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### Midsize Firms Weigh Salary Cuts

Petra Pasternak  
07-09-2009

A few years ago, most of California's premium midsize firms lined up to match big firms' top pay for young lawyers. Now, even as some of the biggest firms have begun to slash salaries, many midsize firms claim to be sticking with \$160,000 -- though there are some exceptions.

San Francisco's 96-lawyer Howard Rice Nemerovski Canady Falk & Rabkin, which matched the market in 2007, says it last month trimmed roughly 10 percent off salaries at all associate levels. Less than three months before, Allen Matkins, a Los Angeles-based firm with about 200 lawyers, went back to paying first-years \$145,000. As the downturn continues to reshape the legal landscape, others are mulling change too. Leaders at San Francisco intellectual property shop Townsend Townsend and Crew and at Los Angeles' Jeffer Mangels Butler & Marmaro say they may back off from the top market rate before the year is over.

Bruce Jeffer, the managing partner of 150-lawyer Jeffer Mangels, said the one-size-fits-all model is passé. His firm is looking to adjust salaries and billing rates according to demand in each practice area. "In the past, a lot of firms -- ourselves probably included -- were driven up by the belief that everybody had to do it because it was the common denominator," he said. "I think now it's the opposite."

A string of firms have reduced associate salaries since WolfBlock's February announcement that all its associates would be taking a 10 percent cut. (The firm announced its dissolution a month later.) Firms like Orrick, Herrington & Sutcliffe and DLA Piper have since said they are revamping their associate training and compensation models, including moving away from lockstep pay.

Legal observers predict more firms -- but not all -- will follow the market down.

Blane Prescott, a consultant with Hildebrandt International, said there are probably as many exceptions as there are rules. But he points to a class of litigation-heavy boutiques that he says have been sheltered from the worst of the downturn. "They may be 200 lawyers, but that combination of size and litigation focus tends to mean that those firms are really busy," he said. "They're not as pressed to make a change."

An advertisement for a webseries. The background is a black and white photograph of a modern building with a glass facade. Text on the left: "Join the 'Doing Business in and through Ireland' Webseries". Text on the right: "Doing Business in and through Ireland?". Middle text: "In the first of three webinars, Matheson Ormsby Prentice discusses the key corporate issues which make Ireland an attractive proposition for international investors." Bottom text: "September 15th, 2009 12.30pm - 1.00pm EDT Register now at [www.law.com/ireland](http://www.law.com/ireland)". Logos for "THE AMERICAN LAWYER" and "MATHESON ORMSBY PRENTICE" are at the bottom.An advertisement for a webinar. The background is a photograph of a man in a white shirt and red tie. Text: "Using Recovery as a Competitive Edge in Legal Services". Below: "A webinar discussion about integrated solutions for law firms." Further down: "Thursday 9/10 @ 1 ET. Register at [www.law.com/InMage](http://www.law.com/InMage)". The InMage logo is at the bottom right.

Indeed, two firms meeting his description, L.A.'s [Munger, Tolles & Olson](#) and [Irell & Manella](#), say they aren't lowering salaries. But some smaller high-end shops in San Francisco like [Farella Braun & Martel](#) are saying the same thing.

A firm's financial success may not indicate how it will treat pay, cautioned Lisa Muñoz, a Southern California legal recruiter with [Major, Lindsey & Africa](#). "It's very market driven and traditionally the salaries of the New York-based firms have been the leading indicator. If prestigious firms start freezing and cutting I think [other] firms will see that's acceptable."

To be sure, leaders at midsize firms are watching what's happening on the national scene. Townsend Managing Partner James Gilliland said the 198-lawyer firm is rethinking its own recruiting and training. Depending on changes the firm adopts, salaries may be affected.

New file openings and cases at the IP-focused Townsend are down by about 20 percent this year over the same period last year. "That's for both our prosecution disciplines and our litigation work," he said. "We're getting the message from clients that if they're going to pay these prices they want highly trained lawyers for that." The firm's first- and second-year associates bill between \$260 and \$290.

At the end of 2008, Townsend hired its first director of professional development, who is formalizing the firm's training program. For first- and second-year associates, the firm is pondering whether to reduce its 1,850 billable hour requirement so it can spend more time training. "If we do that, should we also adjust compensation? All those balls are up in the air," said Gilliland, who expects decisions by Labor Day.

At Howard Rice, those balls have fallen into place. Managing Partner Douglas Winthrop said the firm keeps an eye on the competition, including [Morrison & Foerster](#), DLA and [O'Melveny & Myers](#). Howard Rice froze first- and second-year associates' billing rates about a year and a half ago, he said. (Associate rates -- for all levels -- range from \$275 to \$510.) Its move to return first-years from \$160,000 to \$145,000 also came in response to clients, he said. With June's salary cuts, fourth-years now make \$170,000 and seventh-years make \$225,000, according to the firm. Winthrop said the 1,950 billable hour requirement remains.

At Jeffer Mangels, first-year salaries may go from \$160,000 to \$145,000. "And if the world keeps looking as lousy as it does now, we might go lower, too," Jeffer said. Billing rates are also under scrutiny. Without adapting to the market, "you're going to end up with big write-offs or angry clients," he said. He said decisions will be made by the fall.

Then there are the firms that say they're not considering going lower than \$160,000.

Among them are Southern California's 190-lawyer litigation firm [Munger, Tolles & Olson](#) and 210-lawyer [Irell & Manella](#), which does litigation and transactional work. In Northern California, holdouts include 56-lawyer [Shartsis Friese](#); 130-lawyer [Farella Braun & Martel](#) and 62-lawyer litigation shop [Keker & Van Nest](#).

Many of these firms say low associate-to-partner ratios help them shoulder the cost, and that the new competitive landscape makes them look better to potential recruits.

"Associate compensation is simple from my parochial, West Side L.A., Irell perspective," Elliot Brown, Irell managing partner, said in an e-mail. "We never wanted to be the biggest, we just want to be the best." To be the best, Brown said, the firm needs to attract and retain the most talented people. Compensation reflects that. First-years make \$160,000 and there is no plan to change the model, he said.

There is no move to reduce first-year pay at Shartsis Friese, which pays a \$160,000 base salaries to first years. Arthur Shartsis, the de facto managing partner, recently took out a calculator to illustrate why it wouldn't make sense to slash salaries. The firm has about 20 associates and about 29 partners, he said. A \$10,000 pay reduction for each associate would save \$200,000 overall, or about \$6,900 per partner. "That represents less than 1 percent of the average earnings of one partner," he said.

Shartsis said the firm has always matched market salaries. "If we give up that edge in recruiting, we give up the thing we need most, which is the most talented lawyers."

He doesn't seem worried about charging too much. Compared to the big firms he sees as competitors, his mid-level associates and partners are a steal: First-year associates bill about \$265, while some partners bill in the \$400s. The highest, partners John Broadhurst, Ronald Malone and Shartsis, charge \$725.

Farella recruiting partner Andrew Leibnitz said there are no plans to dock associate pay there. First-years who bill at least 1,950 make \$160,000. Those who bill at least 1,850 make \$145,000.

When law graduates survey the market and compare a firm like Farella to a firm like [Howrey](#), which [recently](#)

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announced it would pay associates a starting base of about \$100,000 in exchange for a period of apprenticing, Leibnitz said, he wonders which would be more attractive. "It hasn't always been the case that the midsize firms could compete the way we do on salary," he said. "Now, we can, and we see the bigger firms out of necessity trying to fashion alternatives."