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## Ruden McClosky Ch. 11 Fate Could Await Other Firms

By Hilary Russ

Law360, New York (November 02, 2011, 1:35 PM ET) -- The failure of Florida law firm Ruden McClosky PA, and its sale in bankruptcy court, could portend a similar fate for other law firms, especially those that haven't protected themselves by diversifying beyond areas hit hardest by the financial crisis, experts say.

"Expect more law firm consolidation and closure," said Kenneth R. Yager II, a principal at turnaround firm MorrisAnderson. "The hot markets have changed since 2007, and in all the cost cutting some firms have not been able to adapt and are not ready for the 'new norm.'"

After closing three of its offices earlier this year and saying since at least August that it was negotiating with potential buyers, Ruden filed for Chapter 11 protection Tuesday to push along a planned asset sale to another Florida firm, Greenspoon Marder PA, for about \$5.6 million in cash and the assumption of \$2 million in liabilities.

Ft. Lauderdale, Fla.-based Ruden is a well-regarded, Florida-only general practice firm that was founded 60 years ago and once had about 200 attorneys, but is now down to 67. Experts said its demise was due largely to the collapse of the real estate market, which was particularly bad in Florida and in which Ruden concentrated a large portion of its work.

While it may have seemed that the post-recession pain in the legal industry was easing, other firms situated similarly to Ruden could also be facing restructurings or mergers — in or out of court, experts said.

"You should expect to see more mergers of this nature, especially in the more depressed economies in our country," said Jack Zaremski, founder and president of Hanover Legal Personnel Services Inc. "Especially in a challenging economy, you're more likely to survive to the extent you're well diversified."

The need to reach out to other markets — whether in the U.S. or overseas — has helped spur mergers and growth recently. As a hedge to stagnant or shrinking markets at home, major U.S. firms have begun opening offices in Brazil and other emerging economies around the globe, Zaremski said.

But opening offices outside of Florida or trying to broaden its work outside the real estate sector would likely have come too late for Ruden, which was already on the decline. Year-to-date gross revenues for 2011 were \$25.2 million by Sept. 30, compared with gross revenues for all of 2010 of \$46 million, according to court documents.

While its attorneys do practice across a range of areas, Ruden had concentrated its legal

advising in real estate and related services — a market that began receding in 2006 or 2007, even before the rest of the economy fell at the end of 2008, according to Craig V. Rasile, managing partner of DLA Piper's Miami office.

Now, the firm has filed for bankruptcy protection in order to preserve its remaining core asset — its lawyers and their rosters of clients. Greenspoon will be getting about 40 of Ruden's attorneys and approximately 100 of its 148 other employees, according to the buyer.

"At end of the day, that's all these partnerships are — the value of the partners who move around and have books of business," Rasile said.

More attorneys might have still been with Ruden — if many hadn't defected when they were asked to put their own money at risk to guarantee a loan from Wells Fargo Bank NA, he said.

Now, those attorneys may be personally on hook in bankruptcy court for some of the \$4.6 million plus interest the firm owes to its lender. The firm also owes shareholders \$5.5 million altogether, court documents said.

Ruden's asset sale is subject to court approval and better offers that could arise through a formal bidding process. It would "allow Ruden attorneys and staff to continue providing great service to its valued clients and ultimately allow it to satisfy its liabilities to the extent practicable," a senior vice president at Development Specialists Inc., Ruden's restructuring adviser, said in a declaration.

Under the agreement, Ruden will receive at least 33 cents on every dollar collected from its accounts receivable within two years after the closing date, after Greenspoon has collected \$10 million from those accounts, according to the declaration. The firms entered the agreement Monday.

Gerald Greenspoon, a managing shareholder with the firm and its co-founder, said Wednesday that his firm's offer and contract were extremely fair and good for both sides.

"Together, we will be a terrific force in the real estate business and corporate world in South Florida," Greenspoon said.

A representative for Ruden did not immediately return a request for comment Wednesday.

Chapter 11 filings by professional associations and law firms are rare, according to Rasile. But they do happen. Take, for instance, several closures in the 1980s and '90s.

The massive Finley Kumble Wagner Underberg Manley Myerson & Casey, once the nation's second biggest firm, went belly up in 1988. At least one former partner later declared personal bankruptcy in an effort to escape liabilities as a result of the firm's failure.

"It isn't that common that you see this, but it could be a good precedent for future situations," Rasile said of Ruden's bankruptcy. "It gives you a nice, clean way of wrapping up assets and keeping lawyers who control client relationships together. That's the value."

Ruden is represented in its bankruptcy by Leslie Gern Cloyd and Paul Steven Singerman of Berger Singerman PA.

The case is In re: Ruden McClosky PA, case number 11-bk-40603, in the U.S.

**Bankruptcy Court for the Southern District of Florida.**

**--Additional reporting by Martin Bricketto. Editing by Jocelyn Allison and Chris Giganti.**

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