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Business

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Diversification gives lawyers a business edge

Duane Morris L.L.P. made its name as a law firm. It's boosting profit by starting 9 subsidiaries. Critics see potential conflicts.

By Porus P. Cooper

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When Sheldon M. Bonovitz, chairman and chief executive officer of Philadelphia law firm Duane Morris L.L.P., talks about increasing business, he's not just talking about legal work.

The firm, one of the biggest in the country, owns nine side businesses, most of which have little to do with legal services. While other big-name law firms have ventured outside the law business, few have gone as far as Duane Morris.

The latest venture is Implant Purchasing Solutions L.L.C., a New York company launched in May that helps hospitals finance the purchase of expensive surgical implants for patients. Others include a provider of investment services to the wealthy, a publisher of training manuals for health-care professionals, and a provider of malpractice insurance to doctors.

"Duane Morris has done more of this than anybody anywhere," said Ward Bower, a principal at Altman Weil Inc., of Newtown Square, a legal-industry consultancy with clients across the country.

While some suggest that such diversification got accounting firms into trouble, Bonovitz says there is no similarity. Unlike some accounting firms that mixed auditing with consulting, he says that his firm's legal practice and subsidiaries are kept at arm's length. The companies are led by executives who are independent of the law firm. While Duane Morris lawyers provide legal counsel to the subsidiaries, none of the law firm's partners is a CEO of the companies, he said.

This year, the 550-lawyer firm expects its "ancillary businesses" to



DAVID SWANSON / Inquirer Staff Photographer

Duane Morris is far more than the typical Torts R Us law firm. Its subsidiaries offer malpractice insurance, finance surgical implants, offer restructuring advice, and more. Sheldon M. Bonovitz (left) is the firm's chairman. Thomas Gaudiosi (center) and Karl Detweiler are top executives of two subsidiaries.

make a profit of \$7.5 million, on revenue of \$30 million. By comparison, its legal services are expected to earn nearly \$80 million on revenue of \$290 million this year.

Duane Morris, whose revenue places it at No. 72 among the American Lawyer magazine's list of the top 100 U.S. law firms, made its first foray into entrepreneurship in 1987 with fee-only financial advice.

Bonovitz said the idea for Wescott Financial Advisory Group L.L.C. came from discussions with Grant Rawdin, then a young employee in the law

firm's tax-accounting division who was attending night law school but wanted to run a business. Wescott was started with a \$60,000 investment by Duane Morris partners.

It was not an instant success. Clients wanted not just advice but everything it takes to invest.

The firm began to thrive after it acquired the technology to broaden its services. By the end of this year, it should have \$1 billion under management, Bonovitz said.

He would not break out the financial performance of individual companies,

but he said they were all doing well.

Bonovitz said the benefits of such ventures went beyond dollars and cents. They inject "an entrepreneurial spirit" in the law firm that is attractive to corporate clients, he said.

"They say, 'Gee, you guys are like businesspeople; you know the meaning of money,'" Bonovitz said. A client's suggestion led to the creation of Implant Purchasing Solutions.

Bonovitz estimated the total financial investment in the companies by Duane Morris partners at about \$1 million.

The 68-year-old Bonovitz's own fascination with business is of long standing. A dapper dresser with a preference for bow ties, he has been a board member at Comcast Corp. for years, advises venture-capital firms, and has a Wharton School undergraduate degree.

Comcast CEO Brian L. Roberts, who is a cousin to Bonovitz's wife, Jill, said he found Bonovitz's "deep legal perspective" valuable, but considers him a fellow businessman these days.

Accounting firms drew conflict-of-interest charges by trying to sell both auditing and consulting to clients. Such concerns have discouraged most large law firms from heading too far down this path since a flurry of interest in the late 1980s and early 1990s.

Arnold & Porter L.L.P., of Washington, a leader in those efforts, soon abandoned them. By 1995, it had sold all three businesses it had started, including one that helped universities and other nonprofit institutions develop real estate.

The firm sold them in part because there was too much uncertainty about what was permitted by professional rules of conduct, said James W. Jones, a managing partner then.

In 1994, the American Bar Association came up with a model rule to explicitly permit nonlegal business-

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es. Many state high courts, including Pennsylvania's, but not New Jersey's, have adopted versions of it.

Bonovitz said Duane Morris tried to be "pure as the driven snow." There is little cross-marketing of

legal and nonlegal services to clients. The widest overlap is at Wescott Financial Advisory Group L.L.C., where about 25 percent of the clients — a dwindling proportion — also are Duane Morris legal clients.

Even so, running side businesses out of law firms compromises the "special status" of the profession, said Lawrence J. Fox, a partner at Drinker Biddle & Reath L.L.P. in Philadelphia who is a prominent critic of Duane Morris' strategy.

Lawyers have privileges, such as not being forced to testify against clients, and fiduciary duties to clients, said Fox, a former chairman of the ABA's Standing Committee on Ethics and Professional Responsibility.

He is worried that clients might confuse the obligations of law firms and subsidiaries, and mistakenly think they get special protections when they do business with a subsidiary.

Still, an array of ancillary businesses has been started (and sometimes folded) by law firms: a trade consultancy at Katten Muchin Zavis Rosenman L.L.P., Chicago; a service at McGuire Woods L.L.P., in Richmond, Va., to help out-of-state businesses locate in Virginia and Georgia; a translation service at Holland & Knight L.L.P. in Washington now absorbed into the law firm.

Locally, there is Bond Resource Partners L.P., which advises issuers of tax-exempt bonds and is partly owned by Ballard Spahr Andrews & Ingersoll, and the Wolf Institute, at Wolf, Block, Schorr and Solis-Cohen L.L.P., which offers courses for human-resources personnel.

Government lobbying is one of the

Duane Morris subsidiaries

Public Affairs Management L.L.C., government lobbying. Philadelphia. (Founded 2000)

RG/2 Claims Administration L.L.C., claims administration in class-action cases. Philadelphia and San Francisco. (2002)

Wescott Analytics L.L.C., damage assessment in securities-fraud cases. Philadelphia. (2001)

Wescott Financial Advisory Group L.L.C., financial planning and investment advisory services. Philadelphia. (1987)

Wescott Healthcare L.L.C., helps hospitals recover health-insurance underpayments. Philadelphia and Atlanta. (2004)

Wescott Professional Publications L.L.C., publishes educational manuals for health-care professionals. Harrisburg. (2002)

Wescott Strategic Management L.L.C., provides restructuring services for financially troubled businesses. Philadelphia and Atlanta. (2001)

American Healthcare Providers Insurance Services Co., L.L.C., a provider of medical-malpractice insurance. Philadelphia. (2002)

Implant Purchasing Solutions L.L.C., helps hospitals finance purchases of surgical implants. New York. (June 2005)

most prolific side businesses among law firms.

But even here there is potential to stumble, as Duane Morris found out recently when Mark Singel, a former Pennsylvania lieutenant governor, suddenly left its Public Affairs Management subsidiary.

The law firm sued Singel, alleging he did not give proper notice and lured away clients. The suit was settled. Singel called it a misunderstanding.

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