

PRESSURE ON FEES FROM CLIENTS THE BIGGEST CONCERN FOR COMMERCIAL LAW FIRMS

Issued on behalf of Sweet & Maxwell
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- TOP 100 LAW FIRMS EXPRESS CONCERN OVER IMPACT OF LEGAL SERVICES ACT
- LAW FIRMS EXPECT PUBLIC SECTOR WORK TO BE WEAKEST AND INSOLVENCY STILL TO BE FASTEST GROWING

Commercial law firms see pressure on fees from clients as the greatest threat to their profitability, reveals the fifth annual research carried out amongst Finance Directors of the Top 100 law firms by Sweet & Maxwell, the leading legal information provider (**Full results below**).

According to Sweet & Maxwell, this is the second year in a row that Finance Directors of law firms have said that hourly rates have come under substantial pressure.

54% of the Finance Directors of firms surveyed by Sweet & Maxwell, a Thomson Reuters company, said that downward pressure on fees from clients will pose a high risk to the profitability of commercial law firms in 2011. A further 42% of Finance Directors consider that pressure on fees from clients will pose a medium risk to firms' profitability over the next year.

Whilst it has been common for clients to try and resist an increase in the hourly rates charged by law firms up until the recession, requests by clients to actually cut fees had been far rarer.

The traditional method to achieve this is for clients to ask law firms to cut their hourly fees in exchange for more guaranteed work through a place on a smaller panel of law firms. For example, last year one the world's largest oil and gas companies cut its list of external legal advisers from 60 firms to eight – in exchange for those remaining panel members dropping their rates.

The second highest risk to profitability identified by law firms was a continued downturn in corporate work – with 46% of Finance Directors saying this will pose a high risk.

During the pre-recession boom, City law firms had enjoyed a rapid expansion in fees from M&A, private equity and corporate finance work. However, deal activity fell away with the credit crunch and has not yet returned to their previous levels.

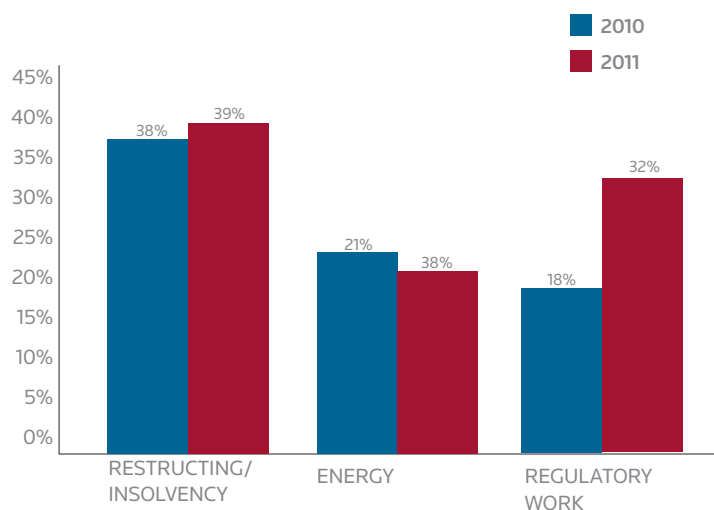
Surprisingly the research also found a relatively high level of concern amongst the Top 100 law firms about the impact on their profitability from new competitors launched as a result of Legal Services Act deregulation ("Tesco Law") with 13% saying it is a high risk to profitability. 12 months ago none of the law firms polled rated it a high risk.

Whilst Tesco Law is expected to have a much more immediate impact in those areas of law dealt with by "high street" law firms, over the longer term new capital attracted to the sector could fund more active competition amongst law firms for commercial work.

A more positive indicator for law firms, or at least for the lawyers employed by them, is that the impact of poaching of staff by competitors has become a renewed concern. This year it was listed as a high risk to profitability by 13% of law firms whereas in the previous year that was just 3%.



Top 3 areas where Finance Directors expect fast growth over the next year (Percentage of results)



PRACTICE AREAS EXPECTED TO GROW THE FASTEST

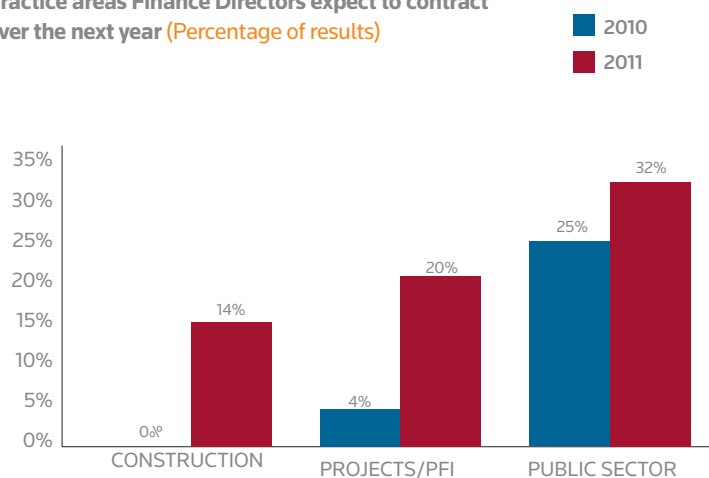
Insolvency and restructuring is the legal sector that Finance Directors expect to grow the quickest, with 39% of respondents expecting fast growth in this area.

Although the number of corporate insolvencies is below its peak these have started to edge up in sectors such as construction as spending cuts take hold. In addition complex corporate insolvency cases can take years to complete meaning any new supply of cases falls on an already saturated market.

The second most popular area is energy practices, where 38% of Finance Directors are expecting fast growth. Sweet & Maxwell explains that demand for advisory services due to a continuing boom in oil prices could explain this projected growth, as the global economy grapples with the looming energy crisis and carbon reduction targets.

Third was regulatory work, such as dealing with the FSA, with 32% of respondents expecting fast growth as financial services firms gear up for the huge changes created by Basel III, Solvency II and the replacement of the FSA.

Practice areas Finance Directors expect to contract over the next year (Percentage of results)



PRACTICE AREAS EXPECTED TO CONTRACT

The Top 100 law firms expect the weakest areas of legal work to be in public sector, projects/PFI and construction work

32% of Finance Directors expect public sector work to contract over the next year, with just under half (47%) expecting no growth within the sector. Broad cuts across Central and local government public spending are expected to continue throughout the year.

The public sector cuts are also expected to be a drag on Projects and PFI work, with 20% of Finance Directors expecting advisory work in the sector to contract, and 45% expecting no growth.

Results summary: Risks to the profitability of commercial law firms (Percentage of responses)

RISKS TO PROFITABILITY OF COMMERCIAL LAW FIRMS	HIGH	MEDIUM	LOW
Downward pressure on fees from clients	54%	42%	4%
Continued downturn in corporate work	46%	33%	21%
Competition between law firms over fees	33%	63%	4%
Cost overruns on fixed fee work	29%	58%	13%
Late payment by clients	21%	46%	33%
Disputes with clients over bills submitted	21%	8%	71%
Credit risk of clients	21%	50%	29%
Professional negligence claims	13%	25%	63%
Competition as a consequence of deregulation under the Legal Services Act	13%	33%	54%
Poaching of staff by competitors	13%	42%	46%
Guaranteed pay to lateral hires	8%	25%	67%
Cost of the law firm's own property	8%	25%	67%
Work being taken in-house	4%	63%	33%
Lack of capacity to meet increasing demand	4%	38%	58%

Results summary: Over the next year how do you expect the following areas of legal work to perform? (Percentage of results)

AREA OF LEGAL WORK	FAST	MODERATE	NO GROWTH	CONTRACTION
Restructuring / Insolvency	39%	43%	17%	0%
Energy	38%	38%	24%	0%
Regulatory Work	32%	45%	23%	0%
Employment	26%	52%	17%	4%
Tax	23%	59%	18%	0%
Media	14%	33%	48%	5%
Corporate Finance / M&A	14%	59%	27%	0%
Professional Negligence	14%	50%	36%	0%
Intellectual Property	14%	52%	33%	0%
Personal Injury	14%	19%	67%	0%
Commercial Litigation / Dispute Resolution	9%	74%	17%	0%
Fraud & other white collar crimes	9%	50%	41%	0%
Construction	5%	10%	71%	14%
Private Client	5%	43%	52%	0%
Commercial Property	0%	65%	35%	0%
Projects / PFI	0%	35%	45%	20%
Public Sector	0%	21%	47%	32%

NOTES TO EDITORS:

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