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# Risk of downturn in corporate work a key concern for law firms as credit crunch bites

- **Survey of Top 100 Finance Directors reveals jump in fears over professional negligence claims**
- **But good news as litigation work expected to increase**

A downturn in corporate work is now seen as one of the biggest risks to profitability faced by law firms in 2008, reveals a survey of Finance Directors at Top 100 law firms conducted by **Sweet & Maxwell**, the leading legal information provider.

Almost half (48%) of Finance Directors of law firms surveyed said that the likelihood of decreasing levels of M&A and corporate finance related activity in the coming year was a very significant risk to their profitability – compared to just 36% who thought so last year **(full graph below).**

Competition between law firms over fees topped the list of concerns, with 68% seeing this as a very significant risk to profitability up from 50% of respondents last year. After five years of growth in M&A and corporate finance work many City law firms believe competitors may start cutting charge out rates in order to win a slice of what is currently a smaller pool of work.

The impact of the credit crunch is also thought to be behind increased fears of the impact of professional negligence lawsuits says **Sweet & Maxwell**, a Thomson business, (NYSE: TOC; TSX: TOC). 24% Finance Directors rated professional negligence law suits as a very significant risk to profitability versus just 14% last year.

**Sweet & Maxwell** says that losses created by turmoil in the financial markets and by a possible dip in the economy often leads to litigation against professional advisers to corporates such as accountants, solicitors and investment bankers.

## A silver lining – rosier outlook for litigation work

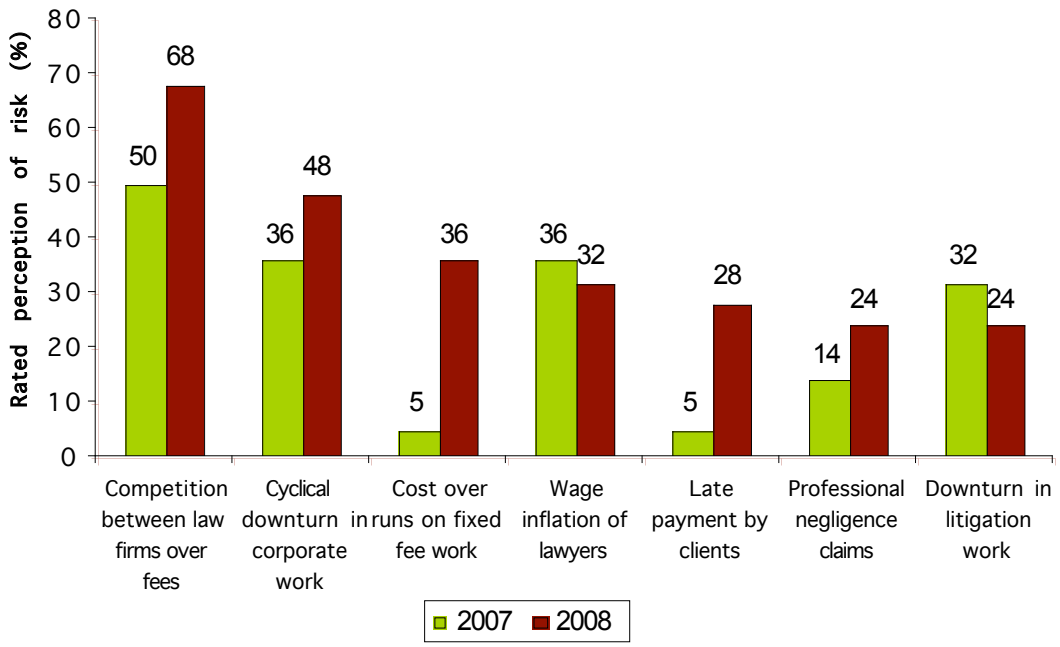
Just as an economic downturn can lead to more professional negligence claims it can also lead to higher levels of litigation work generally. Many law firms are now expecting the long term decline in litigation work to come to a halt. Only 24% of Finance Directors felt that a decline in litigation work posed a very significant risk to profitability – down from 32% last year.

Research by City law firm Reynolds Porter Chamberlain LLP shows that the number of High Court commercial law cases has jumped by 25% in the last year to 61,691 last year. This is the highest figure for six years and the first reversal of downtrend in High Court commercial law cases that has been in place since 1999 when there were 109,442 cases.

The current problems in the credit markets have also eased concerns over the impact of wage inflation amongst lawyers on the profits of the firms they work for. 32% of Finance Directors identified this as a significant risk to profitability compared to 36% last year.

| Percentage of Finance Directors of Top 100 law firms identifying risks to profitability as "very significant" for 2007 and 2008 | 2008 (%) | 2007 (%) |
|---|---|---|
| Competition between law firms over fees | 68 | 50 |
| Cyclical downturn in corporate work | 48 | 36 |
| Cost over runs on fixed fee work | 36 | 5 |
| Wage inflation of lawyers | 32 | 36 |
| Late payment of clients | 28 | 5 |
| Professional negligence claims | 24 | 14 |
| Downturn in litigation work | 24 | 32 |
| Property costs | 20 | 5 |
| Credit risk of clients | 16 | 32 |
| Work being brought in-house | 16 | 5 |
| Disputes with clients over submitted bills | 8 | 5 |
| Guaranteed pay to lateral hires | 4 | 0 |

**Percentage of Finance Directors of Top 100 law firms identifying risks to profitability as "very significant" for 2007 and 2008**




**Sweet & Maxwell** says that law firms will also be watching closely to ensure that tighter economic conditions do not encourage an upswing in late payment by clients. 28% of law firms' finance directors see late payments as a very significant risk to profitability versus just 5% last year.

Over the last few years law firms have started to invest a lot more in their financial management systems to ensure late payment is less of a problem and that cash flow is managed more effectively.

**ENDS**

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