

READY FOR HIS CLOSE UP

Outspoken, opinionated and often right, K&L Gates head Peter Kalis has made financial transparency his latest mission. *Legal Business* talks to the Rhodes Scholar who runs a \$1bn firm yet still can't fit into the US legal establishment

DAVID STEVENSON

I was embarrassed to be in the same profession as Dewey & LeBoeuf,' states Peter Kalis, not without a sense of the dramatic. The chairman and global managing partner of K&L Gates is referring to the circumstances in which the aforementioned Wall Street giant last year became the largest-ever legal collapse amid acrimony and controversies over financial reporting.

But Kalis is voicing more than frustration over the well-publicised governance failures that led to Dewey's demise – though he has certainly been a regular critic of the excesses of Big Law US-style. More specifically, Kalis in February sought to make a point about the wider lack of transparency in the US legal profession by releasing financial results for his firm in a form that he argues would comply with standards expected of public companies.

The headline that greeted the move in *The Wall Street Journal*, 'Big Law Firm K&L Gates Lifts Veil on Financial Performance', spelled out the critique of the state of disclosure in the US market.

The accompanying results showed that the firm generated 2012 revenues of \$1.06bn, a marginal decline on 2011. The figures, which will be externally audited, demonstrate that the firm has no debt and has cash and equivalents of \$220.7m. It also defines the ratio of the top paid partner as 7.9 times that of the average for first-year equity partners – a wide spread for leading Wall Street firms but well short of the aggressive 'barbell' pay models seen at some top 100 players.

The message was unambiguous: K&L is soundly and conservatively financed. Readers still struggling with subtext were aided by a quote from Kalis in the article: 'In these times, opacity is not our friend.'

Interviewed by *Legal Business* during the week of the financial release, Kalis drums home the point, maintaining that the lack of financial transparency in the US typified by Dewey was 'mortifying'.

This is not the kind of rhetoric expected of law firm leaders in the US. Despite being by far the largest legal market in the world, the US remains an environment in which management and sophisticated governance is still often ►



► derided at the expense of rainmaking skills and the ability to bill 3,000 hours a year. It is for this reason that the reported quote of former Dewey Ballantine head Morton Pierce that ‘management is not my passion’ for some sums up the problems at Dewey and wider shortcomings in the US profession.

Obviously, Kalis is at the opposite end of this ideological spectrum, with management very much his focus. In pursuing that interest, Kalis has achieved – and often cultivated – a high profile and used his visibility to rail against what he sees as a profession obsessed with relative profitability and a self-defeating transfer market for star partners.

Kalis – arguably the closest the US has come to producing a Nigel Knowles-style maverick – has been similarly outspoken on many other issues, including the global credentials of the Magic Circle and the rash of multi-profit centre mergers as typified by Norton Rose. Such a stance has grated with many rival managing partners and has seen Kalis become a regular feature on US legal blogs.

In the flesh, Kalis – like Knowles – is a highly entertaining companion, at turns amusing, caustic, self-deprecating and imaginative in discussing the legal industry. In High Timber, the restaurant in which this interview was conducted, he is on first name terms with the serving staff, some of whom call him ‘Pete’. (Kalis spent a lot of time at the establishment after being stuck in London for a week in 2010 as the Icelandic volcanic eruption caused flight chaos in Europe.)

But if he cuts an unusual figure for the head of a major law firm, he has presided over the unusual creation of a 2,000-lawyer practice.



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WALL STREET, SCHMALL STREET

Kalis’s rise to professional prominence came from relatively humble origins (though US lawyers practising in the late 1970s and early 1980s were still benefiting from a period of relative social mobility). His family were Greek immigrants who settled in Detroit. The Kalis family soon relocated and Kalis was raised in Wheeling, West Virginia, where his parents ran the New Nixon Restaurant.

He quickly displayed an aptitude for academia, graduating Phi Beta Kappa from West Virginia University in 1972, before going on to gain a doctorate in philosophy in Oxford after being accepted on a Rhodes Scholarship. Though the law was not an obvious career path, his uncle was a lawyer and judge, which Kalis says helped set him on his path. He studied law at Yale, becoming editor-in-chief of its law journal. He went on to clerk for the late Justice Skelly Wright, chief judge of the US Court of Appeals for the District of Columbia, and then for the late associate Justice Byron White of the US Supreme Court – a prestigious start to his career by any yardstick.

If his earlier steps in law had the glamour of a fast-track junior attorney, his career in private practice was in the more down-to-earth setting of Pittsburgh-based Kirkpatrick & Lockhart, which he joined as a litigator in 1980.

But while the emergence of a national US market was still a way off, Kirkpatrick had a reputation for producing ambitious young lawyers who weren’t excessively respectful of more storied legal opponents. Recalling his early years at the ‘fifth-largest firm in Pittsburgh’, Kalis says: ‘It was so much fun. I was litigating against Simpson Thacher. My corporate friends were

K&L GATES: PUTTING IT ALL TOGETHER

2005 Kirkpatrick & Lockhart and Nicholson Graham & Jones merge to become Kirkpatrick & Lockhart Nicholson Graham.

2007 K&L Gates is formed in a merger between Kirkpatrick & Lockhart Nicholson Graham and Preston Gates & Ellis.

2007 Opens in Berlin.

2008 Merges with Hughes & Luce in Texas.

2008 Opens in Shanghai.

2009 Merges with Bell, Boyd & Lloyd in Chicago.

2009 Opens in Singapore and Dubai.

2010 Launches offices in Tokyo, Warsaw and Moscow.

2011 Enters South America with São Paulo office opening, and opens in Doha.

2012 Merges with Italian firm Marini Salsi Picciau.

2012 Opens in Seoul.

2013 Merges with Middletons in Australia.

2013 K&L Gates opens in Houston.

doing deals against Cravath. It was an amazing formative experience. We formed this mindset of “Wall Street, Schmall Street – let’s take them on”.

Despite finding success in a wide variety of contentious matters, writing about the law – and unusually the business of law – was an early passion. His profile lists more than 50 articles he has written, including incongruously a 1977 piece for the *British Journal of Industrial Relations*, titled ‘The Effectiveness and Utility of the Disputes Committee of the Trades Union Congress’.

Kalis, who made partner in 1985, was authoring imaginative pieces on the economics of law by the mid-1990s, ahead of becoming managing partner of Kirkpatrick in 1997.

Under Kalis’ leadership, a regional US practice would swiftly be refashioned as first a national player and then an emerging international force, securing eight mergers under his watch. Two of the most significant were Kirkpatrick’s 2005 takeover of mid-tier London practice Nicholson Graham & Jones and the 2007 merger with prestigious Seattle outfit Preston Gates & Ellis, a top 100 US firm with a name partner famed as the father of Microsoft founder Bill Gates.

NOT FITTING IN

If K&L Gates’ rise has created a global law firm, it is plain in discussion with Kalis that he sees his firm as being as much of an outlier as himself in terms of where it fits into the status-obsessed world of law.

For one, Kalis is well used to sniping about the firm’s relative profitability and claims from rivals that its rapid growth in income has not seen the firm move up the food chain. The firm’s profits in financial year 2006 were \$125.5m, this rose to \$320.5m in 2012. The firm’s profits per equity partner for 2012 were \$899,960 for full equity partners, one of the lowest in the Global 100.

Kalis responds that these figures would be better if he had all his lawyers in pricier postcodes such as London and New York. Indeed, one of his persistent criticisms of the profession – particularly in the US – is that too many major firms focus on maintaining high profits for a relatively small number of partners at the expense of long-term expansion that will more strategically position the business.

Still, one former partner contacted for this piece argues that the firm’s relatively low profitability does limit its ability to bring in and retain quality partners. This partner – while being an admirer of Kalis’ leadership – maintains that there is more

disquiet in K&L’s ranks over profitability than the firm acknowledges.

It is also the case that despite currently acting for an enviable roster of bluechip clients, including Microsoft, Viacom, Xerox, Bank of America Merrill Lynch and UBS, K&L has yet to build the kind of transactional muscle that drives profitability.

However, one prominent observer of the profession, William Henderson, professor at Indiana University Maurer School of Law, backs Kalis’ focus on vision over short-term profitability.

‘Kalis said that profits in the early years weren’t going to be what you’d make at other firms but it’s worth waiting for,’ says Henderson. ‘He is confident and visionary and unafraid to make difficult decisions such as creating a global law firm and keeping up with the way the world is going.’

Kalis certainly resists criticism that the firm hasn’t made enough progress in terms of quality of work to match its huge increase in scale. ‘We mainly do large deals for middle-market companies and mid-market deals for global corporates. But we have our share of über-deals too. We are, for example, one of American Airlines’ advisers in its pending \$11bn merger with US Airways,’ he says, while also admitting that his firm’s deals more commonly tend to be in the sub-\$1bn bracket.

In terms of who Kalis sees as his competitors, he says: ‘On any given day we’re competing against Magic Circle firms, Wall Street firms, Silver Circle firms, other international firms, national firms in countries around the world, regional firms, boutiques in all of our markets – and that’s just the law firm competitors.’

THE TEAM, NOT THE STAR

Part of Kalis’ irritation about some of the sniping his firm has faced is that he sees it coming from rivals that have at times failed to live up to the sound judgement they are trying to sell to their clients.

In this Kalis has emerged alongside author and former Kirkland & Ellis veteran Steven Harper, who now writes *The Belly of the Beast* blog, as one of the most trenchant critics of the profession’s obsession with a star system in which firms pay ever-increasing sums to lure partners laterally.

Kalis is particularly scathing of the use of guaranteed pay deals for lateral recruits, a major feature of the collapse of Dewey and a tactic that has spread in recent years. He concedes this means K&L will miss out on some partners. ▶

QUOTABLE KALIS

‘If you’re not playing meaningfully in the US, you’re not global. You might be smart, but you’re not global. The Magic Circle only ventured out of the Eastern Time Zone once. When Clifford Chance opened in California, it eventually had to shut down and shoot its way out of town.’

‘When people say that law firms don’t adapt to the changing marketplace, I would respectfully respond that the ones that didn’t adapt are dead and the ones that won’t now are the walking dead.’

‘I was embarrassed to be in the same profession as Dewey & LeBoeuf. I found it mortifying. People think that could be widespread.’

‘I wonder what you tell your current partners who are working very hard and guaranteed nothing.’

‘I always say that lawyers should be in one of two places, at the coalface or at the market place.’

► “There is a consequence for not offering guarantees. Certainly people won’t move without it but I wonder whether culturally they’re worth it – I’ve decided they’re not. When you bring in somebody, plop them down and say “this guy is going to be making \$3m a year come hell or high water”, what would the other partners think?”

Kalis is as critical of rivals running up sizeable debts rather than funding their activities through partner capital, a practice that has contributed to a string of major US firm collapses over the past 12 years, including Howrey, Heller Ehrman and, of course, Dewey.

There have been claims that K&L Gates partners resent the higher capital contributions this no-debt policy requires but Craig Budner, administrative partner at K&L Gates in Dallas and part of legacy Texas firm Hughes & Luce, says that he has never had a partner leave because of this stance.

Kalis has been equally as strident on the topic of multi-profit centre mergers seen in recent years with the creation of Hogan Lovells and the expansion of the Norton Rose Group, whereby international unions have deployed Swiss Verein umbrella structures to bind firms with multiple partnerships.

Several years ago Kalis was prominently quoted deriding such deals as ‘Noah’s Ark’ mergers, where the animals go in two by two. Since then, there have been a further rash of such combinations. He remains unimpressed: ‘Configure your law firm any way you want, it’s your business, but don’t suggest that you’ve created one firm when you adopt the Verein structure. Sorry, but language means too much to me. It’s simply not one firm!’

MR PROFILE

Kalis’ unusual style has made him something of a celebrity ‘CEO’, even if he attracts as much sniping as he does media attention (befitting this status Kalis also maintains a dizzying range of professional and charitable commitments).

As well as regular appearances in *The Wall Street Journal* and *The American Lawyer*, he has become a regular fixture in *Above the Law*, the irreverent and popular US law blog, which often gets hold of Kalis’ memos.

Still, Kalis remains characteristically relaxed about being lampooned on the blog and even professes to admire the transparency it has brought to the industry. ‘Over the years, I’ve starred in *Above the Law* but, at least until they recently asked me to appear in a new feature, my starring roles have been, shall we



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Craig Budner, K&L Gates

say, unintentional. They have never stated anything false about me or the firm – how could they? They’re usually holding one of my internal e-mails. They simply have a different take on things, for instance my stance on legal process outsourcing.’

Shooting from the hip can on occasion come across as affected. While making great play of K&L Gates’ recent disclosure document as out-doing equivalent filings in the UK under limited liability partnerships (LLPs), Kalis rather contradictorily says that he has not seen an LLP filing.

But interviewing current and former partners there is little sign that Kalis’ high profile and forthright style irritates his senior team, though those who work with him concede that despite the easy-going style Kalis is a very hands-on leader.

‘We’re in touch three or four times a day. He wants to know what’s going on, wants you to articulate the strategy for London,’ says Tony Griffiths, London administrative partner of K&L

Gates and former managing partner of legacy Nicholson Graham & Jones.

‘He’s the visionary but there are a large number of leaders on the management team. We all agree as a management team and embrace his vision for the firm,’ says Budner.

One senior partner at the firm privately mentions turning down higher paying offers to join K&L, citing Kalis’ approach as a major draw.

By consensus, Kalis also inspires loyalty from his team by drawing on and sticking with partners from the firms that K&L Gates has merged with. Kalis comments: ‘I love the people I work with. I’m blessed. It’s an extraordinary group of people and part of it is due to our merger history.’

The willingness to pursue major deals and not worry excessively about profits last year saw K&L agree one of its most ambitious deals yet, securing a major launch in Australia with the takeover of 300-lawyer practice Middletons, hugely increasing the firm’s resources in the Asia-Pacific region.

The firm has also recently moved into another much-touted market to launch in Houston with the hire of Charles Strauss, Fulbright & Jaworski’s securities head, adding its fourth branch in Texas. ‘Before we opened there, Houston was the biggest hole in our firm. We have a massive energy and resources practice and we really needed to get to Houston to fill it out,’ says Kalis.

With the firm recently expanding into so many strategically important global markets, the question remains as to how long K&L Gates and Kalis can style themselves as outsiders. Kalis was last year handed his fifth consecutive term, meaning he is set to lead the firm until February 2017, by which point he will have run it for 20 years. It is a long run even by US standards and how it goes will be crucial to Kalis’ reputation in the profession.

If K&L can continue its remarkable rise and – for all the protests – demonstrate that it can edge upmarket alongside achieving scale, Kalis’ reputation may be held up alongside other leaders who have pushed their firms through dramatic transformation, like Latham & Watkins’ Bob Dell.

But while he can’t quite bring himself to play the patrician leader such aspirations usually bestow, it seems even Kalis concedes K&L Gates is outliving the scrappy outsider tag. ‘We were a merry band of warriors punching above their weight class,’ concludes Kalis. ‘And now we’ve grown up.’

Well, maybe. **LB**

david.stevenson@legalease.co.uk