



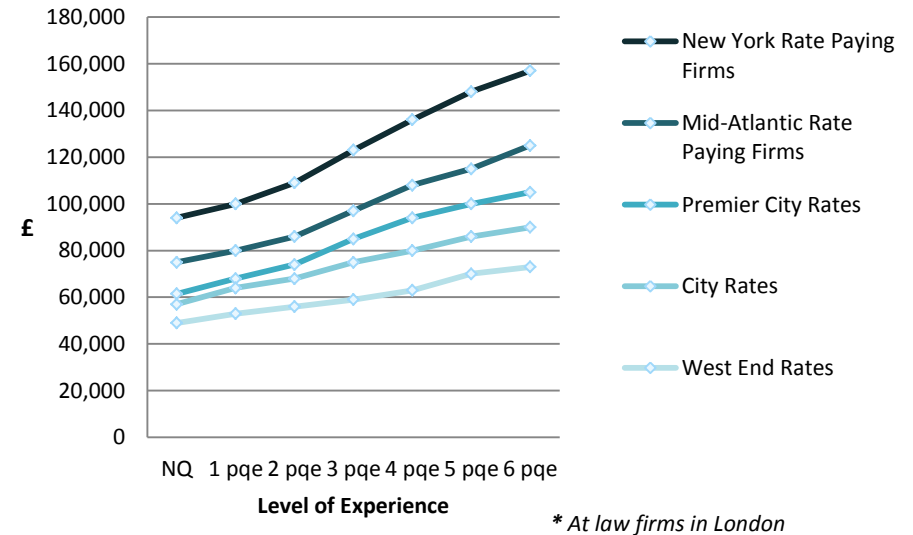
London Law Firm Assistants Salary and Bonus Trends and Predictions

February 2012

Headlines 2011 to February 2012 London assistants

- Below inflation base salary rises for assistants at UK headquartered law firms for the third year running in 2011.
- A fall in the % of bonus payments (in proportion to base salaries) at UK headquartered law firms.
- Base salary rises of up to 10% and surprise additional “spring bonuses” paid in March/April 2011 at a small minority of US law firms in London.
- Frozen annual bonus payments at US law firms paying “New York Rates” in January 2012 (this is the fourth year running that annual bonus payments have been either reduced or frozen).
- Delayed base salary announcements at a number of US law firms paying “New York Rates” but strong likelihood that associate compensation will continue to remain frozen, for the fifth year running, at 2008 levels .
- A sharply improved recruitment market throughout 2011 and a strong start to 2012 but an unsettled outlook for 2012.
- Projected fourth year in a row of below inflation salary increases for assistants at UK headquartered law firms in 2012.

"Typical" Assistant Salaries*



Overview of the London law firm recruitment market in 2011

Following the global financial crisis in 2009/2010 most City law firms attempted to counter falling UK fee income and plummeting profitability by instigating redundancy programmes or robust performance management reviews (with the same effect) for their assistant lawyers. The result was a sharp decrease in net fee earner headcount in most UK headquartered commercial law firms of around 8-10%.

The financial year 2010/11 saw modest rises in headline revenues but significantly improved law firm profitability - in large part due to headcount cost savings feeding through from previous years.

Although the 2010/11 revenue increases were, in fact, flat once inflation was taken into account, there were significantly fewer lawyers to undertake essentially the same levels of work. This resulted in increased assistant utilisation rates and, as assistants became busier and market sentiment improved, most law firms returned to the recruitment market in 2011 with the intent to re-stock and hopefully up-skill their assistant base.

Whilst recruitment levels in City law firms did see a noticeable improvement on the preceding two years, we estimate that permanent qualified lawyer recruitment was still down by more than 30% from its 2006/7 peak. It is also worth noting that the overall number of fee earners at top 25 UK headquartered firms still appears significantly less in 2011 than in 2007.¹

Lawyers in demand

Throughout 2011 we saw the greatest demand at the mid-senior assistant level - generally 3 to 5 years' post qualification experience ("pqe"). Whilst there was almost no demand for external newly qualified ("NQ") lawyers qualifying in March 2011, there was some semblance of an NQ recruitment market for September 2011 qualifiers (although to put things into perspective, it was probably less than a fifth the size of the typical pre-2008 market).

In terms of industry sectors, energy and power stood out throughout 2011 for its almost insatiable demand for both contentious and non-contentious specialists as scores of law firms ramped up their energy-badged corporate, regulatory, projects and disputes offerings in order to access this seemingly lucrative market. Although this growth has been good news for legal recruiters, the history of other

¹ The PwC Law firms' survey 2011 found that, in comparison with 2007, the % of fee earners at Top 10 and Top 11-25 UK law firms was down 10% and 3% respectively.

such spikes in demand for lawyers would indicate that this sector may be in danger of becoming over lawyered and hence vulnerable to a downturn.

Two of the most active areas of law firm recruitment throughout 2011 were finance and corporate. The drop off in deal flow from the second half of 2008 onwards led to significant redundancies in these transactional practice areas in 2009 and a limited number of newly qualified lawyers qualifying into these departments. With deal flow having started to pick up in 2010 and into 2011, law firms found themselves with gaps at most levels of experience and sought to restock in order to tender fully resourced client teams. Interestingly, in contrast to the highly specialised individuals sought by most firms prior to the downturn, many of the vacancies in finance were for "general banking lawyers" which may be reflective of the need for law firms to remain nimble in an unsettled economy.

Although it might be expected that financial services advisory lawyers would be in particular demand amongst law firms due to the enormous on-going changes in the financial regulatory landscape, we did not notice a statistically significant spike in demand for these specialists at assistant level. This is in stark contrast to in-house financial service companies, particularly banks, where there was strong demand for non-contentious financial service regulatory specialists throughout the first three quarters of 2011.

The second quarter of 2011 saw a handful of commercial property roles for the first time since the start of the economic slowdown. However, these remained rare with most real estate related roles focusing on corporate real estate or real estate finance.

Other non-contentious "support" areas saw an increase in recruitment activity, in particular commercial IT/IP (including outsourcing), employment & pensions and EU/competition. This was in response to an increase in the need for transactional support as well as specific advice associated with the merging, restructuring or administration of business as a result of the fallout from the economic downturn.

Whilst the tsunami of litigation anticipated by many commentators at the start of the financial crisis never transpired, there has been a steady increase in demand for dispute resolution lawyers over the last 3 years. As well as the recruitment of

general commercial litigators, 2011 saw law firms continuing to hire assistant level specialists in most areas of dispute resolution, including financial services, white collar crime, construction/energy, IP disputes, insurance and international arbitration.

2011 also saw a return in demand for professional support lawyers (PSLs) for the first time since the economic slowdown in late 2008. This was undoubtedly a sign of increased confidence in the market because such “back office”, non-fee earning support roles, however essential, are often considered something of an expendable luxury by law firm management in tough economic times.

The challenge from in-house

The increased demand for in-house lawyers, both in commerce & industry and the financial sector, showed no signs of reducing in 2011. The number of solicitors working in commercial in-house roles has increased year on year over the last decade at a much faster rate than law firms. Even during the period where law firms reduced their overall headcount (between 2007 and 2010) the number of practising certificate holders in commerce & industry increased by 27% over the same period². Bearing in mind that less than 3% of solicitors train in commercial in-house organisations, it is clear that they constitute by far the greatest on-going competition to law firms for legal talent.

Overseas demand

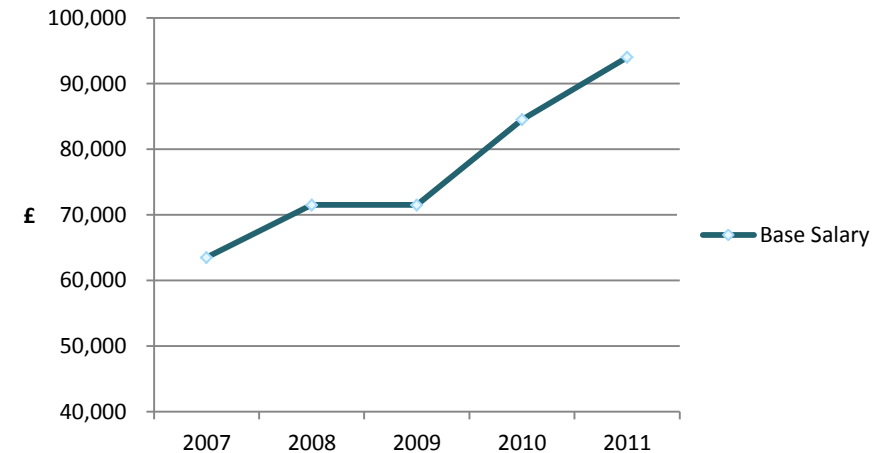
2011 also saw continued demand for UK lawyers (or UK based lawyers) from other jurisdictions. Recruitment activity in the Middle East was significantly lower in 2011 than at the height of the market in 2008, but international law firms in East Asia (most notably Hong Kong and Singapore) continued to hire significant numbers of mid and senior level lawyers on the back of growing economic activity. Several Australian law firms also actively targeted lawyers to relocate from the UK, particularly within energy related practice areas.

² Law Society Annual Statistical Reports 2007-2011

London Assistant Base Salaries

Assistant base salaries at UK headquartered law firms remained fairly static in 2011 with below inflation increases of around 2% on average in each ppe pay band. Nevertheless, law firms which retained assistant lockstep did matriculate lawyers through the pay bands - in effect giving individual lawyers pay rises of between 6% and 10%. For an illustration of how “lockstep” compensation has worked for a typical individual lawyer qualified in 2007 see graph below.

Year on year salary increase for a 2007 qualifier*



* at a Premier City Rate paying law firm

Firms which use a merit-based compensation model were able to cut expenditure by paying their lower-performing assistants less whilst still paying “market rate” to higher-performing individuals.

A Note On Lockstep vs. Merit-Based Pay

Lockstep is the traditional method used by both UK and US law firms to remunerate their assistant level lawyers. Essentially, it is designed to increase a lawyer's salary directly in line with the number of years' experience they have accumulated. The major advantage of this system is that it is totally transparent and saves significant partner and HR administrative downtime. The major disadvantage, however, is that it does not take into account the quality or quantity of an individual's performance.

Merit-based pay systems are, by definition, more bespoke and are designed to recognise an individual's contribution to their firm. Where merit-based pay has been adopted, the criteria for assessment, and the extent to which they have been implemented across all levels of qualification, varies hugely. Law firms who have adopted this model informally report that it has enabled significant savings on compensation whilst enabling them to be more flexible in their recruitment offers. However many firms, including most of the elite US and UK names, have shied away from implementing such a system due to significant reservations about the levels of partner downtime required to properly administer it.

Over the last five years, we have seen an increasing number of UK headquartered firms move to (or at least purport to move to) a merit-based pay structure and we expect to see this trend continue.

A result of the more widespread introduction of merit based pay over the last three years is that the range of salaries paid to individual lawyers of a given level of pqe has become very stretched making pqe a much less certain method of determining an individual lawyer's base salary than it once was.

Nevertheless, it is our observation that in firms which have merit based pay, compensation is still very closely tied to pqe level (up to about 5 years) for the vast majority of assistants with less than a tenth of lawyers at these firms deviating markedly from the norm for their qualification level. For this reason Edwards Gibson has continued to report its base salary information on the basis of pqe.

The base salary figures below are intended as a general guide to assistant remuneration in City law firms and therefore include representative amounts from merit-based paying law firms as well as those using a lockstep model.

Premier City Rates

This bracket covers magic circle firms and some of the top 15 UK practices. It also includes some merged US/UK firms. Salaries are generally reviewed between April and July.

PQE Level	Range £	Typical £
NQ	61,000-61,500	61,500
1	67,000-69,500	68,000
2	73,000-77,000	74,000
3	83,000-88,000	85,000
4	92,000-98,000	94,000
5	94,000-107,000	100,000
6+	96,000-130,000	105,000+

City Rates

This bracket covers rates paid by most full service City firms as well as the London offices of most national firms. Salaries are generally reviewed between April and July.

PQE Level	Range £	Typical £
NQ	52,000-61,000	57,000
1	60,000-68,000	64,000
2	64,000-70,000	68,000
3	66,000-75,000	75,000
4	69,000-87,000	80,000
5	71,000-92,000	86,000
6+	75,000-112,000	90,000+

Smaller City & Commercial West End Rates (“West End Rates”)

The range of rates in this bracket includes some of the smaller full-service firms which tend to classify themselves “City” firms but which are often physically located outside of the City. The size and nature of these firms often allows them greater flexibility and more discretion in setting assistant level salaries. Salaries are generally reviewed between April and July.

PQE Level	Range £	Typical £
NQ	40,000-53,000	49,000
1	44,000-57,000	53,000
2	48,000-65,000	56,000
3	52,000-69,000	59,000
4	55,000-74,000	63,000
5	55,000-80,000	70,000
6+	55,000-100,000	73,000+

US firms in London

For compensation purposes US headquartered law firms in London are commonly divided into two types: those that pay “New York Rates” and those that pay “Mid-Atlantic Rates” to their London based UK qualified assistants. Confusingly many New York headquartered firms pay Mid-Atlantic rates and a number of non-New York headquartered US firms pay New York Rates to their UK qualified London assistants.

New York Rates

The highest level of assistant compensation paid to UK qualified lawyers in London is found at firms paying New York Rates. The differential is significant - for example, newly qualified lawyers are paid a base salary which is on average 55% more than at magic circle law firms. However, unlike most UK law firms, they do not make pension contributions (typically worth between 5-8%).

Traditionally, base salary compensation at these firms has been calculated in US dollars based on levels paid to associate lawyers in their New York offices. In London these figures are converted using a fixed exchange rate which varies from year to year, although over the last few years this has tended to average around 1.6 to 1.7 US\$:£Sterling. New York rate paying firms invariably retain assistant lockstep but, depending on the exchange rate level set in the UK, base salaries for lawyers in London can vary significantly between firms even when the underlying salaries in US\$ are the same. In recent years most New York Rate paying firms appear to have moved their London assistant rates away from a direct anchor to New York, however, in practice they generally pay on par with their New York offices after conversion.

There has been little or no change in attorney compensation in the US since 2008, with the 1st year salary (NQ equivalent) remaining at \$160,000 for New York firms. In 2011 those US firms in London paying New York Rates to their UK associates saw their salaries remain static (aside from small upward variations arising from exchange rate fluctuations). Salaries at these firms are generally reviewed in January, however, January 2012 was unusual in that many traditional New York Rate paying firms failed to announce updated compensation to their UK or US associates in that month. At the time of writing (mid-February 2012) a number of firms have yet to announce base salary reviews. However, given announcements now made, it appears that salary bands at New York Rate paying firms will remain frozen in 2012 while associates continue to matriculate through the class year (pqe) bands.

PQE Level	Headline US\$	Range after conversion £	Typical after conversion £
NQ	160,000	94,000-104,000	94,000
1	170,000	94,000-110,000	100,000
2	185,000	100,000-120,000	109,000
3	210,000	110,000-136,000	123,000
4	230,000	123,000-149,000	136,000
5	250,000	135,000-162,000	148,000
6 +	280,000	140,000-195,000	157,000 +

Mid-Atlantic Rates

The Mid-Atlantic Rate is the basic pay model adopted by the majority of US firms in London. These salaries tend to be set in London with little or no direct relationship to the salaries paid in the US by those firms. Mid-Atlantic Rates are generally higher than Premier City Rates and always lower than full New York Rates.

In 2011 this class of firm showed by far the greatest divergence in the salary increases with some firms increasing by as little as 2% on average and others as much as 10% in each pqe pay band. Unlike New York Rate paying firms, some of these firms have adopted merit based pay. At the higher end the salary increases at these firms made them relatively more competitive than firms paying Premier City Rates which typically saw equivalent rises of only about 2%.

The class of firm paying Mid-Atlantic Rates in London varies enormously and ranges from elite “White Shoe” New York law firms to US headquartered global, national, regional and niche firms. Because the mix of firms is so eclectic, so too are the salary ranges. Salaries at these firms are generally reviewed between April and July although a minority review in January.

PQE Level	Range £	Typical £
NQ	70,000-90,000	75,000
1	76,500-95,000	80,000
2	84,000-100,000	86,000
3	88,000-108,000	97,000
4	95,000-118,000	108,000
5	100,000-128,000	115,000
6 +	110,000-180,000	125,000+

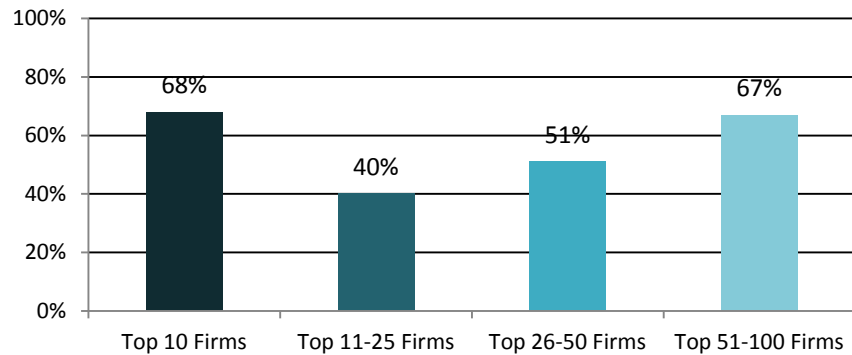
Retention Bonus Payments

Bonuses in City law firms

Nearly all law firms include a bonus element in their assistant remuneration packages, however, the criteria for receiving a payment varies widely from firm to firm. UK headquartered City firms no longer pay universal fixed percentage payments to assistants based on the performance of the firm as a whole; instead, they increasingly use bonus payments to differentially reward lawyers in “hot” areas or on the basis of an individual’s exceptional performance, client winning skills, or chargeable hours. Often a combination of all the above is used.

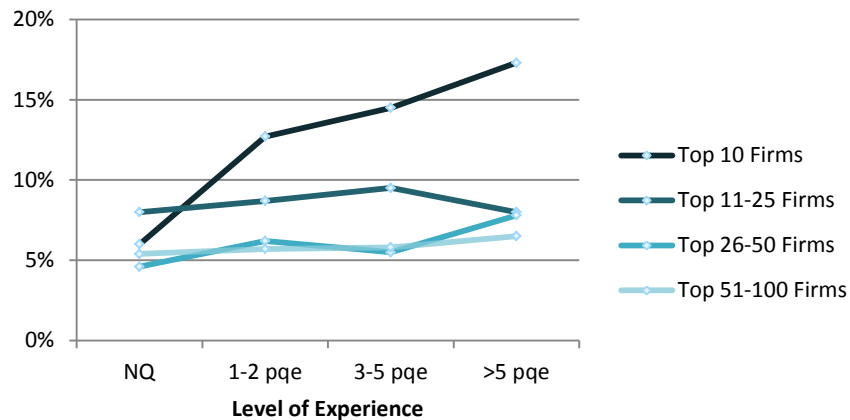
It is commonly assumed that the amount set aside for bonus payments in any given year is related to the financial performance of a firm, but this is not necessarily the case. Despite 2009/10 law firm revenues being poor, PwC note in their Law Firm Reports that UK headquartered firms’ bonus payments, as a percentage of base salary, actually increased on 2008/09 which again had been higher than in 2007/08 despite the continuing slow-down in the market between those years. Conversely, in 2010/11, when the majority of firms in the UK top 100 showed improved revenue and profit per partner, the actual percentage of bonus payments decreased at virtually every level of seniority.

Mean % of Qualified Lawyers Receiving a Bonus in 2011*



* at top 100 UK headquartered firms. Excluding partners (Source PwC)

Average Level of Bonus*



* as a percentage of base salary at top 100 UK headquartered firms (Source PwC)

Bonuses in US Law firms paying New York Rates

US law firms in New York generally pay fixed universal bonuses on a lock-step basis, dependent on years of experience with or without additional qualifying criteria. Firms paying New York Rates in London broadly follow this. For most levels of qualification, the annual bonuses announced at the end of 2011 and the start of 2012 remained the same as the previous year (which at \$7,500 [c. £4,700] for a first year (NQ) is significantly lower than the equivalent market high in 2007 of \$35,000 [c. £21,900]). Confidence in a market recovery at the start of 2011 led many firms in the US to pay an additional spring bonus to top up the 2010 amounts, effectively doubling the original pay out. A small number of US firms (both those paying New York Rates and Mid-Atlantic Rates) paid these spring bonus payments in London. Given the current global economic status, it remains to be seen whether this gesture will be repeated in 2012.

Typical bonus payments announced in December 2011/January 2012 by New York Rate paying US law firms were:

Level	Typical Bonus \$	Typical after conversion £
Class of 2010 (1 pqe)	7,500	4,700
Class of 2009 (2 pqe)	10,000	6,300
Class of 2008 (3 pqe)	15,000	9,400
Class of 2007 (4 pqe)	20,000	12,600
Class of 2006 (5 pqe)	25,000	15,600
Class of 2005 (6 pqe)	30,000	18,800
Class of 2004 (7 pqe)	37,500	23,100

Benefits

Additional benefits are widely offered to assistant lawyers at commercial UK law firms. Generally these would include a group pension scheme (either contributory or non-contributory – typically 5-8%), life assurance, private medical and dental care, travel loans and gym subsidiaries. Most US firms in London also offer similar benefits packages, although it is uncommon for New York Rate paying firms to contribute to lawyers' individual pension schemes.

Outlook & Predictions for 2012

At the time of writing (February 2012) the economic outlook is extremely uncertain with turmoil in the Eurozone and a high risk of the UK re-entering recession. In view of this it is likely that most law firms will make significantly fewer hires at assistant level in 2012 than 2011. In spite of this the first two months of 2012 have, perhaps surprisingly, seen continued across-the-board demand from City law firms for associates above 2 pqe.

In the UK many New York Rate paying firms delayed reviewing their base salaries in 2012. From those announcements which have been made it seems the emerging trend is the freezing of assistant level compensation (for the fifth year running). In view of this, and the unsettled economic outlook, it is highly unlikely that UK headquartered law firms, or US law firms paying Mid-Atlantic Rates, will increase base salaries for any given pqe level by anything more than a nominal, below-inflation amount of 2-3% when they review in April to July 2012³.

Unless the economy takes a sharp turn for the worse, we do not expect to see a repeat of the absolute pay freezes of 2009 (when assistants for the first time in 20 years failed to matriculate up the pqe pay band). This means that most individual

³ In January 2012 it was reported that US law firm Kirkland & Ellis (which traditionally paid its UK headquartered lawyers Mid-Atlantic Rates) increased its pay for NQ's by nearly 8% to £97,000, in effect re-classifying itself as paying New York Rates. A similar change in NQ compensation in London was announced at US litigation boutique Quinn Emanuel in January 2012. In our view it is unlikely that these moves will be followed by other US firms paying Mid-Atlantic Rates.

lawyers (up to 3 pqe) will still benefit from a 6-10% pay rise as they rise up the lockstep. Beyond 3 pqe the picture is likely to be blurred as, in a weak market, those firms which have introduced assistant merit-based pay will likely use these new structures to reduce overall compensation rises to no more than inflation for the majority of their assistants, whilst maintaining the flexibility to differentially reward higher performers. Beyond 5 pqe the picture is likely to be even less uniform because even those firms which remain true to associate lockstep tend to use an element of merit based pay.

As with New York Rate paying firms, the proportion of base salary paid in bonuses at UK firms is also likely to remain at similar levels as in 2011 as firms use bonuses to offset the negative impact of modest base salary rises for the highest performing lawyers. Should the market deteriorate and UK law firms report to an absolute base salary freeze with no matriculation through the lockstep, then, as in 2009/10 the proportion of compensation paid in bonus may, paradoxically, increase.

Methodology

The information in Edwards Gibson’s “London Law Firm Assistants Salary and Bonus Trends and Predictions” is compiled from over 500 relevant candidates registered with Edwards Gibson as well as published and non-published information made available by more than 50 law firms supplemented with telephone interviews and face-to-face meetings by Edwards Gibson with scores of law firm partners and HR professionals between July 2011 and February 2012. In addition Edwards Gibson used a range of third party statistical sources referenced in the text.

About Edwards Gibson

Based in the City of London, Edwards Gibson is a dedicated Legal Recruitment Consultancy specialising in private practice lateral partner hires, team moves and associate level recruitment

At Edwards Gibson we pride ourselves on the depth and clarity of information we provide and have an unrivalled knowledge of the markets in which we work. Our team of ex-lawyers and vastly experienced legal recruitment consultants are ideally placed to advise you on all your legal recruitment needs.

Further Information

Clients, candidates and other parties interested in discussing the figures and methodology in more depth are invited to contact us.

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