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IN A YEAR DOMINATED BY PRIVATE EQUITY DEALS, NO FIRM FARED BETTER THAN SIMPSON THACHER. THAT'S THE REWARD FOR THREE DECADES OF SHARP LAWYERING AND INTENSE CLIENT FOCUS. HERE'S HOW THEY BUILT A JUGGERNAUT.

BY AMY KOLZ

SIMPSON THACHER & BARTLETT JUST HAD THE KIND OF summer that private equity lawyers dream about. The New York firm's two top private equity clients, Kohlberg Kravis Roberts & Co. and The Blackstone Group, were on a dealmaking binge, and Simpson was at the center of the action.

The deal that caught everyone's attention was the $33 billion leveraged buyout of hospital operator HCA Inc., announced at the end of July. It would finally break the record of RJR Nabisco Inc.'s $31 billion buyout in 1989. And Simpson, which advised KKR on RJR 17 years before, had the coveted role of representing the private equity consortium.

But that's just the beginning. The New York–based firm worked on KKR's multibillion-dollar purchases of stakes in Royal Philips Electronics N.V.'s semiconductor unit and France Telecom's yellow-pages publisher, both announced within ten days of HCA. And it advised Blackstone on a triple-header in June: the $8.9 billion buyout of Trizec Properties, Inc., and Trizec Canada Inc., the $4.3 billion purchase of Travelport Inc., and the $870 million acquisition of Encore Medical Corporation.

Of course, it's been a good year for many in private equity. Leveraged buyouts totaling $209 billion were announced in the first eight months of 2006, accounting for 24 percent of all merger activity, according to Thomson Financial. Ten of the largest 15 buyouts ever, including

SIMPSON'S RICHARD BEATTIE (LEFT) AND KKR'S HENRY KRAVIS STARTED WORKING TOGETHER IN THE EARLY 1970S. THEIR RELATIONSHIP HAS HELPED SIMPSON BECOME A PRIVATE EQUITY POWERHOUSE.

PHOTOGRAPH BY JOHN ABBOTT

DAVID SORKIN, ONE OF THE LEAD M&A PARTNERS FOR KKR (LEFT), AND CHARLES "CASEY" COGUT, SIMPSON'S GLOBAL HEAD OF MERGERS AND ACQUISITIONS

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the $21.7 billion deal for pipeline operator Kinder Morgan, Inc., and the $17.4 billion buyout of retailer Albertsons LLC, have been announced this year. And marquee funds continue to attract billions of dollars from investors. Blackstone, for example, raised $15.6 billion for its latest global fund earlier this year. The tidal wave of activity has been beneficial for just about anyone who calls himself a private equity lawyer.

But Simpson Thacher is a little bit different. In addition to KKR and Blackstone, regular clients include Silver Lake Partners, Hellman & Friedman, and Vestar Capital Partners. Simpson has been at the table in 20 of the top 30 private equity transactions involving a U.S. buyer or seller since 2001, according to research firm Mergermarket. It has advised private equity buyers in nine of the 15 largest announced LBOs to date, and it represented the seller in another three.

The New York–based firm's dominance is more arresting when it comes to KKR and Blackstone. KKR, which has $25 billion under management, has retained Simpson in all but two of its 30 transactions valued at more than $1 billion since 2001, according to Mergermarket. (Simpson represented the selling company in those two transactions.) And Blackstone, which has raised $30 billion in private equity assets, enlists the firm on more than 75 percent of its private equity transactions, according to Blackstone's chief legal officer and former Simpson partner Robert Friedman. It's an eye-catching number, considering that Blackstone has announced 58 transactions in the past 32 months alone.

"None of the other leading law firms in private equity have two really big private equity clients that concentrate so much [of their] work to the extent that KKR and Blackstone do with Simpson," says Stephen Fraidin, a Kirkland & Ellis partner who has represented private equity firm Forstmann Little & Co. since 1979.

Simpson's success in private equity began with these two clients. The firm was present at the birth of the buyout industry more than 30 years ago while working for the young cofounders of KKR. And a decade later, it would expand its business with the emergence of Blackstone. Following these two clients, Simpson reassigned lawyers, broadened practice groups, and expanded overseas offices. The firm made private equity a priority, and it developed an expertise in the field that would be difficult, if not impossible, to replicate. "Simpson's private equity franchise is by design; it's not a fluke," says Blackstone's Friedman. "The reason they are so dominant [in private equity] is they set about it as part of their business plan over 20 years ago."

Today KKR and Blackstone contribute approximately 15 percent of Simpson's gross revenue. Other private equity clients add another 5 percent. (Simpson's gross revenue for 2005 was $727 million, according to The Am Law 100.) The two are among Simpson's top five revenue-generating clients. They have generated 9–15 percent of the firm's revenue over the last 20 years. (The exception was in 2001, when few deals were being done in the wake of 9/11 and the stock market's decline.)

Empires, of course, are always at risk of ruin. The private equity frenzy continues to draw more law firms into the area. And as consortium and international deals become more common, longtime Simpson clients are seeing a greater number of competing firms in action.

WHEN SIMPSON CHAIRMAN RICHARD BEATTIE— then a 33-year-old associate at the firm—first started working with KKR cofounders Jerome Kohlberg, Jr., Henry Kravis, and George Roberts in 1972, the three were far from masters of the universe. The 28-year-old Kravis and the 27-year-old Roberts were associates at the investment bank Bear Stearns, toiling under 46-year-old corporate finance manager Jerry Kohlberg. The trio was working around-the-clock on "bootstrap acquisitions," the equivalent of today's leveraged buyout. And they needed a lawyer. Simpson senior partner Donald Oresman, a friend of Kohlberg's, asked Beattie to help out.

Back then, bootstrap acquisitions and management buyouts were rare. Legal documents had to be created from scratch. Many corporations hadn't even heard of these types of deals. Beattie remembers Kravis explaining the mechanics of a management buyout to the CEO of North Carolina–based Boren Clay Products in 1973, and the chief executive pulling Beattie aside and asking: "Can this guy really raise $16 million to buy my company? How can he do that?"

They did buy Boren, but even the wizards back in New York doubted the potential of the LBO business. Bear Stearns

SIMPSON HAS BEEN AT THE TABLE IN 20 OF THE TOP 30 private equity transactions involving a U.S. buyer or seller since 2001. Much of that work stems from its relationship with KKR and Blackstone Group. "None of the other leading law firms in private equity have two really big private equity clients that concentrate so much [of their] work to the extent that KKR and Blackstone do with Simpson," says Stephen Fraidin, a partner at Kirkland & Ellis.

was hesitant to devote resources to such a novel structure, and management questioned how the deals would fit into the bank's traditional business of trading and investment banking advice, says Beattie. Frustrated, Kohlberg, Kravis, and Roberts left the bank to set up KKR in 1976.

Beattie (a newly minted partner) and his colleagues followed the pioneering trio and ended up working on some of the fund's—and the industry's—earliest transactions, including a $106 million buyout of L.B. Foster Company in 1977.

Beattie's early work with KKR fostered a sense of loyalty with the client that would pay off handsomely. During the Carter administration, he left Simpson to serve as the general counsel of the U.S. Department of Health, Education and Welfare. In his absence, KKR turned to Kohlberg's good friend Joseph Flom at Skadden, Arps, Slate, Meagher & Flom for many of their transactions. But when Beattie returned to the firm in 1981, Simpson again became KKR's preferred counsel.

Despite KKR's allegiance, there were still obstacles at Simpson. Like the managers at Bear Stearns, Simpson Thacher's senior partners were leery of the private equity business. Even in the early eighties, the buyout club was still a small one, limited to players such as Forstmann Little (founded in 1978) and Clayton, Dubilier & Rice, Inc. (founded in 1978). Simpson's business was based on traditional corporate work for public companies and big financial institutions, such as Manufacturers Hanover Corporation (a predecessor to today's JPMorgan Chase & Co.) and Lehman Brothers Inc. Simpson's private equity skeptics lumped leveraged buyouts into the same category as hostile tender offers, another emerging deal structure, and the firm wasn't sure it wanted to participate in these aggressive transactions. "It took a lot to convince my older partners to put the resources toward KKR [and private equity]," says Beattie. "They viewed Henry, George, and Jerry as young upstarts."

Then there was the firm's reluctance to expand west. Until 1999, Simpson was only in two U.S. cities, New York and Columbus (the home of longtime client American Electric Power Company Inc.). KKR's Roberts was based in San Francisco and wanted lawyers in his time zone. Simpson didn't have an office on the West Coast, so Beattie introduced Roberts to John McLoughlin, a Latham & Watkins partner he knew in California.

This abdication of the West Coast would threaten Simpson's market share. Though the firm continued to work on transactions that originated with KKR partners in New York, McLoughlin built a relationship with California-based partners who were orchestrating their own deals. The geographical divide meant that for much of the 1980s and early 1990s, the two law firms shared much of the work. Not going to California with KKR was probably a mistake, admits both Beattie and Charles "Casey" Cogut, Simpson's global head of mergers and acquisitions. Simpson had its share of deals, advising KKR on buyouts such as Amstar Mortgage Corporation, Wometco, Duracell, and Primedia, Inc. But Latham led the charge on several investments, such as Safeway Inc., Owens-Illinois, Inc., and American Re Corporation.

Geography on a smaller scale also weakened Simpson's primacy as KKR's adviser. Before 1988, the firm had two offices in Manhattan—corporate lawyers were downtown and the bank finance lawyers, who served longtime Simpson client Manufacturers Hanover, were uptown. The seven-mile divide meant that conversations between the two groups were infrequent. And so the firm didn't corral the resources of their senior credit lawyers for KKR. "[By the mid-1980s] Latham had established the view at the client that they had better banking lawyers," says Cogut. In fact, Latham worked on the debt financing for two of KKR's largest transactions, RJR and the record-setting buyout that predated it, the $8.7 billion buyout for Beatrice Companies, Inc., in 1986. "In retrospect, it was ridiculous, because we had more banking capability, but we kept representing the lending community, not [the private equity] buyers," says Cogut. (Latham continues to represent KKR today, although the relationship is no longer defined by geography or financing expertise. Latham's role has diminished vis-à-vis its New York counterpart over the past decade. The firm has been involved in just six of KKR's largest 30 transactions since 2001.)

Simpson began to overcome these stumbling blocks in the latter half of the 1980s. The novelty of buyouts wore off as KKR and other LBO pioneers became increasingly active during the decade's M&A boom. Investment banks, such as Goldman Sachs and Lehman Brothers, approached Simpson for advice on entering the explosive market. Simpson represented Manufacturers Hanover in financings for LBO players such as Forstmann Little and Clayton, Dubilier. And M&A partner Robert Friedman was advising First Boston, a top M&A client, in its burgeoning buyout business.

Mega-transactions, such as Beatrice and RJR, brought a new celebrity to LBOs. Simpson partners working outside of private equity began to appreciate the potential legal fees involved. The firm's fee for the RJR buyout alone was more than $20 million. (Simpson grossed $201 million in 1989.) The 200,000 hours spent on both deals, and their subsequent restructurings, financings, and sales of businesses, further cemented the relationship between Simpson and KKR partners. Simpson partner David Sorkin, one of the lead M&A partners for KKR, earned his stripes with the client on the Beatrice sale of Playtex in 1986 and the RJR sales of Del Monte Foods Company's fruit and processed food businesses in 1989.

DEALMAKERS: (LEFT TO RIGHT) PARTNERS PHILIP "PETE" RUEGGER; WILSON NEELY, WHO HANDLES BLACKSTONE WORK; AND REAL ESTATE CHIEF GREGORY RESSA

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AT THE SAME TIME, THE BIRTH OF A SECOND KEY private equity client would deepen Simpson's commitment to the industry. In 1985 two alumni of longtime client Lehman Brothers, Peter Peterson and Stephen Schwarzman, formed an M&A boutique called the Blackstone Group. (Peterson, the former Lehman chairman and co–CEO, had lost a power struggle two years before.) The pair decided to expand into private equity in 1987 and turned to Simpson's Friedman for advice. Friedman had the requisite buyout experience, had worked with Schwarzman during his Lehman days, and unlike Beattie, he was not consumed with KKR.

An early private equity convert, Friedman set about building a team of lawyers to service the burgeoning fund. Though the lawyers serving KKR had the most experience with buyouts, they were committed to the already established client. "It would have been too big an internal battle to move people off KKR," Friedman says. So he targeted associates and young partners who were toiling in other areas of the corporate practice. For years, however, there was a steep learning curve for new recruits. Wilson Neely, for example, who is today "the key go-to partner" for Blackstone at Simpson, was an M&A lawyer serving Manufacturers Hanover who "didn't know how to spell 'LBO' on his first Blackstone transaction [in 1994]," says Friedman.

As KKR and Blackstone grew increasingly active over the next two decades, the existence of separate teams helped to allay tensions that either client would get less than 24-7 service. There was occasional friction, of course, when both clients were pursuing the same asset. And Simpson, obeying the first-come-first-served rule of conflicts, could only represent one. Neither client liked giving up their regular attorneys when they lost the race. In the late nineties, after several years of discussions, Beattie persuaded KKR and Blackstone to allow Simpson to represent both in a simultaneous auction, using their separate teams. It was an impressive feat of client diplomacy. "We worked very hard to convince them that we could do this and still be loyal to both," says Beattie.

Clearly, it was a good deal for Simpson. As the competition for attractive buyout targets grew with the private equity market, the firm no longer had to pin its hopes on an auction to one bidder. Although dual representation has been less frequent when KKR or Blackstone participate in a consortia of buyers (some of whom might be more skeptical of Simpson's wall), the firm has had two different toes in the water in at least a couple of large transactions. Simpson represented both clients in the 2003 auctions for the $4.2 billion buyout of Nalco Chemical Company (Blackstone was part of the winning consortium) and newspaper chain Freedom Communications, Inc. (Blackstone and Providence Equity Partners partnered with family shareholders in a $2 billion buyout).

As the buyout deals got bigger, Simpson reconfigured its debt practice to capture a larger slice of the financing work. After the firm merged its two New York offices in 1988, private equity partners started exploiting the firm's in-house credit and banking expertise for their buyout clients. And when private equity deal volume picked up in the mid-1990s, Simpson devoted bank and bond finance lawyers exclusively to private equity. Today, 30 partners and more than 90 associates focus on acquisition finance, a team that has doubled in the last 15 years, says partner James Cross.

Private equity clients rave about Simpson's technical and market expertise. "We've worked with a number of parties, and I consider them the best in the business," says Silver Lake Partners managing director Greg Mondre. Simpson's extensive experience representing both lenders and borrowers gives the firm an advantage when negotiating credit agreements for their private equity clients, he says. Simpson's financing expertise has even earned the firm entry into transactions where it lacks an M&A advisory role, such as the $21.7 billion buyout of Kinder Morgan, announced in May. Wachtell, Lipton, Rosen & Katz was lead counsel for the consortium, but Simpson acted as financing counsel for the group.

Having learned from its experience in California, Simpson also elected to follow its clients a bit more closely outside of New York. After KKR and Blackstone established offices in London in 1998 and 2000, the firm committed to building a U.K.–based acquisition finance team. Simpson's New York lawyers had historically advised the buyers on the high-yield financing, a market largely centered in the United States, but they had depended on local firms, such as

> THE FIRM DEVOTES A DOZEN PARTNERS EACH TO KKR and The Blackstone Group, and some of the most experienced private equity partners work almost exclusively with the two. "We try to let everyone know that they're going to get the same product," says Charles "Casey" Cogut, global head of M&A at Simpson. "But clearly keeping the KKR and Blackstone teams available to principally represent those clients is a first priority."

Allen & Overy or Clifford Chance, to advise the clients on the bank debt.

After a few years of false starts, in 2003 the firm snagged Allen & Overy partner Euan Gorrie to serve Blackstone and others. Gorrie had worked for partner Anthony Keal, who had a virtual lock on KKR's bank debt financing work in London and whom KKR partner Johannes Huth describes as the "doyen of the London financing scene." Two years later, Simpson and Gorrie were able to lure Keal to the firm. Today, Simpson works on nearly all of Blackstone's and KKR's U.K. financings, in addition to work for clients such as Investcorp Bank and PAI Partners.

Simpson has also identified and groomed a next generation of private equity lawyers. "They always tried to highlight their star young lawyers," says former KKR partner and Latham lawyer Saul Fox, who cofounded Fox Paine & Company, a private equity firm. M&A partner Sean Rodgers, for example, remembers taking calls as a second-year associate from Michael Michelson, one of KKR's most senior partners. Executive compensation and benefits partner Alvin Brown has worked on KKR matters for 23 years, starting as an associate. Real estate head Gregory Ressa has worked with Blackstone's real estate investment group since its inception in 1992. And tax partner Gary Mandel has worked with Blackstone for almost a decade. The result is a deep bench of both junior and senior lawyers who understand the implications of private equity.

"It's not that there is just one really good private equity lawyer there," says KKR partner Marc Lipschultz. "There is a whole set of people that really understand all of the issues that surround a private equity investment." Cogut says that nearly all of Simpson's 31 M&A partners have had a significant role in a private equity transaction in the last two years, and 14 out of the 23 M&A partners in New York spend at least 60 percent of their time on private equity matters. A group of partners in credit, fund formation, capital markets, tax and employee benefits spend anywhere from one- to three-quarters of their time on private equity.

The expertise has led to a host of other strong relationships in private equity. Vestar and The Cypress Group have been clients for more than a decade. The firm has worked for Silver Lake Partners, a $6 billion technology fund established by Blackstone alumnus Glenn Hutchins, since its inception in 1999. In recent years, Simpson has represented just about every large private equity sponsor as lead counsel for a consortium. And the firm continues to court new relationships in the sector, such as the energy-focused investment firm, First Reserve.

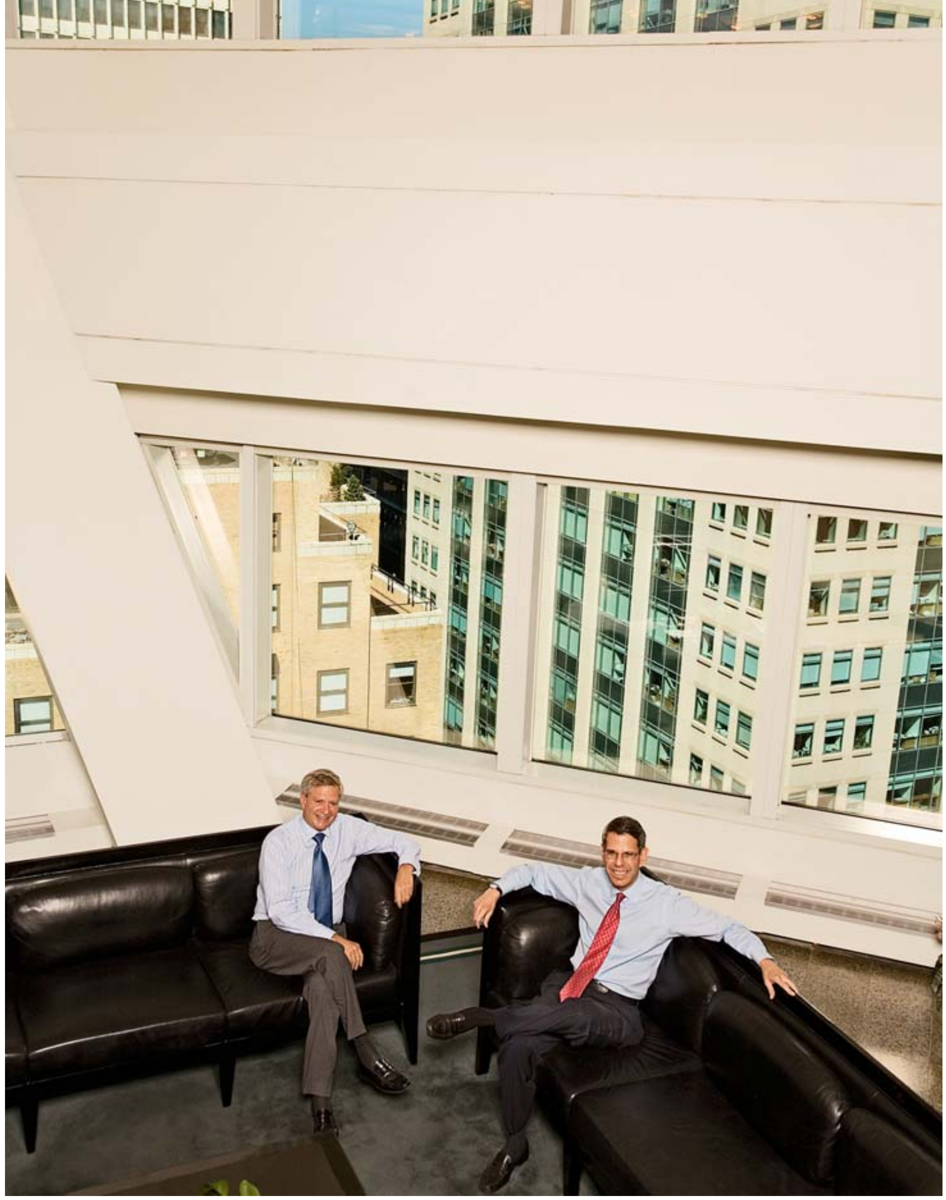
But KKR and Blackstone come first. Today, Simpson devotes a dozen partners to each to them. And some of the most experienced private equity practitioners, such as David Sorkin and Wilson Neely, aren't usually available to other buyout clients because they spend most of their time on KKR and Blackstone. "We try to let everyone know that they're going to get the same product," says Cogut. "But clearly keeping the KKR and Blackstone teams available to principally represent those clients is a first priority."

The devotion has paid off. "We think of them as part of our inner circle," says KKR's Lipschultz. And there is a fair amount of movement from law firm to client. Friedman became Blackstone's chief legal officer in 1999, and two Simpson associates have recently moved to in-house roles at KKR's latest ventures, KKR Private Equity Investors, LP, the public acquisition fund listed in Amsterdam, and KKR Financial Corp., a real estate investment trust.

DESPITE THE INTIMATE RELATIONSHIPS, THREATS to Simpson's empire abound. The looming question is whether the firm can maintain its key relationships as KKR, Blackstone, and others increase their investments overseas. European buyouts exceeded those in the U.S. last year, according to Thomson Financial. Yet Simpson retains a U.S.–centric model. It has offices in London, Hong Kong, and Tokyo, but with the exception of a group of U.K.–qualified attorneys, the lawyers at these outposts practice only U.S. law. Simpson can't be a one-stop shop for private equity firms with global ambitions—clients must retain local counsel when it comes to deals in international jurisdictions.

By virtue of its history and knowledge of both clients, Simpson often works alongside or even oversees local firms in any given transaction. Simpson was cocounsel to Freshfields Bruckhaus Deringer on the M&A negotiations in KKR's $2.5 billion consortium buyout of SBS Broadcasting in 2005, for example. And the firm's stronghold in the U.S. and U.K. debt markets means it almost always wins the financing business for a deal.

But in many European transactions, Simpson can't be in the driver's seat. Germany-based Gleiss Lutz was lead adviser to Blackstone in its $3.3 billion investment in Deutsche Telekom this spring, and Clifford Chance was lead counsel to the consortium in KKR's acquisition of the 80 percent stake of Philips's semiconductor subsidiary. Simpson still had significant roles in these transactions: In Philips, for example, the firm led the subordinated debt financing, conducted due diligence, and advised the buyers on the acquisition agreement. In many smaller deals, however, Simpson's role may be minor. The firm only provided antitrust advice in KKR's $345 million acquisition of a 75 percent stake in German recycling firm Duales System Deutschland AG in 2005. "It's somewhat frustrating for our guys over there," Cogut



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EVERY SIMPSON M&A PARTNER, INCLUDING COGUT (LEFT) AND SORKIN, HAS WORKED ON A PRIVATE EQUITY DEAL IN THE LAST TWO YEARS.

acknowledges. "We keep our hand in [European transactions], but obviously the main show [for us] is here."

KKR and Blackstone have developed relationships with overseas firms including Hengeler Mueller, Ashurst, Clifford Chance, and Gleiss Lutz. Weil, Gotshal & Manges and Skadden, Arps are two U.S. firms with a host of international offices that have done work for Blackstone. And Latham & Watkins lured European private equity veteran Thomas Forschbach from Ashurst to their Paris office in 2004. As Simpson's private equity clients gain more experience with these local and international firms, the need to have Simpson involved at all in non–U.S. transactions might diminish. Blackstone's Friedman & KKR's Huth concede that while Simpson's gross revenues from the two are likely to increase, their overall global market share of at least these two clients will probably diminish.

Beattie, Cogut, and others say they are unfazed by this development and maintain that the firm's international model won't change in the near future. They aren't persuaded that opening new offices across the Europe makes sense. And they believe that clients are better served by Simpson partnering with the best indigenous firms than by haphazardly opening branches across Europe. Nevertheless, the firm is sprinkling resources abroad. Patrick Naughton, a New York M&A partner who has a relationship with KKR Asia head Joseph Bae, moved to the Hong Kong office last spring. And the firm lured former Shearman & Sterling partner Leiming Chen to focus on China earlier this year.

Global competition isn't the only area for concern. As KKR and Blackstone continue to participate in large consortium deals, they aren't always going to get to pick the lead lawyers. In the $6 billion consortium buyout of Michaels Stores, Inc., this summer, Blackstone deferred to Bain Capital's preference for Ropes & Gray. And every once in a while, Blackstone opts for other counsel. In the recent $19 billion consortium buyout of Freescale Semiconductor, Inc., Blackstone turned to Skadden. In this case, it appears Blackstone might have been sensitive to sharing Simpson with KKR, a potential competitor in the auction following KKR's recent investment in the Philips semiconductor unit. Sources in the industry also speculate that Skadden's prowess in strategic M&A, and Blackstone's desire to win referrals for its M&A advisory unit, might have been factors. (Simpson is cocounsel with Skadden on the financing for the Freescale transaction.)

Simpson hopes that its expertise with the vagaries of club deals—it has served as lead counsel in more than 20 transactions—and its experience with so many private equity players will mitigate this threat. Certainly, though, club transactions provide an opening for other firms to impress Simpson's marquee clients. Ropes & Gray built a relationship with Simpson client Silver Lake Partners following its $2 billion consortium buyout of an Electronic Data Systems Corporation subsidiary in 2004. In 2005 Silver Lake turned to Ropes to lead the $11.3 billion consortium buyout of SunGard Data Systems Inc. (Simpson advised the consortium on the debt financing).

For now, Simpson says it's not going to overthink its global or private equity ambitions. It's just going to keep following its clients. That strategy has worked out remarkably well for them, after all. "I don't think we foresaw that in 1976 or 1986 that KKR or Blackstone would be as successful or have as big of a role in the deal world as they have come to have," says Philip "Pete" Ruegger III, Simpson's executive committee chair. "We've been very lucky." And for now, at least, Simpson's luck is holding.

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