

MPCI - Executive Summary: 2Q 2009

Snapshot

Overall Confidence Index	Change from previous quarter	Analysis
91	↑ 23	Reversing a six-month trend, the overall confidence index bounced back by 23 points, to settle in slightly negative territory at 91. Managing partners are much less pessimistic about the broader economy and the legal market, and there's a sense that the worst is behind them. MPs are more concerned about the financial health of their own firms, especially with regard to expenses.

This quarter, there is a strong sentiment among law firm managing partners that the worst of the recession is over.

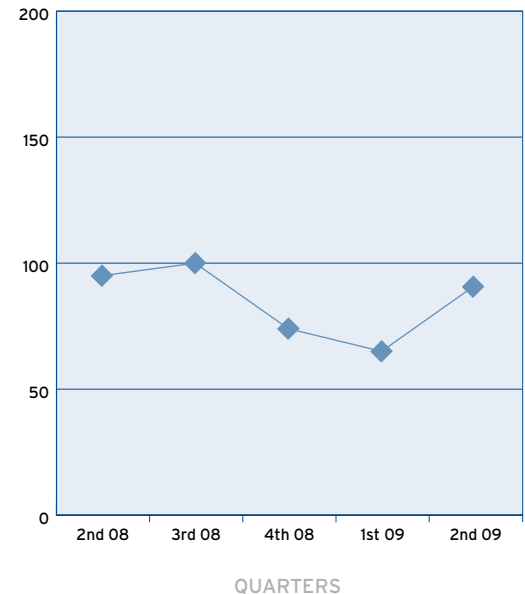
Index Value	Change from previous quarter	Analysis
Economy at Large 99	↑ 50	The macro economic index soared 50 points this quarter, bringing the value into neutral territory at 99. About two-thirds of MPs describe the economy as the same or better than six months ago, and 59% anticipate a stable or improving economy over the next six months.
Business Conditions – Legal Profession 90	↑ 37	MPs are beginning to see some positive signs regarding the near-term outlook of the legal profession, boosting this index by 37 points. Stability seems to be the order of the day, with 52% predicting business will stay the same over the next six months.

The profit, revenue and demand indices eked out small gains this quarter, while the expense index sank to another record low.

Index Value	Change from previous quarter	Analysis
Profits 57	↑ 5	Profit forecasts posted a small gain of 5 points, ending a two-year decline. Still, the current value of 57 is deep in negative territory and MPs expect profit growth, if any, to be no greater than 5% over the next 12 months.
Revenues 66	↑ 1	The revenue index gained just one point this quarter, rising to 66, well south of the neutral baseline. A majority of respondents (57%) expect revenue to stay flat or decline.
Expenses 37	↓ 18	Expense expectations continue their decline, shedding 18 points to land at a record low of 37. MPs are almost unanimous in citing lawyer compensation as the biggest driver of expenses, although non-lawyer compensation and occupancy costs are frequently named as well.
Demand 91	↑ 8	Demand expectation rose modestly this quarter. At 91, this index reflects a fairly neutral view of demand (gross billable hours), with three in five respondents expecting demand to stay the same or go up over the next 12 months.

OVERALL MPCI VALUE

INDEX VALUE



It's been a brutal six months, but in the tenth survey of the Managing Partner Confidence Index, there is a strong sense among law firm managing partners that the worst of the recession may finally be over. Reversing its downward trend of the last six months, the overall confidence index recaptured 23 points, and at 91, is now just 9 points shy of the neutral baseline and the broader economic index leapt 50 points to 99. The legal profession index also climbed 37 points to settle at 90, suggesting that MPs are starting to see some positive signs regarding the near-term outlook for the market.

At the same time, managing partners seem to expect the broader economy to recover more quickly than the legal market or their individual firms. While certain countercyclical practices particularly bankruptcy, may be busy, in-house counsel are keeping a tight grip on outside litigation budgets. The big wave of class

These are sentiments expressed in the second quarter 2009 Citi Private Bank Law Watch Managing Partner Confidence Index (MPCI) for participating firms. An index value above 100 indicates optimism by managing partners. The top score is 200.

action lawsuits that typically follow in the wake of industry and corporate breakdowns has also been slow in coming. In addition to weak demand, MPs are grappling with slowed collection cycles and continued client demand for discounts.

As a result of these challenges, although three in four firm-specific indices managed to eke out modest gains to come off their record lows from the prior quarter, the story was largely the same in each of the groups we covered, with managing partners anticipating little to no growth over the next 12 months. More than one in three MPs expect to make cuts among the ranks of non-equity lawyers in the near future, and one in four anticipate shrinkage in the equity partnership.

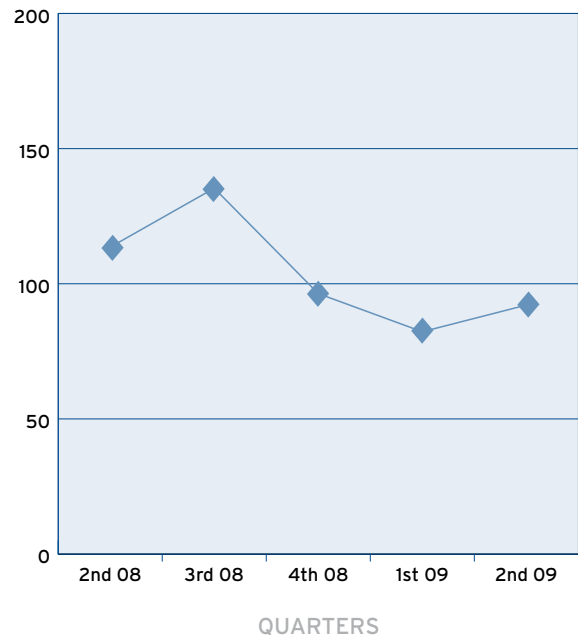
LIGHT ON THE HORIZON

The global economic index rocketed 50 points this quarter, and is now back in neutral territory at 99. Currently, 38% of MPs describing economic conditions as the same as six months, 40% say it is somewhat worse and 22% say it is somewhat better. Looking forward, stability seems to be the prevailing sentiment, with half of respondents expecting the global economy to stay where it is for the rest of 2009. Of the remainder, 37% think the economy will get somewhat better and 14% anticipate conditions softening even more.

MPs are also expressing relatively less pessimism about the legal market, and this index saw a 37-point rise to 90. Still, close to half of MPs (48%) describe business as worse than six months earlier. Another 36% of respondents say industry conditions are the same, and just 16% view them as somewhat better. As for the near future, again, stability seems to be the watchword, with more than half of MPs (52%) predicting that business conditions will remain where they are for the next six months. About one in five (21%) expect business to get somewhat worse and 27% predict it will pick up somewhat.

DEMAND INDEX

INDEX VALUE



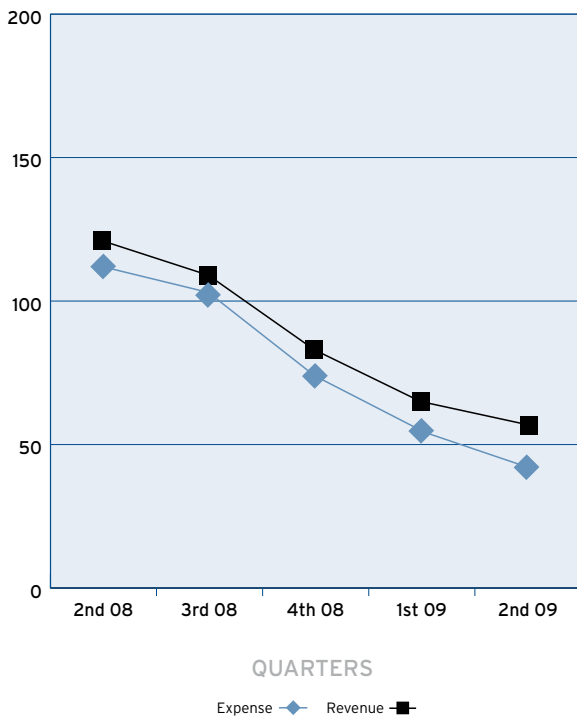
This improved attitude did not translate into a similar optimism toward the financial outlook for individual firms. This quarter, three of four firm-specific indices – profits, revenue, and demand – posted only modest gains between one and eight points, and the expense index witnessed yet another decline. Although the profit index rose five points to 57, it remains well south of the neutral baseline, suggesting that firms expect little to no profit growth over the next year. Lack of demand (gross billable hours) is the main culprit, cited by 95% of MPs. Discounting pressure from clients is also a key factor, named by 62% of managing partners. Although expenses continued their steep climb this quarter, just one in four MPs cited expense growth as a factor in profit forecasts.

Revenue expectations rose just one point to 66, signaling growth, if any, in the low single digits. A plurality of respondents (43%) predict some growth, largely below 5%. Another 29% expect no change and 28% anticipate a drop in revenue over the upcoming 12 months. The demand index posted slightly better gains, rising 8 points to put it, at 91, in neutral to slightly negative territory. Two in five respondents expect demand to weaken, while 31% think it will hold steady and 28% anticipate an uptick in the next year.

Climbing expenses are pressuring margins. An 18-point slump sent the expense index to yet another record low, and at 37 it now sits deep in negative terrain. At this juncture, 96% of respondents think expenses will increase over the next year, with 53% predicting that costs will grow by more than 10%. Just 4% of MPs think expenses will remain unchanged and no one expects them to decrease. MPs are almost unanimous (99%) in citing lawyer compensation as the primary driver of expenses. More than half (52%) also point to non-lawyer compensation as a factor. Another 24% cite occupancy costs and 8% name technology expenses.

EXPENSE AND REVENUE INDICES

INDEX VALUE



MORE "RIGHTSIZING" TO COME

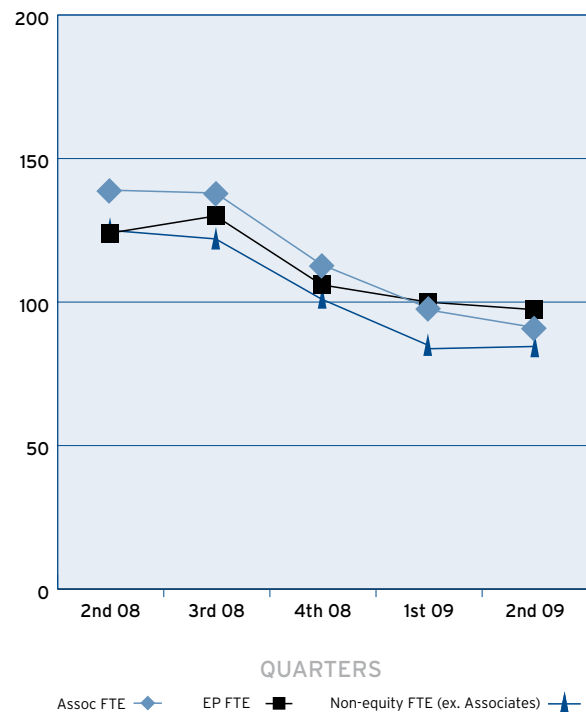
With weak anticipated demand, MPs are looking to reduce expense growth, primarily by cutting or freezing headcount, and this recession continues to be marked by record layoffs among law firms. Additional measures include shelved summer associate programs, delayed start dates for first year associates, and programs paying associates to take time off to do pro bono work or pursue other interests. A few firms have even taken the unprecedented step of reducing associate pay, and we expect others could soon follow suit.

The indices for equity partners, associates and non-equity, non-associate lawyers all came in below the neutral baseline this quarter, indicating flat or declining headcount over the next 12 months. Overall, it appears that leverage will also be down over the upcoming year, with associate headcount levels trailing equity partner levels.

The equity partner index remains in neutral territory, shedding one point to settle at 99, just below the baseline. About half of respondents (52%) expect their equity partner ranks to remain unchanged in the coming year. The rest are split between predicting an increase (24%) or a decline (24%) in the numbers.

LAWYER HIRING INDICES

INDEX VALUE



As for non-equity lawyers, both indices stayed below the neutral baseline this quarter, suggesting more layoffs in the near future. The associate index shed 8 points to settle at 90, and currently 38% of MPs expect to make cuts in the associate pool over the next 12 months. Another 36% expect the number of associates to remain where it is and 26% anticipate adding to associate headcount. The index value for non-equity, non-associate lawyers remained stable at 85. Slightly less than half of MPs (48%) expect this number to remain flat, while another 36% plan cuts. Just 16% now expect to add to the ranks of non-equity, non-associate lawyers. Despite the expected reductions in headcount, cuts may not completely make up for continued weak demand, and productivity, or billable hours per lawyer, will likely stay flat or decline slightly over the next 12 months.

With firms focused on belt-tightening, expansion plans remain on hold. Just one in twenty respondents anticipate opening a new domestic office, 13% expect to open a foreign office, and 13% have plans to add to an existing office. Respondents continue to prefer organic growth (hiring individuals or small groups of lawyers) over merger or acquisition, cited by 42% and 10% of MPs respectively.

"Citi Private Bank" is a business of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations.

The information collected via the Law Watch Managing Partner Confidence Survey is confidential and is intended solely for use by the partners and administrators of the law firm from which it is being collected. The survey results are based on information received from participating law firms and are presented without representation or warranty of any kind. The survey is an analysis of data provided to Citigroup and does not constitute an offer by Citigroup to provide individual advice. This survey reflects the aggregate opinions of the participating firms and is not intended to be a forecast of future events or a guide to any individual firm's business decisions.

The Law Watch Managing Partner Confidence Survey and Index are based on patent pending analytical models. Citi Private Bank Law Watch logo is a service mark of Citigroup Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

In the United Kingdom, Citibank, N.A., London branch and Citibank International plc, Canada Square, Canary Wharf, London E14 5LB, are authorised and regulated by the Financial Services Authority.

Citibank, N.A. Member FDIC

©2009 Citigroup Inc. All rights reserved.

514045 6/09