

One of valley's elite law firms to close down

CLIMBING DEBT, DEFECTIONS
LED TO BROBECK'S DEMISE

By **Matt Marshall**

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One of Silicon Valley's most respected law firms, which was also the most profitable during the go-go days of the Internet bubble, collapsed Thursday after a last-ditch merger effort was scuttled.

The demise of Brobeck, Phleger & Harrison, forced by a slowing economy, mounting debt, partner defections and lack of a willing partner firm that would bail it out, shocked the valley's legal community. Partners announced the dissolution at a 2:45 p.m. firm meeting, and word quickly made the rounds in legal circles.

"It's amazing," said Steve Bochner, senior partner at the valley's leading high-tech firm, Wilson Sonsini Goodrich & Rosati. "They were truly one

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of the best law firms on the West Coast. . . . You feel sad and vulnerability at the same time."

The firm, founded 76 years ago in San Francisco, was one of the elite firms specializing in high tech, counting as its clients most of the valley's major companies, including Cisco, Apple and Siebel. It employed 500 lawyers, and 600 non-lawyers, slightly fewer than half of them working in the Bay Area.

In 2000, its partners earned almost \$1.2 million on average.

The firm said it would hold talks with its lenders Friday, and was hoping for an orderly transition period as it winds down.

"At the moment, bankruptcy is not involved," said spokesman John Pachtner. He said helping clients meet their needs was a priority, but said it is too early to know how talks will turn out.

One employee said the firm had no money left to pay workers after Friday, and that employees have been given instructions to wait to hear about the results of the talks before they come back on Monday.

Shock

not be confirmed.

When Morgan, Lewis pulled the plug on the deal early Thursday, Citibank called in its loans, forcing Brobeck's partners to throw in the towel.

They voted to dissolve the firm around noon, and then told associates at the 2:45 p.m. meeting.

Some workers had arrived to work on Thursday thinking their jobs were safe. They

had been told there would be an announcement, but many thought it would be that the merger was approved.

"We get paid through close of business tomorrow," said one employee, requesting anonymity. "No paid time off, no benefits, no Cobra," she said.

'A very fine law firm'

"This is shocking news to me," said William L. Anthony Jr., a former Brobeck attor-

ney, "because Brobeck, notwithstanding all the beatings it's taking in the press, is still a very fine law firm with wonderful lawyers and partners, many of whom I consider my friends."

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DECLINING FORTUNES

Brobeck suffered the greatest drops in revenue, net income and per-partner profits in 2002 among Bay Area firms.

■ Profits per partner in 2002: \$555,000, down 16 percent from \$660,000 — and way down from 2000, when partners pulled in an average of \$1.17 million, highest for any big firm on the West Coast

■ After signing a lease in 2000 for space in a huge new office tower in East Palo Alto, Brobeck advertised the new office as located in pricier Palo Alto. The law firm later apologized for the snub to East Palo Alto.

■ Gross revenue for 2002: \$353 million, down 21 percent from 2001

■ Ranking by gross revenue among top Bay Area law firms for 2002: No. 6, down from No. 2 in 2001

■ Number of partners as of late January 2003: 160

Source: law.com, Mercury News

Shock

After Thursday's firm-wide meeting via video conference, several workers broke out in tears, according to a witness in Brobeck's East Palo Alto office.

The firm prospered until 2000, but made some bad moves at the peak of the stock market. Its most expensive: agreeing to a 12-year lease for 191,000 square feet of the brand-new \$260 million University Circle office-retail complex in East Palo Alto — just before real estate rents in the area plunged almost 70 percent.

East Palo Alto city leaders, learning of Brobeck's situation late Thursday afternoon, said they were dismayed. Brobeck was the largest tenant in University Circle, which was a redevelopment project crucial to East Palo Alto's economic revival.

"That's horrible news," said Mayor Pat Foster. City Councilman Duane Bay added, "Clearly this is some kind of a setback, but what remains to be seen is how big of a setback."

Brobeck had planned to sub-lease much of the University Circle space to dot-coms. But after signing the lease, those dot-coms went belly-up. While Brobeck used some the space, it was left with 72,000 square feet languishing empty.

It had a similar amount of empty space at its old Palo Alto building, though the lease on that was over later this year.

Then, in another big blow, former chairman Tower Snow defected from the firm in May, taking with him 21 partners to a London competitor, Clifford Chance. Snow kept poaching, snapping up another 30 or so Brobeck lawyers since then.

Other firms, smelling blood, began poaching too, and soon Brobeck was reeling — having even fewer partners to help pay the debt. Its lawyer ranks shriveled to 500, from a high of 921 in 2000. Last week, the firm's partners had to cough up \$26 million to reduce its debt with its nervous lead-lender, Citibank.

Failed attempts

Over recent months, Brobeck made several desperate efforts to merge with other law firms, but talks apparently foundered on the debt and real estate obligations. The last merger attempt was with Philadelphia-based Morgan, Lewis & Bockius, which had a strong East Coast practice and few overlaps.

But Brobeck's office in Austin, Texas, wasn't happy with the plans. One of Brobeck's biggest rainmakers, Steven Zager, led the Austin office, and he was the firm's head of litigation and owned Brobeck's account of the big telecom manufacturer, Nokia. Just as Brobeck was hoping to clinch the merger Wednesday, Zager quit, leaving for Akin, Gump, Strauss, Hauer & Feld.

Insiders said that Zager's departure was the merger deal-killer, giving Morgan, Lewis one more reason to fear that Brobeck's core base of good lawyers was falling apart. Rumors suggest Zager's compensation package was at issue, but they could