

M E M O R A N D U M

CONFIDENTIAL

To: All Attorneys

From: R. Thomas Stanton &
James J. Maiwurm, on behalf of the Management Committee

Date: July 1, 2009

Re: New Associate Compensation Program

Earlier this year, we announced both a general readjustment in compensation levels for nearly all associates and other attorneys and our intention to develop and implement a new associate compensation program, commencing in 2010. In doing so, we indicated this new program would place greater emphasis on the development and assessment of an individual associate's performance, skills and competencies, and client service contributions. As a first step, the Management Committee has created the Associate Development and Compensation Committee, chaired by David Alexander. Dave will be joined on that committee by Steve Doi, Carolyn Buller, John Welch, Pierre Bergeron, Howard Nicols, Joe Markoski, Fred Nance and Traci Rollins with support from Jennifer Betlee and Tim Sheeran. Working with our Lawyer Personnel Committee and our practice and office leaders, this Committee will provide guidance and oversight to insure the development of a program which meets our goals and objectives and is consistent both with our Firm's culture and our unique global footprint.

Why are we making a change?

First, many of our colleagues will recognize that we simply have determined to migrate in the States to the kind of system for setting compensation and awarding bonuses that long has been employed in Latin America and in most of our offices in Asia and Europe. Moreover, we long ago moved from seniority as a primary factor in setting compensation of our partner, principal and counsel colleagues to a process that seeks to broadly measure and reward performance.

In addition, there is a growing consensus, in our Firm, in many other firms of similar size and scope and in the legal service marketplace generally, that the 'lock-step' model of associate compensation, long employed by most U.S. law firms, is no longer relevant or responsive. In particular, the worldwide economic

challenges have caused purchasers of legal services, including many of our clients, to re-evaluate how law firms are delivering and charging for legal services. Increasingly, clients are looking for a clearer value proposition from their service providers, and are increasingly skeptical about paying a particular hourly rate for one lawyer versus a higher rate for another lawyer, based solely on “age and grade.” Ongoing discussions among our practice leaders and with clients have reaffirmed our earlier conclusion that there needs to be a closer alignment between our associate compensation practices and other emerging trends and expectations, including, as noted, the increased client emphasis on value billing and the efficient and effective delivery of legal service.

One way to help achieve that closer alignment, is to step away from a seniority-based lock-step associate compensation system previously used in U.S. offices by this and other firms to one premised upon an individual’s achievement of articulated professional growth and experience thresholds. Those experiences will vary from attorney to attorney based on the nature of one’s practice, size of office and client demands. The quantifiable aspects of “productivity” will not be ignored as an important measure of attorney contribution. However, we hope to implement a system that will give greater weight to a broader range of relevant factors, in addition to chargeable hours, that are designed to support each attorney’s professional growth and development, and help achieve our collective business objectives.

How do we hope to accomplish this task?

The Associate Development and Compensation Committee has been charged with leading the development and implementation of our new compensation program. In leading this effort, the ADCC will seek input and feedback from partners and members of the Firmwide Associates Committee and other associates. For example, LPC will be asked to work on identification of “competencies”--those traits that are good predictors of attorney success, irrespective of practice group or geographic location. In its articulation of competencies, LPC will consult with associates from various offices, and seek feedback from the Firmwide Associates Committee. Concurrently, our practice leaders, working with members of their groups, will be asked to identify the skills that strong, contributing associates demonstrate and use effectively at various stages of their career development. Once preliminary “skill ladders” are assembled for a practice group, practice leaders will ask more senior associate practice group members to review the initial results and offer comments and suggestions.

What do we think we are going to come up with?

We think the broad contours of a new program may look something like this: after a year or so of practice, associates will be considered for advancement on the basis of identified and documented professional accomplishment and growth, the development of broader and deeper lawyering skills, increased effectiveness at managing work assignments and other contributions to client service. With such promotion would come compensation adjustments, appropriate billing rate increases, and increasingly greater client service delivery opportunities. Productivity, measured both in terms of the quantity of work performed and client service revenues generated, also will be a key factor in advancement and would be assessed not simply by counting the number of billable hours but also by consideration of client service revenues actually generated, as well as continued assessment of efficiencies and effective lawyering that produce strong results, valued by clients. Productivity would also include appropriate credit for time devoted to Firm citizenship activities including pro bono engagements, client service management and practice development where such activities are targeted and effective, meet the Firm's practice objectives and help build the Firm's business.

Without presuming an outcome at this point, we envision that there will be, say, 3 or 4 associate levels in the aggregate which will continue to reflect some continuing compensation differences among our geographic markets. Advancement from one level to the next would be based on an associate's satisfaction of the articulated criteria and mastery of professional skills expected, in a specific practice group, at the different levels, recognizing that there will be no single set of experiences or common set of skills acquired by associates in the same practice group, due to geographic and other variations within the firm. As well, advancement would depend upon the associate's continued greater mastery of the kinds of competencies, for example, oral and written presentation abilities and supervision of other timekeepers, common to and in fact required for success in all of our practice groups and offices. In addition to base compensation advancement, contribution and performance would continue to be recognized and rewarded through annual bonus awards as well.

Among the factors important to successful implementation of a new compensation model will be more systematic efforts at assigning work tied to skill development, performance criteria and client exposure. These efforts will be focused on spreading work opportunities among all associates to afford opportunities for growth and development. In conjunction with our Women's Initiative Task Force and our Diversity Committee, we have asked the ADCC to design and recommend ways to insure that our processes support the

professional growth and development underlying our diversity goals and objectives.

So where does all this end up?

Our plan and intention is to have the new program up and running by January 1, 2010. As part of that transition, we will also, of course, take steps to recognize and record the growth and development of our associates under our “old program” and to appropriately recognize and reward 2009 performance and contributions.

Our practice and office leaders, as well as our ADCC members, face an important task. To his role as Chair, Dave Alexander brings experience as a member of LPC and the Management Committee and service as one of the partner co-chairs of the Training and Mentoring Task Force. Other ADCC members were selected to insure broad-based and diverse experience and perspectives.

Although the design and implementation of a new program will require hard and focused work on behalf of all involved, we are convinced it is the right direction and one which will benefit all of our attorneys and our clients, and help us build a stronger law firm. We welcome your thoughts and suggestions, as well as your participation and patience, as we move forward.

Thanks in advance for your help.