

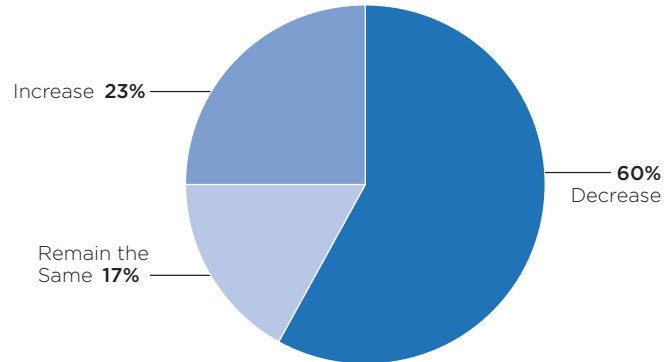
Though less publicised, legal departments have not been immune to the economic uncertainty, enduring budget cuts and increasing workloads.

- Legal department budgets continue to stay flat or decrease for the vast majority of member companies.
- Aside from outside counsel spending decreases, 60% of member general counsel have reduced (or plan to reduce) headcount, including lawyers, paralegals, and administrative staff.

DOING MORE WITH LESS IN HOUSE

Legal Budgets Are Being Cut

Compared to 2008, Our 2009 Legal Department Budget Will...



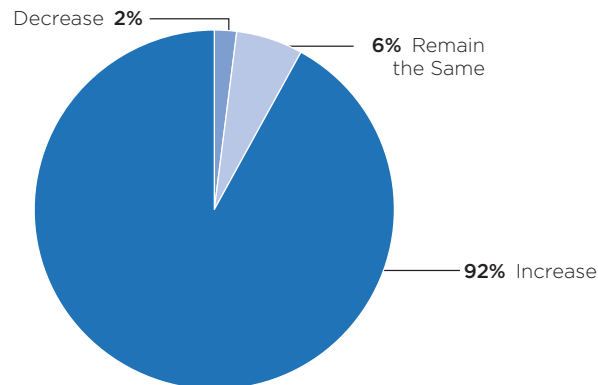
On average, legal departments cut their budget by 15.8% (\$5.5 million).

n = 65.

Source: 2009 GCR Recession Survey.

Legal Department Workload Is Expected to Increase Next Year

In the Next 12 Months, Our Workload Will Likely...



One-third of members report that their legal department workload will increase by 20% or more.

n = 63.

Source: 2009 GCR Recession Survey.

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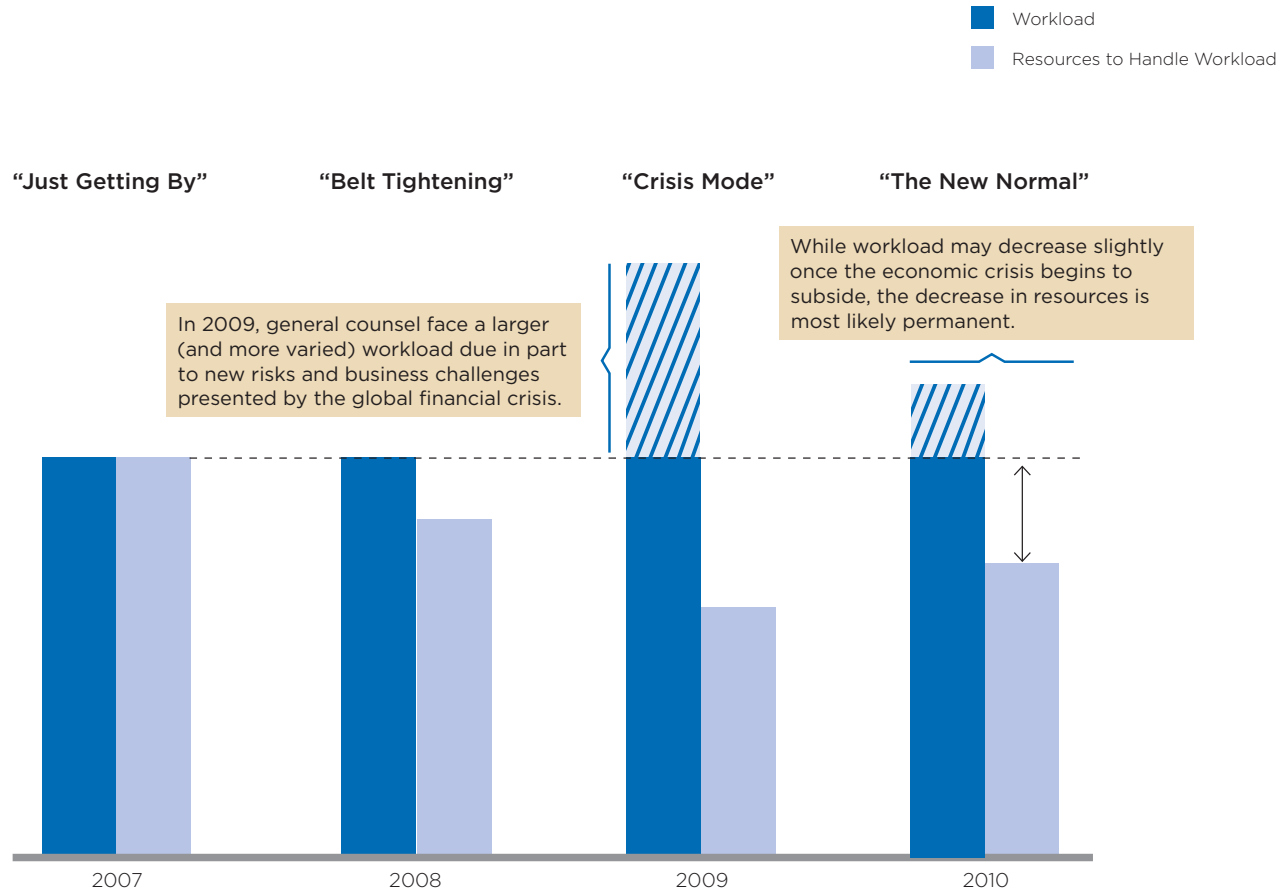
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Companies' new legal challenges are especially troublesome given that legal department resources are expected to remain scarce.

- In 2008, legal departments were under pressure to reduce both headcount and budget.
- In 2009, most legal departments continue to reduce budgets (or at least keep them flat) but face an increasing workload.
- As companies adjust to the new business landscape, it is unlikely that legal department resources will rise in the near-term—76% of general counsel indicate that in the next 12 months their budgets will either decrease or stay flat.

THE RESOURCES ARE NOT COMING BACK

Workload and Resource Allocations Are Changing
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In spite of unprecedented resource constraints, general counsel must cope with shifting legal challenges at the company level.

- A sizable hurdle general counsel face is not reducing legal department costs, but managing the additional work created by the global financial crisis.
- New emerging risks and business activities are driving this work, which is growing not only in quantity, but also in the variety of tasks the legal department is expected to undertake.



“While we are concerned about costs, we can’t let cost pressures stop us from managing the most important risks that face our businesses. Quite frankly, there’s a lot more risk in this recession than we previously thought.”

General Counsel
Technology Company

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NEW CHALLENGES FOR THE COMPANY

1. Regulatory Activity Increasing

- Member general counsel overwhelmingly believe that **regulatory activity in almost all areas will increase in the next 12 months.**
- Senior management are equally concerned, with **82% believing that more resources will be necessary** to manage regulatory risk.

2. Employee Misconduct Growing

- Drawing on confidential surveys from more than 200,000 employees, our research indicates that **ethical culture is markedly decreasing.**
- Since the start of the recession, there has been a **20% increase in observed misconduct.**

3. Litigation Rising

- More than 60% of member general counsel report that their **volume of litigation has been rising over the past three years.**
- In 2008 alone, litigation volume grew by approximately nine percent.
- Almost 65% of member general counsel believe that their **volume of litigation will increase in the next 12 months.**

4. Business Activities Changing

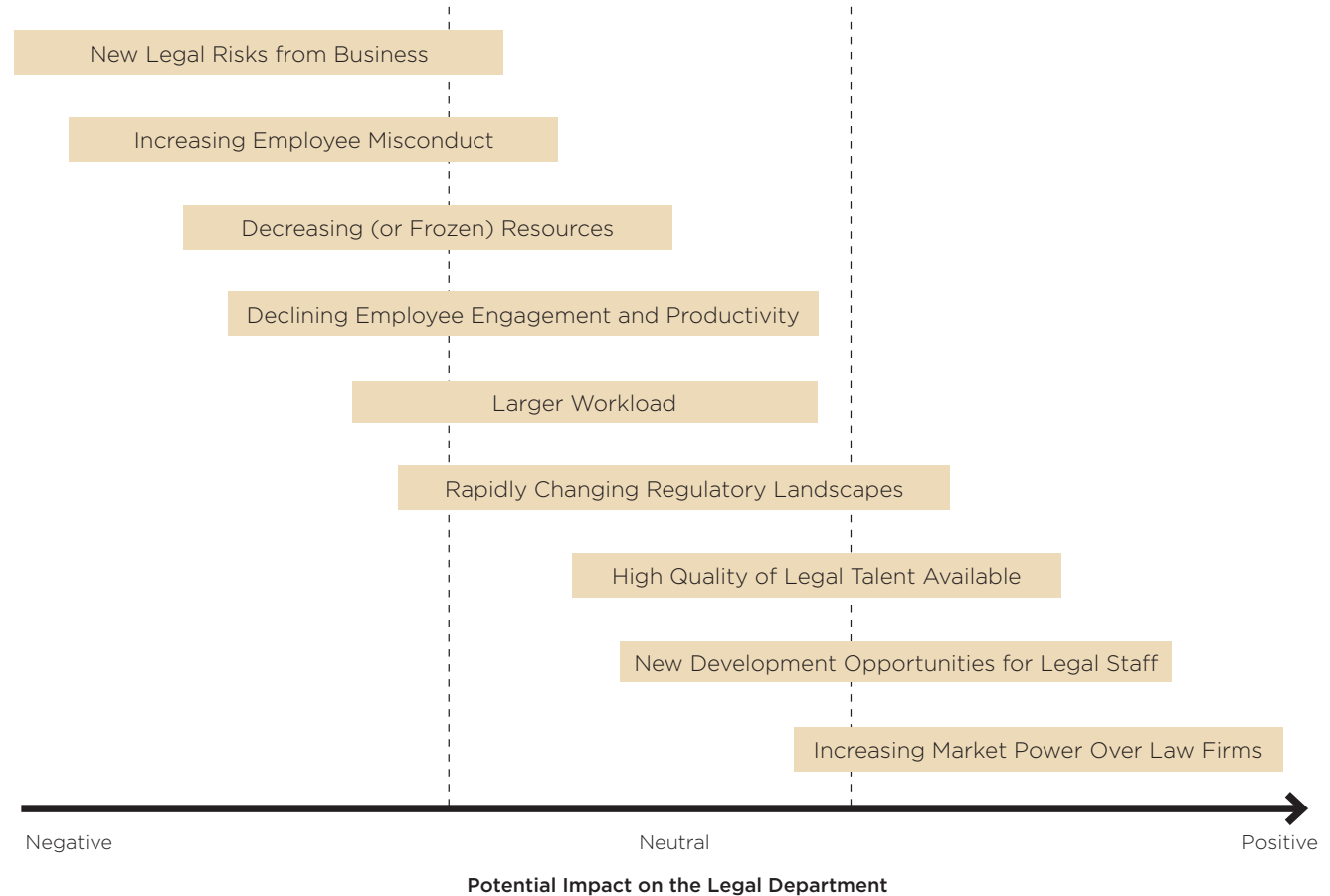
- Business units and corporate functions are struggling to hit revenue targets and complete strategic objectives, leading to **alarming increases in potential risks for general counsel.**
- Rapid strategic and operational changes create risks in Sales, Procurement, and Finance.

As companies look towards an economic recovery, general counsel will likely encounter a different working environment in which to operate.

WELCOME TO THE NEW NORMAL

Characteristics of the New Normal

Illustrative



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FOUR MANDATES FOR NAVIGATING THROUGH THE NEW NORMAL

Managing Emerging Legal Issues and Risks

Take Advantage of Increased Regulatory Activity



Tackle the Declining Culture of Integrity

Improve regulatory tracking efforts by assigning accountability and ownership and leveraging business unit knowledge.

Push attorneys to integrate their regulatory knowledge with corporate strategic goals to help drive business outcomes.

Use social media and other proactive techniques to shape public debate, and identify upcoming public concerns.

Work with Compliance to enhance your company's ethical culture.

Collaborate with other functions to enhance the amount and quality of risk information received from the business.

Managing Your Legal Department with Fewer Resources

Rethink How Work Gets Done



Rebalance Legal Department Skills

Leverage your new market power with law firms.

Improve internal efficiency and workload by using the expanding pool of highly skilled contract attorneys.

Ensure compensation still aligns with value and rethink how you use your current lawyers.

Build compelling development opportunities for your high-performers.

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General Counsel were asked to self-assess on 20 different competencies in their roles as Chief Lawyer to the Company; Leader of the Legal Function; and Corporate Secretary and Chief Compliance Officer.

- Notably, Australia-based general counsel responses indicate some room for improvement in managing their role as a leader of the legal function and optimising their own time and effort.



Please refer to the appendix for a full list of diagnostic questions.

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OVERVIEW OF RESPONSES FROM AUSTRALIAN COMPANIES

Part I: Competencies Related to Your Role as Chief Lawyer to the Company

	% "Good"	% "Better"	% "Best"
Company Knowledge	18.2%	36.4%	45.5%
Management of Top Risks	18.2%	27.3%	54.5%
Legal Knowledge	18.2%	18.2%	63.6%
Management Team Ownership	30.0%	30.0%	40.0%

Part II: Competencies Related to Your Role as Leader of the Legal Function

	% "Good"	% "Better"	% "Best"
Focus on Legal's Competencies	30.0%	10.0%	60.0%
Legal Talent Development	40.0%	20.0%	40.0%
Law Firm Management	45.5%	45.5%	9.1%
Knowledge Reuse	30.0%	40.0%	30.0%
Client Relationships	10.0%	40.0%	50.0%
Efficiency	70.0%	10.0%	20.0%
Leveraging Technology	54.5%	18.2%	27.3%

Part III: Competencies Related to Your Role as Corporate Secretary and Chief Compliance Officer¹

	% "Good"	% "Better"	% "Best"
Board Support	27.3%	36.4%	27.3%
Executive Compliance Leadership	9.1%	36.4%	0.0%
Compliance Communication Strategy	9.1%	27.3%	9.1%

¹ Since Part III questions were optional, responses will not sum to 100%.

Part IV: Competencies Related to the Management of Your Own Time and Effort

	% "Good"	% "Better"	% "Best"
Time Management	18.2%	63.6%	18.2%
Relationship Management	0.0%	63.6%	36.4%
Information Management	36.4%	27.3%	36.4%
Professional Development	27.3%	54.5%	18.2%
Strength and Health	45.5%	18.2%	36.4%
Advancing the Profession	18.2%	63.6%	18.2%

Managing talent, controlling law firm spending, and leveraging technology are all development opportunities for Australia-based general counsel.

IMPROVING DEPARTMENT EFFECTIVENESS

Part II: Competencies Related to Your Role as Leader of the Legal Function

	% "Good"	% "Better"	% "Best"
Focus on Legal's Competencies	30.0%	10.0%	60.0%
Legal Talent Development	40.0%	20.0%	40.0%
Law Firm Management	45.5%	45.5%	9.1%
Knowledge Reuse	30.0%	40.0%	30.0%
Client Relationships	10.0%	40.0%	50.0%
Efficiency	70.0%	10.0%	20.0%
Leveraging Technology	54.5%	18.2%	27.3%

Sixty percent of respondents have room for improvement in building compelling career paths for their lawyers and proactively identifying skill gaps within the department.

More than 90% of respondents have not utilised contract lawyers, alternative fee arrangements, or offshoring.

Almost 75% of respondents use corporate-issued technology ("Good" and "Better" categories) instead of investing in legal department specific tools such as e-billing systems.

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The recent financial crisis has led Australian companies to retain more work in-house and reduce the overall external legal budget.



“It (has) to be a combination of putting parameters around matters...it’s about managing the spend in the most cost-efficient and cost-effective manner—from my perspective, the firm that can demonstrate that will get the lion’s share of our spend over the next couple years.”

Brett Johnson, General Counsel
Qantas Airways Ltd.

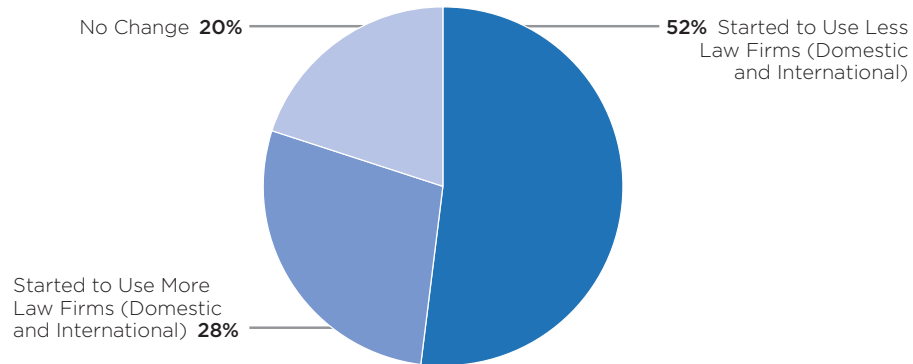
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COMPANIES SPENDING LESS ON LAW FIRMS

Use of Outside Counsel Has Decreased

How Has the Financial Crisis Affected Your Department?

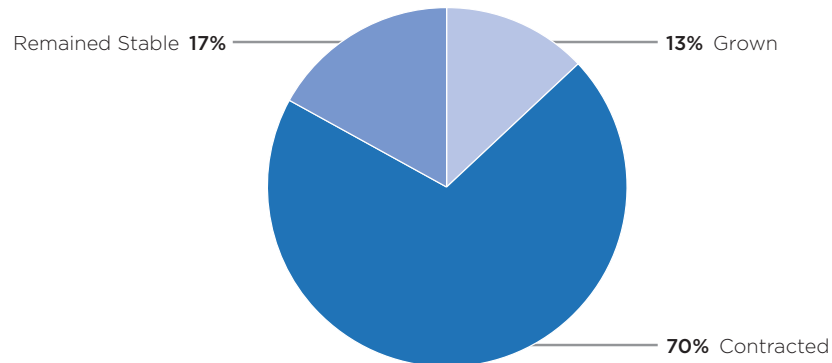


n = 384.

Source: ALB In-House Survey, 2009.

Outside Counsel Spending Has Significantly Decreased

What Has Been Your Company’s Annual Legal Spending on External Counsel in the Past 12 Months?



n = 384.

Source: ALB In-House Survey, 2009.

Over the past ten years, GCR has conducted extensive research into how companies should best manage their outside counsel.

- In the course of our research, GCR uncovered eight key insights that govern how legal departments should interact with their outside counsel.

OUTSIDE COUNSEL MANAGEMENT: WHAT WE HAVE LEARNED SO FAR

1. Discounts

GCR data show that the size of hourly rate discounts has little to no correlation with total outside legal spending. While discounts may be the easiest cost-savings measure to undertake, GCR data suggest that these discounts decrease over time.

3. Billing Guidelines

Using triggers for when outside counsel should approach the legal department (e.g., upon reaching three-fourths of the budget) are especially effective.

5. Cost-Quality Trade-Off

GCR research indicates that outside counsel work quality does not necessarily diminish when legal departments apply cost pressures.

7. Law Firm Relationship Management

Administrative portions of the law firm relationship (e.g., reviewing invoices, ensuring staffing guidelines compliance) should be moved to non-lawyers, if possible (such as business managers).

2. Law Firm Panels

Creating a panel of preferred providers creates leverage (and healthy competition). However, GCR data show that a panel's cost and quality effectiveness decrease if companies do not maintain competition among panel participants.

4. Law Firm Evaluations

GCR data suggest that regular, formal evaluations generate especially large improvements in quality and cost-effectiveness.

6. Invoice Review

Even sporadic invoice review and billing guideline enforcement are effective cost reduction mechanisms as law firms are more careful about what/how they bill.

8. Legal Services Market

Non-law firm providers are now a viable and effective alternative to outside counsel.

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The current law firm market allows legal departments to design more creative ways to work with their law firms.

- Leading legal departments have used their new market power to create innovative arrangements with their external law firms, beyond simple rate discounts and free white papers.

GETTING CREATIVE WITH LAW FIRMS

New Law Firm Arrangements Companies Are Using to Reduce Costs and Improve Service Quality

Tactic	Why Now?	Estimated Cost Savings	Company Examples
Hiring Deferred Law Firm Associates	Deferred law firm associates are currently looking to gain legal experience. Since law firms have already paid their annual salary, general counsel can hire these associates at no additional cost.	\$80,000-\$100,000	 
Using Social Networking Sites to Forge New Relationships With Law Firms	Online social networking sites such as Legal OnRamp and LinkedIn enable general counsel to bid out legal work and establish new law firm relationships for free.	20-30% lower hourly rate	 
Enlisting Secondees for Less	Law firms looking to maintain good relationships and reduce overhead are willing to "loan" senior associates out to their clients.	\$400,000 or more	 
Having More (If Not All) Work Conducted Using Alternative Fee Arrangements (AFAs)	Companies' new, stronger market power and law firms' desire to maintain (and gain) business are enabling general counsel to negotiate more (if not all) of their work using AFAs.	20-40% reduction in law firm spend	 

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General counsel typically do not use the AFAs that are most effective at reducing law firm costs.

- GCR research indicates that legal departments in 2009 significantly increased their usage of all types of alternative fee arrangements.
- While legal departments rank volume discounts as being most effective, GCR data indicate that it actually has the smallest impact on reducing law firm spend of any alternative fee arrangement tested.
- In addition, companies that report being effective at fixed fees report having up to 25% lower legal spend.



Please see the appendix for more information on the most effective AFAs.

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RANKING ALTERNATIVE FEE ARRANGEMENTS

Legal Departments' Ranking of Alternative Fee Arrangements By Perceived Effectiveness

1	Volume Discounts (lower hourly rate based on amount of work)
2	Capped Fees (limit on total fees for a given matter)
3	Flat Fees (paying a pre-negotiated, single fee for a given matter)
4	Fixed Fees (paying a fixed fee for all work in a given subject area for a period of time)
5	Risk Sharing (outside counsel is paid a bonus or is deducted a penalty based on outcome)
6	Blended Rates (single, uniform rate charged regardless of what lawyer performs the work)
7	Performance-Based Bonuses (awarding bonuses for favorable outcomes)

n = 72.

Source: GCR Recession Survey, 2009.

GCR Data On Alternative Fee Arrangement's Impact on Reducing Law Firm Spend

1	Fixed Fees
2	Risk Sharing
3	Flat Fees
4	Blended Rates
5	Capped Fees
6	Performance-Based Bonuses
7	Volume Discounts

E-billing offers better clarity into law firm spending as it provides visibility into the status of law firm bills and the cost of line items within.

- General counsel who analyse the data from their e-billing systems are more satisfied with the cost benefits of the alternative fee arrangements they use.



Estimated Savings: \$25,000-40,000 per month saved by rejecting hourly rates higher than agreed upon

E-Billing Reports Commonly Generated: Percent of work by partner/associate/analyst; Percent of budget spend by firm by phase; Attorney productivity; Number of invoices unapproved



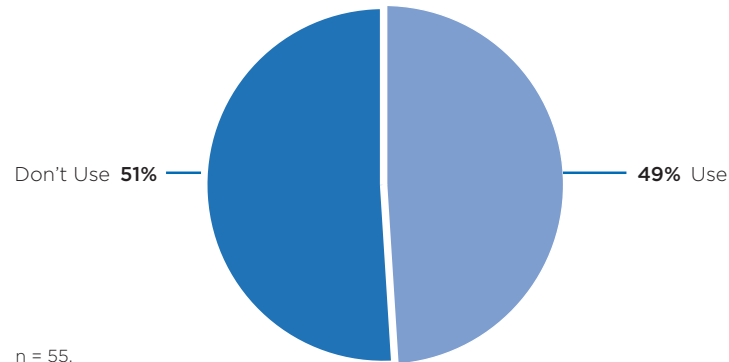
Please see the appendix for additional information on how to implement an e-billing system.

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USING E-BILLING DATA ENHANCES QUALITY AS WELL AS COSTS

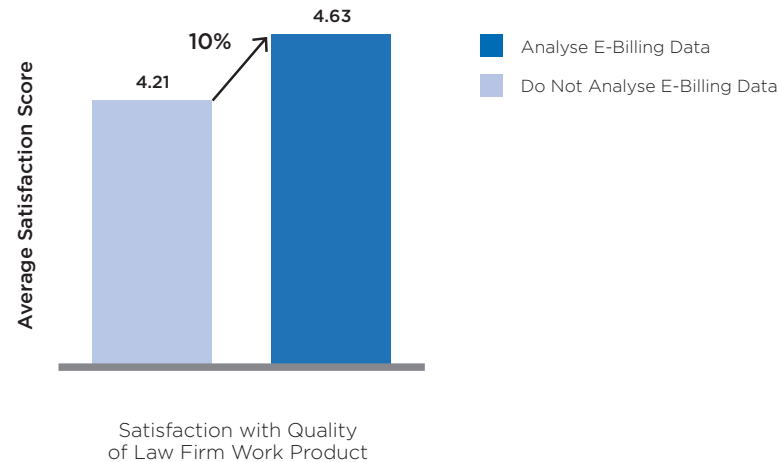
Percentage of Legal Departments Using Electronic Billing



Source: GCR Recession Survey, 2009; 2007 GCR Law firm Performance Management Survey.

Survey respondents ranked e-billing as the least effective cost-cutting strategy. However, GCR research shows that companies that are effective at e-billing report lower outside counsel spend than those that are not (even controlling for company size, industry, etc.).

Legal Departments Mining E-Billing Data See the Return



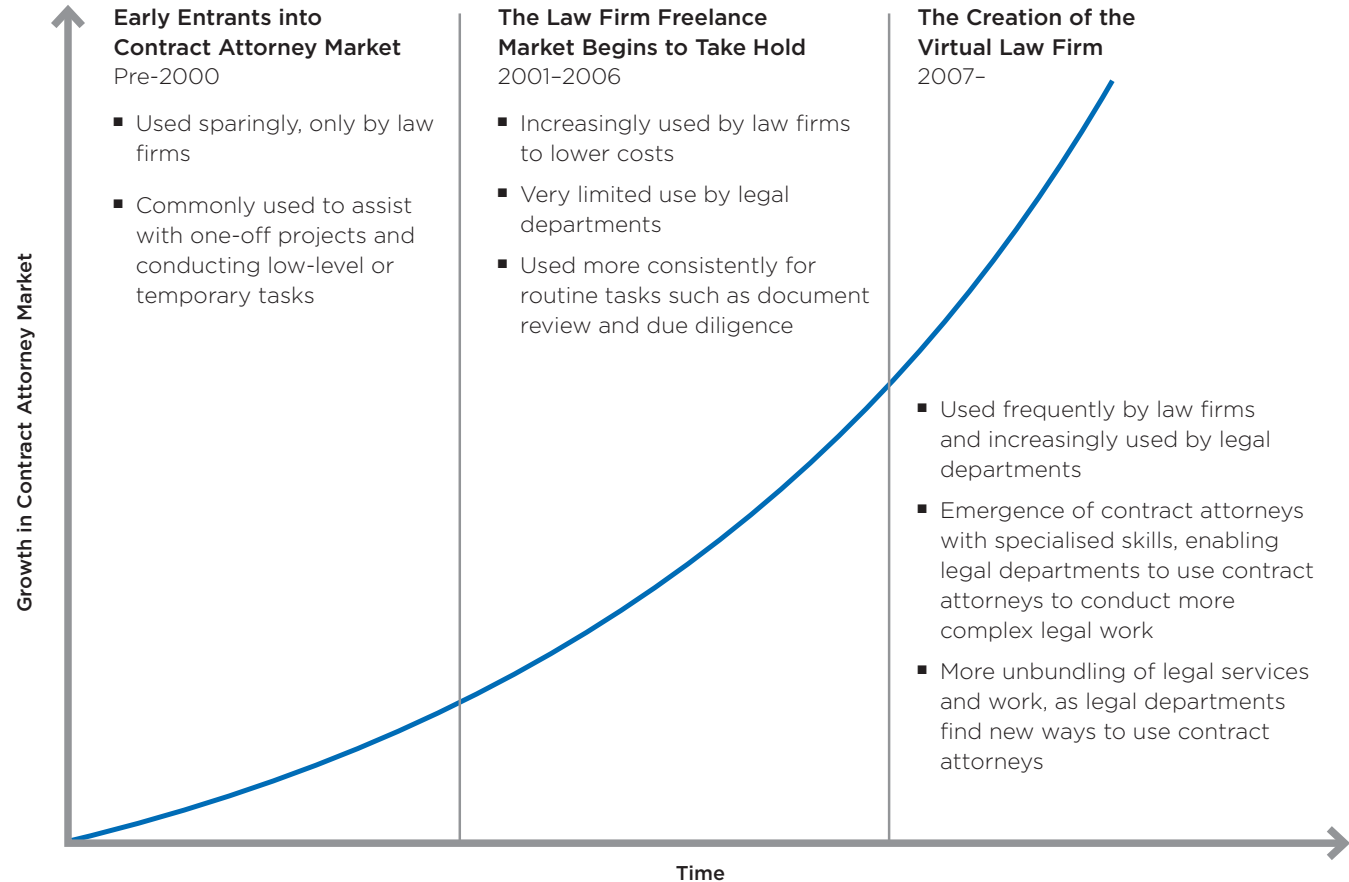
Source: GCR Law Firm Performance Management Survey, 2007.

While the contract attorney market has significantly matured, legal departments continue to underutilise this resource.

- While only about half of in-house counsel surveyed currently use contract attorneys, GCR research indicates that it ranks as the second most effective cost savings strategy behind sending work to lower-cost law firms.

CONTRACT ATTORNEY MARKET: MORE EXPERTISE THAN EVER

Contract Attorney Market Growth
Illustrative



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