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2023 State of Law Firm Industry Report

Contents

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Executive Summary

Law firms have experienced turbulent few years, defined by exponential growth in data volumes, as organizations evolve using more collaboration tools. The volatile macroeconomic environment of 2022 has caused many law firms to increase rates, as well as reconsider their priorities and goals for this year.

As the legal industry continues to evolve, law firm professionals are faced with an opportunity to embrace transformational change and leverage the technological developments of 2023 to their advantage.

In this report, we've surveyed **182 law firm professionals** to explore their perceptions on the key challenges their teams are likely to face in 2023, the expectations and priorities they set for 2023, and how they see technology supporting their practices in achieving the set goals.

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Key Findings

69% of our survey respondents have pointed out the increasing client demand for 'more output with less costs' as the trend they agree with the most.

73% of law firm professionals said they aim to increase the use of technology to become more competitive in 2023.

Over **50%** of survey respondents highlighted new client acquisition as the main challenge they foresee in 2023.

54% of survey respondents said that they tend to collect data from 3 to 5 sources on average per case.

47% of law firm respondents emphasized the lack of internal efficiency as the most prevailing factor to enforce the biggest challenges for them in 2023. This finding, in turn, correlates with law firms spending too much time and budget per task/case (pointed out by 40%).

Almost **60%** of law firms professionals said they are able to find relevant information fast within their clients' datasets.

Roughly **80%** of law firm professionals believe AI-driven eDiscovery technology can help their firm to improve operational efficiency, lower the costs & time per inquiry.

Approximately **50%** of law firm professionals are either neutral, unhappy with how they apply eDiscovery technology, or believe there's room for improvement in relation to how law firms leverage eDiscovery technology.

69% of surveyed law firms professionals said they use AI-powered eDiscovery technology the most when conducting any form of civil litigation.'Technology Assisted Review' and 'Classification of documents' features were most widely used to respond to an inquiry or litigation in 2022. However, over 30% of surveyed respondents see potential for improvement with how their firms use AI-driven eDiscovery technology on a daily basis.

Although law firms are faced with a variety of challenges, our survey results underline the awareness and proactivity that exists among law firms towards adopting eDiscovery technology, as they understand the role eDiscovery solutions play in increasing the efficiency, accuracy, cost-effectiveness, and compliance of their workflows.

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Methodology

The findings in this report are derived from a survey of law firm professionals, conducted by IPRO in partnership with ACEDS in December 2022.
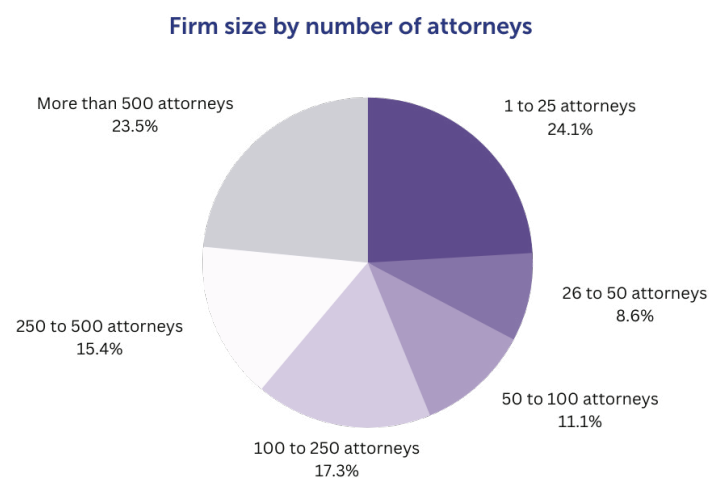
The survey features responses from 182 law firm professionals and aims to explore their opinions on the following topics:

- Most pressing eDiscovery challenges for their firms in 2023;
- Their expectations and business priorities for 2023;
- The respondents' current data collection practices and improvement points for 2023;
- And lastly, the perceptions and use of AI-driven eDiscovery technology among law firm professionals.

The graphs below encompass the survey respondents' demographics, namely: the size of their firms; and the respondents' roles within the teams.

The majority of surveyed specialists are eDiscovery professionals (25.93%), working in small-sized law firms of 1 to 25 attorneys (24.1%).

Figure 1: Respondents' demographics

What is your role within the firm

Role	Percentage
Partner	8.64%
Associate/counsel	7.41%
Staff attorney	3.09%
Litigation support professional	12.35%
Paralegal	25.31%
E-Discovery professional	25.93%
IT personnel	4.32%
Legal secretary	0.62%
Records clerk	1.85%
Other	10.49%

Firm size by number of attorneys

- 1 to 25 attorneys 24.1%
- 26 to 50 attorneys 8.6%
- 50 to 100 attorneys 11.1%
- 100 to 250 attorneys 17.3%
- 250 to 500 attorneys 15.4%
- More than 500 attorneys 23.5%

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Chapter 1

eDiscovery in 2023: Challenges; Expectations & Priorities

If the past few years haven't been turbulent enough with the global pandemic and remote work taking over, 2023 seems to be pointing towards an uncertain economic outlook. That said, <u>our 2023 State of Corporate Legal Industry Report</u> highlights a potential reassessment of how corporate legal departments will collaborate with their outside counsel in 2023.

Given the ever-increasing data volumes and budget constraints, in-house legal teams are increasingly looking to bring more work in-house and prioritize improving their use of eDiscovery technology this year. Clearly, these trends will challenge the status quo thinking in law firms and will make them reassess their business strategies.

While experts' predictions for what 2023 holds for the eDiscovery industry vary, they seem to converge on the idea that the new year will challenge law firms to offer more to their clients, with the same or even less resources than in 2022.

In the first section of the survey, we asked law firm professionals to highlight their expectations; perceived challenges and priorities for their teams for 2023.

1. Law firms expect clients to demand more output at lower costs in 2023

Though 2022 has yielded profitable financial results for law firms, 2023 will likely be driven by a more challenging macroenvironment, defined by inflation; slowing demand, and higher expenses. As stated within Thomson Reuters' 2022 Law Firm Business Leaders report, the vast majority of surveyed managing partners and C-suite leaders anticipated the forthcoming challenges of 2023 already in 2022. Therefore, 98% of them said they will 'probably' or 'definitely' increase the billing rates in 2023 to improve their financial performance.
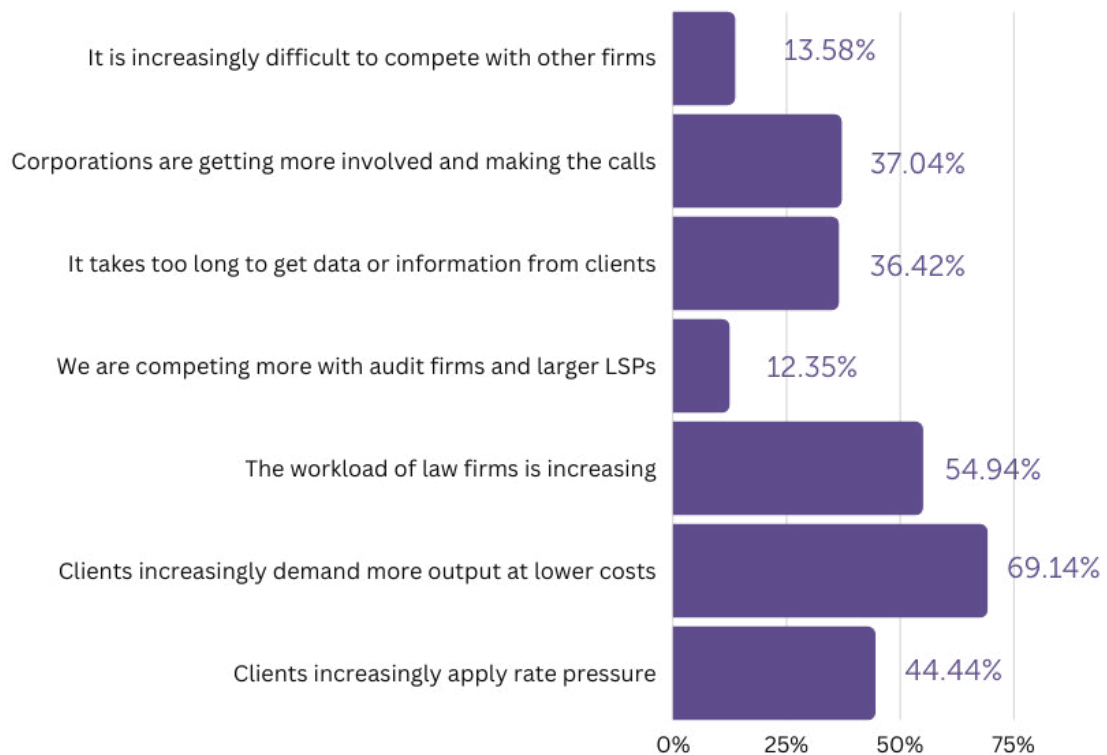
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"We're seeing higher planned rate increases at this point than we've ever seen, and we've been tracking this for 15 years," said *a Wells Fargo analyst.*

This, in turn, might propel another trend - the increasing openness of clients to switch outside counsel and move practices as a way to save money.

That said, **69% of our survey respondents have pointed out the increasing client demand for 'more output with less costs' as the trend they agree with the most.** Furthermore, over 65% of in-house corporate legal teams are likely to reduce the number of law firms they work with, as they see keeping more work in-house as a measure to mitigate the most pressing challenges of 2023. Clearly, this would also result in an increased pressure on law firms, as clients expect more transparent pricing structures, greater use of technology, and faster turnaround times at the same or even lower costs.

Figure 2: The trends the respondents agree with the most

Which of the following trends do you agree with the most?

Trend	Percentage
It is increasingly difficult to compete with other firms	13.58%
Corporations are getting more involved and making the calls	37.04%
It takes too long to get data or information from clients	36.42%
We are competing more with audit firms and larger LSPs	12.35%
The workload of law firms is increasing	54.94%
Clients increasingly demand more output at lower costs	69.14%
Clients increasingly apply rate pressure	44.44%

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2. Greater use of technology to become more competitive is the main priority for 2023

Remaining competitive in a volatile market requires extra focus and perseverance in improving efficiency and optimizing existing workflows. Innovative legal technology can provide unbeatable competitive advantages, when efficiently implemented across the organization.

Notably, the vast majority of our survey respondents seem to recognize the importance of adopting modern eDiscovery technology in facilitating law firms to effectively deliver their legal services. When asked about their key priorities for 2023, **73% of law firm professionals said they aim to increase the use of technology to become more competitive in 2023.**

Providing more innovative services/offerings is another priority area for law firms in 2023, pinpointed by 56% of respondents. As highlighted within the 2018 Global Trends in Hiring Outside Counsel survey by The Lawyer Research Service, the downtick in client satisfaction with law firms has been apparent for some time now. As pointed out previously, corporate legal teams are looking to reduce the number of law firms they work with in 2023 and are likely to bring more work in-house.

That said, those in-house legal teams that will continue outsourcing their legal matters are likely to increasingly prefer collaborating with smaller law firms, as they are deemed to provide better client service (by ~62% of surveyed in-house lawyers) and are generally seen as more innovative (by ~43% of surveyed in-house lawyers).
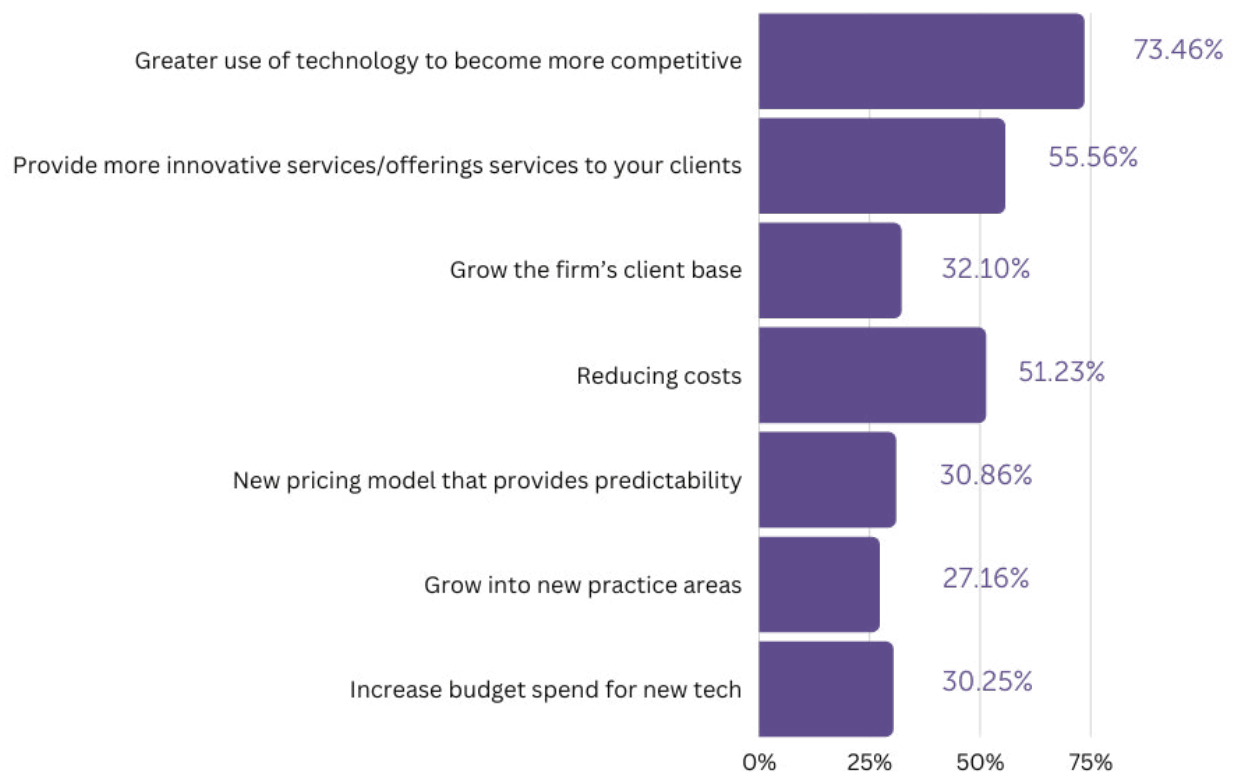
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ALM Intelligence Pacesetter Research further elaborates that law firms are no longer the sole provider of legal services. Because clients have so many more options available to them, law firms no longer have the monopoly, and people are more discerning of the types of services they need.

Hence, to improve their competitiveness in 2023, law firms will have to double down on providing an end-to-end client-centered experience.

Figure 3: The respondents' key priorities for 2023

What would be your key priorities for 2023? Select all that apply

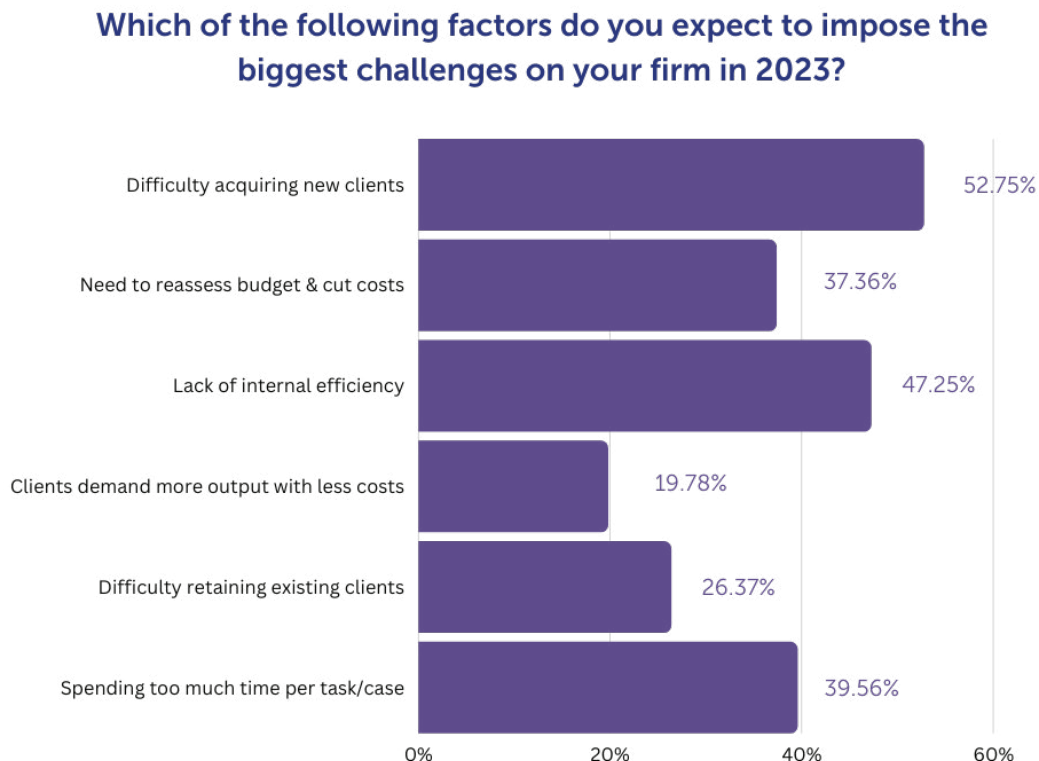| Priority	Percentage
Greater use of technology to become more competitive	73.46%
Provide more innovative services/offerings services to your clients	55.56%
Grow the firm's client base	32.10%
Reducing costs	51.23%
New pricing model that provides predictability	30.86%
Grow into new practice areas	27.16%
Increase budget spend for new tech	30.25%

3. Difficulty acquiring new clients is the #1 factor that law firms expect to impose the biggest challenges for their practices in 2023

Acquiring new clients seems to be an imposing challenge particularly for smaller sized law firms (which represents 24% of our research population). Thus, unsurprisingly, over **50% of survey respondents highlighted new client acquisition as the main challenge they foresee in 2023.**

Next, 47% of law firm respondents emphasized the lack of internal efficiency as the most prevailing factor to enforce the biggest challenges for them in 2023. This way, we see that increasing the firms' customer bases and optimizing current workflows will be of crucial importance for securing law firms' competitiveness this year. While new clientele can be attracted by employing a robust marketing strategy combined with targeted face-to-face networking for example, internal efficiency optimization can be attained by successfully leveraging innovative legal technology. In the following sections, we will cover in more details how technology can support law firms' goals in 2023.

Figure 4: Factors that respondents expect to impose the biggest challenges on their firm in 2023

Which of the following factors do you expect to impose the biggest challenges on your firm in 2023?

Factor	Percentage
Difficulty acquiring new clients	52.75%
Need to reassess budget & cut costs	37.36%
Lack of internal efficiency	47.25%
Clients demand more output with less costs	19.78%
Difficulty retaining existing clients	26.37%
Spending too much time per task/case	39.56%

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As technology continues to advance and inherently become more complex, investing in training / upskilling your eDiscovery personnel becomes a necessity. Hence, we can correlate the increasing complexity of eDiscovery technology with the shift in prioritizing upskilling of legal teams in 2023 as a way to overcome this challenge.

This further highlights just how important it is for legal teams to adopt user-friendly eDiscovery solutions that would help reduce the training time required for personnel, leading to faster ramp-up times, increased productivity, and better user adoption.

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Chapter 2

# Adoption of modern eDiscovery software among law firms

For the purposes of this survey, we asked the respondents to self-report on the estimated usage of technology in their work and highlight the AI features and data analytics within their eDiscovery tools they tend to use the most. Additionally, we asked the key reasons that made the respondents adopt or consider to adopt eDiscovery technology within their workflows.

4. Roughly 80% of law firm professionals believe AI-driven eDiscovery technology can help their firm to improve operational efficiency, lower the costs & time per inquiry.

Most of our survey respondents (almost 80%) converge on the idea that AI-powered eDiscovery software plays an essential role in optimizing the legal process and improving efficiency for law firms.

> **Figure 5: Extent to which the respondents believe AI eDiscovery technology can help their firm improve their operational efficiency, lower the costs & time per inquiry**

Rate the following statement: "I believe AI-driven eDiscovery tech can help my firm improve operational efficiency and lower costs & time per inquiry."
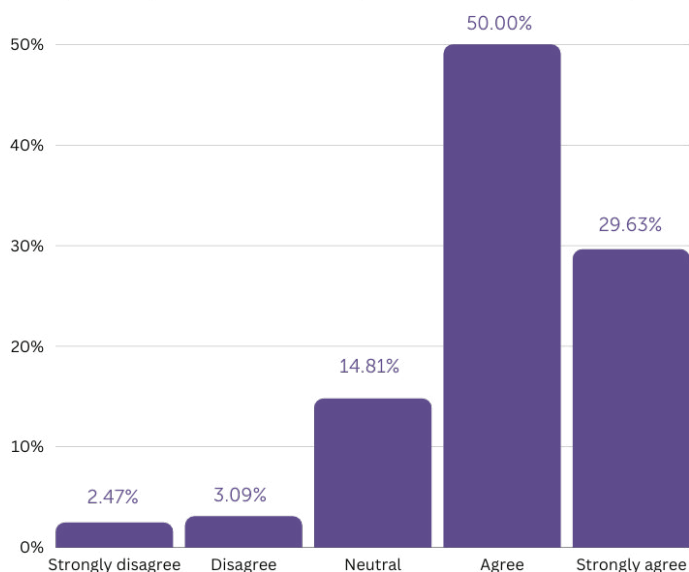

Over the past few years, we've seen a switch in how AI-driven eDiscovery technology is perceived and used within the legal industry. In fact, as many as 68% of law firms said they are actively using legal analytics (an increase of 7% compared to 2021), according to a 2022 survey by Lex Machina.

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5.   Roughly 50% of law firm professionals are either neutral, unhappy with how they apply eDiscovery technology, or believe there's room for improvement in relation to how law firms leverage eDiscovery technology.

More so, when prompted to reflect on the extent to which they are satisfied with how their firms use technology in their day-to-day tasks, over 50% of our survey respondents said they are (very) happy with. That said, roughly 50% of law firm professionals are either neutral, unhappy with how they apply eDiscovery technology, or believe there's room for improvement in relation to how law firms leverage eDiscovery technology.

Figure 6: Extent to which the respondents are happy with how their firms use technology in their day-to-day tasks

Rate the following statement: "I am happy with the extent to which my firm uses technology in their day-to-day tasks"
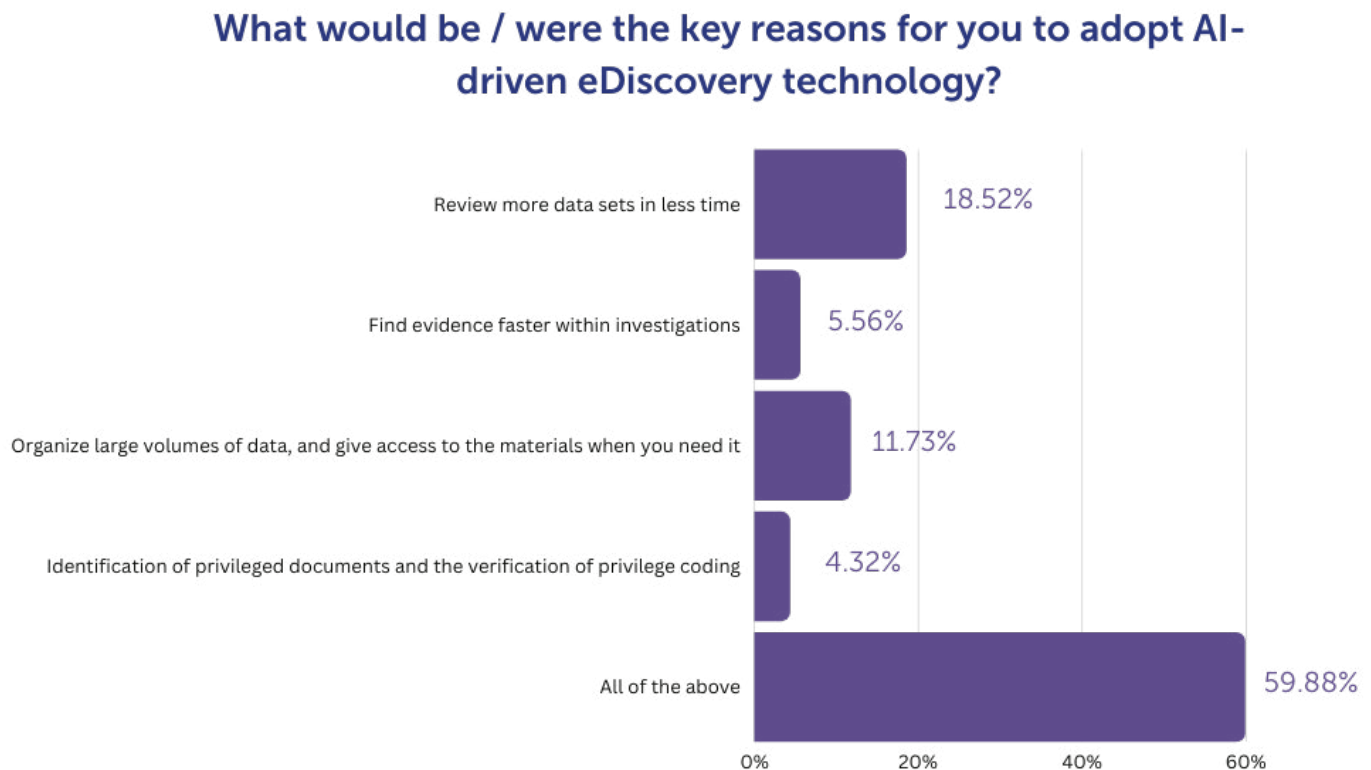
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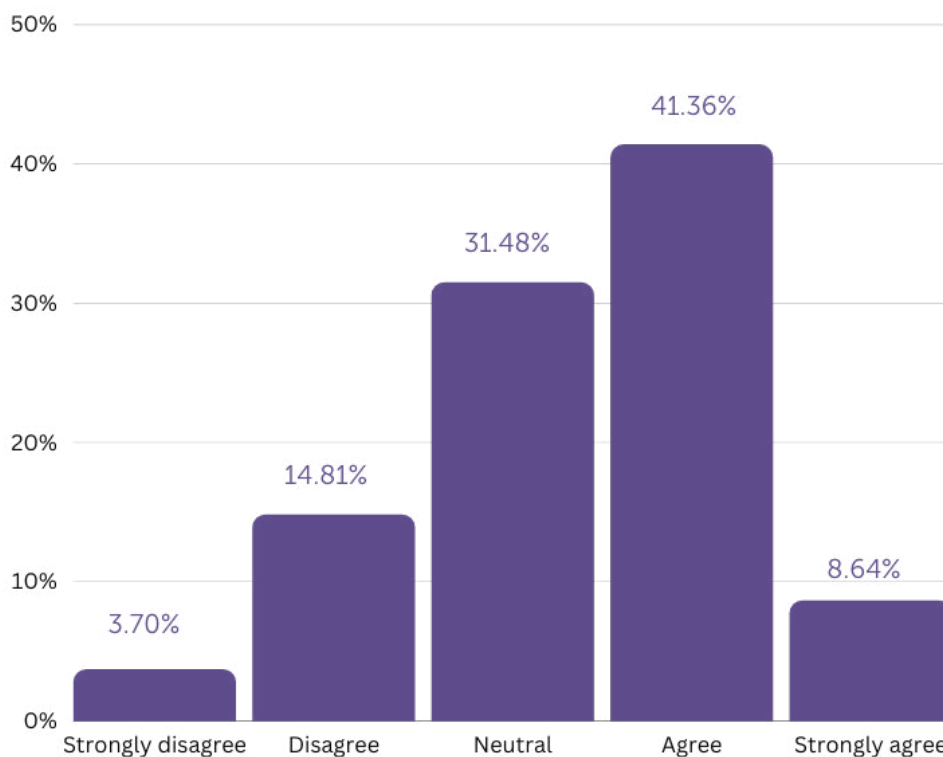
6.   Reviewing more data sets in less time and organizing large volumes of data among the key reasons for adopting AI-driven eDiscovery technology

Roughly 60% of the survey respondents couldn't choose one key reason that made them adopt an AI-powered eDiscovery solution, saying that all of the following were drivers for their law firms to adopt AI:

- Review more data sets in less time;
- Find evidence faster within investigations
- Organize large volumes of data, and give access to the materials when you need it;
- Identify privilege documents and verify privilege coding;

Figure 7: Key reasons for the respondents to adopt AI-driven eDiscovery technology

What would be / were the key reasons for you to adopt AI-driven eDiscovery technology?

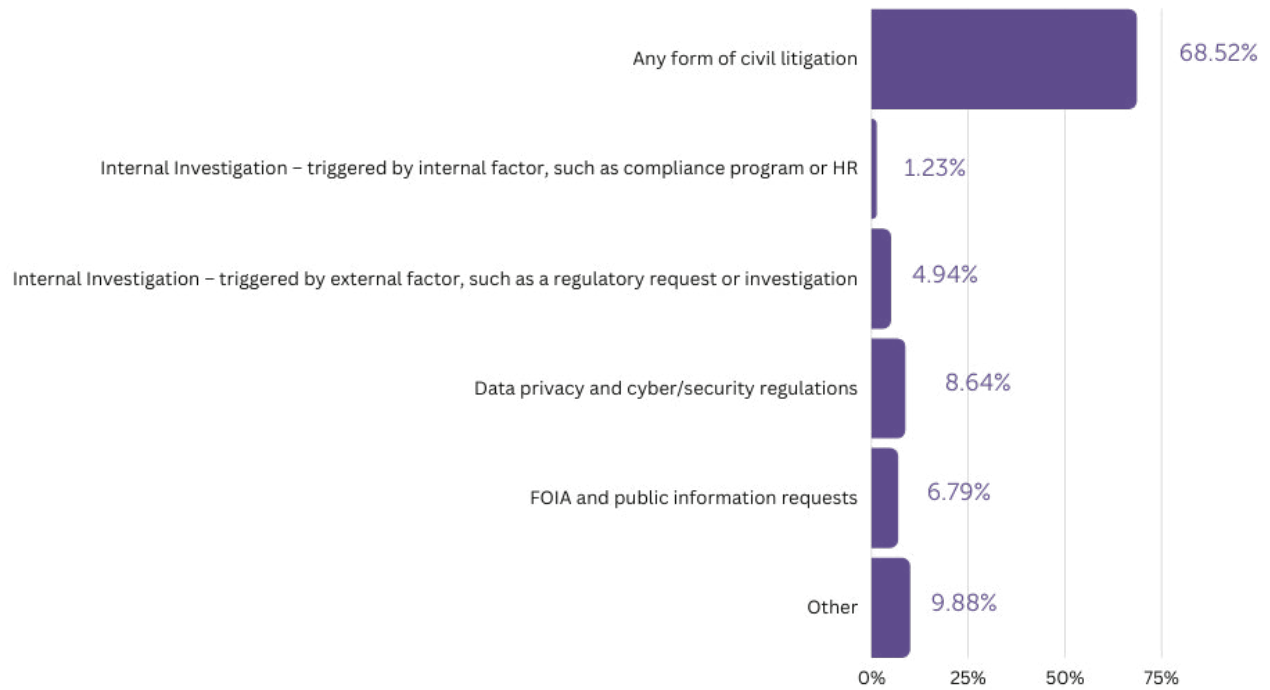| Reason	Percentage
Review more data sets in less time	18.52%
Find evidence faster within investigations	5.56%
Organize large volumes of data, and give access to the materials when you need it	11.73%
Identification of privileged documents and the verification of privilege coding	4.32%
All of the above	59.88%

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7. Civil litigation represents the main practice area for eDiscovery technology application

69% of surveyed law firms professionals said they use AI-powered eDiscovery technology the most when conducting any form of civil litigation. These are some of the most common use cases:

- Prioritizing your review with Active Learning: Active learning involves using a machine learning algorithm to select the most informative documents from a large dataset for human review. This allows you to focus on the most important documents for your case, which can reduce the overall review time and improve the accuracy of the review process.

- Use AI as an assistant to QC and validate your review: AI allows you to automate certain aspects of the document review process and flag potential issues for human review.

- Surface important information that you don't know about, find more similar documents faster: AI-powered eDiscovery tools can help surface this information by analyzing the documents and identifying patterns or connections that may not be immediately obvious to a human reviewer. For example, AI can be used to identify correlations between certain phrases or concepts, which can help surface hidden insights that would otherwise go unnoticed.

- Quickly identify sensitive information and automatically redact it: AI can help quickly identify sensitive information and automatically redact it by using machine learning algorithms to analyze the text of documents and identify patterns or features that are indicative of sensitive information.

- Identify 'who is talking to who' faster and dive into the right topics faster with topic modeling: By leveraging the power of topic modeling, eDiscovery tools can help to quickly and accurately identify key issues, organize and categorize documents for review, and provide more relevant search results.

- Understand the tone of the conversations with sentiment analysis and quickly find those negative tone emails or chats: Sentiment analysis can help provide a more complete understanding of the context surrounding a document. For example, if a document contains an ambiguous statement that could be interpreted in different ways, sentiment analysis can help determine the emotional tone of the statement and provide clues as to how it should be interpreted.

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Figure 8: Practice areas in which the respondents' firms tend to use AI-powered eDiscovery technology the most

In which practice areas does your firm tend to use AI-powered eDiscovery technology the most?

Practice area	Percentage
Any form of civil litigation	68.52%
Internal Investigation – triggered by internal factor, such as compliance program or HR	1.23%
Internal Investigation – triggered by external factor, such as a regulatory request or investigation	4.94%
Data privacy and cyber/security regulations	8.64%
FOIA and public information requests	6.79%
Other	9.88%

8.   'Technology Assisted Review' and 'Classification of documents' features were most widely used to respond to an inquiry or litigation in 2022

Next, we examined the particular eDiscovery AI capabilities that law firm professionals used the most to respond to an inquiry or litigation in 2022.

60% of respondents regularly used Technology Assisted Review the most when responding to a litigation or inquiry in 2022.

Legal professionals use Technology Assisted Review to accelerate the document review process by teaching an algorithm which documents are likely to be tagged as relevant, privileged, or otherwise important. Overall, TAR empowers legal teams to make decisions rapidly by prioritizing the most critical documents.

Document classification is the second most popular feature used by law firm professionals to respond to inquiries or litigations in 2022, **chosen by roughly 49% of survey respondents.**

This result is consistent with our findings from the 2022 State of AI Adoption in Legal Discovery report. We see a slight year-on-year increase in the popularity of document classification as an AI feature. At the end of 2021, 41% of law firm professionals indicated to have used document classification to improve the quality of their work, which is 8% less than in December 2022 (when this survey was undertaken).
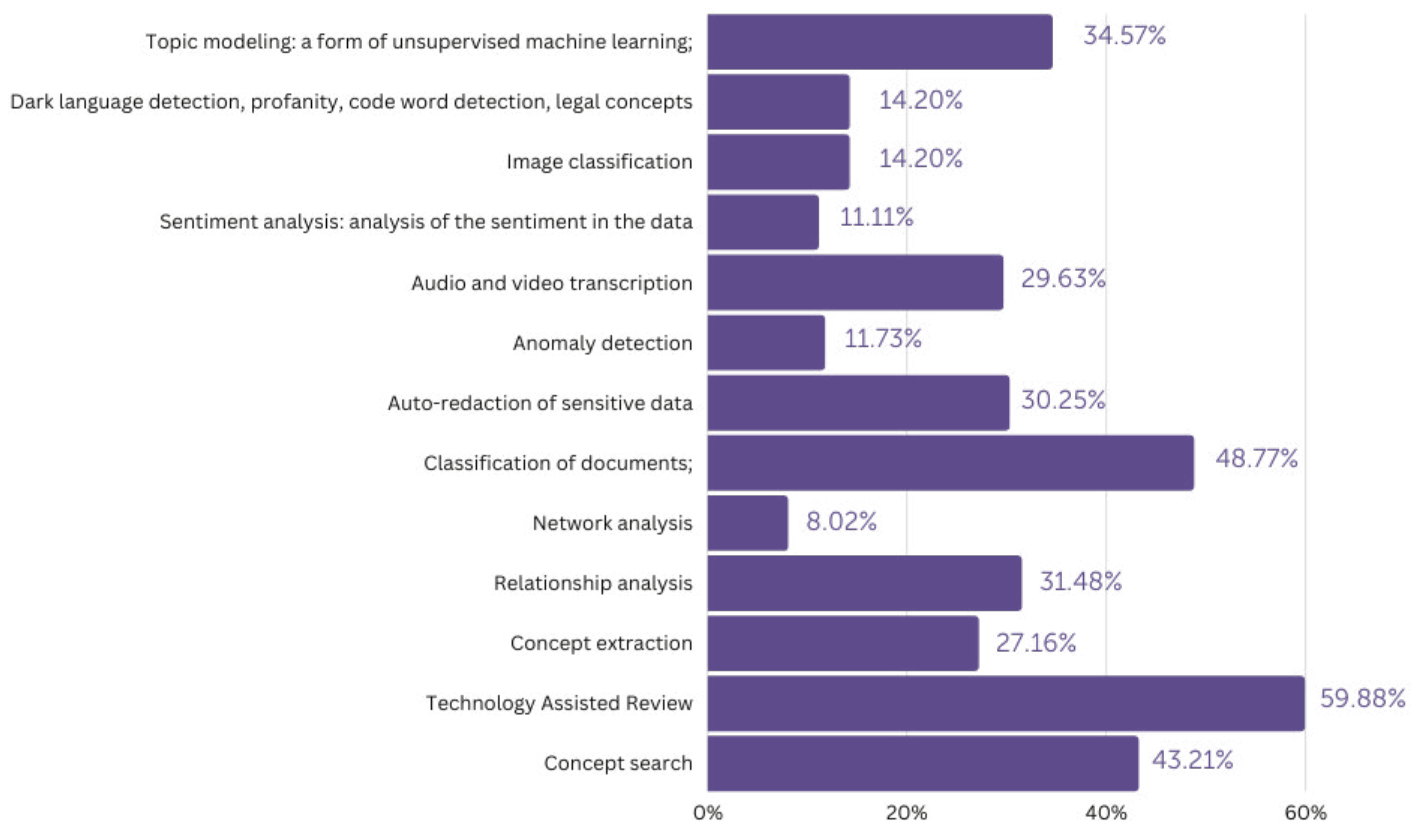
Document classification implies identifying and classifying documents by type, responsiveness, privilege, or protected information content—among other traits—without opening each individual document. Document classification uses NLP classification and supervised machine learning to sort agreements, invoices, correspondence, or other document types into virtual piles.

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Next, concept search was **chosen by 43% of survey respondents.**

Concept search is an advanced search technology used in eDiscovery that goes beyond simple keyword search to identify documents and information that are relevant to a case. Concept search uses natural language processing (NLP) and machine learning techniques to identify the meaning and context of words and phrases used in documents, and to find other documents that have similar concepts or themes.

Figure 9: Type of eDiscovery AI features that the respondents' firms used to respond to an inquiry or litigation in 2022

What type of eDiscovery AI features has your firm used to respond to an inquiry or litigation in 2022?

| Feature	Percentage
Topic modeling: a form of unsupervised machine learning;	34.57%
Dark language detection, profanity, code word detection, legal concepts	14.20%
Image classification	14.20%
Sentiment analysis: analysis of the sentiment in the data	11.11%
Audio and video transcription	29.63%
Anomaly detection	11.73%
Auto-redaction of sensitive data	30.25%
Classification of documents;	48.77%
Network analysis	8.02%
Relationship analysis	31.48%
Concept extraction	27.16%
Technology Assisted Review	59.88%
Concept search	43.21%

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Chapter 3

How law firms collect data: common practices and improvement points for 2023

The way we communicate has been drastically changing for the past few years. New communication tools and mediums that legal professionals use on a daily basis brought dramatic implications that impact the effectiveness and speed with which law firms are able to collect data.

When prompted to reflect on their established data collection practices, **54% of survey respondents said that they tend to collect data from 3 to 5 sources on average per case.** This finding reflects that although the majority of surveyed law firm professionals mostly deal with small cases with just a handful of custodians involved, those cases tend to imply large volumes of data sets that require review, as data generated by organizations continues to grow.

Figure 10: The number of sources respondents collect from on average per case

When you collect data from your clients, how many sources do you collect from on average, per case? (e.g., Teams; Slack; Microsoft 365)

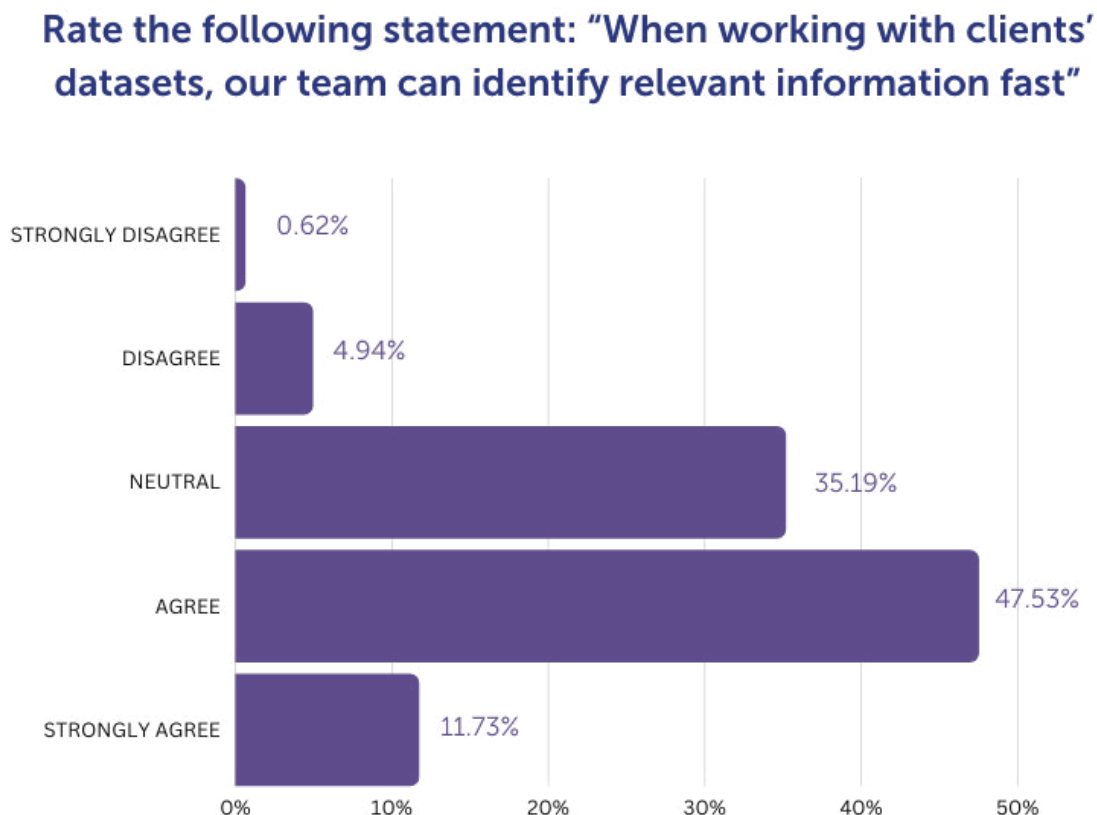|	
Less than 3 sources	20.99%
3 to 5 sources	54.32%
6 to 9 sources	16.05%
More than 10	8.64%

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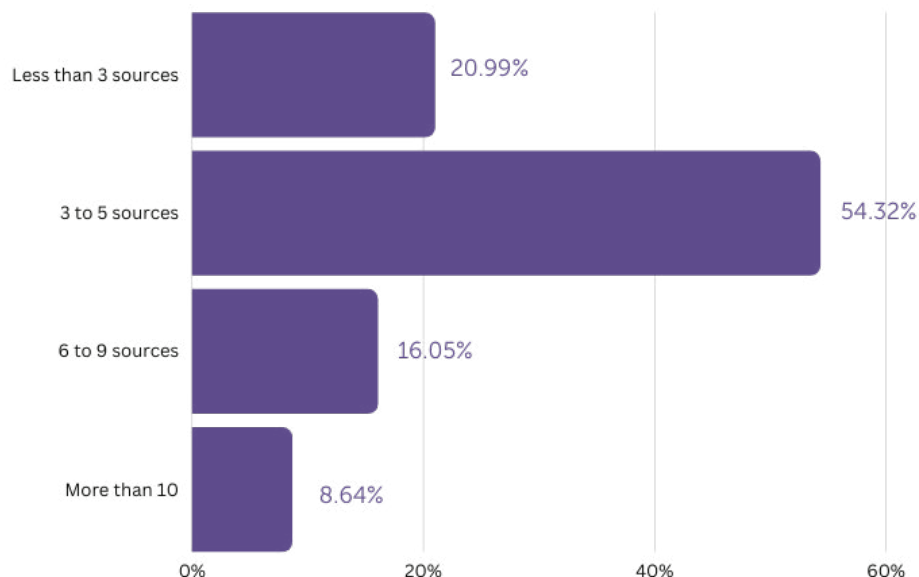
9. 'Almost 60% of law firms professionals said they are able to find relevant information fast within their clients' datasets

Close to 60% of surveyed respondents agreed that they are able to identify relevant information fast when working with their clients' datasets. This suggests the use of AI-powered eDiscovery tools among law firms, given that also 80% of surveyed law firm professionals believe AI-driven eDiscovery technology can help their firms to improve operational efficiency, lower the costs & time per inquiry.

Considering the ever-increasing volume of data that is being generated by organizations every day, law firms - now more than ever - have to streamline their data collection and document review workflows. This, essentially, boils down to significantly reducing the data they collect and review by efficiently applying advanced in-place EDA and ECA software. We'll further elaborate on the benefits of early case assessment tools and eDiscovery software in general in the last chapter of this report.

Figure 11: Extent to which the respondents are happy with how fast their teams are able to identify relevant information within their clients' datasets.

Rate the following statement: "When working with clients' datasets, our team can identify relevant information fast"

Response	Percentage
STRONGLY DISAGREE	0.62%
DISAGREE	4.94%
NEUTRAL	35.19%
AGREE	47.53%
STRONGLY AGREE	11.73%

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Chapter 4

The role technology will play in supporting law firms goals in 2023

From predictive analytics and automating administrative tasks to streamlining eDiscovery phases, technology has been transforming the legal industry for decades.

Undoubtedly, technology will continue to play a significant role in supporting law firms' goals in 2023. Advancements in artificial intelligence, document classification, machine learning, and early case assessment software will keep enabling law firm practitioners to assess their clients' exposure quickly, automate repetitive tasks and improve efficiency.

Moving into 2023, to be able to reap the benefits that technology provides, more and more law firms will adopt "e2eDiscovery" (end-to-end eDiscovery) solutions. For law firms, e2eDiscovery will particularly make sense because it streamlines the entire discovery process from data collection to production, reducing the time and costs associated with manual, paper-based processes. Additionally, they provide a secure and defensible platform for handling sensitive legal data, while improving collaboration and data accessibility for the entire legal team.

By adopting end-to-end e-discovery tools, law firm teams will be able to easily track and manage important deadlines and court appearances, making the discovery process more efficient. Moreover, many end-to-end eDiscovery solutions include features such as cloud-based review platforms, which can enable distributed teams to work together more efficiently.

That said, IPRO Law Firm End-to-End Solution Suite helps conduct early case assessment by leveraging in-place search and analysis; resolve complex internal investigations; tackle regulatory requests; meet data privacy obligations; and perform smart eDiscovery for litigation readiness. IPRO solutions also allow law firms to directly connect to their clients' data and hence to proactively mitigate risks in their clients' data. This can be achieved by getting rid of redundant data, updating the clients' retention policies, and ensuring that sensitive information stays in secure locations. In case of a data breach, our suite helps minimize the attack surface and secure PII/PHI/PCI by locking down the affected dataset and evaluating impact post-breach.

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As the exponential growth of data within organizations is inevitable, law firms will have to adopt a more systematic and efficient approach to data governance and collection to be able to successfully fulfill the needs of their clients in 2023. In-place search solutions in particular will be able to assist law firm teams in creating a better overview of their data and its sources in an instance.

In fact, in-place search solutions have the potential to revolutionize law firms' way of working in several ways, namely by:

- Streamlining the discovery process by allowing for the efficient search and review of electronic data within its native environment, eliminating the need for data extraction and transfer;
- Allow firms to assess their clients' exposure quickly, hence showing significant savings from third-party costs and better shaping litigation strategy, all of which would add value to the client relationship, helping cement the client/firm bond;
- Providing advanced search functionality, making it easier for lawyers to find relevant information quickly and accurately, reducing the time and costs associated with manual document review.
- Providing a secure platform for handling sensitive legal data, reducing the risk of data loss or corruption, and ensuring that client confidentiality is protected.
- Enabling improved collaboration and data accessibility for the entire legal team, promoting faster and more informed decision-making.

More so, in-place search solutions introduce a competitive advantage for law firms, enabling them to do targeted collections from live data, thus avoiding overcollection. These solutions can target and analyze relevant data where it lives, without actually collecting it. This helps law firms save significant time by expediting the document review process as well as reduce the costs of collecting and storing data. How can in-place solutions achieve this?

For example, IPRO's in-search place solution - Live EDA - creates a content index that serves as a data map with information on where data is, why it's there, how long it's been there, and who has access to read and modify it. Such detailed insight helps law firm teams discern the truth of matters quickly and efficiently, providing a jump-start for both litigation and eDiscovery.

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In summary, those law firms that didn't embrace eDiscovery technology to the full extent yet will have to do so in 2023 to be able to remain competitive and capable of overcoming the pressing challenges of tomorrow in today's fast-paced business environment. Failing to do so might lead to increased costs, inefficiency, potentially legal vulnerabilities, and even reputational risks.

Interested in learning more about how you can step up your use of technology in 2023?

Contact our experts or schedule a meeting with them directly to get practical advice on how you can optimize your current eDiscovery processes.

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