

## Memorandum

**TO•** All Associates  
**FROM•** Elliott I. Portnoy  
**DATE•** May 21, 2009  
**RE•** Redesigning Sonnenschein's Relationship with Our Associates

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Long before the current economic upheaval that has gripped our clients and profession, survey after survey consistently confirmed a common theme: law firm associates have become increasingly unhappy in their work. Indeed, an entire industry has arisen in the blogosphere, where websites detail -- often hour by hour -- concerns from associate lawyers around the country and in firms of all sizes and stripes.

And yet, despite these warnings, the fundamentals of how most law firms recruit, develop, and compensate their associate lawyers have remained largely unchanged for too long -- to the detriment of the current structure's sustainability and, more importantly, to the professional reward and promise of our Associates.

As I discussed with you during today's monthly Firmwide Associate Meeting, Sonnenschein is committed to meaningfully redesigning our relationship with our Associates. I am writing to outline the specific steps we will take together over the next eighteen months to translate our vision, and the key role Associates at Sonnenschein will continue to play in our shared future, into reality.

### *Marketplace Realities*

Let's start with the obvious. Our clients continue to confront extraordinary times. Many clients have been compelled to reinvent how they do business in the face of turbulent financial markets, shifting demand, new governmental action and inaction, and global economic destabilization. Alliances, restructurings, reductions, and wholesale changes unimaginable eighteen months ago have become the norm.

Each of you has played important roles on the teams that have been assisting clients navigate the challenges presented by the worst economic conditions in nearly a century. As I have shared during recent Associate meetings, I thank you for your dedication, work, and creativity through these moments, and for your willingness to engage directly with me in discussing how we should respond and adapt to this new climate.

The legal profession has not been immune to the economic pressures or the imperative to reinvent itself. The downturn has contributed to further consolidation in the legal sector, the dissolution of several significant law firms, pressure on hourly billing models and rates, and a ramp-up in the use of alternative pricing approaches. We have watched the law firms with whom we compete for clients and talent engage in multiple rounds of mass layoffs -- often involving termination of hundreds of lawyers. Many of these moves clearly relate to the global economy. However, many reflect pressures on the industry that have been building for some time, including strains in the traditional law firm approach to associate lawyers.

### *Highlighting the Tensions*

The economic downturn has highlighted longstanding tensions in firms' relationship with their associates. Over the last decade, law firms have engaged in unprecedented increases in the size of associate classes, the ratios of partners to associates, and associate compensation levels. At the same time, the strains on the historical approach to hiring, training, staffing, evaluating, and compensating associates can be seen in:

- Associate surveys that continue to reflect industry-wide dissatisfaction with the level of feedback, communication, mentoring and training associates receive;
- Pushback on traditional staffing and billing models from individual General Counsel and collective efforts, like the Association of Corporate Counsel “Value Challenge”;
- Growth in temporary and staff attorneys without corresponding adjustments in the associate structure;
- Industry-wide attrition rates among mid-level associates who should just be hitting their stride; and
- The number of lawyers promoted to partner who feel they lack the full complement of skills needed to build a thriving practice in today’s environment.

### ***Sonnenschein’s Response to Date***

A year ago, in May 2008, Sonnenschein was an early mover in reducing our infrastructure costs and realigning our staffing levels with the needs of our clients. The very difficult steps, on a human level, that we implemented last year have allowed us to enter the new year better positioned to meet the needs of our clients, to make transformative investments in our practices and people, and to attract exceptional new lawyers and professionals -- through April 30<sup>th</sup>, we have been joined by over 140 new colleagues in virtually every practice and office, including 68 Associates.

As I shared in last month’s Associate meeting, the performance of many of our practices and teams -- and the front-page engagements we have secured through unprecedented collaboration among our colleagues -- confirm that the strategy we have pursued is yielding substantial dividends.

And yet, our clients in many sectors continue to face depressed demand and a high degree of uncertainty. They, in turn, are using fewer legal and professional services and demanding greater value in their relationships with us and our competitors.

### ***A Comprehensive Redesign***

We have concluded after much deliberation that we must look beyond the realities of the current economic environment and make structural changes in our relationship with our Associates that will not only continue to give us greater resilience and flexibility in the near-term, but also position us to better meet the needs of Associates, Partners, and clients over the long-term.

I am writing to share with you Policy & Planning’s commitment to a comprehensive redesign of our relationship with Associates; to outline changes, some of which will take effect in 2009 and others of which will be implemented in 2010; and to ask for your support in shaping our new approach to hiring, developing, staffing, evaluating, and compensating Associates.

### ***Our Guiding Principles***

Changes in our Associate relationship are guided by and will continue to evolve consistent with our commitment to leadership along several dimensions:

- Providing Associates with distinctive and flexible career paths and growth opportunities in a supportive, merit-driven environment that is grounded in the values that have been core to our Firm over its 103 year history;
- Providing our clients with exceptional value by fielding the highest quality lawyers, delivering world-class service, building diverse and high-performing client service teams across a broad range of practices and geographies even more tailored to our clients’ needs and preferences; and

- Continuing to attract and retain a diverse group of talented Associates committed to representing our clients in keeping with our core values and our client service mission.

While we have been focused on each of these dimensions, further strides require fresh approaches. The redesign of our relationship with our Associates that we outline today will position us to attract, develop, inspire, reward, and retain the talented Associates who have been core to the extraordinary client service that has been and must continue to be a hallmark of the Firm.

### Summary of the Redesign

We are committed to building a new relationship with our Associates characterized by:

- **Recruiting:** A more refined approach to building our Associate ranks.
- **Development:** More effective development programs tailored to the needs of Associates in different practices and at different career stages.
- **Staffing:** Staffing processes that provide Associates with greater knowledge of available assignments and more systematically match Associate skills, interests, and development goals with projects.
- **Career paths:** More varied, flexible career paths, including opportunities for accelerated advancement to Partner for high performers.
- **Evaluation:** De-emphasis of billable hours as the basis for Associate evaluation and compensation in favor of a performance, merit, and contribution – driven model.
- **Compensation:** Reduction in the base salary scale with opportunities to earn back this reduction in 2009, expansion of merit bonuses, and shift from a class-year model to a performance-based model that allows our highest-performing Associates to earn more money than under our current system.
- **Partner leadership, mentoring, coaching:** Partners who are better equipped to provide Associates with leadership, feedback, coaching, and mentoring

In many cases, these changes build upon existing initiatives, some of them longstanding and valued Sonnenschein practices, and others that have been successfully launched in recent months.

### *A Phased Approach*

There are two phases to the approach we announce today -- the first will be implemented in 2009; the second, we will initiate in 2010. Consistent with our desire to develop approaches more responsive to Associate and client needs, our implementation process will include substantial input from and engagement with both our Partners and Associates.

### Phase I -- 2009

In 2009, we will implement several initial changes in our Associate relationship:

- **Refine Our Recruiting Approach.** Our 2009-2010 Associate class already reflects our commitment to reducing first-year and summer class sizes. Our Associate Hiring Committee made this change prior to current market conditions, and we have concluded that smaller class sizes should be the norm going forward. Our recruiting efforts will continue to target outstanding law students and lateral candidates, and our recruiters will focus on recruiting a diverse set of candidates with the attributes most likely to make them successful at Sonnenschein. With fewer entry-level Associates, our newest colleagues will have access to a broader set of opportunities and greater mentoring from senior Associates and Partners.
- **Reduce the Associate base salary scale, while providing opportunities for high performers to exceed current compensation levels.** Like many of our competitors, we have concluded that there is

an imperative to reduce and align Associate compensation with the needs of our clients and the economic realities of our industry and Firm. We do not do so lightly. Having monitored the marketplace, listened to clients, and engaged in discussions with Associates, our new approach will preserve jobs consistent with our commitment to create opportunities for our Associates to thrive and advance at Sonnenschein.

Our immediate Phase I approach involves three elements:

- A reduction in the Associate base salary scale effective June 1, 2009;
- A path for Associates to fully earn the entire amount of their corresponding base scale reduction in 2009; and
- A significant increase in our 2009 merit bonus pool and elimination of the minimum hours merit bonus threshold to ensure we reward our highest performing Associates for contributions beyond billable hours.

The net effect will be to reward our highest performing Associates -- at levels that can exceed their current compensation -- while reducing our cost structure in ways that will give us flexibility to better meet the needs and changes our clients are seeking.

In the next few days, each Associate will receive a memorandum that provides information on their individualized base salary for the balance of the year. Our first year Associate base salary under the new approach will be set at \$145,000 in most of the cities in which we operate, and the salary levels for the balance of our Associate classes vary by year and geography consistent with our standard practice.

As noted above, a critical element of the Phase I approach is the opportunity through individual performance for Associates to fully earn the entire amount of their corresponding base scale reduction by virtue of their individual productivity and/or their performance, more broadly assessed.

- Associates who reach the target, as set under the current system, of 2,000 billable hours including approved pro bono hours (1,950 in our Missouri offices) will receive 50% of the amount by which compensation was reduced in the form of a bonus to be paid in January 2010. Associates who reach 2,200 billable hours including approved pro bono hours (2,150 in Missouri offices) will receive 100% of the reduction amount in the form of a bonus to be paid in January 2010.
  - As detailed below, Associates will also have the opportunity to earn back and exceed their current base scale reduction through an expanded merit bonus program.
- **Expand our Merit Bonus Program and shift merit bonus criteria away from billable hours.** We believe that productivity is too narrow a lens on which to base our bonus decisions. Accordingly, today we announce the expansion of our Merit Bonus Program and the elimination of the requirement that Associates meet minimum billable hours in order to be eligible for such a merit bonus. Many Associates making outstanding contributions will, for various reasons, not achieve current billable hour targets. Among the factors beyond productivity that may be relevant to assessing an Associate's contributions are:
    - Quality and efficiency of work for our clients;
    - Business development and marketing endeavors;
    - Demonstrated success in generating new clients and expanding existing matters;
    - Exceptional contributions to the profession and the community through engagement in our pro bono, community service and diversity initiatives; and
    - Overall contributions to our practices, offices and the Firm.
  - **Strengthen our Associate-Partner feedback program.** Enhancing the skills of our Partners to manage and develop Associates is an essential component of our new Associate relationship. We have

already begun to design a process by which Associates will have the opportunity to assess the contribution to Associate training and development of Partners with whom they work. This feedback will be aggregated and provided to Partners. We will accelerate this program so that it can be implemented on a pilot basis as soon as possible.

- **Expand our Associate secondment program.** Sonnenschein has a history of successful secondments, but our approach has tended to be opportunistic. Secondments represent one of the most enriching and potentially career-shaping experiences available to an Associate. Consistently positive client feedback on secondments with our Associates confirm that they are a win-win. In light of the positive impact secondments can have for Associates and clients, we will be designing a more structured and proactive secondment program for high-performing, mid-level Associates across practices and offices.

### Phase II -- 2010

In 2010, we will complete the development and implementation of a new relationship with our Associates through several complementary initiatives:

- **Shift the Associate salary structure away from a lockstep, law school class to a performance and merit-based system.** The time has come to move away from the traditional method of compensation for Associates. I appreciate the input of the Associates Committee, and the extensive participation of Associates during the recent listening sessions held by the Legal Development Committee in each of our offices. We are fortunate to have an extraordinarily talented group of Associates, and believe the traditional approach tied to law school graduation year is outmoded, inconsistent with professional services industry compensation structures, misaligned with client interests, and no longer consistent with our commitment to rewarding our highest performing Associates.

**Accordingly, today we are accelerating our efforts begun last year to move toward a performance and merit-based compensation and promotion system for Associates.**

We expect to share later this year a new performance-based system for implementation in 2010. We envision this system will be one in which advancement more closely relates to personal skills development and client service, with variable compensation representing a higher proportion of total Associate compensation so that our high performing Associates have the potential for accelerated advancement and above-market total compensation.

- **Provide Partner training on team leadership, Associate evaluation, coaching, and mentoring.** For the most part, law firm partners have been left to their own devices when it comes to people leadership and management. The success of our new Associate relationship depends on cultivating a new Partner/Associate mindset on team building, evaluating, coaching, and mentoring. We are committing to a redesign and launch of an even more effective set of development programs targeting these skills.
- **Design and implement a more comprehensive portfolio of Associate development programs/tools.** Our professional development program, led by our Professional Development Manager, has been informed by our Career Development Guidance (CDG) frameworks, which have attempted to outline the skills, experience, and responsibilities appropriate to junior, mid-level, and senior Associates in each area. Over the last year, we launched a number of training programs targeting junior Associates including our Litigation Core Curriculum, Corporate Core Curriculum, and Corporate Boot Camp. Our goal is to provide Associates with market-leading development opportunities that build legal/non-legal skills that will accelerate their progress, increase their impact as professionals, and expand their opportunities. This work must be done in the context of more comprehensive competency and

performance milestones that replace our CDG and become the cornerstone of our approach to developing, staffing, and evaluating our Associates.

- **Enhance our staffing approach and processes to more systematically take account of Associate skills, interests, and development goals.** Experience gained working with Partners, fellow Associates, other professionals, and clients on matters will always be the most important piece of an Associate's development. We must create an enhanced approach to staffing, capitalizing more effectively on best practices in other professional service sectors and that more systematically matches opportunities across the Firm's practices and offices with Associate skills, interests, and development goals.

### ***Implementation Leadership***

To advance our objectives, we will create a leadership team to drive this effort over the next 18 months composed of both Partners and Associates. This team will be charged with implementing the elements covered in this memorandum, as well as other aspects and new ideas that we will certainly consider.

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This holistic approach to our relationship with our Associates is the right path to be pursuing, and I am proud that Sonnenschein will help lead the way for our profession. We will create a more realistic, comprehensive, and variable compensation structure that better positions our Firm to avoid the typical law firm response of sharpened pencils and reductions the moment client demands or workload needs contract. With our new approach to recruiting, staffing, training, mentoring, and advancement, we will be far more nimble. Most importantly, we will enhance the professional development path, and career security and satisfaction, that is the priority I have heard about most from many of you.

I personally appreciate your commitment to Sonnenschein as we continue to build an even stronger firm, and I look forward to many conversations to come as we chart this new course in our relationship.

Elliott