THE WALL STREET JOURNAL.

LAW

Corporate Clients Push Back After Law Firms Hike Starting Salaries

Bank of America calls decision to boost junior lawyers' pay to $180,000 unjustified

Worldwide Plaza, home of the offices of Cravath, Swaine & Moore LLP, the law firm whose decision to raise junior lawyers' starting pay has rankled some companies. *PHOTO: BLOOMBERG NEWS*

By **SARA RANDAZZO**
Updated June 15, 2016 7:05 p.m. ET

After Cravath, Swaine & Moore LLP said last week it would boost starting pay for its junior-most lawyers to $180,000, law firms across the country stumbled over themselves to announce salary increases for their own associates.

But now companies are pushing back.

Bank of America Corp.'s top lawyer recently sent an email to a group of law firms calling the increases in associate lawyer pay unjustified, making it clear the bank wouldn't help firms absorb the cost.

"While we respect the firms' judgment about what best serves their long-term competitive interests, we are aware of no market-driven basis for such an increase and do not expect to bear the costs of the firms' decisions," David Leitch, Bank of America's global general counsel, wrote in the email, reviewed by The Wall Street Journal.

A Bank of America spokesman declined to comment.

The latest law firm salary raises boosted first-year pay by 12.5%, and gave comparable hikes to the rest of the associate lawyer ranks. Pay generally went up by between $20,000 and $35,000 for every associate, topping out at salaries of $315,000 and above for the senior-most associates, typically with eight or nine years of experience.

The chief litigation officer for a Fortune 100 company said $180,000 for a first-year isn't justified, pointing by way of comparison to a lawyer in the company's litigation department with 20 years of experience who doesn't make that much money. "Why would we ever think a first-year associate is worth that?" the lawyer said, adding that they recently denied a firm's request to charge $400 an hour for a first-year.

The identities of the law firms that received Mr. Leitch's message aren't known, but the email appeared to target firms that handle the bank's litigation.

"We value the work performed by our Litigation Roundtable firms and seek to maintain a true partnership that meets our reciprocal needs-thoughtful, strategic, and cost-

competitive representation at rates and alternative billing arrangements that areattractive to our counsel," wrote Mr. Leitch.

The email ended by saying Mr. Leitch entrusts the firms who receive the email with its work because of their "legal expertise and entrepreneurial instinct," and looks forward to continuing to partner with them.

Like many other large companies, BofA has worked in recent years to reduce its legal spending; in 2013, the bank told the Association of Corporate Counsel it slimmed the number of firms it hires to defend it in litigation to 30 from around 700. Bank of America spent $1.2 billion on litigation in 2015, according to its earnings report.

BofA has used firms including Skadden, Arps, Slate, Meagher & Flom LLP; Paul, Weiss, Rifkind, Wharton & Garrison LLP and Cleary Gottlieb Steen & Hamilton LLP for big litigation matters in the past. Paul Weiss declined to comment. Representatives for Skadden and Cleary didn't immediately return calls for comment.

Cravath didn't immediately respond to a request for comment.

The push-and-pull over pay and rates has for decades been a source of tension between corporate legal departments and the law firms they hire.

Historically, law firms charged their clients in only one way: by the hour. While many in-house lawyers grumbled about the arrangements, saying they encouraged inefficiency and led to eye-popping bills, they mostly paid them.

But within the last decade or so, companies have pushed back. They now routinely demand "flat-fee" arrangements for a single piece of work, like a lawsuit or a transaction. And many have stopped paying for photocopies and legal research, items that were once rubber-stamped.

In-house lawyers have also ramped up resistance to paying for the most junior lawyers, often saying they won't pay for first- and second-year lawyers even if they are staffed onassignments. Such lawyers, the thinking goes, are too often billed out at hundreds anhour to perform relatively menial tasks, like reviewing documents.

Not all in-house lawyers are railing against the raises.

Edward Ryan, the global general counsel for Marriott International Inc., said he believes "law firms are responsible for their own cost structure" and that what ultimately matters is "the value of what we pay for." That said, he questioned if clients will "take their business elsewhere" if law firms try to pass off the costs directly.

Before Cravath raising its salaries, associate pay industrywide hadn't budged in nearly a decade, a time during which law school tuition has skyrocketed, leaving many graduates with upward of $100,000 in debt.

Many associates had complained to law-firm leaders that in recent years their pay scale had failed to keep up with cost-of-living increases.

It isn't entirely surprising that dozens of firms have followed Cravath's lead and matched the new salary structure in recent days. Large law firms view keeping pace with market leaders like Cravath as part of staying competitive in recruiting and retaining their younger lawyers, even if their profits are lower and they operate in smaller markets.

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http://www.wsj.com/articles/companies-push-back-at-law-firms-starting-salary-hikes-1466029554