Dewey & LeBoeuf Bankruptcy Filing Marks Biggest Law Firm Collapse In U.S. History

by Joel R. Glucksman on June 5, 2012

Law firm Dewey & LeBoeuf filed for Chapter 11 protection under bankruptcy law this week, a move that will be followed by liquidation and represent the single largest collapse of a legal firm in the history of the United States.

The firm cited several reasons for its collapse, including the economic downturn, excessive compensation, climbing debt and, most recently, the loss of the majority of its partners. The mass exodus of partners after the firm warned it might shut down led to a significant drop in revenue, which created a domino effect of even more partners defecting.

"During the first quarter of 2012, the firm was confronted with liquidity constraints that led to the precipitous resignation of over 160 of the firm's 300 partners by May 11," the firm said.

The group explained that partnership compensation arrangements created cash flow problems that resulted in the firm's inability to cover expenses and payroll requirements. In its bankruptcy filing, Dewey listed $13 million in cash assets and $255 million in accounts receivable.

The law firm is currently carrying $315 million in liabilities and $225 million of that amount is owed to banks. An additional $50 million is owed to secured property lessors, while $40 million is owed in accounts payable, pension and deferred compensation claims, and claims by employees.

Attempts to merge with other law firms in recent weeks failed, giving Dewey few other options than to file for bankruptcy protection and begin liquidation proceedings.

The aftermath of the bankruptcy filing is expected to result in years of court proceedings as creditors attempt to recoup millions in losses. Several of the law firm's former partners have already retained counsel to defend them.

One issue of import to Dewey & LeBoeuf comes from a May 24, 2012 ruling in Development Specialists, Inc. vs. Akin, Gump, et al., 11 Civ. 5994 (S.D.N.Y.), a case involving the bankruptcy of the law firm Coudert Brothers, LLP. Development Specialists, the administrator of the dissolved Coudert, sued ten law firms who had hired former Coudert lawyers, seeking to recover profits earned in completing hourly-billed matters that had been pending at Coudert when it closed. The court denied the defendants' motions to dismiss, finding that the client matters were Coudert's property and that defendants needed to provide an accounting to Development Specialists.