands of lawyers.

"Everybody thought he was crazy," says Walker, "including some of the recruits that we wanted to have and they thought he was certifiable when he was saying these things."

Ultimately, Stevenson—described in a 1988 American Lawyer profile (PDF) as Latham's "prophet, its guru"—won over those worried that expansion would dilute a "one-firm" culture that favored group performance over individual status, homegrown talent over splashy lateral hires, and constant communication among the ranks.

Stevenson saw national expansion as a critical first step toward vaulting Latham onto the international stage. And Walker says opening a New York office was viewed as the key to going national. "You have to be a player in New York in order to be regarded as a successful global law firm," he says. Before opening on Broadway, though, Latham had to fine-tune its expansion model with a string of out-of-town runs.

Of the initial forays outside Los Angeles, Walker, who joined Latham in 1971, says, "We made mistakes every time we opened up an office and then incorporated the lessons the next time."

The firm learned the first of those lessons in 1972 when it launched in Orange County. At the start, Walker says, the office was "stagnant" because it consisted of only a handful of L.A. transports. Once the firm began to hire lawyers with local ties, business picked up. The firm drew on that experience six years later, when it opened a Washington, D.C., office.

That location opened with the hire of Carla Hills, a high-profile antitrust lawyer who had served as secretary of Housing and Urban Development in the Ford administration, as a partner. Her husband, Roderick, who had just ended a run as SEC chairman, would join his wife at Latham within a few years.

Despite the prominent hires, Walker says, Latham committed a strategic miscue in moving into D.C. Rather than launching with the kind of regulatory and lobbying focus typical of Washington shops, Latham tried to rely on its traditional strengths in corporate, real estate, and litigation work. "The mistake we made there was we brought an L.A. business model to Washington instead of being sensitive to what a Washington firm was," Walker says. Over the course of the next few years, he adds, Latham worked to add more partners with regulatory experience.

By the time Latham began to eye Chicago, firm leaders had learned from the missteps in Orange County and D.C.

Boutique Shopping

Bob Dell, Latham's managing partner since 1994, was a Hedlund Hunter associate in 1982. Dell says Chicago's status as home base to a major Latham existing client, Sears, Roebuck and Co., was a key factor in the firm's decision to expand there. (Roderick Hills had helped bring Sears into the Latham fold via his representation of the company in litigation with the federal government related to Sears's sale of Japanese televisions in the United States.)

At the time, Dell says, Sears was also in "a fairly aggressive acquisition mode," with Latham advising it on the acquisitions of brokerage firms Dean Witter Reynolds and Coldwell Banker in 1981.

While the firm was also handling Chicago-focused work for such clients as Kohlberg Kravis Roberts, Sears was the major draw. Walker says it was "a tremendous branding opportunity" to have the ability to tell other large clients in the area that the firm was primary outside counsel for Sears: "This was a big feather in our cap."

Roderick Hills—who became CEO of Sears World Trade, a now-defunct international trading company, in 1982—says he advocated for the Chicago move. "The firm did an extremely good job for [Sears] in making those acquisitions, and so [Sears] asked me to organize an office in Chicago for the firm," he says. "I discussed it with our partners and felt strongly that we should not agree to open an office unless we could make a significant acquisition."

After exploring various ways of cracking the Chicago market, Latham leaders set their sights on Hedlund Hunter, which had 21 attorneys and a litigation practice built around national clients like Nissan and General Motors.

Richard Levy, the current managing partner of Latham's Chicago office, says Hedlund Hunter was "the litigation boutique firm in Chicago at the time." Roderick Hills, meanwhile, had known Reuben Hedlund since the latter's days as a law student at Yale, which prompted him to help make the match between Latham and the boutique.

John Lynch says he and his partners weren't eager to associate themselves with another large firm just six years after bolting Kirkland to gain more autonomy. Still, he agreed to listen to Stevenson, who said Latham was Chicago-bound no matter what. "I said, 'Well, [we're] happy to talk, but it's not much likely that we're going to be merging with some firm out in L.A.,'" Lynch recalls.

What followed was a six-month courtship that included meetings with Stevenson and other high-ranking partners, including Walker, in Los Angeles as well as Chicago. From the outset, Lynch says, Latham was more intent on merging than Hunter Hedland. But Lynch says that in weighing a possible tie-up, he and his partners discovered that other Latham offices were able to maintain their local identity within the firm's strong culture. "[Other offices] had their own image and their own, sort of, motivation and clients, but yet they were part of Latham & Watkins, L.A.," Lynch says.

When the two firms agreed to combine, it was decided that the Chicago office would operate for a few years as Latham, Watkins, Hedlund, Hunter & Lynch, repeating an approach that had been used in D.C. Lynch, the Chicago office's first managing partner, says he remembers telling the Latham partners, "'You're going to want people to know that you're a part of us and we're a part of you.'" (When the three names were removed from the Chicago office's entrance a few years later, Lynch says, he nabbed his own surname and tucked it away in his credenza.) Latham set up shop in Hedlund Hunter's existing office space in the building then called the Sears Tower.

Lynch says Stevenson told him that, had the merger with Hedlund Hunter not worked out, he had a list of other local lawyers he hoped to recruit. One, Michael Levin, a corporate partner at Arnstein, Gluck, Lehr, Barron & Milligan (now Arnstein & Lehr) was another of Sears's key outside attorneys. At Sears's urging, Latham also snagged Levin, who moved into the Hedlund Hunter offices a month before the merger was final. "There was a guy who had balls," Lynch says. "He was the only corporate guy and he walked into an office of all litigators."

Levin teamed with such Los Angeles transports as Robert Burgess, who already had relationships with Sears and KKR, to form the heart of a Chicago-based corporate practice that would eventually attract further high-profile laterals and clients. Lynch says he recruited few new laterals during the office's first few years in order to avoid "a revolving door." Instead, the office grew gradually, adding tax work with the hiring of Kirkland tax partner Stephen Bowen, and building its insolvency practice with a group of former Sidley Austin attorneys led by Ronald Hanson.

The Chicago office also managed to grow via cross-selling. For instance, Lynch says, Chicago-based litigators worked on employment law and tax work for the firm's corporate clients in California. Shortly after the merger became official, James Hunter took over a famous Sears socket wrench patent case that saw the company facing off against a former employee who claimed he was paid only $10,000 for inventing a tool Sears wound up selling to millions of people. Though the two-decade-long case ended in a settlement, Hunter won a key decision for Sears along the way.

Overcoming Obstacles . . . And on to New York

The Chicago merger had its complications. One wrinkle that required straightening, Lynch says, involved Hedlund Hunter's switch from its traditional staggered billing rates to what was then a unified Latham system under which clients were billed the same amount for time spent by associates or partners. Lynch remembers calling clients to explain the new system. Many, he adds, were excited after he explained "you're going to get me for $100, but you're [also] going to get a first-year for $100."

For his part, Levy came aboard in 1983 as an associate after spending his last summer of law school with a rival firm in Chicago. He says he had heard good things from friends in Los Angeles about the collegial atmosphere at the "up-and-coming Latham & Watkins." However, when he told the rival firm's partners that he was joining Latham's recently opened Chicago office, they were in disbelief. "They thought I was absolutely crazy, going with this piddly satellite office of an upstart, California-based law firm," he says. "But, I knew what I was doing."

By the time Levy joined the Chicago office, he says, "this was an office that was already established—had a running start" and was busy with work despite the fact that he was arriving on the heels of the recession of the early 1980's.

Legal consultant Peter Zeughauser (who is currently a colleague of Walker's) says Latham did a lot of things right from its first days in Chicago, and also got lucky by unknowingly finding the firm's future chairman in the process. "It's not easy to go into Chicago like they did, make an acquisition, integrate the firm so well, and wind up having Bob Dell," he says.

That Latham was able to almost immediately compete for local and national business in Chicago indicated the firm was ready to aim for the real prize. Says Walker: "Our [expansion goal] was to go into New York and be very strong in New York. . . . And Chicago was a great platform to help us do that."

Three years after opening in Chicago, Lynch says, the firm sent corporate partner Henry Steinman to New York with a handful of transplants from Los Angeles, Chicago, and Washington, D.C. While it didn't merge with any New York firms, Latham did make a handful of local lateral hires—and eventually scooped up a large group from the doomed Mudge, Rose, Alexander, Guthrie & Ferdon. (One of those early hires, Kirk Davenport, is now a member of the firm's executive committee.)

Almost immediately after opening the New York office, the firm represented media mogul Ted Turner in a failed hostile takeover of CBS. But as The American Lawyer noted in a 2005 article marking the twentieth anniversary of Latham's New York office (PDF), the firm's early success in the city was largely a product of its private equity practice.

Building on its experience with such national clients as KKR and The Carlyle Group, Latham entered New York at a time when its primary local client, Drexel Burnham Lambert, was among the financial industry's most active investors. Indeed, Drexel controlled nearly 60 percent of the booming junk bond market at the time, with Latham handling its acquisitions of companies like Avis, Zale Corporation, and Bell & Howell Company.

Though an insider trading scandal eventually laid Drexel to waste, Levy says Latham benefited from what he calls the "Drexel diaspora"—the flow of former Drexel bankers to such other major investment houses as Bear Stearns; Kidder, Peabody & Co.; and Donaldson Lufkin & Jenrette Securities Corp. "The bankers went elsewhere," Levy says. "And they like Latham, and they stayed with us."

Ready for the World

The firm's success in Chicago, then New York, set the stage for more expansion—including a San Francisco outpost that Dell launched as managing partner in 1990—and then international growth. Walker sent a handful of attorneys to London in 1990 "to put up our shingle." Two years later, Latham became one of the first U.S. firms to open an office in Moscow after the collapse of the Soviet Union, according to the firm's Web site. The firm launched its Asia practice with offices in Hong Kong and Tokyo in 1994 and 1995. Today, 20 of the firm's offices are located outside the U.S.

Despite 30 years of growth, Levy says, Chicago remains a key market for Latham. The office, he says, no longer does work for Sears (which finds itself in increasingly dire straits), but does still handle work for a handful of KKR portfolio companies and such clients as Discover and GE Capital. Over the years, the office has housed, and produced, several firm leaders, from Lynch to Dell to Levy. Dell adds that two of the firm's five global chairs still reside in the office (David Heller, finance, and Sean Berkowitz, litigation) and multiple executive committee members have done stints there.

And while the office's place in the firm's future is no doubt secure, its address is changing. Earlier this year, Latham announced that it would be trading its longtime lease in the former Sears Tower in 2014 for a 160,000-square foot space in the former IBM Building—a fitting address given Stevenson's original vision.