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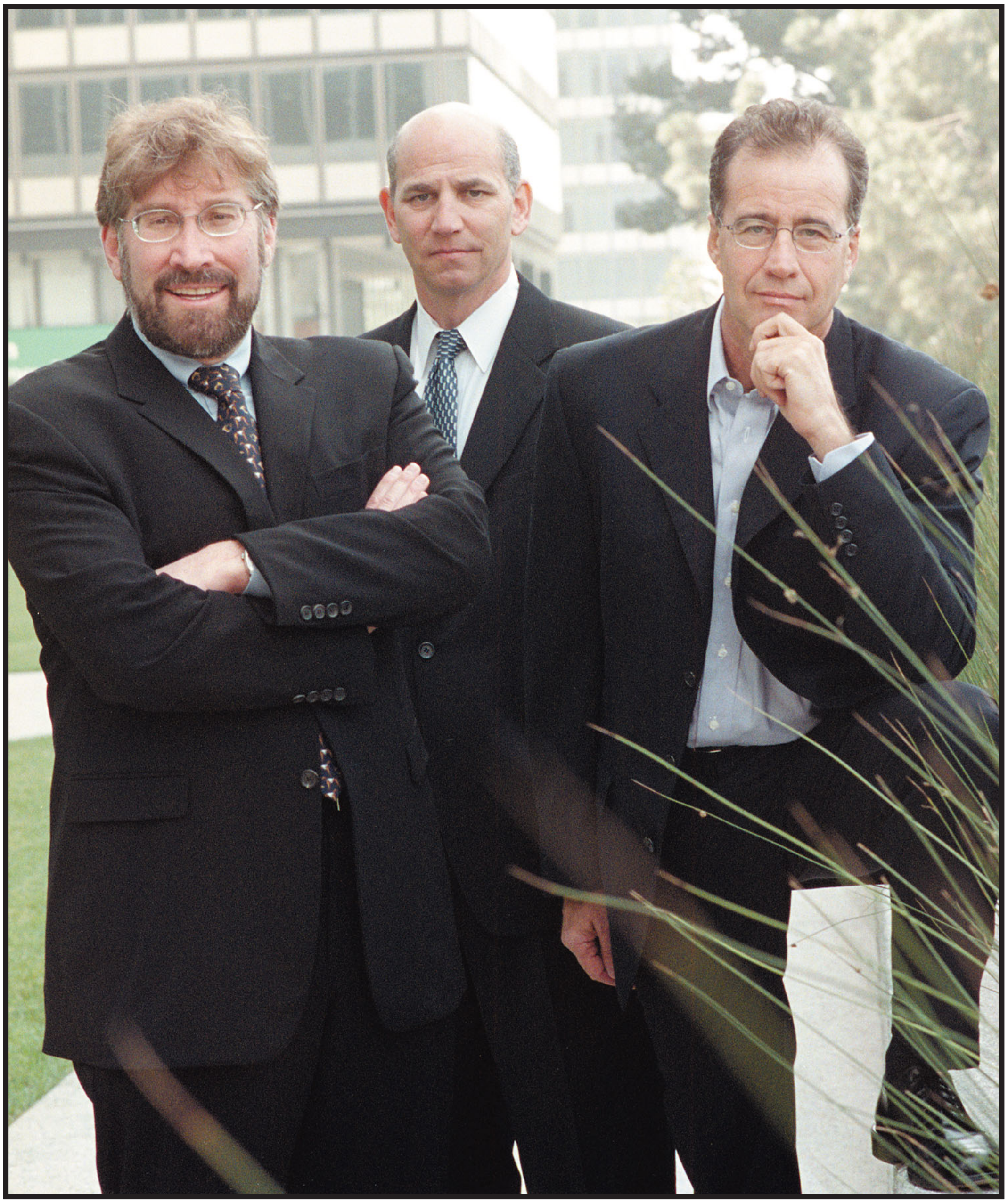


Photo by Hugh Williams

Going for Broke

Managing one of the nation's largest and most successful bankruptcy boutiques, Los Angeles attorneys Richard Pachulski, left, Marc Beilinson and Dean Ziehl prove that saving collapsed companies is lucrative business.

For Richer For Poorer

With broke companies nationwide seeking its services, Los Angeles-based Pachulski, Stang, Ziehl, Young, Jones & Weintraub has turned a bankruptcy niche into a money-making machine.

By Toni Vranjes

In early January, Marc Beilinson received a tip that Wherehouse Entertainment Inc. had hired a bankruptcy lawyer and likely would file for Chapter 11 protection.

Beilinson got cracking immediately.

The Los Angeles bankruptcy lawyer began researching the problems facing music retailers such as Torrance-based Wherehouse, which is struggling because of fierce competition and growing online piracy. For three weeks, he pored over financial reports and news articles about the company and spoke with industry experts.

The hard work paid off. Shortly after the music retailer filed for Chapter 11 reorganization Jan. 21, Beilinson won the lucrative position of counsel to the unsecured creditors' committee.

"By the time Wherehouse filed for bankruptcy, I was well-versed in the problems within the industry," says Beilinson, a partner at Pachulski, Stang, Ziehl, Young, Jones & Weintraub.

"I could be intelligent when talking to creditors who were calling me up rather than being one of 50 lawyers who had just learned of the filing and had no knowledge of the industry," he adds.

The case reflects a trait the Los Angeles-based bankruptcy boutique has demonstrated time and time again: getting a jump-start on the competition through plenty of advance planning. It's one of the traits that has catapulted the firm into a bankruptcy powerhouse.

Since its founding two decades ago, Pachulski Stang has evolved from a two-man shop into the nation's largest bankruptcy firm. Today, it boasts 80 attorneys spread across the Pacific and Atlantic coastlines.

"Their growth has been slow and deliberate," San Diego-based legal recruiter Bill Nason says. "And their turnover has been almost nonexistent, which is rare among law firms."

The boutique also boasts some of the highest profits in the state, far surpassing many of its full-service competitors. Annual per-partner profits hit $900,000, according to several industry experts.

Pachulski Stang won't confirm those numbers. But, if on mark, the firm's profits outpace large firms such as Los Angeles' Irell & Manella and Palo Alto's Wilson Sonsini Goodrich & Rosati — with 2002 per-partner profits of $887,000 and $800,000, respectively.

Although Pachulski Stang offers litigation, corporate and real estate services, it focuses primarily on traditional bankruptcy work — especially big-ticket cases.

Pachulski Stang has a reputation for deftly handling some of the largest and most complex bankruptcy reorganizations in the country, usually representing corporate debtors but sometimes advising creditors' committees or other parties. Its bread and butter are cases in which the debtor has $100 million to $1 billion in revenues, assets or debts, although the firm does some work above and below that range.

Its client roster has included software company Peregrine Systems Inc., telecommunications company Covad Communications Group Inc., food chain Sizzler International Inc. and the creditors' committee of life insurance company First Executive Corp.

Pachulski Stang also has counseled failed law firms, including San Francisco's Landels Ripley & Diamond, which filed for Chapter 11 bankruptcy in 2000. And the liquidation committee of Brobeck, Phleger & Harrison — which closed its doors in February with $90 million in debt — recently selected Pachulski Stang partners Henry Kevane and Kenneth Brown in San Francisco as insolvency advisers.

In another measure of its prominence, the firm served as debtor's counsel in four of the 20 largest bankruptcy filings by California companies last year. Topping that list was Peregrine, with $2 billion in assets.

"They're one of the best firms in the country," says Orange County bankruptcy attorney Evan Smiley of Albert, Weiland & Golden. "They do top-notch work, and they do it nationwide."

The bankruptcy giant began 20 years ago as the dream of two young associates who left large law firm life to be their own bosses. In the spring of 1983, Richard Pachulski and James Stang left Sidley & Austin's Los Angeles office and founded Pachulski & Stang. The bankruptcy and litigation firm served small to midmarket companies, which was a market they considered underserved.

At the outset, Pachulski was a litigation specialist, while Stang focused on restructuring work. Six months after the founding of the boutique, the firm recruited litigator Dean Ziehl from Sidley & Austin.

With the firm's letterhead expanding to three name partners, Pachulski began handling more restructuring work.

"There were other boutiques that were doing insolvency but didn't have strong litigation capabilities," Ziehl recalls. "And there were many litigation firms that didn't have insolvency expertise. It was a good way to differentiate ourselves and do two complementary practices."

In 1987, the firm landed its first significant case outside of California. It was selected as counsel to the trustee administering the estate of bankrupt Utah conglomerate Triad America Corp., the U.S. holding company of Saudi Arabian arms dealer Adnan Khashoggi. That case raised the firm's profile on the national bankruptcy scene.

During the first six years of its existence, the firm relied on word of mouth to get new cases. But the firm modified its strategy in 1989, when it brought in bankruptcy specialist Thomsen Young from the law firm Dennis, Juarez, Reeser, Shafer & Young in Los Angeles. Young began expanding the firm's creditor-committee work, and he also started focusing on marketing the firm's capabilities.

"He knew coming into the firm that we wanted him to come up with a marketing plan," Pachulski says. "We wanted to grow and get better cases, and we didn't want to just rely on word of mouth."

Then in 1991, Pachulski Stang was tapped to represent the creditors' committee in the bankruptcy case of Los Angeles' First Executive Corp., which faced billions of dollars in losses from its junk-bond and other investments.

"In some respects, it was a milestone for the firm," Pachulski says. "We were demonstrating that we could do significant creditor-committee work."

Young became a name partner in 1992. In the same year, the boutique added three more lateral partners. Beilinson, who focused on middle-market debtor cases, came from the Los Angeles office of Buchalter, Nemer, Fields & Younger. Another expatriate from Buchalter Nemer's local office was Larry Gabriel, whose focus was insurance insolvencies. The third attorney was Brad Godshall, a specialist in secured creditor work who joined from Latham & Watkins in Los Angeles.

While it was gaining significant cases and adding lateral partners, Pachulski Stang began considering whether to expand into new markets.

In the early 1990s, the firm considered opening an office in San Francisco but decided against that course of action because it hadn't found the right leader for a Bay Area outpost, Pachulski says.

"San Francisco reminded us a lot of Los Angeles in the early 1980s, in that it didn't have that many law firms that were doing restructuring work, particularly in the debtor area," he says. "So we thought there was a market that was still open to new competition. But you had to find the talent in San Francisco."

The boutique firm soon found that elusive talent.

During a lunch meeting, a Los Angeles accountant told Pachulski that he knew a lawyer who would be a good leader for the firm in San Francisco. That lawyer was Bill Weintraub, a former partner at Bay Area bankruptcy house Murphy, Weir & Butler who happened to be on a short list of people Pachulski would consider to open a San Francisco office.

The boutique insisted on hiring an experienced, top-notch, native San Francisco lawyer to head such an office, and Weintraub fit that category perfectly, Pachulski says.

Weintraub, who practiced at the Bay Area litigation and real estate boutique Ruben, Weintraub & Cera after leaving Murphy Weir, knew he was on that short list. And he was excited about the prospect of joining Pachulski Stang because he realized that the small Ruben Weintraub firm wasn't the right fit for him.

"I wasn't able to attract some of the lateral partners that I wanted to attract," Weintraub says of his experience at the 10-attorney Ruben Weintraub.

He added that his partners wanted him to focus on litigation, but he preferred bankruptcy.

Pachulski Stang was a better match for his practice and his aspirations, and Weintraub soon met with Pachulski and Ziehl to discuss the plans for the new office.

Pachulski and Ziehl were gung-ho about opening the Northern California outpost, although some of the other lawyers in the boutique didn't share that view.

"There were people in the firm who were skeptical about opening a branch office anywhere," Pachulski says. "It had nothing to do with Bill. It was more of the theory of a branch office they were opposed to."

But Pachulski and Ziehl won over their partners. In July 1996, the firm launched a San Francisco office staffed by Weintraub and an associate from Ruben Weintraub.

Within six months of the grand opening, the San Francisco office lured Kevane from Murphy Weir.

"We became so busy that we had to have partners from our Los Angeles office help us because we had more work than we could handle," Weintraub says.

Over the next several years, Weintraub continued to be reunited with attorneys from his two previous firms. Among the attorneys joining the San Francisco post were David Bertenthal from Ruben Weintraub and Brown and Tobias Keller from Murphy Weir.

Another attorney came from one of the boutique's bankrupt clients: the Landels Ripley law firm. John Fiero, a litigator and bankruptcy attorney at the failed firm, initially joined on a two-year trial basis and later became a partner.

One of the Los Angeles partners, Debra Grassgreen, spent so much time in San Francisco that she fell in love with the city and decided to relocate there.

Today, the office at 3 Embarcadero in the Financial District has 17 attorneys.

"I think the San Francisco experiment was very successful, and the firm learned a lot about

Photo by Hugh Williams

Richard Pachulski says his firm is a tough competitor but he insists that it always acts ethically. "Some people think we're too aggressive, but we're doing what we need to for our clients within the ethical guidelines we need to live by," he says. "If eveyone liked us, I'd be really concerned."

how to open an office, in terms of the logistics and the cost and the support needed to do it," Weintraub remarks.

But it wasn't just the West Coast that beckoned the boutique firm. Starting in the 1990s, more and more Chapter 11 cases were being filed in Delaware because of the perception that the U.S. Bankruptcy judges there were efficient and predictable in their rulings.

After opening the San Francisco site, the firm considered starting a Delaware office. The right opportunity didn't arise until late 1999, when prominent bankruptcy attorney Laura Davis Jones announced she was leaving her law firm.

Jones of Delaware's Young Conaway Stargatt & Taylor gained nationwide prominence by serving as Continental Airlines' counsel in its 1990 bankruptcy filing. Her other major cases in the 1990s included the bankruptcy of Trans World Airlines, in which she advised the creditors' committee, and the bankruptcy of Zenith Electronics, where she represented the debtor.

Her work on these and other cases built her reputation as a top bankruptcy lawyer, and she was in demand. Jones says that 75 law firms expressed interest in her but that she met with just a fraction of them, including Pachulski Stang.

Weintraub says, "Two events were coinciding: the realization of the need to be in Delaware and the fortuity of Laura being available. It was kind of like lightning striking."

Pachulski arranged to meet Jones in New York, and after that meeting, she flew to California to meet the rest of the attorneys. They were impressed and soon asked her to join the firm. She accepted on Christmas Eve.

Her personality and practice meshed with those at Pachulski Stang, she notes.

"I was attracted by the depth of experience at the firm, and its willingness and ability to do national cases," Jones says.

Jones, a workaholic who often plugs away at cases at two or three in the morning, wanted the new Delaware office to open immediately to avoid interruption in serving her clients.

Pachulski Stang was eager to accommodate her request, and it leased 12,000 square feet of space.

On Jan. 1, 2000, Jones opened the firm's Delaware office, providing the much desired East Coast presence.

Jones brought along most of her existing clients, including Zenith and mining company Harnischfeger Industries Inc. Within the first couple months, she picked up several new cases. Among them are Ameriserve Food Distribution Inc., serving as debtor's co-counsel, and apparel manufacturer Fruit of the Loom, serving as counsel to the note holders' committee. To help Jones with the hefty workload, the firm sent a team of its lawyers from Los Angeles to Delaware for 90 days.

The outpost, handling high-end cases on behalf of debtors and creditors' committees, instantly enhanced Pachulski Stang's national profile.

With its success in Delaware, the firm began considering a broader presence on the East Coast. Bankruptcy cases were beginning to flow to Manhattan, a trend driven in part by the increased predictability of the judge's rulings there. However, the surge of big-ticket filings — Enron, Global Crossing and WorldCom — was yet to come.

"We came to the conclusion that, to complete the circle of being a full-service restructuring boutique on the West Coast and East Coast, you need a New York office," Pachulski says. "We saw that it was becoming a venue of choice for a lot of people."

The firm's Manhattan outpost — its fourth office — opened in October 2001. The boutique recruited bankruptcy lawyer Robert Feinstein from New York's Kronish Lieb Weiner & Hellman to lead the office.

Within the next few months, the nation's most high-profile bankruptcy cases landed in New York. First came Enron Corp. in December 2001, followed in January 2002 by Global Crossing Ltd. and WorldCom Inc. in July 2002. Although Pachulski Stang didn't handle these filings, the cases demonstrated the increasing importance of a New York presence.

In late 2002, the firm's partners asked Weintraub whether he would relocate to the New York office. As it happened, Weintraub had been kicking the idea around, too.

Photo by Hugh Williams

'There always is a pocket of the economy or an industry group that is in trouble. We can always count on bad management and on lending cycles where money gets loose and people overborrow.'

Dean Ziehl

The New York native started his legal career in 1979 as an associate at New York's Weil, Gotshal & Manges, and he remained friends with many members of the local legal community. Weintraub craved the excitement and challenge of working on the high-profile cases that the city attracted, so the move made sense on many levels.

After Weintraub decided to relocate, the firm made him a name partner.

At the end of 2002, Weintraub packed his bags and moved to the Big Apple, giving the firm an even larger presence on the East Coast.

As Pachulski Stang has broadened its nationwide reach, it has continued to build its referral network.

"In the bankruptcy business, you get most of your cases from referrals from other professionals," notes Los Angeles bankruptcy lawyer Jeffrey Krause of Stutman, Treister & Glatt. "They have worked at establishing and maintaining constructive relationships with other law firms and accounting firms."

It's a theme one hears again and again about the boutique: It's an aggressive, marketing-oriented firm that works extremely hard to get new business.

The key, Beilinson says, is anticipating industry trends and building contacts in the bankruptcy community.

"When an industry is having difficulty, we will encourage a lawyer from the firm to spend as much time as necessary to do research on the industry, its problems and potential solutions, so that when a case is filed, we will have someone in-house who is way ahead of the curve," Beilinson says.

Pachulski Stang used this strategy in the Wherehouse bankruptcy, which Beilinson predicts will be the first in a string of filings by music retailers.

Similarly, the firm used this strategy in 1999, when the creditors' committee in the Mann Theatres bankruptcy selected Pachulski Stang as counsel. It was the first major movie-theater chain to declare bankruptcy, and within the next couple years, most large theater chains followed Mann's lead.

"By getting the creditors' committee in the Mann case, it opened the door to my ability to get the creditors' committee in the Loews Cinemas and General Cinemas cases," Beilinson says.

The firm also served as co-counsel, along with Kirkland & Ellis, to the debtor in the United Artists theater-chain bankruptcy.

Such strategies are crucial, in both good and bad economic times.

"There always is a pocket of the economy or an industry group that is in trouble," Ziehl says. "We can always count on bad management and on lending cycles where money gets loose and people overborrow."

But the firm's style has ruffled some feathers.

Some local bankruptcy lawyers, who requested anonymity, say the firm is too pushy in its pursuit and handling of cases.

When dealing with opposing counsel on a case, "they will be overly aggressive in their lawyering with the other boutiques," one lawyer says.

Another lawyer adds, "Generally, they're noted by many of their competitors as being overly aggressive in the way they solicit creditors' committee work. They are the most overly aggressive of all the bankruptcy firms."

In response, Pachulski says the firm is a tough competitor, but he insists that it always acts ethically.

"Some people think we're too aggressive, but we're doing what we need to for our clients within the ethical guidelines we need to live by," he says. "If everyone liked us, I'd be really concerned."

Although winning a popularity contest isn't one of the firm's goals, beating the heavy competition is.

Pachulski Stang competes not only with national full-service firms — such as Skadden, Arps, Slate, Meagher & Flom; Weil Gotshal; Kirkland & Ellis; and Jones, Day — but also with regional bankruptcy boutiques such as Levene, Neale, Bender, Rankin & Brill and Stutman Treister in Los Angeles.

One way Pachulski Stang differentiates itself is by declining to represent secured creditors, thereby avoiding conflicts of interest.

"One of our clients potentially could be a major secured creditor in one of our debtor cases, and that was a risk we just didn't think we could take," Pachulski explains.

"A lot of the big firms represent banks, and they just get conflict waivers," he adds. "We just think that gets too hard, and sometimes, they refuse to give them to you. We try to avoid having to need any conflict waivers."

As Pachulski Stang looks ahead, the firm is grooming a second generation of leaders. One way it's doing this is by designating some of the younger partners to sit on firm committees for one-year stints. The firm has no managing partner or chairman.

Last year, a junior partner held one of the seven seats on the firm's management committee, and another junior partner filled one of the eight seats on its case-intake committee.

This year, two other junior partners are filling those positions, and in 2004, another pair will hold those seats.

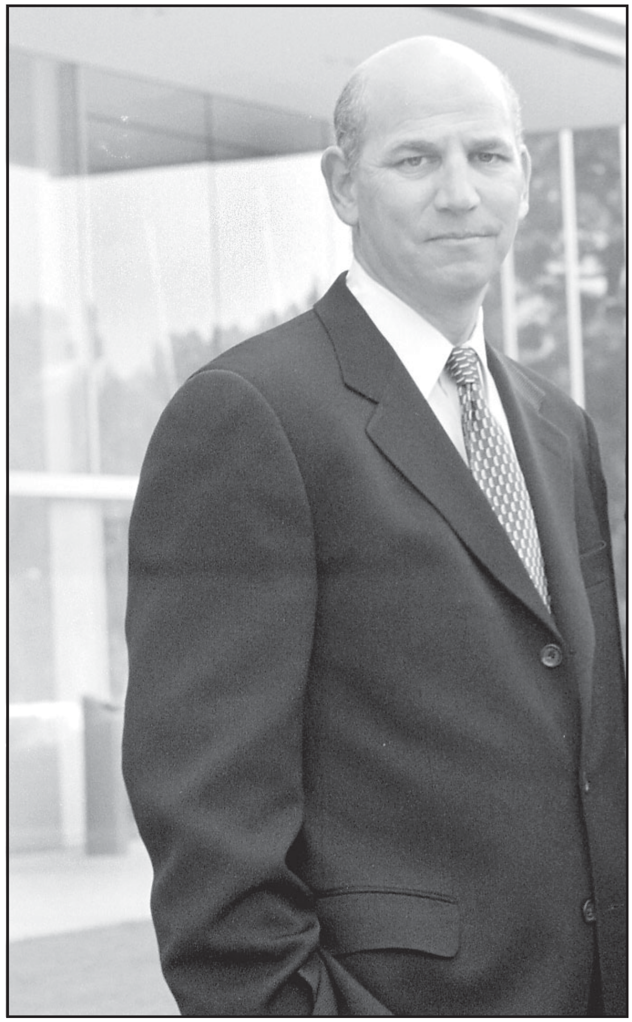
In total, six junior partners will have rotated in and out of these management roles by 2004. The partners are Keller, Bertenthal, Grassgreen and Kevane, along with Jeffrey Pomerantz and Linda Cantor.

This kind of forward thinking is critical, Pachulski, 46, says.

"Most of the senior people in the firm are now in their 40s," he says. "The second generation probably won't start taking over until about 10 years from now, but we believe we need to start grooming those people now."

Bankruptcy lawyer Karl Block of Greenberg Glusker Fields Claman Machtinger & Kinsella in Los Angeles says the firm has a deep bench of young talent, an advantage in the bankruptcy field.

"They have a lot of capable lawyers in their mid 30s and early 40s, which helps when dealing with a high-energy practice," Block says.



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'When an industry is having difficulty, we will encourage a lawyer from the firm to spend as much time as necessary to do research on the industry, its problems and potential solutions, so that when a case is filed, we will have someone in-house who is way ahead of the curve.'

Marc Beilinson

Meanwhile, Pachulski says the firm has no immediate plans to open up any more offices. He says that the current office locations are sufficient to serve the firm's clients and that it will hire new lawyers in its existing offices as needed, with a focus on the East Coast.

The New York office, with five lawyers, will move from its 6,000-square-foot office on Fifth Avenue to a new 10,000-square-foot site on Madison Avenue in October. That will give it room to grow to 21 lawyers.

"We intend to fill that up over the next four or five years," Weintraub says. "We'll grow, but we won't grow in an unprincipled way. We'll grow slowly."

The Delaware office also has continued to grow. Today, the 25,000-square-foot facility has 13 attorneys.

Orange County bankruptcy lawyer William Lobel says he expects the boutique to dominate the national market in coming years.

"Their acquisition of Laura Jones was a stroke of genius," Lobel of Irell & Manella says. "Now to open a small office in New York, that I'm sure will grow, positions them on the ground floor in two of the most significant bankruptcy venues in the country."

When it comes down to it, three factors have helped the firm get to this position, Young says.

"Some of it is strategic planning. Some of it is taking advantage of situations once they occur. And some of it is just good fortune," he says.