

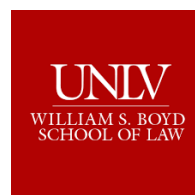
June 4, 2020

Hundreds of experienced professionals from all sectors of the legal industry participated in Legal Decoder's State of the Legal Industry survey and shared their views on the most important concerns of legal industry constituents. Legal Decoder's survey was designed to elicit each respondent's overall legal industry views as precipitated by recent world events and focused on three evolutionary stages of anticipated legal industry initiatives:

- Immediate situation
- Short-term actions
- Longer-term direction

Much like Legal Decoder's survey, this report will be geared towards all constituents in the legal industry, such as law firms, in-house legal departments, legal industry vendors, academics, law students, regulators, and judges.





Much thanks to our industry experts and their organizations who have led this initiative on a *pro bono* basis.



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Expert Faculty

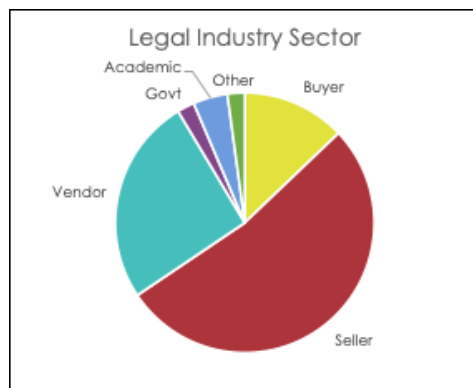
Legal Decoder enlisted experts from academia, law firms practice management, and corporate legal operations to help us analyze the data. Our expert faculty will highlight how the survey can inform decision-making and facilitate transparency throughout the legal industry. Armed with the empirical data of the survey, these diverse experts will provide insights that should afford legal industry professionals a meaningful and instructive perspective we all navigate a path forward for our businesses, our legal departments and our law firms.

Nancy Rapoport	Catherine Krow	Stephanie Corey	Joseph Tiano Jr.
			
<p>Nancy has been a law professor since 1991--first at The Ohio State University, then at the University of Nebraska-Lincoln, the University of Houston Law Center, and now at the University of Nevada, Las Vegas.</p> <p>She has also served as the dean at two of these schools (Nebraska and Houston), as the Acting Executive Vice President & Provost of UNLV, and as Special Counsel to the President of UNLV. Before entering academia, she worked as an associate attorney at Morrison & Foerster in San Francisco, California, in the Bankruptcy & Workouts Group. Her research areas include bankruptcy ethics (the behavior of lawyers in large chapter 11 cases), corporate governance, and law firm behavior.</p>	<p>Catherine is the founder and CEO of Digitory Legal.</p> <p>She is an experienced litigator and the CEO of Digitory Legal, an award-winning cost analytics platform that helps law firms and legal departments leverage data to succeed in an evolving legal market. For her pioneering work in legal technology, Catherine was named a CloudNow 2018 Top 10 Woman Entrepreneur in Cloud Innovation and named to the 2019 Fastcase 50 list "honoring the law's smartest, most courageous innovators, techies, visionaries, & leaders." Before founding Digitory Legal, Catherine practiced law at top-tier firms for 17 years, first at Simpson, Thacher & Bartlett and then at Orrick, where she was a litigation partner.</p>	<p>Steph is the Co-Founder and General Partner at UpLevel Ops & UpLevel Analytics.</p> <p>A veteran in the Legal Operations field, Stephanie Corey began her career at Hewlett Packard Company as Chief of Staff and Head of Legal Operations. Stephanie has held similar positions at VMware and Flex International. She is the co-founder of the Corporate Legal Operations Consortium (CLOC), a leading Legal Operations association, and co-founder and General Partner of UpLevel Ops, LLC, a legal strategy and operations consulting firm. Stephanie holds a BA in Economics and an MBA from Lehigh University and is a serial entrepreneur in her spare time.</p>	<p>Joe is the founder and CEO of Legal Decoder.</p> <p>After practicing law for nearly 20 years, Joe founded Legal Decoder because he saw that clients lacked the analytic tools and data to effectively price and manage the cost of legal services delivered by outside counsel. Together with Chris Miller, his Co-Founder, Joe set out to build an intelligent, data-driven technology company that would revolutionize the way that legal services are priced and economically evaluated. Joe was named to the 2018 Fastcase 50 list of the law's smartest, most courageous innovators, techies, visionaries, & leaders and showcased in Entrepreneur Magazine's "10 Lawyers Turned-Entrepreneurs Creating a Revolution in Law." Joe was a partner at Pillsbury Winthrop Shaw Pittman and Thelen LLP, where he grew and managed all aspects of a multi-million-dollar cross-border finance practice.</p>
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Demographics of the Respondents

Legal Decoder’s survey was conducted from April 19th to May 6th, 2020. We had strong participation with 238 respondents who took a few minutes out of their day to help us understand the disruption rippling throughout the legal industry.

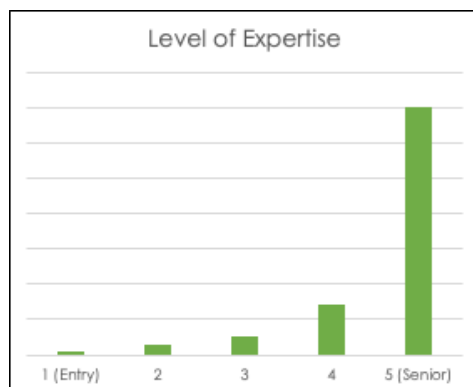
The majority of respondents indicated that they were Sellers of legal services. This group includes law firms or ALSPs. The second most numerous group of respondents characterized themselves as Vendors providing software or solutions to the legal industry (non-legal advice). Buyers of legal services accounted for nearly one-quarter of all respondents. Anecdotal conversations revealed that most corporate legal teams were triaging the current COVID-19 situation and were not able to prioritize responding to our survey. It was very encouraging to see some participation from government professionals and academics because their perspective on the legal industry is often under-represented in many, if not most, commercial surveys.



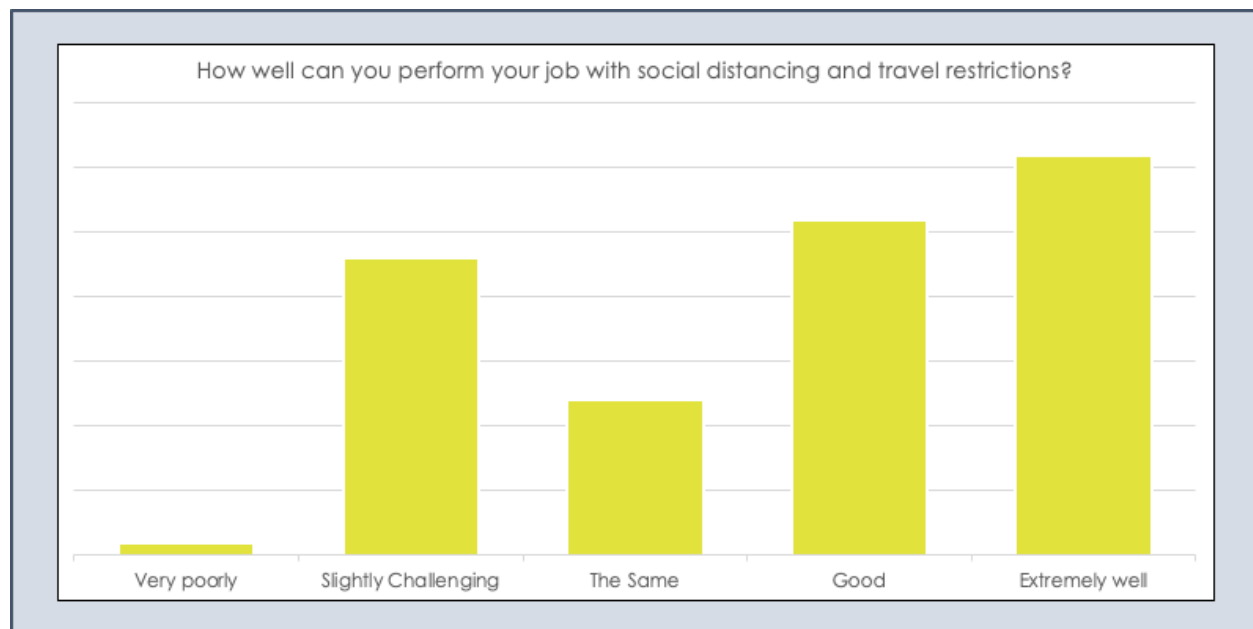
Most of the respondents have deep legal experience and expertise as practicing attorneys. Those who self-identified as legal administrators focus primarily on the business of law. Legal technologists and legal industry consultants accounted for nearly one-third of all respondents. The remaining respondents (academics, judges, regulators and so forth) rounded out the roster of survey respondents offering a unique and interesting vantage point because of their ability to observe the behavioral patterns of multiple organizations that they serve or oversee. We believe that this mix of respondents offers a wide-ranging, highly relevant and representative sampling of legal industry constituents.



Nearly all of the respondents self-identified as being very experienced. As such, we believe that their perspective should be highly-valued insofar as their initiatives are likely to be implemented and prioritized. It surprised us that more junior-level legal professionals did not take the survey. Given that junior-level legal professionals may not have direct managerial responsibility or decision-making authority for their organization, we would have expected them to have taken the initiative to have a greater voice in shaping their future or, at least, to express their concerns about job security (or feelings of optimism). Their lack of participation made us wonder whether they lack a belief that their voice matters. Query for the future...?



The Immediate Situation



In response to a survey question about COVID-19 related working conditions, respondents indicated that the legal industry's historic work environment and structure (fully staffed offices with in-person meetings) will not be as mission-critical going forward as one would have guessed before the COVID-19 outbreak. Empirical data from the Legal Decoder survey as well as anecdotal evidence have shown that legal industry professionals can work remotely, away from the office, and remain productive.

Consistent with the survey results, we believe that COVID-19 is going to permanently re-define how lawyers and their clients view the need for a physical workspace. Historically, physical proximity has been a security blanket or, at least, the modus operandi for most lawyers. Legal industry leaders have presumed that collaboration had to be in person with their most trusted colleagues close at hand. The pandemic has opened the eyes of the legal community to the notion of a remote workforce. Conference calls and videoconferencing, cloud computing, workspace sharing, and collaboration technologies seem to have made it easy to complete work assignments in a timely manner while maintaining effective, real time communications with clients and colleagues.

Real estate has been one of the biggest fixed costs for legal professionals so this work environment shift should drive meaningful change. Indeed, if legal professionals are now equally or more efficient than in past days of physical office space, then the cost structure for the provision of legal services should change.

The survey responses indicate that everyone's worry about change management when it comes to fragile lawyer sensibilities is a misplaced concern. The survey results highlight that the stodgiest sector (i.e., traditional law firms) are the ones most greatly affected by COVID-19 and fully capable of change.

While we accept at face value the survey results which affirm that a legal professional does not need to work in an office setting to be productive, we are mindful human interactions and relationships are important to organizational goals, client success and trust, professional advancement and mentorship and so forth. Even though we can perform our jobs remotely, it may be more difficult to advance in one's career or develop new client relationships without more face-to-face contact.



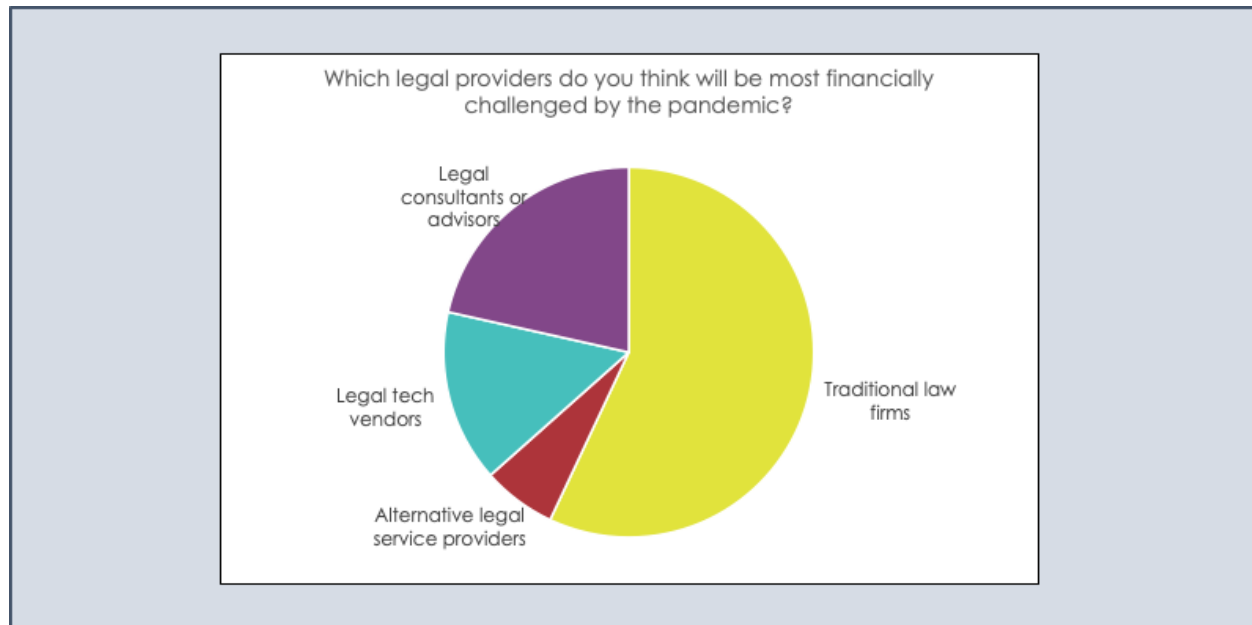
For this question in particular, the survey responses for this question struck us as an emotionally charged, reflexive reaction. Identifying the willingness to innovate as the top concern may be respondents expressing pent up exhaustion with the “all talk, little action” nod to innovation in the legal industry. COVID-19 has forced innovation on us, and throughout the legal industry we have adapted. In fact, it seems as though many law firms and legal departments have successfully compressed five years of slow-moving innovation into a two-month span (although for many corporations and vendors, the technology that they needed to work effectively outside an office setting was already in place).

Our view is that client-focused decision-making ultimately should be the real change agent and that innovation then necessarily follows from that priority. Client-focused decision-making is likely a longer-term issue and not necessarily reflective of the immediate situation during the lockdown phase of the pandemic. As an industry, we don't train lawyers on how to manage modest changes to operating protocol in the best of times, so we do have some lingering reservations that lawyers are adequately equipped with right tools and the right mindset to innovate in the wake of a global crisis.

Budget constraints, organizational resilience, and job security also dominated the immediate focus, all of which we expected.

To us, the most disheartening takeaway from the survey is that professional development and succession planning ranked at the bottom of the priority list. That said, we are mindful that

something had to come in last and during a crisis, it does not shock the conscience that professional development and succession planning were at the bottom. Nevertheless, we would like to revisit this question in a year and genuinely hope that advancing the next generation of legal industry professionals rises on the priority list. Insofar as the “next generation of legal industry professionals” are on the Legal Operations side, most of these professionals are likely to be relatively new in their role. There may be only one (or a few) legal operations professional at an organization. For them, demonstrating a positive and meaningful impact, not professional survival, is their paramount issue and concern.



In the near term, virtually all businesses will face significant financial challenges. Out of those challenges will emerge opportunity. Overwhelmingly, traditional law firms are expected to bear the brunt of the economic downturn. We think that traditional law firms must position themselves to be the first phone call that clients make when the COVID-related work comes to fruition. Law firms that are not proactive in this regard will struggle.

We predict that rates will be frozen or migrate down 10 to 15% for the short term; any firm objecting to rate freezes and/or rate decreases right now probably won't stay on the client's radar screen for long. We suspect that traditional firms will also suffer to the extent that they are unable to change from the back to “business as usual” model which we think just won't be sustainable going forward.

We wonder whether financial challenges will be significantly greater when it comes to Alternate Legal Service Providers (ALSPs). Once the dust settles and neighborly feelings subside, the gloves are going to come off. We think that everyone is going to sue everyone else over everything. Litigation is going to be multi-jurisdictional and multi-national. The price of admission for suing in U.S. court = bar license. Lawyers have them; ALSPs don't.

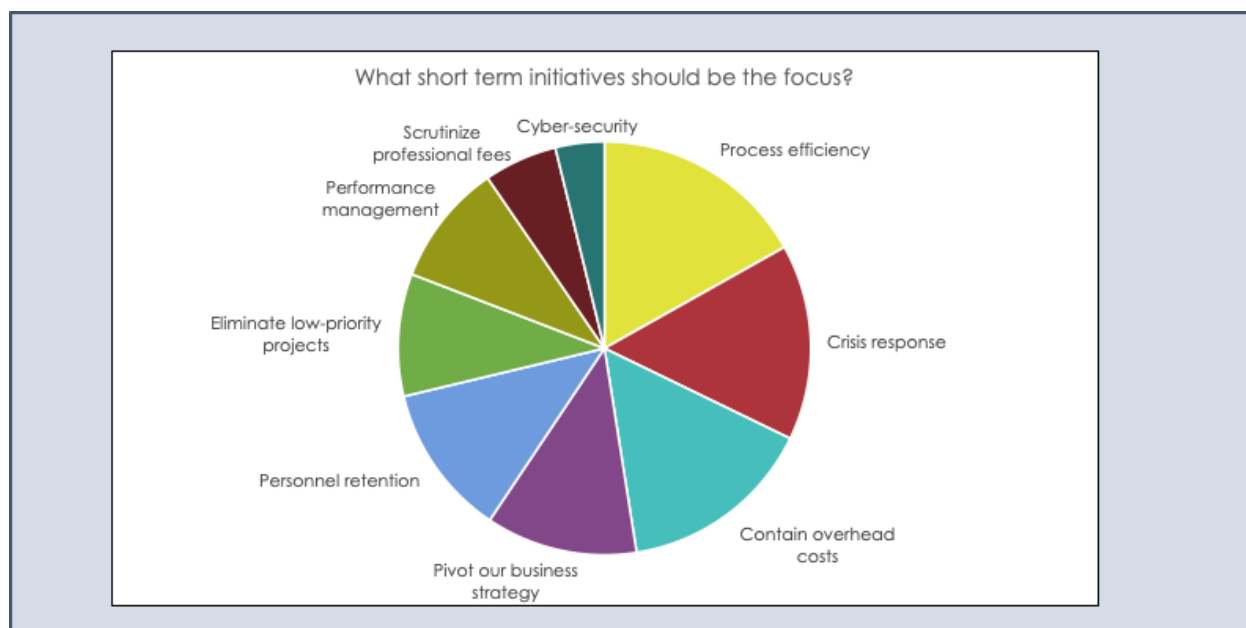
On the other hand, ALSPs and consultants could indeed benefit from increased litigation. Work needs to get done, but headcount is frozen. Contract workers should become an even more

attractive option because they can drive specific initiatives forward quickly with deep expertise, but they don't require a long-term commitment. It will be difficult for corporations to handle increased litigation with a smaller budget. ALSPs are an intriguing wildcard in this equation.

Incumbent legal tech vendors at the top end of the price range are going to have challenges (more so than lower-end vendors) because price inelasticity will disappear. No longer will incumbents be able to charge premium prices because lawyers are afraid to change and/or are afraid to try out new technology. Price compression and cost-control measures, which benefit upstart legal technologies, are the natural outgrowth of crisis. Crisis facilitates change because it becomes easy to blame an externality or to point to a chaotic and unprecedented environment as the reason when and if something goes wrong with changing from an expensive incumbent technology to a more suitable solution. And to put a finer point of the challenges for costly, incumbent vendors, their expensive systems go hand and hand with complex implementations, for which no one will have any appetite or resources. We also believe that an outgrowth of the COVID-19 changed work environment will be a lessening of law firms' "cloud-phobia". On-premises technology requires people and systems; things most companies, including firms, do not want to deal with right now.

Smart buyers know how to find room in a budget for something that will ultimately save them money. Vendors are more likely be creative on Proof of Concept trials and payment terms when the clients are transparent with them about their own budget situation, whether there is executive buy-in on the project, and what the path forward to a meaningful deal might be. In other words: Vendors, there is no need to panic and start working for free.

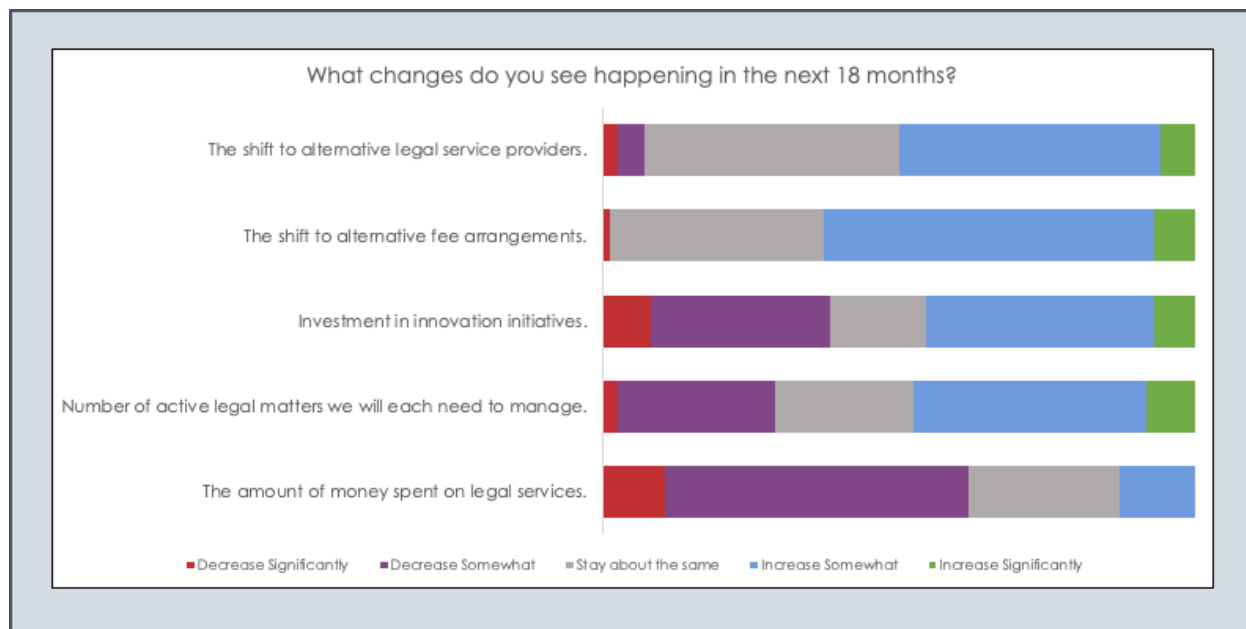
Short term Action



When this report is published in early June, the crisis response and cost containment phases should be hitting on all cylinders, full steam ahead. The focus of legal industry constituents will likely have turned to implementation of process efficiency initiatives.

Many of the short-term initiatives addressed in the survey results are tactical measures that legal industry constituents must consider in context of longer-term business strategies. Some respondents prioritized actions that directly tie to value delivery rather than just “blocking and tackling.” Corporate clients with heavily stressed budgets will need a much clearer value proposition from their legal professionals in our view.

As we considered more deeply the pre-defined alternative responses that could be chosen in response to this question, we think that the view of corporate/client side, particularly LegalOps professionals, is somewhat limited or skewed by the closed-ended nature of the “question & response” alternatives. Part of our view emanates from what we are experiencing firsthand in the legal industry. More specifically, as we studied the data set more closely, only buyers of legal services selected “scrutinize professional fees” viewing this initiative as a short-term strategy, not just a crisis response. When factoring in the other alternative responses of “containment of overhead costs,” “process efficiency,” and “eliminate low-priority projects,” more than half of the changes referenced in the pie chart are directly controlled by or under the purview of corporate Legal Ops, proving how necessary this role is during a crisis.



6+

As a group, we are mixed in our commentary on the responses to this question. This diffuse response may reflect the slight bias that our group has to legal operations, given that most of the survey respondents were from law firms. The survey indicates a strong consensus that there will be a tremendous shift to Alternate Fee Arrangements (AFAs) and ALSPs, but some on our panel are skeptical that the shift will play out this strongly. As we dig deeper on this potential shift, the panel does seem to agree that “commodity work” would be a good candidate for this shift, but also believes that much of the legal work likely to emanate from the COVID-19 crisis cannot be shifted away from the traditional firm and the traditional billing model.

Some of us believe that without a change in the way that AFAs are scoped, worked, and reported, AFAs will continue to be a zero-sum game, with a clear winner and a clear loser, which is not sustainable. AFAs didn't work particularly well post-2008, so we are curious as to why AFAs are the big focus here again. Some of us are concerned that legal departments and firms are poised to recycle a broken model and wonder whether a new model can emerge.

When it comes to Value Based Pricing (VBP) which combines flat fee components by phase with the addition of success fees, we concur that for Law Firms to be successful at VBPs, they should not attempt this for complex work where phases are nonlinear and the activities within each phase can vary greatly. The firm would also need to have efficiency-focused resourcing plans, a culture of effective project management, and strong data to fairly and accurately predict their own costs at the outset.

The variability regarding investment in innovation reflects the two very different reactions that we have seen in the market. While many respondents' expectation was to hold steady or see a modest uptick in technology spending, others are being proactive about leveraging technology to differentiate themselves in order to get the lion's share of the work that is coming in the future (and do it efficiently).

On the last two bar charts, we had a hard time reconciling two aspects of the results. If the number of active matters increases and the money spent decreases on them, then the money spent per matter must decrease. Even if work is brought in-house or sent to an ALSP, we were left scratching our heads as to how there could be such a punctuated decrease in the money spent on legal services. This raises relevant questions. Will matters settle earlier? Are volume discounts going to be so large that the money spent outpaces economical demand? We are not clear if the respondents were considering all spend on legal services or just the spend with Law Firms. It is logical, however, to see discretionary spend decrease for consultants and certain types of non-essential training.

We are positive that clients are examining their legal spend and are looking to reduce both bloat and rates. Perhaps the respondents were thinking about the amount per matter because other questions in the survey suggest that more work is coming.

Longer Term Action



Overall, our faculty is in general agreement about these projections in relationship to each other (the ranking of most to least). However, they believe that we will see the volume of work increasing more than the chart has indicated, including the following predicted trends:

- Commercial litigation will grow in support of all the people that believe they were wronged and on contractual obligations that were not met. This will cross into all industries.
- We are seeing the beginning of inventions related to the pandemic, which will increase IP work.
- Real estate will shift from new development to repurposing, lease termination, vacancies, etc.

The chart above mimics our experience with the Great Recession of 2008 from the law firm perspective, where litigation and restructuring became the drivers for firm revenue, but real estate and transactional practices shriveled. We encourage to the reader to consider what is different in 2020 post COVID. The combined effect of layoffs and essential workers facing life-threatening work situations with a nationwide shortage of protective equipment is likely to increase employment and tort litigation. Press stories about mistreatment of essential workers in various industries abound.

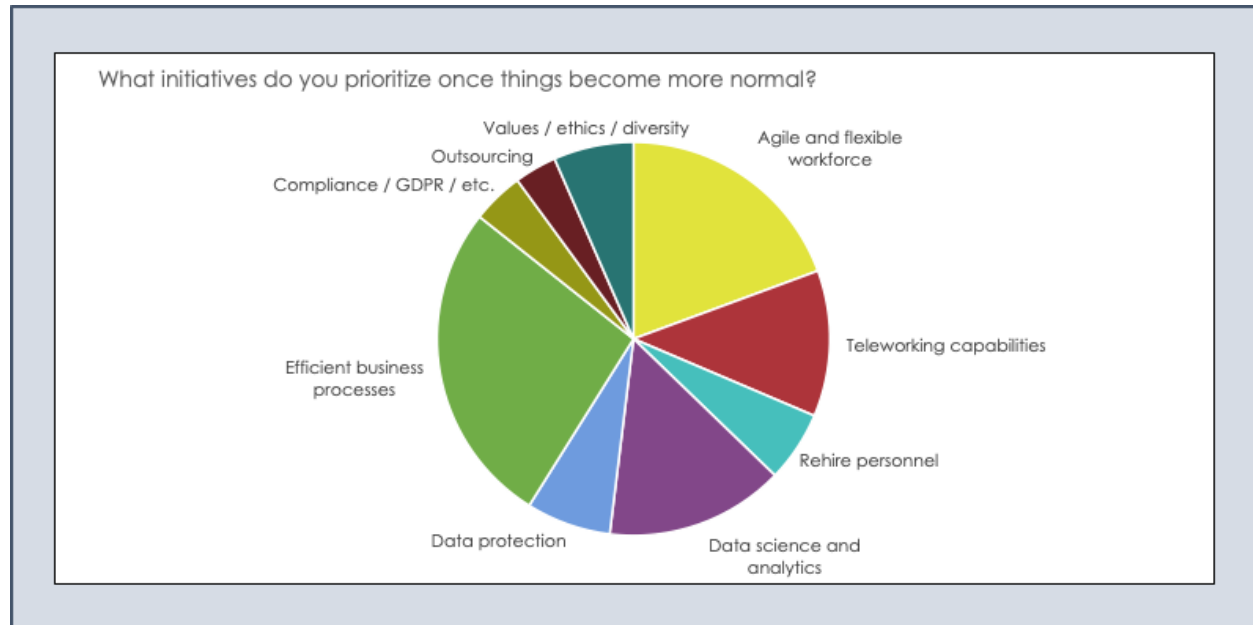


In-house lawyers are going to be working two or three times as hard as pre-pandemic. We rhetorically wonder how in-house lawyers can keep up with the increases in work volume without a concomitant increase in hiring in-house lawyers.

Likewise, we are finding it difficult to reconcile the strategic goal to have a workforce that expands and contracts and the desire to increase the use of AFAs insofar as AFAs usually assume fixed resources. While headcount will be frozen initially, we think that eventually there will be more work coming in-house and more work pulled from firms and given to ALSPs

Clearly clients are demanding that law firms be more flexible, be better partners, offer to help during this difficult time. And law firms had better listen because we are hearing that clients won't hesitate to fire them.

Law firms not only need to be better partners, they need to start thinking about restructuring themselves to work with lower cost resources. Clients may prefer to use their existing relationships with firms rather than engaging an ALSP themselves. If the firms could subcontract with ALSPs and offer this as a client service, that would be of great value.



We notice that all of the more popular prioritizations depend on having good technology and data. We were wondering if remote and flexible working is a hedge against future pandemics. Is it possibly motivated by something different?

The panel was unanimously concerned about the low prioritization of diversity. Here are some of the comments.

- It'll be interesting to see the link between improving diversity (especially in terms of retention) and coming up w/teleworking capabilities and efficient business processes. Those lawyers who are from non-traditional backgrounds and who often leave traditional law firms might be able to stay on longer, thereby increasing law firm diversity over time.
- It is worth noting that the last recession wiped out 20 years of work on D&I in the blink of an eye – we must do better this time, and clients DO care about this.

Conclusions

The pandemic has forced innovation upon us, and we are responding. While far from an ideal situation we can learn and repeat these lessons in innovation and drive to a stronger and healthier legal industry. Let's continue on our own timeline now that we have seen that the value proposition for innovation works.