

# Sportin' Some *Skimpy* Cut-Off Jeans: Levi's Slashes Its Outside Counsel

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How low can you go?

That's a question that Levi Strauss & Co. has asked not just about its jeans, but about its outside counsel roster. Last spring the clothing giant cut the number of law firms that it uses down to just two — one of the most sweeping reductions yet by a large company.

General counsel Hilary Krane said that in addition to yielding improved work at lower cost from her outside firms, the deals have also had a side benefit: better performance from her staff attorneys.

Last May, Levi Strauss picked Orrick, Herrington & Sutcliffe to handle all of its worldwide legal work except for global intellectual property matters; a month later, the company assigned its IP portfolio to Townsend and Townsend and Crew. Orrick and Townsend (both are headquartered in San Francisco, as is their client) are being paid on a flat fee basis. That means that Levi Strauss is using alternative fee arrangements for 100 percent of its routine outside counsel spending — an extraordinary development for any large company.

Levi Strauss and its firms declined to reveal the dollar value of the deals.

Krane said the compensation amounts were "determined by a review of historical spending trends and planned work for 2010."

Levi Strauss, which is privately held by descendants of its namesake, reported net revenue of \$4.4 billion in 2008. If its outside counsel spending is in line with the average for other large companies, it would have been paying its law firms somewhere around \$11 million. Global finance and governance counsel Jennifer Chalomentiarana said that the deals with Orrick and Townsend have lowered Levi Strauss' outside counsel spending by about 20 percent.

According to Krane, the simplicity of flat fee billing has freed her staff from having to negotiate fees with firms and keep track of administrative matters.

"My internal lawyers are the most valuable asset I have, and I felt they should be spending their time creating strategic advantages for the business instead of managing outside counsel," she said.

Now her in-house lawyers are able to provide more "real-time strategic counseling, as opposed to after-the-fact firefighting."

Levi Strauss' favored firms are happy with the arrangements too.

"We are learning how to do something complex and creative that takes us away from the traditional billable-hour formula," said Orrick partner Karen Johnson-McKewan.

Townsend litigation chair Gregory Gilchrist said, "We're not spending all of our time worrying whether billable hours line up with particular matters or business units, so we can respond where the work is needed." (Gilchrist estimates that Townsend is handling about a quarter of Levi Strauss' outside legal work.)

Other companies have reduced their law firm lineup or negotiated alternative fee deals. But Levi Strauss has taken both trends to the next level, said Pamela Woldow, general counsel at Altman Weil, Inc., the Newtown Square, Pa.-based legal consulting firm.

"We haven't seen anything like this in the marketplace," said Woldow, referring specifically to the arrangement with Orrick. "In the past, other companies have entered into nationwide agreements with a single firm to handle a specific type of matter, but nothing on this scale. The Levi arrangement is unprecedented in that a single firm will handle matters that span the globe."

Levi Strauss' in-house lawyers started to reevaluate their use of outside firms soon after Krane became general counsel in 2006. She came from PricewaterhouseCoopers LLP, where she had been an assistant general counsel since 1996. She said that while Levi Strauss has its high-risk legal problems, the bulk of its commercial work is repetitive in nature and doesn't require "chasing the world's experts."

According to Krane, the selection of Orrick was driven by a review of their "geographic and substantive coverage," as well as "an overall sense of their commitment to making this arrangement work."

Johnson-McKewan said that while Orrick hadn't represented Levi Strauss recently, it had worked for Krane's previous employer. "Hilary Krane had worked with my partner, Diana Weiss, when Hilary was at PricewaterhouseCoopers, and had a favorable view of our firm from that relationship," she said.

Orrick receives an annual fee, paid in monthly installments, to handle recurring legal matters around the world. In countries where the firm doesn't have an office, it enlists the help of local counsel, using the money that it's already received from Levi Strauss. If something unanticipated arises — such as a major transaction — separate payment arrangements are made.

More than 100 Orrick lawyers in seven countries have done work for Levi Strauss, Johnson-McKewan said. In addition to handling matters like securities filings and employment and human resources counseling, the firm's attorneys have represented the company in arranging the lease for its new flagship store on the Champs-Élysées in Paris, and have assisted in negotiating a collaboration with fashion designer Jean-Paul Gaultier.

"It's truly like having another set of eyes and ears around the world," said Chaloeontiarana. Orrick has "meetings in which all of the attorneys who work on Levi Strauss matters share their outcomes in different jurisdictions, yielding more consistent results."

Townsend's deal is similar to Orrick's, except that the IP firm is paid in quarterly increments. Levi Strauss has used the same group of attorneys for domestic intellectual property work for the past two decades. They started at Heller Ehrman in the late eighties; subsequently formed their own law firm, Legal Strategies Group; and then merged with Townsend in 2004.

Krane said she decided to give Levi Strauss' global IP work to Townsend because of the unique challenges of the Levi's and Dockers brands.

"One could spend a huge amount of money and never eradicate all the counterfeiting and trademark infringements, so you have to take a triage approach," she explained. "For example, if you are having problems in a place where the laws are not recognized, then maybe you deploy your resources to a jurisdiction where they are. It's hard to do this when you have counsel around the world that are not connected to one another."

Although the agreements with both Orrick and Townsend are going smoothly, they're still a work in progress, said Krane. "I look forward to 2011 because I believe the operation will be even more seamless then," she added.