



## Parallels in Peril, two midsize law firms – Axiom Ince and Stroock & Stroock & Lavan – collapse in the same month

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As rewarding as it may be, if there was ever a time when a career in BigLaw was safe, those days are long gone. Even if a lawyer can avoid burnout, redundancy, AI and de-equitisation, they have to consider the possibility of their firm collapsing and unfortunately, unlike banks, law firms are never “too big to fail”.

So it was that in October we saw the collapse of two BigLaw mid-sizers (one in the UK and one in the US): British chimera **Axiom Ince**, a 100 plus partner national law firm with a penchant for acquiring other failed law firms; and onetime Top 100 US national firm **Stroock & Stroock & Lavan**, which, earlier in the year, had around 65 partners.

The firms were completely dissimilar ... Axiom Ince was made up of a smorgasbord of failed law firms prior to its own collapse – notably **Ince & Co** (a shipping, insurance, energy and aviation blue blood), **Gordon Dadds** (a West End private client flavoured outfit) and **Plexus Law** (an

insurance specialist). In its final form, the ephemeral outfit, which was wobbly from the get-go, collapsed amidst allegations of impropriety and fraud.

Stroock, which never quite recovered from the 2008 financial crisis, was a far more conventional BigLaw brand and its demise was far more conventional. Ironically, the death spiral was triggered by the departure of an 18-partner restructuring and bankruptcy team to **Paul Hastings** in March 2022, which commenced a slew of further lateral defections. Despite this, Stroock hoped to be rescued through a merger with another law firm, but it was initially hampered by its (\$8 million) unfunded annual pension liability. Unfortunately, by the time Stroock had cleared this up, further partner defections (since August to: **Bracewell, Crowell & Moring, Hogan Lovells, Norton Rose, Schulte Roth & Zabel, Squire Patton Boggs, Steptoe & Johnson, and Thompson Coburn**) had created a classic law firm “run on the partnership” – a self-fulfilling prophecy where partner after partner loses confidence and jumps ship in order to escape the inevitable rapid collapse, or fire sale, of the business.

Both firms, which can trace their roots back to the 1870s (through Ince & Co in Axiom Ince’s case), have forcibly dumped multitudes of legal personnel onto the market. As reported in our 77<sup>th</sup> edition of Law Firm Partner Moves, around 30 legacy Axiom Ince partners (and likely scores of fee earners) have surfaced as refugees from the flotsam and jetsam in London alone.

Whilst history tells us that lateral émigrés from disintegrating law firms often do spectacularly well at their new homes - sometimes even when a shotgun wedding forces them to marry beneath them, for some, particularly very junior or very senior legal personnel, the collapse of a law firm can be career-ending. For most, even those hired by other firms on similar terms, it is (at best) inconvenient.

Even equity partners who are lucky enough to land on their feet with the usual mover’s pay bump nearly always find it very painful; laterals who served at **KWM (SJ Berwin** in old money), **Dewey & LeBoeuf, Howrey** or **Halliwells** (to name but a few) in the months preceding their collapse often later found themselves on the hook for personal debt running into hundreds of thousands as their capital contributions were crystalised to pay off creditors.

In the Strock/Ince debacles, some lucky laterals may be in a position to negotiate an indemnity (or partial indemnity) against this loss from their new firms, but most will not. Nevertheless, even if personal liability against creditors is limited to their capital contributions by the LLP agreement (which at least for Stroock it will be), as Yale Law School Professor John Morely wrote in “Why Law Firms Collapse”, the “shield will be useless against a variety of indirect claims that flow from the partners’ status as owners and come out of the laws of fraudulent transfers, preferential transfers, and unfinished business”. Happily, for partners, due to the difficulties of recovery, Morely states that bankruptcy trustees and creditors nearly always settle these claims at a fraction of their value.

Be that as it may, equity partners from the now defunct firms, including many who may have thought they had escaped the consequences of the gravitational collapses by jumping ship before the end, may find themselves plagued by vexatious recovery actions, or painful tax issues, for years to come. Unfortunately, for some at Axiom Ince, following the SFO’s dawn raid

and subsequent arrests last week, tax problems and civil claims may prove to be the least of their problems.