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As Times Get Better, So Do the Bonuses

Law firm largess is up from last year

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image: Artville Illustration

Associates at several big law firms across the country welcomed the new year with hefty bonuses that were moderately higher than the year before, a reflection of the legal industry's recent prosperity.

Many top firms in New York, historically bestowers of the largest associate bonuses in the nation, doled out \$30,000 to \$60,000 to their junior attorneys, up from a maximum of \$50,000 in associate bonuses in 2004. Some firms on the West Coast and Midwest also boosted their bonuses modestly. And one firm, Susman & Godfrey in Houston, gave some of its associates a walloping \$150,000 in year-end perks, an increase from

about \$110,000 in 2004.

The bounty for associates mirrors recent solid financial performance by law firms and also may be the result of increased competition for young talent.

"It was a big year for me," said Brooke Taylor, a fifth-year associate at Susman Godfrey who received a bonus that was "very close to 100 percent" of her annual salary, which she said was \$130,000. Taylor plans to invest much of her bonus, but she also will splurge a little.

"I've got a 10-year-old car with 130,000 miles on it," she said of her 1996 Subaru. "I think I'll buy a new car."

LAYING OUT THE CASH

In November, New York's Sullivan & Cromwell, with 627 attorneys, announced that its associates would receive bonuses ranging from \$30,000 for first-year lawyers to \$50,000 for senior associates, the same as in 2004. The year-end awards were in addition to annual salaries starting at \$125,000 for first-year associates, a figure matched by most of the top firms in New York.

Following Sullivan & Cromwell's announcement, several other big New York shops disclosed that their year-end bonuses ranged from \$30,000 to \$60,000, some \$10,000 higher than the top of the range last year. Those firms included Milbank, Tweed, Hadley & McCloy; Cravath, Swaine & Moore; and Clifford Chance. Skadden, Arps, Slate, Meagher & Flom said that it was giving bonuses up to \$60,000 but that its lower end of the range was \$15,000. First-year salaries at Skadden are \$140,000.

Morrison & Foerster, which has its biggest office in San Francisco, is giving bonuses also within the \$30,000 to \$60,000 range, said Chairman Keith Wetmore. The 1,025-attorney firm has 143 lawyers in its New York office, where Wetmore, in San Francisco, will relocate to this month. Morrison & Foerster's bonuses in 2004 also paralleled those given by New York law firms that year.

Bryan Cave, the 730-attorney firm with its largest office in St. Louis, dished out associate bonuses ranging from \$20,000 to \$40,000, the same range as in 2004. In Chicago, Mayer, Brown, Rowe & Maw, with 1,292 lawyers, gave out \$30,000 to \$50,000 in 2004 but declined to provide 2005's numbers. Greenberg Traurig also did not provide bonus information.

Behemoth DLA Piper Rudnick Gray Cary, the 3,159-attorney firm created from two separate mergers announced in 2003, is increasing its bonuses by about 10 percent, up to \$65,000. The firm's largest domestic office is in Chicago.

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Part of the reason for the uptick in associate bonuses at many firms is the "pretty good years" that they have enjoyed, said Joel Henning, a director of Hildebrandt International, a law firm consultancy. "They fairly want to share the wealth," he said.

Combined law firm gross revenues for the nation's 100 biggest moneymakers rose by 10 percent in 2004, to \$46 billion, the greatest increase in four years, according to *The American Lawyer*, a sister publication of *The National Law Journal*. Partner profits climbed by 9 percent, to an average of \$960,000 per partner.

In addition, the Law Firm Group at the Citigroup Private Bank reported that the first half of 2005 indicated a 7 percent gross revenue growth rate, although that figure was down by three percentage points from the same period in 2004. Even so, corporate merger and acquisition activity -- a strong indicator of law firms' performance -- in the year's third quarter had its strongest showing since 2000, with deals totaling \$563 billion, according to Thomson Financial.

The boost in bonuses at several firms comes at a time when some have indicated that they are raising first-year associate salaries, which at New York firms have remained static at \$125,000 for about five years. Last month, Los Angeles' Gibson, Dunn & Crutcher raised first-year pay at the 782-attorney firm from \$125,000 to \$135,000. Other associates in the firm saw a \$5,000 raise.

In addition, Atlanta's Alston & Bird, which has 693 lawyers, recently raised its first-year pay to \$115,000, up from \$100,000. The increase represents the first one the firm has made since 2000, when first-year associates went from earning \$75,000 to \$100,000 per year. Recently, King & Spalding and Troutman Sanders followed suit with raises to \$115,000.

Several smaller boutique firms, including Los Angeles' Quinn Emanuel Urquhart Oliver & Hedges and New York's Kenyon & Kenyon, have increased associate salaries as well.

Also prompting law firms to hand out somewhat higher bonuses for 2005 is the decrease in supply of qualified associates, Henning said. A 1.3 percent drop in first-year law school enrollment in 2004 and an expected 4 percent drop in 2005's results mean that law firms will have to recruit and hold on to junior talent more aggressively.

"There are many firms in this country that could recruit the entire Yale Law School graduating class and not fulfill their recruiting requirements," he said.

Terence O'Malley, co-managing partner of DLA Piper, said associates are the "future of the firm." DLA Piper is devoting 20 percent more to 2005 associate bonuses than in 2004, he said. He explained that the firm has 10 percent more associates than it did in 2004 and that it is paying that larger group 10 percent more than it paid in 2004. "The firm enjoyed a very successful first year, and we believe those results should be shared," he said.

Taylor, at Susman Godfrey, said that her bonus mainly stemmed from the work she did on two cases in 2005. In one, she helped defend Amazon.com Inc. in a patent infringement lawsuit brought by Soverain Software in Texas involving electronic shopping carts. The case settled for \$40 million, with Amazon.com acquiring a license to Soverain's patent portfolio. *Soverain Software v. Amazon.com*, No. 6:04-CV-14 (E.D. Texas 2004).

In another patent infringement action, she helped represent plaintiff MicroUnity Systems Engineering against Intel Corp. and Dell Inc. over patents for Pentium processors. *MicroUnity Engineering System v. Dell*, No. 2:04-CV-120 (E.D. Texas). The case settled for \$300 million.

The New York Law Journal's *Anthony Lin* contributed reporting for this article.

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