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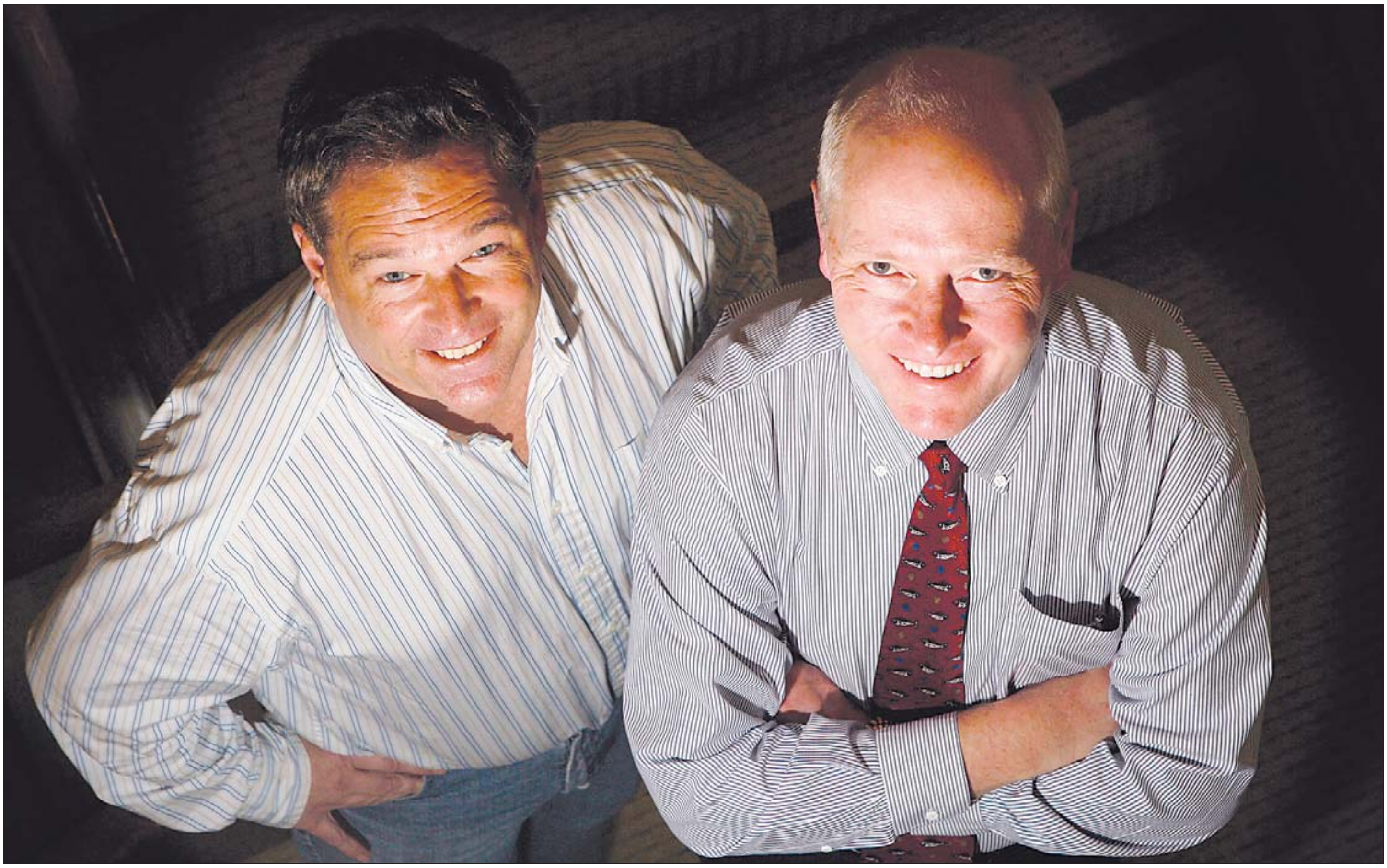

New Generation: Joe Coyne, left, and Guy Halgren in their downtown office. Once content to cultivate clients in L.A., the law firm of Sheppard Mullin has started an expansion push with offices in New York, Washington and plans for Shanghai.

Welcome to Beyond L.A.

Sheppard Mullin 'stayed home' instead of opening offices elsewhere. But those days are over.

BY EMILY BRYSON YORK
Staff Reporter

GROWTH spurts are normally associated with the teen years. But the Los Angeles law firm of **Sheppard Mullin Richter & Hampton LLP** is on the verge of capping a six-year surge – and it is 80 years old.

Sheppard has grown from 297 lawyers in 2000 to nearly 500 within nine offices, with locations in New York and Washington, D.C. Revenue increases have been in the mid-teens each year. Sheppard has established an institutional entertainment practice, and in the next few weeks, its partners will likely green light an office in Shanghai, which would be the firm's first international outpost.

"We don't want to just grow for growth sake," said managing partner Guy Halgren, "but we realized that with this high quality reputation we could use that to attract great talent."

Twenty years ago, Sheppard was one of several similarly sized Los Angeles law firms. While rivals Latham & Watkins LLP, Gibson Dunn & Crutcher LLP and O'Melveny & Myers LLP established New York and international offices and eventually ran their annual billings beyond $750 million. Until recently, Sheppard stayed in L.A.

The firm developed a reputation for high-quality work in mid-market transactions and litigation, but billings were $265 million last year. While top firms have lawyer billing rates nearing $900, Sheppard's top rate is $695 an hour.

"Sheppard stayed home. They were OK with who they were, but there came a point in time when their brand was a little bit sleepy. Meanwhile all these (other) firms were advancing, becoming bigger and more profitable," said Dan Hatch, a recruiter for Major Lindsay & Africa LLC.

That era is over, according to Joe Coyne, a member of the firm's executive committee.

"The baton has been passed to a new generation in our firm," he said, "and that new generation is saying, 'I'm not missing the next opportunity.' "

Missed New York

It wasn't that the firm was languishing. It turned a steady profit while focusing almost exclusively on L.A. cases and clients.

"We missed New York because things were good in California," Coyne said. "Things were going well, we were growing 10 percent," Coyne said.

Over the past several years, however, a series of expansions and mergers made the 1,000-lawyer, national firm commonplace, and regional shops like Sheppard were forced to redefine themselves, be swallowed up – or be marginalized.

Halgren was chosen to lead the firm in 2001, in large part because of his philosophy of running the firm as a growth business. His first major move was to establish an entertainment practice at the firm.

Sheppard hired 15 entertainment lawyers from the now-defunct Hill Wynne Troop & Meisinger, including former Walt Disney Co. general counsel Louis M. Meisinger and Robert J. Wynne, former co-president of Sony Pictures Entertainment.

To seal the deal, Sheppard agreed to open a Century City office, a gleaming, modern space with treated glass walls. Its sharp contrast to the dark wood accents at the firm's downtown headquarters was symbolic of a new approach.

"The entertainment group tends to be pretty entrepreneurial," said Robert A. Darwell, one of the new hires. "Before (the firm) would wait for an introduction to a company and not be so targeted in their business development opportunities."

Darwell said his group is constantly looking for creative ways to get acquainted with businesses that may need their services, and that approach has paid off. In four years, the entertainment practice has grown to 50 lawyers and developed several specialties, including a fashion and apparel group launched at the most recent fashion week in New York.

The launching of the entertainment practice wasn't the only change.

Some of the firm's partners, including Coyne, and corporate partner Larry Braun, handle billon-dollar matters for Northrop Grumman Corp. and Boeing Co. Sheppard opened a Washington, D.C. office in 2003 and a New York outpost in 2004.

Some things haven't changed. Sheppard has retained its reputation as a traditional and gentlemanly practice.

"We don't fire partners as a rule," said Halgren. "A lot of firms will shut out less profitable practices and by doing that they bring their averages up, and we generally haven't done that."

Still, the firm's recent moves leave little doubt in the mind of regional players that Sheppard is thinking differently these days.

"If you open a Shanghai office, you're looking to take over the world," said Stuart Liner, managing partner at regional firm Liner Yankelevitz Sunshine & Regenstreif LLP.

Growth at a price

Sheppard has funded all of its expansion directly from the firm's cash flow, driving down the profits it can report per partner.

"When you take it out of cash flow, you're spending money you have," Coyne said. "If you open an office and borrow $10 million, you think you can pay it back, but how do you know?"

For 2005, Sheppard reported profits of $785,000 per partner, up sharply from $685,000 the previous year, but still well below the $1 million mark that has become the gold standard in the legal industry.

Coyne and Halgren said the firm's per-partner profit figures also appear lower than they might otherwise partly because the firm had counted its junior partners as equity partners.

"We're kind of behind the curve in that one. Every other firm has already done this." He said that changing the policy will bring the firm over the $1 million per-partner figure.

Sheppard has resisted the urge to merge for eight decades, but the current roster of roughly 500 attorneys is particularly attractive to larger firms looking to expand through acquisition.

Coyne said it's not going to happen, because large mergers create too many conflicts of interest.

"Would we buy or acquire a 100-person firm in the right area? Yes. Do we want to combine our 500-lawyer firm together with others? No," he said.