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A year after the collapse of Bear Stearns Cos. and six months after Lehman Brothers filed its historic Chapter 11, two Skadden partners kicked a bold plan into gear.

Ben Klubes and Andy Sandler told the firm's leadership they were leaving, and, on a Friday in March 2009, they headed straight for what was then Buckley Kolar, a boutique financial regulatory and compliance services firm founded about five years earlier by former partners at Goodwin Procter LLP.

That frenzied weekend in D.C., the pair of litigation partners called clients and associates they'd worked with closely at Skadden's financial services, enforcement and litigation practice, trying to see who else might be willing to take the plunge.

They interviewed prospective hires that weekend, and by Monday, they were up and running as Buckley Sandler LLP.

Amid the harried logistics of the move, the leaders of the new firm — including its predecessor's leaders Jerry Buckley, Jeff Naimon, Joe Kolar and John Kromer — spelled out their vision in six paragraphs.

The guidelines were simple. They would keep their firm small and scrupulously avoid debt. They would broaden their client base by accepting contingency work for plaintiffs. The partners would know one another.

It was a blueprint for how their firm would overcome what they saw as some of the shortcomings of BigLaw in the run-up to the 2008 financial crisis. As big firms around them laid off scores of associates and stalwarts of the industry sank, the partners at Buckley Sandler were building their own boat.

"We were in a different environment than almost any time in the previous decades," said Kromer, a co-founder of Buckley Sandler as well as its predecessor. "We decided we wanted to be more of a speedboat, not a battleship."

Buckley Sandler co-managing partners John Kromer and Benjamin Klubes. (Annie Pancak | Law360)

As work ground to a halt in some practices in September 2008, BigLaw partners scrambled to rethink how they were financing and managing their firms. Some, including Thelen LLP and Heller Ehrman LLP, did not survive, succumbing to bankruptcy over the next year as partners fled.

Attorneys who left bigger firms in those early years to strike out on their own set new ground rules for their enterprises — they aggressively chased opportunities presented by the crisis, fostered closer ties among partners, and avoided debt.

Some of their larger counterparts have also adopted that financial conservatism and sought to build a similar sense of personal investment among partners as they prepare for the next squall. And they've demanded more certainty from their banks, seeking committed working capital lines that give them a more assured source of funding.

“People had gotten to a perspective of, ‘It’s always going to be better each year, we just need to do more of the same, faster and better, right?’” Klubes said. “It was a kind of a complacency built by success.”

Controlling Your Own Destiny

Michelle Rogers, then an associate in the financial enforcement and litigation team at Skadden Arps Slate Meagher & Flom LLP, walked into Buckley Kolar’s office that Friday in March 2009, not knowing what to expect.

She had been summoned by phone earlier that morning by Sandler, one of her mentors at Skadden, who’d beseeched her to “get in the cab and come over here right now,” she said. It seemed a job was waiting for her, if she was ready.

Rival firms including Latham & Watkins LLP and Holland & Knight LLP had just announced dozens of attorney layoffs the previous month, and her own firm was offering associates paid sabbaticals. She was also six months pregnant at the time.

Still, Rogers said she didn’t feel particularly vulnerable staying in BigLaw. If anything, she was more worried about leaving an established firm like Skadden for an uncertain future with a new venture, she said.

“I was hearing from colleagues at Skadden: ‘What are the health care benefits like? What if the firm doesn’t succeed? What’s the plan for you?’” she recalled. “And I’m like gosh, I’ve got this kid coming, that’s a really good point.”

Michelle Rogers, now a Buckley Sandler partner, joined the firm as a lateral associate from Skadden. (Annie Pancak | Law360)

But there was something irresistible about the atmosphere at the newly forming law firm. She recalled meeting Kromer, who cheerfully declared to her, unprompted, that “We’re gonna have great maternity leave policies!”

She ran into other Skadden associates from her team, also weighing their move, as firm leaders made their pitch about a new kind of firm where attorneys knew each other well and made decisions together, without necessarily working themselves to the bone.

Rogers, whose annual billing at Skadden hovered around an imposing 2,000 hours, was intrigued. Crisis or not, here was a chance not only to be part of something new, but also to grow it.

“It was this idea of, I’m gonna be part of something that we build, and I’m gonna do it as an associate,” she said.

For Klubes and Sandler, 2009 felt like the right time to team with a financial regulatory firm whose attorneys they’d known well for years. Their practice at Skadden did not do much of the regulatory and compliance work they anticipated would take off in the post-crisis years, but Buckley Kolar did. What the Skadden team brought was the enforcement experience to build a practice representing major financial institutions facing crisis-related litigation.

“Andy and I were happy at Skadden,” said Klubes, referring to Sandler, who retired from Buckley Sandler this February. “But we always had an interest in being a little more entrepreneurial and more in control of our own destiny.”

Gaining Flexibility

Untethered from the dictates of conventional large defense firms, which must often worry about conflicts with existing clients, the former Skadden attorneys were able to dramatically expand one client base in particular: plaintiffs. With work rolling in, the firm doubled in size from about 50 attorneys in 2009 to around 100 the following year.

In 2014, the firm won one of its largest settlements for a plaintiff it took on a contingency fee basis, a $554 million settlement for the Navajo Nation. The firm represented the tribe in a suit against the U.S. government over its handling of tribal lands and trust funds.

“It broadens the nature of work you can do, if you’re willing to be on the plaintiffs’ side in litigation,” Klubes said. Taking on plaintiffs on a contingency basis also meant reducing the reliance on hourly billing at a time when clients had gotten particularly sensitive to firm billing rates.

“It was a way to get beyond the billable hour, and certainly, some contingency matters can have a big financial upside, vis-a-vis the amount of work you put in,” he said.

Attorneys who’ve left large firms to found their own practices in the years since the financial crisis describe similar trajectories. They saw the opportunity for lucrative work in investigations, litigation and restructurings, and they wanted to take on clients without being bound by conflict checks or opaque price-setting decisions concocted by remote management committees.

They lured clients by offering better rates, and, in a bad economy, clients followed. All the while, they've stayed relatively small to maintain control and transparency within their firms about business decisions. Klubes said that he and Sandler offered rates at Buckley Sandler that were about 10 percent lower than what they had offered at Skadden.

"If you were a BigLaw attorney, and had a substantial practice, and your main clients were now fee-sensitive, you got tremendous pricing flexibility by peeling away," said Bill Henderson, a professor at Indiana University, Bloomington's Maurer School of Law. "Management committees at larger firms want to set your rate, and if you leave to start your own firm, you can be free of that bureaucracy for the rest of your career."

Tolerating Risk

In November 2009, a few Diamond McCarthy LLP attorneys decided they would trade their comfortable offices at the plaintiffs-side bankruptcy and financial services firm in Austin, Texas, for something smaller.

Expecting the crisis to create massive restructurings and liquidations, William Reid, a top partner at the firm, decided with newly minted co-partners Lisa Tsai and Jason Collins to form their own firm. A goal from the start: carefully limiting expenses and growth.

They opened their first office in a modest Austin neighborhood called Shoal Creek, leasing a temporary space from an engineering company that contained four offices and a small common area. Reid and Collins shared a wooden table that was supported by cardboard boxes.

The space was small, but there were big opportunities. The decision to limit spending was not simply a matter of aversion to risk, but it was part of a strategy to pursue riskier, and potentially higher-paying, cases, Reid said.

"We wanted to take risk, we wanted the big contingency-fee cases, and see if we could win them, exclusively," he said. "I feel like, if you're beholden to making your monthly payments, and you have a lot of overhead, a nice space and all that, then you're forced to make different business decisions."

Rachel Fleishman, Lisa Tsai, Jason Collins, Eric Madden and William Reid of Reid Collins & Tsai.

For attorneys who represent bankruptcy trustees, creditors and plaintiffs in pursuing recoveries, income depends largely on their clients' success. That means that unlike at defense firms, where attorneys still largely wield the billable hour, there is no consistent cash flow, Collins said.

Rather than use debt to fund their operations, which many plaintiffs' firms do, partners at the newly formed Reid Collins & Tsai LLP opted for the tougher route: paying themselves only when their cases succeeded.

The firm did cash in in the wake of the crisis, since it focused on financial fraud cases and insolvency litigation, often representing court-appointed liquidators of failed companies. Collins said the firm built its practice in part on financial crisis cases involving fraud claims related to residential mortgage backed securities. They even represented Thelen's trustee in the firm's bankruptcy case.

"It was a good environment for us, when we started our firm, in terms of timing — the timing was great," he said.

Still, maintaining financial equilibrium without taking loans can take some tolerance for personal risk and sacrifice. The founding partners did not pay themselves salaries for roughly the first five months of operation, and they have since had monthslong spells without paydays.

For Tsai, who joined Diamond McCarthy in 2004 after working as an associate at Latham & Watkins LLP, a measure of financial control and independence was part of the appeal of leaving to do plaintiffs-side work — and of forming a new firm with her co-partners.

"What I'd say is that there's a world of difference between hourly billable and plaintiffs work," she said. "It comes down to our model. We're not here attempting to churn the clock and bill every minute of time and create a paper trail."

Eyeing the Budget

While Reid Collins & Tsai has focused on fiscal discipline, firms that collapsed around the time of the crisis show the perils of bad financial management.

Thelen LLP began winding down in October 2008 after losing more than 200 attorneys since the doomed merger of its predecessors Thelen Reid & Priest LLP and Brown Raysman Millstein Felder & Steiner LLP in 2006. The defections triggered a breach of the firm's loan agreement with Citigroup Inc., and the remaining partners eventually moved to shut down the firm.

According to bankruptcy filings, the firm had a generous compensation system under which equity partners could take payments each month of about $1,000 per "equity point" they were assigned. Partners with more points were entitled to higher draws, which allowed some of them to draw about $21,000 or more each month. The firm's bankruptcy trustee later sued several partners to recoup what he argued were overpayments.

California-based Heller Ehrman LLP, which once had over 700 attorneys, had also collapsed amid defections by partners to rival firms. The firm filed for Chapter 11 bankruptcy in December 2008 after partner defections led to similar issues with the firm's lenders.

The confluence of these events made a few things clear: Firms would have to figure out how to build a work culture that would help retain partners. They'd also have to avoid the kinds of excesses in partner payouts that had doomed firms like Thelen and would ultimately take down Dewey & LeBoeuf LLP in 2012.

Some firms were already scrutinizing their budgets. In 2007, before the full onset of the market crisis, Greenberg Traurig LLP's then-CEO Cesar Alvarez sought to implement a cost management program. The move surprised other firm leaders at the time, according to current CEO Brian Duffy.

"He really did think we were at the end of the business cycle," Duffy said in a recent interview. "I can remember being on the executive committee, thinking, you know, 'Why are we doing this? Things are great.'"

The firm reviewed expenses including real estate and firm retreats. Duffy said the analysis unearthed some startling line items, though he declined to say what they were. Still, the firm didn't have any major obligations it couldn't meet, he said.

"You can become undisciplined very quickly," he said. "We decided we needed a renewed focus on paying attention to the mundane part of the business of law."

In 2009, Greenberg Traurig was also among several firms that reduced salaries for some groups of its summer and first-year associates.

In the decade since the crisis, financial restraint has worked for Greenberg Traurig, Duffy said. The firm grew from roughly 1,700 attorneys and $1.2 billion in revenue in 2008 to about 2,100 lawyers and a projected $1.5 billion in revenue for 2018. Its growth came mostly through lateral hires and the promotion of associates to partners, said Duffy. The firm's website says it has "never added lawyers through a merger."

"Now it just requires more financial discipline and business judgment," he said. "And I think that's a good lesson for the legal profession."

Firm leaders have also grown more conscious of how they use financing. In 2008, when banks halted their lending during the credit crisis, firms found themselves suddenly blocked from receiving loans, said Michael McKenney, the head of credit origination at Citi Private Bank's law firm group.

Since then, large firms have veered away from uncommitted credit facilities, which allow banks to deny loans or ask for repayment at any time, he said. They switched instead to committed working capital lines, which allow firms to request loans at any time, as long as they meet the terms of their agreements with the banks, he said.

They've also transferred more of their debt burden onto equity partners. The law firm group's surveys from 2008 to 2017 of 54 BigLaw firms with more than 600 attorneys show the amount of paid-in capital per equity partner rose in the years since the crisis, McKenney said.

“The amount of capital required to run a big law firm is not falling, but the source of that capital is shifting to equity partners.” he said.

McGuireWoods LLP, which decided during the crisis not to conduct any layoffs, uses bank credit only as part of a “disciplined approach” to borrowing, executive director Bob Couture said, rather than to fund its operations. It uses a formula for debt that relies on its balance sheet, and it doesn’t use revolving credit lines to pay bills.

The events of 2008 also reinforced what Couture said was the firm’s conservative approach to partner compensation. The firm maintains a narrow spread between the incomes of the highest and lowest-paid partners, and though partners are paid throughout the year, they only receive a significant portion of their income at the end, he said.

“Any unforeseen event can happen during any time in the year,” he said.

Preparing for Battle

Since its inception in the wake of the crisis, Buckley Sandler has been planning ahead.

Anticipating the crisis would drive major prosecutions, the firm built out its white collar enforcement practice with heavy hitters like David Krakoff, a former co-head of global enforcement and litigation at Mayer Brown LLP; Preston Burton, who previously led Orrick Herrington & Sutcliffe LLP’s litigation team in D.C.; and Hank Asbill from Jones Day.

Those predictions didn’t quite come to pass — prosecutors have largely declined to pursue criminal charges against individuals in the financial crisis, opting instead to seek large civil settlements from institutions.

Still, firm leaders say their broad white collar litigation and enforcement expertise has helped them attract other types of work, such as cases involving Foreign Corrupt Practices Act enforcement. And they say it can serve as insurance in a future financial crisis. The firm has no debt, and its litigation practice has landed major clients including Universal Entertainment Corp., which it represented in a case against Wynn Resorts Ltd. that settled in March for $2.6 billion after years of litigation.

“From day one, we fully appreciated the financial tsunami we were in, and its implications for growth of the firm,” Klubes said. “We understood there’s a cycle to these things.”

Even at its larger rivals, corporate attorneys remember the financial crisis well enough to fear a repeat.

Noreen Kelly, now a managing partner of McGuireWoods’ New York office, was a first-year partner at Latham in New York when its client, Lehman Brothers, fell apart in September 2008. Kelly, a white collar and securities litigator, was just starting to build out her financial services practice when she received the phone call about Lehman.

“It was inconceivable to me that an institution like Lehman could just simply fall, without seemingly much notice, at least from the public lens,” she said in an interview. “That day, we didn’t have a client anymore.”

Her young practice had to be built instead on the fallout from the mortgage-backed securities crisis. She’s spent the last 10 years — including at McGuireWoods, which she joined in 2014 — representing clients before regulatory agencies and in related litigation. The fallout has kept her practice busy, and she anticipates white collar litigators will likely find similar work in the wake of the next financial crisis.

At Holland & Knight LLP, which took a 10 percent hit to its overall revenue in 2009, firm leaders have asked their practice and industry group leaders to consider what a downturn would look like and how it might affect their practices.

Doug Wright, the firm’s operations and finance partner, said the firm was considering ways to shore up its bankruptcy and restructuring practices, including by bringing on more laterals. The firm, like many others, is also counting on its litigation practice to pick up the slack from its transactional teams during a downturn.

“I think about that Eisenhower quote, ‘Plans are worthless, but planning is everything,’” he said. “So even when we’re not certain about the outcome, we’re actively planning.”

Losing the Corner Office

As law firms seek to make better use of valuable office space and bring their attorneys closer, one casualty from a decade of upheaval in the legal industry may be the corner office.

Hogan Lovells has spent the last five years renovating its office in downtown D.C. to create a sense not only of greater connection but egalitarianism, its partners say.

From first-year associate to CEO, every attorney’s office is the same size and filled with the same furniture: a standing desk and tall shelves (attorneys can choose between white glass or wood), a few office chairs, and a minimalist couch with light gray upholstery.

Sunlight spills in through panel windows in the roughly 482,000 rentable square-foot space, with offices closed in not by walls and wooden doors but by more glass. Gone is the maze-like layout of aisles and cubicles, and the once-coveted corner offices are now common work areas.

“There’s not a business need for multiple size offices, and this creates a sense of connectedness that we’re all one team working together,” said Bill Flanagan, a firm partner in D.C. who has overseen the renovations since 2013.

The renovation also created event spaces within the office with the capacity to hold between 200 and 300 people. The firm uses them to host partner meetings, client events, and an informal speaker series for attorneys and staff.

In July, CNN anchor Jake Tapper visited the office for a talk to promote his new novel, “The Hellfire Club.” When the highly anticipated National Museum of African American History and Culture opened in the summer of 2016, the firm invited its curator to speak to law firm staff.

"We wanted to get away from the concept that people would just go into their office, close their door and work," Flanagan said.

Keeping a Human Scale

True to the goals laid out in its founding partners' manifesto, Buckley Sandler has opted to stay relatively small, at about 150 attorneys. It usually hires lateral partners whom firm leaders already know well. From its beginnings, it's involved associates in important decision-making.

Partners still meet for lunch every Tuesday, and its offices host weekly social events for its attorneys and staff to get together. In D.C., for instance, there's a "happy minute" at 4:30 p.m. every Friday, with drinks and pizza on the menu.

"We could do it at six, but we don't want people here at six o'clock on a Friday," said Rogers, the former Skadden associate who joined Klubes at the firm's inception and is now a partner.

It may be harder to create that camaraderie at a larger firm, but some of BigLaw's biggest are trying.

Hogan Lovells, formed in 2010 by the merger of the roughly 1,300-attorney, D.C.-based Hogan & Hartson LLP and the London-based Lovells LLP, spent the years after the merger trying to bring attorneys and staff closer.

The firm instituted regular meetings for its practice groups, which meet weekly or monthly. Partners and counsel meet at its offices for bimonthly lunches, and the firm's global partnership meets quarterly, followed by similar regional partner meetings. Every other year, the firm also shells out for a destination conference for its partners. Its most recent one, which took place June, was held in Monaco.

"I totally get in a boutique what the advantages are, but if you want to have a large firm that works, the secret sauce is relationships," Hogan Lovells CEO Steve Immelt said. "And so we do everything we can to foster relationships so that people who are working together meet one another."

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