DUVAL & STACHENFELD LLP®

15 YEARS

15

YEARS

Letter to Attorneys, Clients, Employees and Friends From the Managing Partner

October 2012

Dear Attorneys, Clients, Employees and Friends:

This letter has been written – along with our Fifteen Year Commemorative – in late August of 2012. In just about 45 days Duval & Stachenfeld LLP **("D&S" or the "Firm")** will be 15 years old – an amazing feat, to be sure.

We will have survived many ups and downs. We will have survived the Great Recession. We will have weathered many events, including severe disruptions to our business. Yet we will have chugged along.

Ultimately, the reason we are still here is very simple. We have a reason to exist. And our reason is our Hedgehog Principle. This Hedgehog Principle is described in more detail in the following Commemorative. I will just say here that its essence is that we truly care about our clients and our lawyers and our staff – and it is not just because these parties bill hours or pay us money – there is something a lot more important to these relationships than that.

Yes – strange as it may seem – and despite our being many times discouraged by others from this concept (of "caring") as impractical or worse – we have built a law firm based on this theme as a guiding principle. And this is what makes the Firm a special place, and a place that is different from other law firms. This is what keeps our critical assets – our attorneys, our clients and our staff – at the Firm. People – all kinds of people (even tough, hard-nosed clients and analytical and cynical attorneys) – like being cared about.

Most importantly, when challenged – even by the devastating effects of the Great Recession – we did not give up our reason to exist. If we had done that, and even if there were still a law firm called "Duval & Stachenfeld," it would merely be a husk, a shell, of what we are really all about. D&S without its Hedgehog Principle is simply not D&S.

Instead, the Great Recession brought out the best in us, both individually and as a law firm. If it is true that that which does not kill you makes you stronger, then we are very strong now.

So I am proud and happy to announce that D&S is now fifteen years old!

This is an incredible achievement, as most businesses fail within a few years. But we at D&S think the Firm is just starting to hit its stride.

When we started the Firm – what now seems to me to be a long time ago – we did not have a lot of time to think about how things would turn out – we were too busy putting out fires (some of which are detailed in this Fifteen Year Commemorative) – however, if back at the beginning I had really taken the time to figure out what I would want for our future, I think I would have been quite pleased and fulfilled to imagine that our Firm would have been able to achieve even a fraction of the following milestones:

- **Close to 60 attorneys.**
- **One of the most respected and high-profile real estate departments in the world – with roughly 40 full-time real estate lawyers, an incredibly sophisticated practice, and major transactions not only in the United States but in many foreign jurisdictions as well.**
- **A litigation practice that has come into its own as a major force in the Firm and that has staked out a powerful niche in the market – one of the only law firms that can provide top-notch legal services on par with major law firms but at only a fraction of the cost.**
- **Practice areas in Litigation, Tax, Corporate M&A, Bankruptcy and Business Reorganizations, Tax Exempt Organizations, Environmental, and Structured Finance.**
- **Over 50 different institutional clients.**
- **Some incredibly prestigious clients such as Angelo, Gordon & Co.; Credit Suisse; Deutsche Bank; Northstar Realty Finance; and Prada USA Corp; to name but a few.**
- **The almost unheard-of continuation of now a 15-year relationship with Angelo Gordon – one of our founding clients. The relationship is even stronger today than when we started the Firm.**
- **A scrupulously observed set of Values and Principles that are the bedrock of the Firm and that make our attorneys and staff eager and excited to work at the Firm and to go the extra miles for our clients.**
- **A firm culture in which attorneys at all levels (associates as well as partners) and administrative staff – participate in firm management.**
- **A company that is deeply loved by its lawyers, its administrative staff and its clients. It is hard to describe what it is but there is something special going on here and we all know it.**

As I reflect, I wonder to what we can attribute our great success. Is it luck? Is it hard work? Is it skill? Is it divine intervention? Or is it magic? I am sure it is some combination of the foregoing. In many ways I find myself mystified and

unable to unlock the reasons so I refer to it herein as **"DS Magic".** Some examples are the following:

How is it that our Firm has as its theme a focus on the happiness and fulfillment of the lawyers and staff as the most important thing, yet somehow our client service is unmatched?

How is it that our Firm works hard and has incredibly demanding standards, yet the attorneys who work here still love coming to work?

How is it that our Firm is able to (i) have its attorneys bill fewer hours on balance than the major firms and (ii) charge significantly less than the major firms (with billing rates roughly 75% of the major firms), yet still be as profitable as the major firms?

How is it that our Firm is only a small – and not really well-known – law firm, yet prestigious and respectable clients regularly trust the Firm to handle major and important matters on their behalf?

Why is it that clients don't leave the Firm once they become clients?

Why is it that we are the only real estate-focused law firm that we know of that has grown – and grown significantly – since the beginning of the Great Recession?

How is it that we were able to survive a 60% (no that is not a typo) drop in our top line during the Great Recession? Can any business really pull that off?

Maybe it is luck, hard work, skill, divine intervention or, indeed, just **DS Magic!**

Where does the **DS Magic** come from? Although there are lots of theories, I myself believe that our success comes very simply from our deep belief in our Hedgehog Principle and in our Firm Values:

- Do the right thing even when it hurts
- Incorporate honor, integrity and fairness into all aspects of our business
- Insist on plain unvarnished honesty in all matters
- Attack complacency
- Put the Firm first – our success depends on effective teamwork
- Ardent support for our Values and purposes
- Deliver outstanding service to our clients

I believe that if we adhere to our Values and Hedgehog Principle strongly and unswervingly then this creates an excellent place for our lawyers to work – a place where they can thrive and succeed. And if our lawyers are able to thrive and succeed in our hospitable and nurturing environment, which I believe is unique in the law firm world, then they will be delighted (yes, the right word) to go the extra hundred miles for our clients.

Our business goal was set early on in the Firm's existence and has not changed at all over time. It is as follows:

To be widely regarded as one of the premier law firms in the United States. Our success will be measured not only by our profitability, size and client base, but also by the depth of our clients' satisfaction and the loyalty and commitment of our attorneys to our Firm.

I acknowledge that we are not yet "widely regarded as one of the premier law firms in the United States"; however, I am comfortable that we are well along the way in achieving this goal. I, therefore, am extremely pleased with our first fifteen years.

Finally, whether it is **DS Magic** or not, there is no question that the reason we have succeeded is due to the support of our attorneys, staff and clients – that is for sure – without our lawyers, our staff and our clients there really is not much left of our Firm.

So on our fifteen anniversary I take this opportunity:

To thank our clients for their support
and
To thank our attorneys and administrative staff members for their excellent hard work and sacrifice.

I hope you all enjoy reading our Fifteen Year Commemorative – for many of our attorneys, staff and clients it is a walk down memory lane or maybe things you never knew about us that you will find quite interesting – you will see that very few of you actually know the whole story.

We look forward to doing our best to serve our lawyers, staff and clients in the future and creating even more **DS Magic** for all of you.

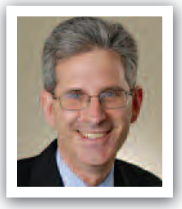
Sincerely yours,

Bruce M. Stachenfeld
Managing Partner

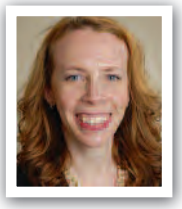
Magic Moments in Pre-D&S History

July 19, 1958 –
Bruce Stachenfeld is born.

November 4, 1959 –
Patrick Duval is born.



November 5, 1967–
Terri Adler is born.



1983 – Bruce graduates from Harvard Law School and starts work at Shea & Gould.

1986 – Pat graduates from University of Texas School of Law and starts work at Latham & Watkins.

1988 – Bruce comes to work at Latham & Watkins – he meets Pat and they play many rounds of darts in Bruce's office. A **Pre-DS Magic Moment!**

1991 – Bruce leaves Latham & Watkins and goes to work at Mayer, Brown & Platt.

1993 – Bruce and Pat start The Family Outdoor Amusement Corporation to develop family entertainment centers. They keep their shirts (barely) but lose everything else – the business fails in about 1994.

1996 – Bruce does his first deal for Angelo, Gordon & Co., L.P.

Spring 1996 – Bruce starts Shapiro, Shapses, Block, & Stachenfeld LLP.

1996 – Terri graduates from New York Law School and starts looking for a job as a lawyer.

August 1996 – Bruce interviews Terri Adler for a job. In a two-sentence interview, Bruce asks her, a bit rudely: "Are you smart? Can you type?" Terri takes the job anyway. A **Pre-DS Magic Moment!**

Sometime in 1996 – Bruce writes an early draft of a Statement of Values for a law firm. He is afraid to show it to his then partners. He does not realize that he has stumbled upon one of the most critical insights in the law world in probably over 50 years and, in fact, he does not realize it until many years later. Actually, Bruce has always said that the Values came from the angst and misery he had experienced for years at large firms – the sadness of seeing politics, turf wars and all that kind of "bad stuff" ruin the thrill of practicing law. A **Pre-DS Magic Moment!**

1997

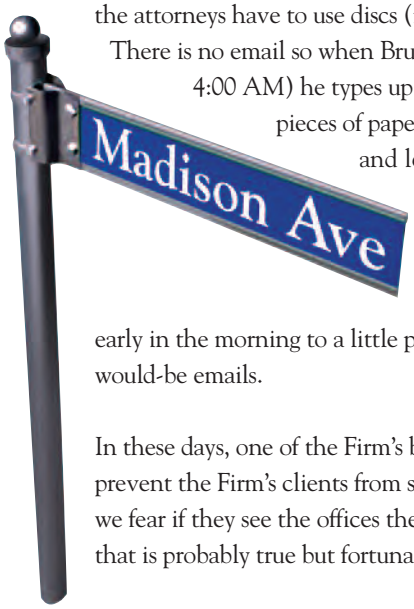
Throughout 1997 – Bruce and Terri work at an inhuman and ungodly pace of work at Shapiro, Shapses, Block & Stachenfeld. They handle over 50 separate transactions simultaneously somehow. The pace cannot continue.

July 1997 – Bruce vacations in Cape May. He and his family visit "the Lighthouse"- Bruce is afraid of heights and stays below. He calls Pat on his cell phone (that then weighed about 5 pounds). In a now-famous telephone call Bruce asks Pat to join him in starting a law firm. Pat just says one word – "ok" – and Duval & Stachenfeld LLP is conceived. Many still wonder why Pat would so easily go into business with the same guy who had cost him his shirt in a business venture only three years ago – but luckily for the Firm Pat did not reflect long on the decision. A **Pre-DS Magic Moment!**

Approximately September 1997 – Bruce announces to Terri that he is planning to start a law firm with Pat Duval – Terri thinks Bruce has lost his mind and tells him so in no uncertain terms. But she goes along anyway – someone has to rescue Bruce from disaster.

October 10, 1997 – D&S begins! Not much fanfare – no one knew it was a DS Magic Moment at the time – Bruce and Pat and Terri leave one job in which they are all working around the clock and move to temporary office space (at 575 Madison Avenue) where they are still working around the clock. **The first DS Magic Moment!**

575 Madison Avenue is not an ideal location – the power keeps blowing out – there is no network and the attorneys have to use discs (remember those?). There is no email so when Bruce gets in (at about 4:00 AM) he types up his thoughts on little pieces of paper, prints them out and leaves them on the doorsteps of Terri and the other lawyers – of course they love to come in early in the morning to a little pile of printed out would-be emails.



In these days, one of the Firm's biggest goals is to prevent the Firm's clients from seeing our offices – we fear if they see the offices they will fire the Firm – that is probably true but fortunately is never tested.

Incidentally the original partnership agreement of the Firm is a handshake between Bruce and Pat. It takes over three years before a partnership agreement is actually signed.

Throughout 1997 – despite our humble origins and small size, the Firm is blessed with several major real estate clients who direct major sophisticated transactional work to the Firm. The Firm (on the one hand) is small and unknown in temporary office space yet (on the other hand) is representing prestigious clients on major real estate transactions. Most prominent of these clients is the then not-that-well-known Angelo, Gordon & Co., which is an investment management company founded by ex-principals of L.F. Rothschild.

October 31, 1997 (circa) – Bruce – informally appointed as managing partner – calls the first firm meeting. Bruce, unprepared, panics and blurts out that the Firm is completely "____ed" (due to overwork) and suspects we will be more "___ed" in the future. Predictably, the remaining attorneys join Bruce in panicking.

November 30, 1997 (circa) – Bruce comes to work earlier and earlier – Pat leaves later and later. Then it happens – they meet in the revolving door – one coming and the other going. A metaphor for 24 hour coverage. **A DS Magic Moment!**

Sleep was not an option during the first year. Pat, Terri and Bruce think they averaged about two hours a night for close to two years with occasional long naps on weekends.

Early in its first year, the Firm almost folds over the most innocent thing you could imagine – we put an ad in the paper for a mailroom person. That put the Firm out of business when both of the Firm's (two) fax machines were blown out of commission for two full days clogged with thousands of resumes. Who could have foreseen that?

Bruce – in the middle of the work binge – panics at 4:00 AM Monday

morning and checks into a hospital thinking he is having a heart attack. Luckily he was not – it was "just stress" says the doctor. Bruce's wife is upset that the doctor was not more emphatic in telling him to slow down his pace of work.

1998

March 1998 – Eric Menkes joins the Firm as a non-equity partner in the real estate group. He becomes an equity partner several years later concurrently with the signing of the partnership agreement between Bruce and Pat.

April 1998 (circa) – Bruce circulates his early draft Statement of Values to the Firm's attorneys. The Firm's attorneys meet – en masse – to discuss them and adopt them as Values for the Firm. The Values are then put into a drawer.
A DS Magic Moment!

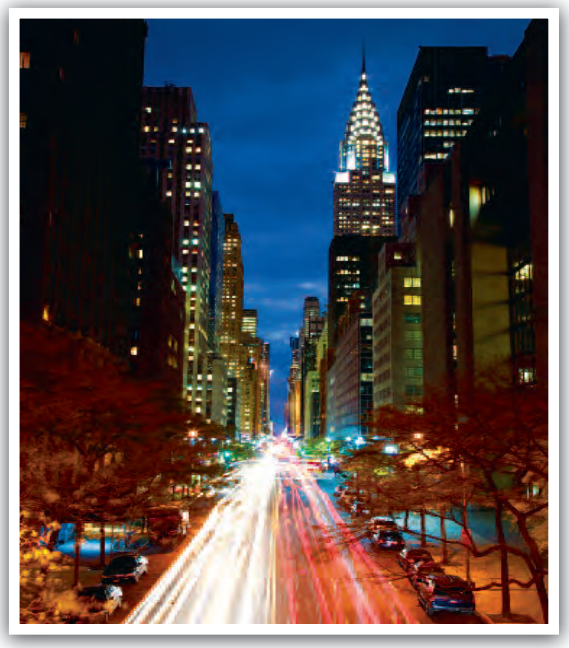
1998 – the Firm gains a reputation as a hot real estate boutique – despite its small size, the Firm is working on large and sophisticated real estate transactions largely for its two founding clients, Angelo, Gordon & Co. and ING Realty Partners.

June 22, 1998 – Clayton Nottleman accepts a position as a D&S real estate paralegal. Over the next 14 years Clay holds various positions at the Firm eventually rising to his current position as the Firm's Executive Director in 2005.

October (Columbus Day weekend), 1998 – the Firm has its first attorney outing at The Ritz-Carlton in Naples, Florida. There are 12 lawyers at the Firm. Themes of the prior year include (i) intense overwork, (ii) sweet happiness of team feeling (us against the world), (iii) being thrilled with our current success as the hottest small firm in the business, and (iv) plans and promises to get our work under control while continuing our success. The first outing is an incredible success and **a DS Magic Moment!**

Bruce states in his outing speech: "Things are pretty good. But let's never, ever, ever get complacent."

Pat mentions that if we don't grow at all and it is just "us chickens here next year" he will be quite happy.



November 1998 – the Firm represents Angelo Gordon in purchasing a portfolio of properties including New York City's Chelsea market.

December 30, 1998 (circa) – the Firm moves from its initial temporary office space to The Chrysler Building – taking a sub-sub-sub-sub-lease for 18 months. The windows leak cold air in the winter and hot air in the summer – but it's home!

We are proud of our new offices, however, in the first client meeting at the new offices (a midnight meeting on December 30th) we all march into the "new round room" with a pre-existing table and chairs from the prior tenant. When we all sit down the wheels fall off two different chairs and two separate clients hit the floor – to the amusement of all and the embarrassment of Bruce.

December 1998 (circa) – the Firm has earned a reputation as an extreme sweatshop. Bruce is known as a "maniac" over-worker, thereby setting the reputation of the Firm. The lawyers briefly come to their senses and have an all-hands meeting. Do we want to continue working this hard or start turning work away? All lawyers - partners and associates – say "Heck no!" The attorneys go back to work.

Throughout 1998 – the Firm has its first comeuppance – no one wants to come to it! The Firm gave a party and nobody came. The Firm is caught in a quandary – it has sophisticated clients doing sophisticated transactions so it needs superstar associates and partners; however, these parties are reluctant to leave the safety of the large law firms. So the overwork of the Firm's lawyers increases and, indeed, intensifies.

1999

Early 1999 – in the midst of an economic boom, the Firm acquires a bankruptcy practice. Bruce trumpets about how we are thinking ahead and buying into bankruptcy when it is a dead practice area.

March 1999 – Craig Brown joins the Firm in the real estate group as an associate. He becomes an equity partner of the Firm in the summer of 2001 (at the same time as Terri).

1999 – the Firm (i) represents Jamestown in the largest real estate transaction in New York for 1999, (ii) represents ING Realty Partners in a 26 property acquisition, (iii) represents Angelo Gordon in acquiring the Montgomery Ward buildings in Chicago out of the Montgomery Ward first bankruptcy, and (iv) becomes (informally) exclusive counsel for all of Angelo Gordon's real estate work nationwide. Angelo Gordon is by this time rapidly growing and becoming an important name in the real estate industry, so this is no mean feat.

Company News

Duval and Stachenfeld LLP represents Jamestown in the largest real estate transaction in New York!

October (Columbus Day weekend), 1999 – the Firm has its second outing at The Ritz-Carlton in Naples, Florida. There are now 16 lawyers at the Firm. The phrase "The little firm with big clients" is adopted as a slogan, however, it fades away.

During the 1999 outing the Firm moves out of the Chrysler Building to 300 East 42nd Street. Incidentally, the law firm that handled Exxon's work arising from the Alaska Valdez disaster is the prior tenant and some of us actually glimpse Captain Joe Hazelwood sitting in an office when we tour the space.

Since for a few remaining weeks the Firm is still the tenant on the lease at the Chrysler Building through year-end, we dress up the space for an awesome farewell Christmas party. **A DS Magic Moment!**

End of 1999 – the Firm's gross revenues rise by almost 50%. The Firm's profits also rise by almost 50%. Attrition is extremely low. The Firm begins to believe its own press that it is anointed as the "hot" firm for the ages. The sky is the limit!

2000

February 2000 – the Firm has a big inauguration party for all of its clients and surprises even itself by the large attendance. D&S has arrived! **A DS Magic Moment!**

Early 2000 – the Firm determines to obtain an image consultant to raise its ….."image" as a cool place to be. The idea fades away after some early enthusiasm when the consultant makes it plain that she just can't stand Bruce.

During 2000 – the Firm adopts the following "message":

"Innovative Business Lawyers Representing High-Quality Institutional Clients In Major Capital Markets Transactions"

The message fades away pretty quickly and is not remembered very long.

During 2000 – The Firm is established as one of the premier real estate firms in New York City.

The Firm's bankruptcy practice explodes – the Firm is now not only "hot" in real estate but also in bankruptcy.

A litigation department is added.

Over 30 new clients are obtained, many institutional in nature.

For the first time, associate hours get "under control" – belying the Firm's sweatshop image.

The Firm is responsible for the Montgomery Ward real estate transaction in Chicago (one of the most high-profile real estate transactions in the country).

During 2000 – the Firm establishes various committees including an Associates Committee – a tradition Bruce and Pat learned about in their days at Latham & Watkins. This committee – of both associates and partners – is responsible for associate matters including compensation, reviews and promotion.

In addition, the Firm establishes as a tradition, that all other committees (other than the Management Committee) will have associate representation on them.

September 2000 – Todd Eisner joins the Firm in the real estate group as an associate. He becomes an equity partner of the Firm in January of 2004.

October (Columbus Day weekend), 2000 – the Firm has its third outing at The Ritz-Carlton in Naples, Florida. There are now 22 lawyers at the Firm. Bruce, being a creature of habit, is happy to go back to the same place forever, however, Terri, Pat and the other partners are getting restive and looking for a change. At the outing, some of the themes are:

The prior year was extraordinarily successful and, although announcing continued success can be boring, boredom is something we could all get used to. The lawyers feel kind of happy and pleased – basking in the glow of being "the hottest little firm in the city".

Bruce suggests that 2001 looks like an amazing year (and at that time it did look that way). We were poised to reap the benefits of being a "countercyclical" law firm. We had prepared for a downturn with – low overhead – real estate clients that thrived on distress – a hot bankruptcy practice – and a hot litigation practice. Of course things don't always turn out the way you plan. We planned to be 40 lawyers by the end of 2001.

Also continuing a trend, Bruce continues to rail against complacency – pointing out that the day we take our victory lap is the day the end begins.

December 2000 – for the second year in a row the Firm pays associates the highest bonuses in New York City (other than those paid by Wachtel Lipton). This is picked up by the New York Law Journal and results in a front page headline touting the Firm as the highest paying law firm in New York City. Shortly thereafter a major article is written about the Firm in the New York Law Journal. Among other things, the article mentions the Firm's extraordinary work ethic. A client mentions, "They are to a man and a woman the most responsive lawyers I've seen. They don't seem to sleep. They're available at any time of day. As a firm, Bruce has probably bred that". Pat tells Bruce "you're famous!" Suddenly resumes start to pour into the Firm – people have heard of us! **A DS Magic Moment!**

December 2000 – despite paying associates record compensation, the Firm has record profits per partner of $865,000, making the Firm the 14th most profitable firm in the country.

Yet – most excitingly – for the first time – the lawyers in the Firm get control of their hours. The overwork subsides and hours begin to become more reasonable. The public persona of the Firm as a horrible sweatshop is still there, however, internally, the lawyers are feeling a lot better about work demands.

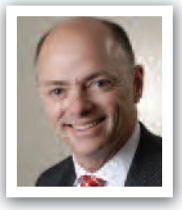
2001

January 1, 2001 – the new year begins – this is a dramatic year in the world (as all can remember) – encompassing 9/11, the implosion of the stock markets and the economy falling into a recession. Remember all those rosy predictions from as recent as the outing only 3 short months ago? The year turns out well for the Firm nonetheless; however, the Firm's success begins to erode, although it is not noticed until (almost) too late.

Early 2001 – the Firm represents Angelo Gordon in acquiring the remaining real estate in Chicago out of Montgomery Ward's second (and final) bankruptcy.

March 2001 (circa) – the year starts with a bump when the entire bankruptcy group leaves the Firm for another firm – and this at the moment when bankruptcy is the hottest law business – and at the worst possible time – the Firm (which has positioned itself as countercyclical) is now bereft of a bankruptcy practice at the moment it is needed most of all. The Firm, a victim of its success, finds its bankruptcy practice a juicy morsel for a large firm. The headhunter that lures away the bankruptcy group indicates that the same large firm would be pleased to acquire the remainder of the Firm – Bruce replies that he would "rather go to the dentist than be acquired by that firm". Maybe this is a **DS Magic Moment?**

Despite momentary panic, the remaining attorneys discover that they are still busy and the world has not ended. They go back to work and within 90 days the Firm hires two new bankruptcy partners and the problem recedes into history. Not a single other attorney departs when the firm hits this speed bump – all stay with the ship.



June 2001 – Kirk Brett joins the Firm as an equity partner and as head of the Firm's rebuilding bankruptcy department.

Summer 2001 – virtually all of the new economy clients – which had been the mainstay of business for the Firm's corporate department – go bankrupt. The corporate department is left mostly bereft of clients.

Summer 2001 – Terri is elected as an equity partner of the Firm after only being out of law school for 5 years. This is still a speed record for promotion at the Firm.

September 11, 2001 – 9/11 occurs. Despite the tragic events that transpired on this day, the Firm is extremely lucky in not suffering casualties. The Firm bonds together and stranded lawyers who live in the suburbs stay in the apartments of the attorneys who live in New York City.

After 9/11 – the Firm has firm lunches almost every day. The lawyers join these lunches (virtually 100%) drawing comfort from their own company.

Remainder of 2001 – despite a general slowdown in the business world, the Firm (being recession-resistant) keeps busy for the remainder of the year and ends up having a record year. Although it is not apparent by the end of 2001, the Firm 's business begins a significant slowdown that starts to hit hard in 2002.

Early October 2001 – The Firm's outing is coming up, but the Firm's attorneys are worried about travel shortly after 9/11. Pat and Bruce consider cancelling the outing. They ask for input from the other attorneys – virtually every attorney responds immediately with words to the effect of "Don't cancel the outing – don't let the terrorists win!" The outing is not cancelled.

October (Columbus Day weekend), 2001 – the Firm has its fourth outing at The Ritz-Carlton in Key Biscayne, Florida. The recent occurrence of 9/11 and the fact that it is The Ritz-Carlton in Key Biscayne's opening weekend, give the outing a surreal feeling. Going to Key Biscayne is a break with tradition – over Bruce's desire to go back to Naples (which takes him another 6 years to realize).

The theme for the outing is recognition of the fact that the Firm is strong and healthy in its core – being able to glide over speed bumps like the loss of its bankruptcy practice.

At this momentous outing – a **DS Magic Moment** for sure – Bruce discovers the book, Built to Last, by Jim Collins. This book discusses "visionary companies" – i.e., companies that are "built to last" (sort of like General Electric Corporation). Among other things, Jim Collins says that visionary companies have "Values". Since the Firm has Values, Bruce is immediately convinced that the Firm must be a visionary company. He goes racing off down the beach to find Pat and Terri to tell them about it – sort of like Archimedes (who ran naked through the streets shrieking about the principle of displacement of water that he had learned in his bathtub-although, luckily, Bruce kept his bathing suit on). To this day, Bruce says "it really was one of the most exciting moments of my life – I always hoped we were on to something – but that book really validated it for me."

Later in 2001 – Pat reads Built to Last and agrees with Bruce that we are indeed on to something. The book becomes mandatory reading for all attorneys at the Firm.

December 2001 – the Firm continues its trend by paying the highest associate salaries in New York City for the third year in a row. The Firm has a record year in profitability and surpasses all but a few major law firms in profitability measures.

2002

2002 begins – but almost immediately things start to go wrong. Although January is a record month, business plummets almost immediately thereafter.

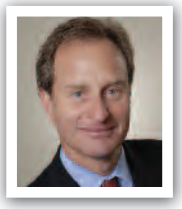
February 2002 – the downturn begins. The Firm is down – incredibly – over 50% from the prior year. The partners discuss whether the Firm needs to lay off associates. The partners consider the Firm's Values in the process and determine that, instead of laying off attorneys, that (i) the partners will forego draws and (ii) all lawyers will take a pay cut. The Firm decides not to terminate any attorneys. **A DS Magic Moment!**

March 2002 – the Firm announces its decision and the attorneys celebrate by throwing a party that evening. Morale improves dramatically.

March 2002 (the next day) – the Firm's entire litigation department departs for another firm, which pushes back down the morale that had briefly built up the day before.

Mid-2002 – the Firm's poor year continues, although business improves just a little. Although associate salaries are restored to "market", profits per partner are expected to be cut in half or even worse. The partners think about whether to cancel the firm outing but decide that we all need the outing more in a down year than an up-year. We decide to go back to The Ritz-Carlton in Key Biscayne.

Mid-2002 – the partners of the Firm conclude that their poor marketing efforts have contributed to the Firm's downturn – we became complacent – no two ways about it. At a firm meeting, at Bruce's request, all attorneys stand up and ritualistically "kick the butt" of the attorney standing next to him/her to get us revved up. Luckily, no lawsuits are filed as a result of this; however, when the Firm's employment lawyer hears about this she asks Bruce "Are you out of your _____ing mind!"



August 2002 – Allan Taffet joins the Firm as head of the Firm's then-nascent litigation department. Allan is in the midst of preparing for a trial and apparently decides he cannot wait for the formality of an actual offer from the Firm; instead, he makes arrangements to transfer his office, files and clients to his new firm before he actually receives an offer. Bruce and Pat find out about this and, despite being a little surprised, conclude "what the heck, we were going to make him an offer anyway."

So Allan comes aboard. He becomes an equity partner of the Firm in 2005.

Mid-2002 – the Firm's attorneys start work in earnest on re-working the Firm's Values – this is a process that continues into 2004 before it is completed.

September 2002 – Scott Katzman joins the Firm as a member of the administrative team. Scott later becomes the Firm's Administrative Financial Manager. In the winter of 2007, Scott debuts his off-Broadway show which he wrote, produced and starred in, to an audience filled with D&S faces.

October (Columbus Day weekend), 2002 – the Firm has its fifth outing at The Ritz-Carlton in Key Biscayne, Florida. Bruce – seeking great fame – tries to name his outing speech and calls it the "Any Idiot Speech". His point is that "any idiot" can recite Values and positive things when times are good – it takes a much tougher person (or firm) to believe in them when times are bad and Values are being tested.

December 2002 – the year finally ends. It is indeed a horrible year economically for the Firm's equity partners, as their compensation falls by over 50% from the prior year. However, even though attorney billable hours are extremely low, the Firm nonetheless continues its trend of paying its associates at the top of the market – and makes up for the mid-year belt-tightening with large year-end bonuses. In the end, only the equity partners bear the brunt of the downturn. No equity partners leave the Firm. Most importantly, the attorneys at the Firm realize – on a deep level – possibly for the first time – how much the Values really matter. It was what held the Firm together during its downturn, as bonds forged in blood are strong indeed. This realization about the importance of the Firm's Values - although not taking place in a "moment" – is in effect a **DS Magic Moment** that occurs over time.

2003

January 2003 – the year begins. Business starts to improve. Things start to look up. The equity partners have a dinner (and more than a few drinks) to put 2002 behind them and go back to work building the Firm.

During 2003 – the Firm is responsible for two of the largest real estate deals in New York City, one of them being the sale of the Chelsea Market, and the largest deal in Hawaii, the sale of the Waikiki Galleria.

During 2003 – the Firm continues the process of negotiating the Firm's statement of Values and business strategies. But the process drags on into 2004.

October 2003 – the Firm starts an "opportunity associate program". This idea is broached with trepidation as it is radical and new. The idea is to hire first year associates at drastically reduced salaries who would not otherwise be hirable by the Firm and then provide an opportunity for both the associates and the Firm if the opportunity associates succeed. It also permits the Firm to provide legal services at a reduced rate as the major law firms are locked in a price war that results in astronomical salaries for first year untrained lawyers. The program starts slow but then takes off in future years as it identifies numerous star performers.

2003 – Overall, this was kind of a boring year for the Firm – not much happened. Indeed, no-one can seem to remember much about this year.

October (Columbus Day weekend), 2003 – the Firm celebrates its sixth outing at the Four Seasons in West Palm Beach, Florida. The Firm is 33 lawyers and we are doing quite well again. Everyone is delighted that 2003 is better than 2002 and the "flywheel" (referenced in Built to Last as the lynchpin of a visionary company's engine room) is starting to really turn now.

December 2003 – the year ends quite successfully for the Firm, however, as noted, no one seems to remember much about this year.

Company News

The firm is responsible for two of the largest real estate deals in New York City, the sale of Chelsea Market, and the largest deal in Hawaii, the sale of the Waikiki Galleria.

2004

January 2004 – Craig gets his private pilot license despite Bruce's vehement objections.

April 2004 – After hundreds (thousands even?) of hours of negotiation and drafting the Firm's Core Ideology, Core Purpose and Statement of Values, the task is finally completed. The lawyers – en masse – partners and associates –

ratify the Firm's statement of Values. The lawyers – without the slightest degree of humbleness –believe it is one of the greatest documents ever drafted for a law firm. An incredible **DS Magic Moment** for sure!

All of the attorneys realize that just adopting the Values will mean little if we don't live the Values – if we don't live up to them then they will just become "words on a page".

The Firm's official business goal – as stated in its Core Purpose – is now:

"To be widely regarded as one of the premier law firms in the United States. Our success will be measured not only by our profitability, size and client base, but also by the depth of our clients' satisfaction and the loyalty and commitment of our attorneys to the Firm."

The Firm adopts the following Core Values as an immutable and unchangeable part of the Firm's culture:

- Deliver outstanding service to our clients
- Incorporate honor, integrity and fairness into all aspects of our business
- Insist on plain unvarnished honesty in all matters
- Attack complacency
- Put the Firm first – our success depends on effective teamwork
- Ardent support for our Values and purposes
- Do the right thing even when it hurts

The firm's official business goal – as stated in its Core Ideology – is now:

"To be widely regarded as one of the premier law firms in the United States. Our success will be measured not only by our profitability, size and client base, but also by the depth of our clients' satisfaction and the loyalty and commitment of our attorneys to our firm."

October (Columbus Day weekend), 2004 – the Firm celebrates its seventh outing at The Ritz-Carlton in Key Biscayne, Florida.

The Firm is 33 lawyers. The lawyers now strongly believe in the success of the Firm not because business happens to be on an upswing, but because of their belief that the Values will steer the Firm in the right direction in the future.

December 2004 – the year comes to a close – the Firm has a record year by almost all metrics and is one of the most profitable firms in the country. Instead of being the firm no one has heard of or wants to come to, resumes are pouring in – the Firm resumes its place again as a "hot boutique".

2005

February 2005 – Timothy Pastore joins the Firm in the litigation department as part of the Firm's new Opportunity Partner program. The program is designed to hire partners with great pedigrees and with high hopes of success but no proven business at very low base salaries with the view that the partner and the Firm will build the success together. Tim becomes a major success story for the Firm in that he is promoted to full non-equity partner on January 1, 2006 and becomes an equity partner of the Firm at the beginning of 2009.

July 2005 – the Firm opens an office in Las Vegas, Nevada. The office is not successful, largely because the Firm is unable to attract star quality lawyers, and is eventually closed in November 2007.

Summer 2005 – The partners learn that the annual gift of wine they have been giving their clients is of very low quality. The way they learn it is kind of depressing in that some of the Firm's clients (apparently out on a night on the town) leave Bruce a pointed and poignant voicemail comparing the wine to, well, not good other liquids. The partners are embarrassed. To prevent future recurrences, a wine committee is created to make sure that this does not happen again. The committee adopts the slogan "We will leave no wine untasted…." Clients regularly report that the Firm's wines are excellent – indeed, the Firm 's day is made when a wine connoisseur client orders a case for himself for his wine cellar.

August 1, 2005 – Caitlin Velez joins the Firm as an administrative assistant/paralegal. In 2007 she becomes the Director of Marketing and Client Relations for the Firm.

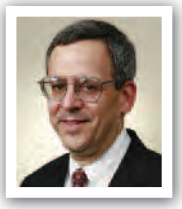
October (Columbus Day weekend), 2005 – the Firm celebrates its eighth outing at The Ritz-Carlton in South Beach, Florida. The Firm is now 35 lawyers.

December 2005 – the year comes to a close with the Firm having another record year. Amazingly, **DS Magic** provides for the highest profits the Firm has ever had with the lowest billable attorney hours the Firm has ever had. The Firm is achieving its goals.

2006

March 2006 – the Firm opens an office in Los Angeles, California, when one of the Firm's real estate partners agrees to move from New York to Los Angeles. Although the office continues for five years, it is not that profitable. When the Firm's remaining California associate quits to go in-house in 2011, the Firm decides to close the office and stick with one office in New York City.

March 20, 2006 – the Firm also launches an environmental law practice when Andrew Stephenson – an environmental law expert – joins the Firm.



August 1, 2006 – David Samuels, the former Deputy Chief of the New York Attorney General's Charities Bureau, joins the Firm to commence a practice in the not-for-profit area. David starts as a non-equity partner and becomes an equity partner in the Firm at the beginning of 2008.

September 2006 – The Firm establishes "DSU" (Duval & Stachenfeld University) – a training and orientation program for associates and partners who join the Firm. The curriculum includes – in addition to training for junior lawyers – courses in Firm history and Values for all lawyers who join the Firm.

October (Columbus Day weekend), 2006 – the Firm celebrates its ninth outing at The Breakers in Palm Beach, Florida. The Firm is now 38 lawyers. At the outing Bruce puts forth a "Big Hairy Audacious Goal" – BHAG – (a concept from Built to Last) that includes increasing gross revenues by 50% in 2007 without increasing billable hours beyond the target hours. He also puts forth a goal to run the Ironman in Kona, Hawaii shortly after next year's outing.

October 24, 2006 – Terri has a baby – this is historic as it is the first time a practicing attorney at the Firm has had a baby. Her last words to Bruce (at 7:30 the night before) are "I can't possibly have this baby; I am much too busy" – scarcely eight hours later she sends Bruce an email "I think I'm in labor!" Her temporary (2 1/2 month) departure feels like many years to the rest of the real estate group, which can't wait for her to come back. She returns in early January.

December 2006 – the Firm has a "decent" year relatively on par with 2005, but "nothing special"- hence the desire for the BHAG.

2007

First half of 2007 – the year begins with a bang –the attorneys work to bring in more business to achieve the BHAG. With the five attorneys hired in September, the firm is now a 50 lawyer firm for the first time.

The Firm's opportunity associate program is in full swing as the firm hires 10 opportunity associates in two waves – the first wave in March and the second wave in September.

As the "subprime mess" becomes front-page financial news: (i) the Firm's litigation group represents one of its institutional clients in filing a bevy of six subprime cases against loan originators and (ii) the real estate group represents one of its institutional clients in making investments in troubled assets and/or subprime portfolios.

The Firm represents Angelo Gordon in the sale of the Montgomery Ward buildings, ending an eight-year multi-billion dollar transaction process which is one of the largest transactions in Chicago.

October (Columbus Day weekend), 2007 – the Firm has its tenth anniversary outing at The Ritz-Carlton in Naples, Florida, fulfilling the goal of some of the partners in returning to the location of its first three outings – its theme is **"Ten Years of DS Magic".** And, yes, if you read ahead, the theme for the fifteenth anniversary will be "Fifteen Years of DS Magic."

Bruce arrives at the outing a week early to finish his training for the Kona Ironman. At 4:00 AM the morning after the outing, Bruce leaves for Hawaii to compete in the Kona Ironman. Terri (now about six months pregnant – again!) accompanies him. And, yes, if you are wondering, Bruce does successfully stagger over the finish line. Terri – watching the race – sends an email to the rest of the Firm at about midnight, Hawaii time:

"In case you didn't already hear – Bruce finished the Kona Ironman race on Saturday. His final time was 15:48:33 and his position was 1635. I think those have to be confirmed – but that is what is on the tracker. The temperature was insane (over 90 degrees) and the bike ride had a headwind both going out and coming in (completely unfair if you ask me). Don't

even get me started on the marathon. I have no idea how he did it."

Years later Bruce is still bragging about it – how do you think this paragraph got into the Firm's commemorative?

2007 is just about a "perfect" year for the Firm – and its lawyers and its clients. Some highlights include:

- 33% growth in lawyers to 50 lawyers.
- Yet, incredibly, a drop in overhead per lawyer.
- Revenues up an amazing 55%.
- Profits per partner soar from about $900,000 to $1,500,000 (making the Firm one of the most profitable firms in the world by this metric).
- Record bonuses are paid to attorneys (higher than the major law firms) and to staff.
- Yet – stunningly – this is with overall billable hours at a very reasonable and acceptable 2000 hour pace. And – just as stunningly – this is with keeping billing rates at roughly 75% of the rates of competitor major law firms.

This was the ultimate win/win/win/win – the partners won – the lawyers won – the staff won – and the clients won (with lower billing rates). We all realize fully what an incredible competitive advantage it is for a law firm to have low overhead. When all the waste is taken out of the law business there are a lot of excess dollars that can go to lawyers, staff, partners and clients. 2007 – the whole year – is a true **DS Magic Moment.**

DUVAL & STACHENFELD LLP®

A diversion from this Commemorative is needed to understand how important the Duval & Stachenfeld Hedgehog Principle is. The concept of the Hedgehog Principle comes from Jim Collins's famous book Good to Great. His theory is that a hedgehog has only one trick (curling into a ball with prickles sticking outward when attacked) and it gets really good at that trick and hones it to perfection. Collins believes that truly great companies that are "built to last" figure out the one thing they can be great at and hone it to perfection. To be a true Hedgehog Principle, Collins believes:

It must be something you are passionate about.

It can be something you can be the best in the world at.

It must be something that drives your economic engine.

And then we have added:

It must be something you discover about your company that is already there – it cannot just be decreed.

Does the Firm's Hedgehog Principle satisfy these tests? We think so:

Are we passionate about it? We certainly are that.

Does it drive our economic engine?

The answer here is that a law firm has only its lawyers, staff, and clients – there isn't much else. We think that the genuine caring that goes on here creates loyalty from our attorneys and staff as the feeling of being cared about is one of the most basic human needs. It is what creates in our people a desire to stay at the Firm and devote passion to their service of our clients. We also think that this creates loyalty from our clients, who know they don't need to worry because people who really care about them are looking out for them.

Are we the best in the world at it?

That is probably not a reasonable statement to make across all professions, but we think we are very good at it in the legal industry and hope that will be enough.

Due to our Hedgehog Principle, we adopt a hedgehog as our mascot. Our hedgehog appears in our logo, on our letterhead and in many other locations (including, for example, our Hérisson Collection wine – i.e., "hérisson" means hedgehog in French). It is a deliberate reminder of what we stand for and strive to achieve every day.

Ultimately the hedgehog is our reason to exist. Now, back to the Commemorative and our history.

December 2007 – the Firm's Hedgehog Principle is discovered. Bruce first starts thinking about it during Terri's maternity leave (when he is working his own insane job plus Terri's, so he is never home, working round the clock, stressed, miserable, angry at everyone and everything, and feeling very depressed). He calls his wife because he feels guilty that he is neglecting her and tells her what a great wife she is for putting up with all this and how much he misses her. She is really pleased to hear all this. Bruce finds himself whistling happily all of a sudden. And the Firm's Hedgehog Principle is born!

It takes a lot of discussion after this – at all levels of the Firm - but the Firm's partners realize that the core of what is special and different about the Firm is that the attorneys and staff genuinely derive happiness from making others happy. Accordingly, the partners vote to ratify the following principle as the Firm's Hedgehog Principle:

The Duval & Stachenfeld Hedgehog Principle is a reminder to ourselves and to our clients that our firm has been successful because we genuinely care about our lawyers and our clients and our staff. This is not just because our clients pay us money and our lawyers bill hours, but because there is something more; because these parties are people we genuinely care about.

End of 2007 – the world was truly our oyster…..clear skies ahead….what could go wrong….?

What a difference a half a year can make! The wintry winds of the Great Recession began to blow. Real estate work ends for roughly a year. The Firm, with real estate as its core practice area, is not immune. Incredible challenges beset the Firm and its survival is threatened like never before.

Ultimately, the Great Recession was our friend. But first it tested us to our core like we had never been tested before.

2008

April 1, 2008 – Terri, just in time for the Great Recession, returns from her second (and final, the real estate department hopes?) maternity leave and becomes sole head of the real estate department. The real estate department has over 20 lawyers in it and, without calculating Terri's age (which you could do if you go back to Page 1) Terri is easily the youngest lawyer ever appointed to head a major real estate department in New York City. Terri describes her ascension to this role – and Bruce's stepping down – as "a bloodless coup." As consolation, Bruce still gets to run the Firm.

First half of 2008 – it is actually pretty good for the Firm. Despite 2007 being a blowout year, the Firm is ahead of 2007 for the first half of 2008. The lawyers are busy, mostly because clients that had foreseen the upcoming calamity are hurriedly selling assets into the storm. Business is strong through roughly the end of June, and then the storm hits.

Business and legal work for the Firm's core transactional practices (real estate and corporate) falls in the following months – down, down, down, down……: July, August, September, October, November, December, January and February.

Every month is worse than the prior month. Major law firms see business drop on the order of 5% to 15%

and their public lamentations are heard everywhere. Well, try having your revenues drop 60% and see how you like that! That is what happens to the Firm. Revenues fall an unimaginable 60% between July of 2008 and February of 2009.

How many companies could survive a downdraft like that? We know of one company and that is D&S. We did not realize it but the recession was a **DS Magic Moment**, but it surely didn't feel that way.

July 2008 – At first things are merely worse than the prior month. It isn't until about October that it becomes apparent that there are an awful lot of lawyers just sitting around and doing nothing except collecting a paycheck. Most law firms would have made the obvious decision – fire those lawyers!

September 2008 – At a meeting of associates, Bruce is asked an awkward question by an associate. She says:

"Bruce how many associates would need to be fired in order for there to be the right amount of work for the remaining associates?"

Bruce – without thinking – and being "plainly, unvarnished-ly honest" (one of the Firm's core Values) responds quickly:

"All of them."

That was not the best meeting.

October 2008 – the Firm actually has an outing – in a swanky location – The Breakers in Florida – but not for the reason you might think. We had paid for it a year in advance (i.e. 2007) when times were flush. So we just have to pay for some shrimp and breakfast and the outing is effectively free. So we go – why not have some fun.

At the Firm's outing, Bruce begins his annual address with a quote from the movie Batman Begins:

"Bruce – don't be afraid!" However we are all afraid – and rightly so.

Despite our intellects telling us that sooner or later things will improve, our emotions are running wild and it is hard to keep them in check.

2008 – by the way, some good things happen this year. These include:

The Firm creates its Hedgehog Committee, dedicated to spreading the Hedgehog Principle throughout the Firm, and outside the Firm, and to ensuring it will always be maintained at the Firm. Beth Turtz (with her big heart and love for everyone) is an easy decision to appoint as chairwoman of this committee and continues to chair the committee today.

The Firm's Wine Committee comes into its own by coming up with its own vintage that is exclusive to the Firm and given only to the Firm's clients. After a lot of discussion it is named The Hérisson Collection (this because "hérisson" means "hedgehog" in French).

The selection of a special stuffed "hedgehog" becomes standard issue for all employees at the Firm and is now given out to all new clients after their first matter is concluded.

The Hedgehog Committee introduces D&S Gourmet Chocolates with our hedgehog logo to be passed out to clients and guests of the Firm. But first, we have a grueling chocolate tasting in which everyone at the Firm is invited to taste from piles of chocolate samples and help select our chocolatier. RICHART chocolates is chosen and has been producing our chocolates ever since.

Brian Burns, a top-tier litigation partner from Dewey & LeBoeuf – returns to the Firm. Brian's unusual past includes joining the Firm as a non-equity partner in 2004 from Winston & Strawn – then leaving the Firm to join LeBoeuf Lamb in 2005 – and finally returning to the Firm in 2008. Brian is elected to equity partner at the beginning of 2010, and, after the recent travails of the ill-fated Dewey firm no doubt concludes that, ultimately, he made the right choice for sure.

The Firm's lease at 300 East 42nd Street expires and we have to move. The Firm gets an incredible deal – a truly incredible deal – to sublet space at 101 Park Avenue (an A+ building right next to Grand Central Terminal) for little more than a song. Among other things we pay zero rent in 2008 (which is a huge relief no doubt). We are in the right place at the right time as we are probably the only tenant in the city seeking space. Suddenly instead of having kind of unimpressive offices at an offbeat location on 2nd Avenue we are big time Park Avenue lawyers!

The leasing market is so moribund at this time of the recession that our little deal makes the front page of Crains New York Business. Signing this new office lease is as close to a **DS Magic Moment** as we could muster in 2008. We move into our swanky new offices in mid 2009.

December 2008 – as the year draws to a close, the Management Committee meets constantly trying to figure out a proper course of action. Some of these meetings include other partners. Some of them include informal meetings with associates. There is an obvious question:

Should we lighten the lifeboat by throwing some overboard or should we all stick together – what should we do?

This is complicated by the Firm's Hedgehog Principle and Values, which means we have to "do the right thing even when it hurts" and look out for the people that we care about.

Firm Management meets with the entire Firm every two weeks to tell people what is going on. Although there is a view that telling everyone the complete truth will panic people, we have an easy decision here. Our Firm Values require that information be freely given out and management feels that if we were in the shoes of others we would want to know what was going on.

So we just tell the truth. Every two weeks Bruce gets up in front of the Firm – the entire Firm – and says, effectively:

"Well things are awful and getting worse and at this point in time there is no end in sight."

An inspirational quote to Firm management is mentioned again and again from a Jim Collins article (Published in Fortune Magazine, May 5, 2008):

"When you've built an institution with Values and a purpose beyond just making money – when you've built a culture that makes a distinctive contribution while delivering exceptional results – why would you surrender to the forces of mediocrity and succumb to

irrelevance? And why would you give up on the idea that you can create something that not only lasts but also deserves to last? The best corporate leaders never point out the window to blame external conditions; they look in the mirror and say, "We are responsible for our results!" Those who take personal credit for good times but blame external events in bad times simply do not deserve to lead our institutions. No law of nature dictates that a great institution must inevitably fall, at least not within a human lifetime. That most do fall – and we cannot deny this fact – does not mean you have to be one of them."

Firm management also adopts the following very short recession plan to inspire everyone and keep ourselves focused:

- Keep the people who work here content and positive.
- Maintain our reason to exist.
- Maintain our sanity – enjoy the recession.
- Maintain relationships with our key clients.

Other than the part about enjoying the recession the Firm largely follows this plan.

The pressure on Firm management is intense. Management has to toe a line between telling the truth that, yes, things are awfully bad, yet at the same time be optimistic about the future. What other choice is there? To crawl into a hole and curl up in the fetal position is not a good option.

Yet the Management Committee still hasn't made a decision on what to do. Despite numerous meetings, some of which lasted pretty much all night, no decision has been reached.

Late December 2008 – probably the worst of the worst is a Management Committee meeting that starts in late December at a restaurant. The Committee talks and argues and negotiates so late they are eventually kicked out of the restaurant and go to another restaurant. That closes up too so they go to an all-night bar and that closes up too finally. The meeting results in almost all committee members at one time or another angrily storming out to walk around the block, but eventually coming back to the table. It does end with a group hug though. After the meeting Bruce drives home (at about 4:00 AM) and runs out of gas on the New Jersey Turnpike. He stops the car and calls for help and gets out of the car and looks up at the sky – pretty darned depressed – and feels like this has to be the lowest point. Things couldn't get that much worse could they?

December 31, 2008 – miraculously, we realize that the year isn't that bad economically. If you take half a year of blowout and add it to half a year of disaster you have overall a "blah" year. And in 2008 "blah" was a home run for a law firm largely focused on real estate handling real estate transactions!

Bonuses are paid to everyone and the Firm's profits per partner are still not far off from what they were before the boom year of 2007. Very importantly – no partner – not a single one – looks back at the huge profits of 2007 and concludes that the Firm now is toast. The partners realize they had been making a very decent living before 2007 and then enjoyed a blowout for a year or so and now are just back to normal.

2009

January 1, 2009 – we had survived 2008, but 2009 looms ahead of us. Work is still slowing every month in the transactional area. January looked like

it would be less than $1,000,000 in billings (down from over $2,500,000 last June). The fear of 2009 is palpable everywhere – it is touch and go whether the Firm will make it through.

The Management Committee finally reaches a decision on what to do. The decision is to try to retain virtually every employee at the Firm. Partner draws are cut down to almost zero. Salaries for non-partner attorneys and staff management are cut substantially (20% or even more). This is a "bet-the-company-decision" and we know it. If this were a poker hand, we are "all in".

And, sadly, we let go five junior associates. With the benefit of 20/20 hindsight there are some who think letting these junior associates go was a violation of our Firm Values. When pressed did we really "do the right thing even when it hurts?" There are others who believe that we did exactly what we should have done; namely, keeping layoffs to the barest minimum. Whatever the 20/20 hindsight interpretation of our actions, this is certainly not a DS Magic Moment.

Beginning of 2009 – with some luck and some skill and some fortitude we survive the recession by reason of the following:

First – our competition does a foolish thing (at least for real estate). At the beginning of 2009, to combat the falloff in legal work our competition actually raises billing rates, and raises them quite significantly, on the order of 10%. Although this probably is a wise move for major law firms, since their major litigation and corporate clients could afford this, it is very ill-timed for real estate clients, which had just been punched in the gut by the recession. We do the opposite – we lower our rates – just a little bit (about 2%) – but the point is made to our clients: "we are in the trenches with you." After these billing rate changes, the delta between what the Firm is charging and what other firms are charging becomes pretty much outlandish – we are almost 50% less! Many clients find this irresistible and we start to pick up new clients.

Second – our competition is much less judicious in firing real estate people. While we keep it to a bare minimum, the bloodbath and carnage at most other law firms is severe. First, all associates (and that means pretty much "all" associates) in the city are terminated. Second, almost all of-counsel and non-equity partners are terminated. And, finally, even some equity partners are terminated. Many firms decimate their real estate practices by 50% to 90%. We, on the other hand, when things start to improve, start to hire talented lawyers. We see a sea of talent, for the first time ever, and we start to scoop up excellent lawyers. We coin the phrase:

Our competition went on a firing spree.
We went on a hiring spree.

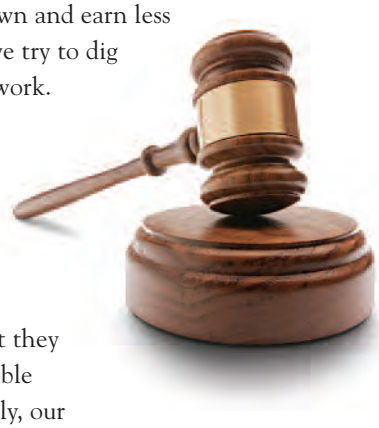
During the course of the Great Recession, and its aftermath, we are fortunate to have the following lawyers join the Firm from other major law firms:

- Charles Garner (corporate/M&A – from Simpson Thacher & Bartlett)
- David Horn (real estate – from Troutman Sanders)
- Michael Kupin (real estate – from Paul, Hastings, Janofsky & Walker)
- Sam Lee (real estate – from Thacher Proffitt & Wood)
- Bola Oloko (structured finance – from Sidley Austin)
- Zachary Samton (real estate – from DLA Piper)
- Richard Schulman (litigation – from Bryan Cave)
- Glenn Arbeitman (real estate – from Bryan Cave)

Third – we get lucky that our then-largest client, Angelo Gordon – starts to purchase real estate before almost any other players. They wade back into the market in the second quarter of 2009. Indeed, April 1st (April Fool's Day) of 2009 was our nadir. We look at our March results and they weren't that horrible. They were just terrible – not horrible. And like the Monty Python movie we were able to say:

> We're not dead yet!
> I think we could walk!

Fourth – we deserve some credit for planning ahead for a rainy day. We had been conservative all along. We had cash in the bank. We had incredibly low overhead. We had no debt. We had no long-term commitments at all. We had nothing to outsource. We had no administrative staff to fire, since there was always a skeleton crew. We really were a simple business. The lawyers really have no place else to go so we all just hunker down and earn less money while we try to dig up more legal work.



Fifth – our litigation department saves the day! Well not completely, but they post an incredible year. Amazingly, our litigation business doubles during the recession! Actually, it close-to-triples! This provides a tonic and much needed respite. It is the only thing going well. Transactional work is dead but litigation work is booming. While this is a fantastic development, unfortunately, litigation is only about 10% of the Firm before the recession. Even though it balloons to more than 20% of the Firm by the end of the recession, it is not enough to save the day alone; the Firm is simply too concentrated with real estate.

Second quarter 2009 – business starts to recover. And our flywheel starts to turn again. Slowly at first and then faster and faster.

> We get more clients
> The clients start to buy real estate again
> We get more lawyers

October (Columbus Day Weekend), 2009 – at the Firm's outing the attorneys punctuate Bruce's speech by dance-walking around the room and taking a true victory lap (to the sounds of Goin' Down The Road Feeling Bad by The Grateful Dead). We take a moment to give ourselves high fives. We had earned them. We had weathered the teeth of the Great Recession. This was bad enough in the general business world but a true Armageddon in the real estate world. Surviving the Great Recession, and a 60% drop-off in revenues, was possibly the greatest ever **DS Magic Moment.**

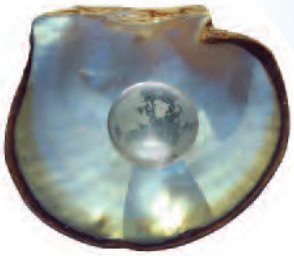
December 31, 2009 – in the end 2009 is not that bad a year. It is the reverse of 2008 in that the second half is a blowout and the first half is a disaster.

We had made it!

2010

January 2010 – at the beginning of the year, Brian Burns and Joshua Klein become equity partners in the Firm. Joshua's ascendancy is particularly exciting in that he is the first home-grown attorney to start his career at the Firm and earn his way up through the ranks to equity partner. This brings the total number of equity partners to 12.

Thankfully 2009 is over, and the world is truly our oyster in 2010.



Litigation continues to boom and indeed doubles yet again!

We make a goal to double litigation yet again for the next year, 2011.

Real estate work is booming.

More new clients than ever are coming in.

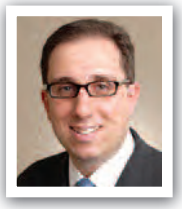
We make a goal for ourselves in real estate – to become the undisputed number one real estate practice in New York City. With our competition largely out of the business, we think we really have a chance here.

2010 looks like a blowout – a **DS Magic Moment** beginning to happen.

And it is truly looking like a great year, and economically, it is in the end; however, two personal tragedies prevent the year from being "good" in any sense.

Fourth Quarter 2010 – Angelo, Gordon, still the Firm's biggest client and closest outside relationship, tragically loses two of their key real estate people. First, in September, Ronen Katz, a young and rising star with tremendous potential, is killed in a motorcycle accident. Then, in December, Keith Barket, the Global Head of Real Estate for Angelo, Gordon, passes away from a sudden illness. Keith was one of the anchor persons of the Firm's relationship with Angelo Gordon for many years. In addition, Keith was one of the key players in building Angelo Gordon to become one of the major and respected players in the real estate world. Many of the partners and associates in the Firm's real estate group were very close to these two men so losing them is extremely painful, and we mourn the loss of these dear friends.

2011



January 2011 – the year begins with Joseph Galvano becoming an equity partner of the Firm. We are particularly proud of Joe because he started at the Firm eight years earlier in the Firm's Opportunity Associate Program. Indeed, he was the Firm's first Opportunity Associate.

2011 – we conclude that as much as we love our existing client base it is simply no way for a grown up law firm to behave to be so dependent on a select group of clients. We are simply "done" with that situation. So we enact Plan D (the "D" stands for Diversification) with the goal to diversify ourselves from overdependence on a small group of clients.

Our Plan D is carefully crafted. In no manner do we wish to lose our existing clients' work, nor even have it shrink, nor to have the excellent relationships be affected; indeed we want that business and those relationships to continue to

grow. Our plan is therefore to grow the remainder of the Firm at a faster pace, either by obtaining new clients or hiring new lawyers, or both. It is an ambitious goal to solve this problem by the end of 2012, but we realize how important this is and get moving.

First Half of 2011 – work booms during the first six months, so we just do our work (including continuing our Plan D efforts). The Hedgehog Committee has karaoke night, bowling night, ping pong night, and a darts contest.

Second Half of 2011 – then global concerns take hold about Arab Spring, Europe's mess (largely through fear of Greece contagion), floods in Thailand, nuclear disaster in Japan, horrors in Africa, and concerns about Iran, Israel, North Korea, Pakistan, and just about every other country of the world.

This causes deal flow to die off in the second half of the year. The litigation department –steady Eddie – chugs along just fine and almost doubles yet again!

End of 2011 – overall, the Firm is kind of slow and sluggish with work, but due to its competitive advantage of low overhead, is able to hit major firm bonuses for its performing associates and high profits for its partners. Low overhead is truly a magic potion for a law firm! We don't like to have money be the predicate for a **DS Magic Moment**, but there is certainly some magic in the low-overhead competitive advantage.

November 2011 – due to Yom Kippur falling during Columbus Day weekend (how can that happen?), the Firm, for the first time ever, postpones the annual outing to Veterans Day in November. The outing is at The Ritz-Carlton in Key Biscayne.

End of 2011 – a new saying at D&S is born, "At D&S a Satisfied Client is a Disaster!" We realize that a significant portion of "satisfied"

clients consider leaving their existing service providers every year, but it is very rare that over-satisfied clients ever leave their existing service providers. So we set out on a mission that we will OVER-SATISFY and, indeed, WOW, our clients.

The Firm's litigation group easily hits its goal to double its business yet again! Their success is a simple formula of exploiting a niche in the market in that the Firm has one of the only practices that can provide large law firm quality litigation work at prices which are only about 60% of what major law firms are charging. It is no wonder that behemoth clients – like Credit Suisse and Deutsche Bank – increase their legal work with the Firm every year. The deal is a great one for these clients.

The Firm – for the first time – starts to close in on our goal set several years ago – to become the unquestioned number one real estate practice in New York City. Being honest with ourselves, we aren't there yet, but we are getting closer. Although there are no statistics, anecdotally, it seems like we are getting more sophisticated real estate legal work than any other firm in the City.

2012

January 2012 – Chris Gorman becomes an equity partner of the Firm. Chris – like Joe – is a product of the Firm's Opportunity Associate Program. He had joined the Firm in this capacity eight years ago and worked hard to become a partner and ultimately succeeded.

February 2012 – Somewhere along this time, it becomes obvious that a critical message for the Firm is to "Attract, Train and Retain Talent"; however, being honest with ourselves, we conclude that our training is deficient. Accordingly, we revamp our existing training program (Duval & Stachenfeld University a/k/a "DSU") into "DSU2.0" to train associates in a way unlike any other law firm. Chris Gorman is elected as Dean of DSU and spearheads the program.

March 15, 2012 – as an off–shoot of our new mission to over-satisfy our clients, we develop the "No Satisfied Client Challenge". The challenge tracks situations in which attorneys are over-satisfying our clients and then assigns so-called "WOW Points" to attorneys that achieve really outstanding results that are noticed by our clients. A leaderboard ranking everyone's accumulated points is circulated monthly.

In the first half of 2012 – the Firm pushes hard to achieve its Plan D. Incredibly, Plan D is achieved in July, close to six months earlier than its target of the last quarter of the year. A realization also occurs that the Firm has almost no competition in its core areas:

The litigation niche of super-high-quality legal work at 40% lower pricing, is not matchable anywhere else.

Most major law firms have left the real estate business, or priced themselves out of it. And there are almost no small firms left that have a practice of more than just a few real estate lawyers. The Firm, with its 40 lawyer real estate practice – is just

about the only game in town if a client does not want to pay major law firm rates of $1,000 per hour yet wants top quality and sophisticated legal work in the real estate world.

Based on these advantages, the Firm lands numerous new clients in the first half of 2012.

July 1, 2012 – a particular coup occurs when Stephen Land joins the Firm as an equity partner. Stephen (a Harvard College, Harvard Law School and Harvard Business School graduate) was the former head of the U.S. tax practice at the magic-circle firm, Linklaters LLP. His advent caps a close-to-fifteen year search to start a tax practice at the Firm.

July 2012 – DSU2.0 puts forth a new program called "Take on the Big Dogs". The plan is that the junior associates will have a chance to negotiate a tough document against a tough battle-hardened partner in front of the class. Terri is the first "Big Dog" in late July. The class is a major success!

July 26, 2012 – the Firm has an attorney summer party at Pat and Trish Duval's apartment with an Asian theme. Sure enough the fortune cookies have statements of Firm values inside.

August 2012 – as of the writing of this Fifteen Year Commemorative, the year is about 2/3rds over. We are about 45 days away from the Firm turning 15 years old.

We hire nine opportunity associates – all of whom start work the week after Labor Day, which is typically Orientation Week at the Firm. All lawyers wear nametags and the new associates are put through a rigorous 15-hour-per-day orientation program.

Deal-flow is hot hot hot again. Real estate especially is booming strong, as almost all of the Firm's clients are pushing to do deals and accomplish their business goals.

Morale is good. We are achieving our business goals in almost all respects. This is particularly sweet and exciting when we look around at all the turmoil in the legal and business world. Our being able to thrive in a tough market is a wonderful thing.

2012 is shaping up to be a great year so far……

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15

YEARS

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