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Less work means few winners, in any case

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Wall Street may be back to its big bonus ways, but for New York law firms, the easy money has yet to make a comeback. Most big law firms in the city have spent the past year cutting salaries and staff—and are now going so far as to rescind job offers to new hires who have yet to set foot in the door. They are scrambling to adapt to an economy in which clients are doing fewer transactions and demanding more for their money. What's at stake is the high-cost business model that for years has helped generate big profits.

FLEXIBLE FEES: Ronald Shechtman, managing partner of Pryor Cashman, says clients want to pay less for associates' time.

Perhaps the only winners are smaller firms that are now able to hire the best and the brightest at salaries that would have been impossible a year ago, and nonprofits and government agencies, which are taking on deferred associates at the law firms' expense.

Some lawyers say the cost-cutting is only temporary, a stopgap until the economy revives. But veteran industry observers say that for many firms, the model of sky-high fees supported by armies of associates is a closed case.

“Waiting it out and expecting the economic recovery to restore [firms] to the profitability they enjoyed up to 2007 is a failed strategy,” says William Brennan, a principal at Altman Weil, a consultant to the legal industry. “They need to adapt to these changes; they're here.”

Glory days

For much of the past decade, it's been heaven to be a lawyer, especially in New York City. Wall Street's boom sparked competition between investment banks and law firms for newly minted law school grads. Salaries soared, reaching today's $160,000 at top firms for first-year associates with zero experience. Firms hired flocks of the new grads, raising their leverage—the ratio of associates to equity partners—and their profits.

That model, which can mean charging as much as $375 an hour for a new associate's time, is now being questioned as the dismal economy puts a crimp on litigation work and lawyers' meat-and-potatoes transactions business.

LawShucks.com's Layoff Tracker estimates that in the first eight months of this year, 11,931 people nationwide, including 5,443 lawyers, have been laid off from law firms that don't have enough business to keep them busy or offset their high cost.

Even the 2009 graduates who were lucky enough to land jobs have been asked to defer their start dates, although sometimes with a stipend and an assist in finding a pro bono job at a nonprofit organization or in government.

Pryor Cashman has deferred five new hires from September until January; White & Case told 60% of its 2009 associate class not to show up until 2010.

Now, it turns out, even deferrals aren't enough. Chadbourne & Parke, which deferred 25 new associates until January, recently told about half of them that their deferrals would last indefinitely. Stroock & Stroock & Lavan not only deferred new hires until January 2010 but also told them they could extend that to 2011 or even walk away entirely with a payment of $75,000 and no obligations.

Arent Fox did the same, withdrawing job offers from would-be associates, including at least two in New York, and offering them $20,000 in compensation.

At the same time, firms are having to accommodate clients who are now being more assertive about less expensive fee arrangements and how they want their business handled.

Money matters

“Some general counsel have taken the position that they won't pay for first- or second-year associates to work on their matters while they are still trying to find their way to the library,” says Ronald Shechtman, managing partner of Pryor Cashman, a midsize firm with 125 lawyers. “Others don't want any associate more expensive than a third-year.”

And, while no one is playing taps yet for the billable hour, more firms are entertaining alternative arrangements, from fixed fees to blended rates to contingency arrangements where they take part of the risk. A survey by Altman Weil found that 15% to 20% of firms are now offering or considering such alternatives, compared with 5% to 10% a few years ago. Quinn Emanuel Urqu-hart Oliver & Hedges, whose stock-in-trade is business litigation, is one of them.

“We've had to be sensitive to clients' needs,” says New York managing partner Peter Calamari. “It helps the client's cash flow and gives us some skin in the game.”

School daze

The law firms' angst is trickling down to law schools, which depend on Big Law for jobs for many of their graduates. At St. John's University School of Law this year, many firms didn't even bother to interview on campus and simply asked for résumés. In the end, they made fewer offers.

“We were told by several firms that they had their marching orders and could only call back two or three people,” says Dawne Smith, the law school's assistant dean of career services. “Last year, there were firms giving offers to six and seven people.”

Indeed, the only ones reaping a positive return from the upheaval in the industry are smaller law firms and the government agencies and nonprofits that are getting pro bono services courtesy of the deferred associates (see the sidebar on Page 14). Bryant Burgher Jaffe & Roberts, an 18-lawyer minority firm with offices in Manhattan, recently was able to add seven experienced lawyers and associates.

“We are the beneficiaries of the big firm cuts,” says managing partner Seth Bryant.

HANDS-ON EXPERIENCE

DEFENDING THE CITY FROM LAWSUITS over tree limbs falling on cars and people tripping over cracks in the sidewalk may not have been the kind of law Joshua Jacobs had in mind when he graduated from Cornell University Law School last June. Nevertheless, the 25-year-old lawyer, on loan from Orrick Herrington & Sutcliffe to the Brooklyn district attorney's office, sees the work as an opportunity to learn the litigation process. He's already tried to work out settlements with plaintiffs and hopes to try some cases on his own in court.

“I feel I'll be a more confident, competent lawyer,” he says.

Another Orrick first-year associate, Susannah Nagle, a graduate of the University of Virginia School of Law, sees her upcoming year-long stint with the Lawyers Alliance—which provides legal services to nonprofit organizations—not as a delay in her career but as a chance to get practical experience. “I think it's **a huge opportunity**,” she says.

Mr. Jacobs and Ms. Nagle, who spent the summer of 2008 working for Orrick and received job offers last fall, learned last March that the firm was pushing back their start dates. They are among the scores of new associates who have been deferred to 2010 or later by big law firms grappling with a recession-induced slump in business. Orrick helped them find their positions and is paying them $60,000 in salary plus a $15,000 stipend for bar exam expenses during their deferrals.

It's **a good deal for the city agencies and nonprofits**, which say the associates do work that wouldn't get done or that would take longer to get resolved. “They do a substantial amount of work for the city,” says Stuart Smith, head of recruiting for the city Law Department. “We get 13 full-time lawyers that taxpayers don't have to pay for.”