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## ASSOCIATE DEVELOPMENT, EVALUATION AND COMPENSATION PROGRAM

Scope: All Associates

Pages: 7

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The Associate Development, Evaluation and Compensation Program contains three key elements:

**Associate Development Framework.** A development framework based on Core Competencies that we believe fuel success at DLA Piper. Development of these competencies by individual associates will be supported by an extensive career curriculum, strategic use of Pro Bono opportunities and frequent and effective feedback;

**Robust Evaluation Process.** In addition to ongoing feedback during the year, an enhanced Annual Review Process that defines and assesses performance holistically, considering both an associate's Competency Level and his/her Contributions to clients and the Firm; and

**Performance-Based Compensation and Advancement.** Individualized, performance-based advancement along a three-Level career path, with a portion of compensation tied to each associate's year-end Performance Rating, a strong bonus program, and the opportunity for outstanding performance to accelerate advancement toward partnership.

### **Associate Development Framework.**

**Levels and Steps.** Instead of traditional lockstep advancement, the associate career path will be characterized by three broader and more flexible levels of development: **Level I, Level II, and Level III.** Each Level will in turn consist of two to three Steps through which an advancing associate will progress. Promotions between and within Levels will be performance-based, not tenure-based. Years spent in a Level may vary within a minimum and maximum number of years. This will allow for more varied career progressions and timing to partnership (including earlier election to partnership for those on an accelerated development trajectory), reflecting differences in associate experiences prior to law school, as well as differences in their development paths and career goals as lawyers.

The **Associate Development Framework** is accessible on the Associate Development Fusion site, **Nexus**, and details the competency-based performance criteria for associates in Levels I, II, and III. An associate will be considered for advancement from one Level to the next when he/she has mastered all or substantially all of the competency-based performance criteria associated with his/her current Level. The Firm will continue to create opportunities for attorneys who desire a modified work schedule and will allow for an

appropriate adjustment in time-in-Level expectations, consistent with our desire to attract and retain top talent.

Placement decisions for the subsequent year will be communicated to associates following Annual Reviews and compensation decisions. For 2010, associates will be placed in a Level and Step within a Level on the basis of seniority. As we are making these initial placements on a tenure-basis, we expect there will be more than the typical placement adjustments once the 2010 evaluation cycle has been completed. We ask for your patience as we transition to an entirely performance-based system by 2011.

In more detail:

**Level I:** Generally, associates will spend either 2 or 3 years in Level I (1 year in Level I Step 1, and 1-2 years in Level I Step 2). Level I and particularly the entry-year will have an increased development focus. In January 2010, all entry-year associates (class of 2009), and advancing 2<sup>nd</sup> and 3<sup>rd</sup> year associates (classes of 2008 and 2007) will be placed in Level I.

**Level II:** Generally, associates will spend between 3 and 4 years in Level II (1 year in Level II Step 1, 1 year in Level II Step 2, and 1-2 years in Level II Step 3). Advancement from Level II to Level III will represent a significant milestone and signal that an associate is on track in the development of competencies essential to partner-level performance. In January 2010, advancing 4<sup>th</sup> through 7<sup>th</sup> years will be placed in Level II.

**Level III:** Associates generally will spend 2 to 4 years in Level III (1-2 years in Level III Step 1, and 1-2 years in Level III Step 2). Level III associates will play an expanding role in project management and team leadership and will increasingly function in partner-like roles. In January 2010, advancing associates in their 8<sup>th</sup> year and higher (class of 2002 and earlier) will be placed in Level III.

**Core Competencies and Practice Benchmarks.** The 4 **Core Competencies** that drive success at DLA Piper are Professional Excellence, Client Impact, Interpersonal Effectiveness, and Leadership. For each of these Core Competencies, the Associate Development Framework will describe in detail the expected competency and performance criteria for associates in each Level. Each Core Competency will be defined by four performance criteria describing the behaviors associated with mastery at each Level in our career path. The Framework is the foundation for the Firm's Associate Talent Strategy. The goal is to provide associates with a clear road map for their career development and success at the Firm, facilitate accelerated associate development and establish a more systematic and holistic basis for recognizing and rewarding associate performance. The Firm's **Practice Benchmarks** will identify the practice experiences and activities associates should be seeking at each stage of their development, as well as guide practice-specific training programs and career plans. These will be updated by the Practice Groups during Q1 2010 to better conform to the Associate Development Framework.

**Career Curriculum.** The Firm is committed to developing an enhanced training and development curriculum, aligned with the Associate Development Framework. These courses will build capabilities in each Core Competency area with programming tailored to

each stage of an associate's development. Additional practice-specific programming will align with our Practice Benchmarks. As a first step, we will introduce new Academy Programs, two for new associates and one each for Level II and Level III associates. These academies will be 4 to 5-day programs bringing together 20 to 30 associates at a time to build competency levels specific to their career stage, share experiences, and broaden their Firm perspective and network. Academies for new associates will commence in the first quarter of 2010. Advanced Level II and Level III Academies will be introduced later in 2010.

Entry-year associates will have a more intense development focus, accelerating the associate's ability to assume significant roles on our client service teams, with reduced billable hour expectations (1500 Client Billable hours), and will be expected to spend a greater portion of their time on professional development and training and Pro Bono assignments.

**Pro Bono.** Our Firm is known for its commitment to Pro Bono work, which provides our associates with opportunities to give back while building important skills. We will use Pro Bono assignments to provide associates at all Levels with early front-line opportunities that can accelerate their development. We will include a review of an associate's Pro Bono contributions in our year-end Contribution assessment (described in greater detail below).

### **Feedback and Annual Review Process.**

Effective April 1, 2010, we will institute **Project Feedback Reports** to provide associates with more timely and specific feedback over the course of the year. All Supervising attorneys will be asked to provide a Project Feedback Report upon an associate's completion of a major project or after 150 hours of work on a continuing billable project or 50 hours on a Pro Bono project. The Supervising attorney will complete a brief written feedback report and will be available to meet with the associate to provide the feedback within 30 days from the date of request. We will implement a robust Annual Review Process that assesses associate performance based on a holistic review of their Competency Level and Contribution; rates associates in a rigorous, equitable, and systematic manner with year-end Performance Ratings driving a larger portion of associate compensation; and provides associates with valuable feedback that can form the basis of constructive career and development plans.

The output of the **Annual Review Process** will be a comparative **Performance Rating** (on a four-point scale for all associates beyond the entry-year) assigned to each associate by the Associate Evaluation and Compensation Committee ("AEC") in consultation with our Practice Groups. The Performance Rating will be driven by the associate's **Competency Level** with possible adjustments upward or downward based on the associate's **Contribution Factor**. The objective of this more holistic approach to defining and assessing associate performance is to focus associates and partners on creating value for clients and for the Firm and on investing in an associate's career development.

For Levels I and II (with the exception of entry-year associates – Level I, Step 1), we expect that roughly 20 percent of associates will receive the top Performance Rating of "4," 50 percent will receive the expected Performance Rating of "3," 20 percent will receive a "2" indicating their performance is not fully meeting expectations, and 10 percent will receive a "1" indicating their performance is unsatisfactory – with minor differences possible in

distribution within individual Practice Groups. For Level III, we expect a somewhat different distribution with few associates, if any, receiving a “1”. Entry-year associates (Level I, Step 1) will continue to be assessed on a “Pass/Fail” basis with an expectation that the vast majority will “Pass.”

The Annual Review Process will provide Practice Group and Firm leadership with a deeper understanding of the Firm’s associate bench strength and a greater ability to align our talent pool with client needs and opportunities, address deficits and take a longer time horizon in the management of our partnership pipeline. Accomplishing these objectives will require the collaborative leadership of our Practice Groups, the AEC and our Professional Development department, and several important changes in our Annual Review Process:

**Competency assessment.** The Annual Review Process will begin with and be driven by an assessment of each associate’s Competency Level in the context of our Associate Development Framework and the performance criteria specific to his or her career stage (Level I, II, or III). All partners who have significant work experience with an associate will complete a Year-End Competency Review, evaluating the associate’s Professional Excellence, Client Impact, Interpersonal Effectiveness and Leadership, and assigning the associate a **Competency Level** of Outstanding, Progressing, Developing, or Underperforming for each of these Core Competencies. In assigning Competency Levels, Supervising partners will consult the Associate Development Framework and Practice Benchmarks along with the associate’s self-evaluation and career plan; and will provide a narrative summary of their assessment.

Following the submission of Year-end Competency Reviews, each Practice Group will hold a meeting(s) to discuss these reviews. For smaller Practice Groups, the discussion may be had on a national basis in the first instance. For larger Practice Groups, the discussion will take place in each Office initially and subsequently at the National Practice Group level. In both cases, the goal is for Practice Groups to recommend an overall Competency Level for each associate relative to expectations for his/her Level and to the performance of his/her peer group (generally, other associates in the same Level and Step within a Level); and to identify associates recommended for advancement to the next Level. This will require each Practice to structure an integrated Practice-wide process for assessing associate Competency Levels and engage in a substantially more active and informed dialogue on their overall talent base and pipeline.

The AEC will continue to play an important “normalizing” role before finalizing associate Competency Levels, to help ensure that individual evaluations are properly weighted, possible differences in standards are identified and corrected for, and consistent standards are applied across offices and Practice Groups. The AEC will also make final decisions on advancement between Levels, ensuring consistency across Practice Groups, offices and individuals.

**Contribution expectations and assessment:** An associate’s final Performance Rating also will take into account his/her contribution to clients and the Firm, as assessed by the AEC. This assessment will be informed by the associate’s Billable Client hours, non-billable **Firm and Professional Development** hours (including

hours spent on business development, Pro Bono, Firm Committee service, recruiting, professional development and training, Bar Association and committee work and publishing/speaking), and description of the nature and impact of his/her billable and non-billable work (included in his/her self-evaluation).

We recognize that billable hours are an increasingly imperfect measure of value to our clients and our Firm. This is one reason we are adopting an approach that emphasizes competencies, not hours, in awarding Performance Ratings and Bonuses. At the same time, hard work is an indispensable ingredient of success in our profession, and the transition from a quantitative to a more qualitative system requires changing expectations and engrained patterns of behavior. This will be a process, and therefore we have retained an hours component in our expectations for the coming year.

We are shifting to expected billable and non-billable hour ranges consistent with active engagement in the business and life of the Firm, a strong work ethic and our conviction that hours are not an end in and of themselves.

Beyond the entry-year (Level 1, Step 1), all full-time associates will be expected to have between 1,850 and 2,150 Billable Client hours, and between 200 and 400 Firm and Professional Development hours with at least 60 Pro Bono hours, and at least 60 Professional Development and Training hours. For these purposes, the first 100 hours of Pro Bono (or up to 400 hours on approved New Perimeter or Signature projects) billed by an associate will be credited toward the Billable Client category; all Pro Bono hours above 100 (or 400 on New Perimeter or Signature projects), together with all hours billed in the other categories above, will be credited as Firm and Professional Development hours. Entry-year (Level I, Step 1) associates will be expected to have at least 1,500 Billable Client hours, with the balance divided between Professional Development and Training hours, and Pro Bono hours.

The AEC will assign each associate a **Contribution Factor** of either Above Expectations (a "plus factor"), Within Expectations (an "equals factor"), or Below Expectations (a "minus factor"), in accordance with the following guidelines:

**"Within Expectations"** will be assigned to associates whose Billable Client hours and Firm and Professional Development hours are both within the expected ranges. The AEC in its discretion may assign "Within Expectations" to an associate whose hours are below expectations in one or the other of these categories (but not both) particularly if the associate's Billable Client hours are materially above the average in the associate's Practice Group.

**"Above Expectations"** will be assigned to all associates whose Billable Client hours and Firm and Professional Development hours are both above the expected ranges, or whose Firm and Professional Development hours are within the expected range, and whose Billable Client hours are above the expected range. The AEC may in its discretion assign "Above Expectations" to an associate whose hours are within both expected ranges, but whose Billable Client hours are materially above the average in the associate's

Practice Group, or who has otherwise made an extraordinary contribution to clients, the Firm or the community.

**"Below Expectations"** will be assigned to all associates whose Billable Client hours and Firm and Professional Development hours both are below the expected ranges; and generally will be assigned to those associates below expectations in one of these hours categories absent countervailing factors.

**Broader Career Advisor role replacing Benchmark Advisor.** Every associate will be assigned a Career Advisor, a partner in his/her Practice well-positioned to provide career guidance. The Career Advisor position will replace the Benchmark Advisor position and involve a broader set of responsibilities. The Career Advisor will meet with his/her advisees at least twice a year (July 2010 and January 2011 for the first year), play an active role in the Practice's Annual Review discussion and assessment of the Competency Level of his/her advisees and participate in the Annual Review feedback discussions with his/her advisees along with a Practice Group Leader and in the case of Level III associates, the AEC Chair. Career Advisors also will support their advisees in reviewing their Benchmarks Reports and Project Feedback Reports, updating their career plans mid-year and drafting new career plans following Annual Reviews.

### **Performance-based Compensation and Advancement.**

Effective January 2010, the Firm will implement a new compensation structure for associates. As we have said repeatedly, our new compensation structure is not intended to reduce our spending on associate compensation. Our objective is to tie a larger portion of individual associate compensation to an associate's performance, and specifically, to his/her year-end Performance Rating of "1," "2," "3" or "4." We enter 2010 with a strong associate talent base, and we expect that the substantial majority of associates will be more highly compensated under our new compensation structure than would have been the case by simply progressing in our existing model of lockstep salaries and hours-driven bonuses.

Achieving our objectives, however, requires a new associate compensation structure and nomenclature, both of which represent an adjustment in mindset and expectations and for which we ask your patience and support. Notably, linking a greater portion of associate compensation to performance will mean some reduction in bi-weekly pay (base salary) with larger lump sum variable pay and bonus awards being paid based upon (and following) the results of the year-end evaluation process. The new associate compensation structure will consist of the following elements:

**Annual Target Compensation ("Target Compensation").** This is the amount of compensation (**excluding Performance Bonuses**) that the substantial majority of associates (the roughly 70% of associates expected to receive a year-end Performance Rating of "3" or "4") will earn. 2010 Target Compensation for entry-year associates will be set at 2009 salary levels. For advancing associates, and with the exception of our most senior associates, all other Annual Target Compensation amounts will exceed 2009 base salaries and include all of (or more than) the increase associates would have received under the current lockstep system. Over time, we expect to evolve to larger Target Compensation jumps between Levels (consistent

with the significance of advancement from one Level to the next) and a flatter compensation structure within each Level (with less pronounced increases between Steps within a Level).

**Target Compensation** will consist of two components:

**Base Salary (“Base”):** Except in their first two years, associates will receive 85% of their Target Compensation in the form of Base, which will be paid in equal, bi-weekly installments. In an associate’s first two years, Base will represent a slightly higher percentage of Target Compensation.

**Variable Compensation:** Variable Compensation will be based on individual performance (not Firm or Practice performance) and will reward those who are providing continued value to the Firm. Variable Compensation will become earned and payable early in the following year to those associates who (i) are employed by the Firm as of the Variable Compensation payment date, and (ii) receive a Performance Rating of “Pass” (entry-year associates) or a Performance Rating of “3” or “4” (all other associates). Associates who meet these criteria will earn Variable Compensation equal to 15% of their Target Compensation (a slightly lower percentage for associates in their first two years), taking them to 100% of their Target Compensation. Non-entry year associates who are employed by the Firm on the Variable Compensation payment date and who receive a year-end Performance Rating of “2” will earn Variable Compensation equal to 5 percent of their Target Compensation, taking them to 90 percent of their Target Compensation. Entry-level associates who do not receive a Performance Rating of “Pass”, associates who receive a Performance Rating of “1”, and associates who are not employed by the Firm as of the Variable Compensation payment date, will not earn any Variable Compensation.

**Performance Bonus:** Associates receiving a year-end Performance Rating of “3” or “4” will also earn a discretionary Performance Bonus payable in the normal course. Unlike our current bonuses, these bonuses will not be awarded based on achieving specific billable hour targets. They will be awarded based on an associate’s overall year-end Performance Rating (reflecting their Competency Level and their Contribution). We expect associates rated “4” to earn significantly greater Performance Bonuses than those rated “3.” In contrast to Variable Compensation, Performance Bonus amounts may vary based on Firm and Practice performance, as well as other relevant criteria. Entry-year associates (Level I, Step 1) will not be eligible for Performance Bonuses as they will be assessed on a “Pass/Fail” basis. Bonuses generally will become earned and payable early in the following year. In order to earn any bonus under this policy, an associate must be employed by the Firm on the bonus payment date.