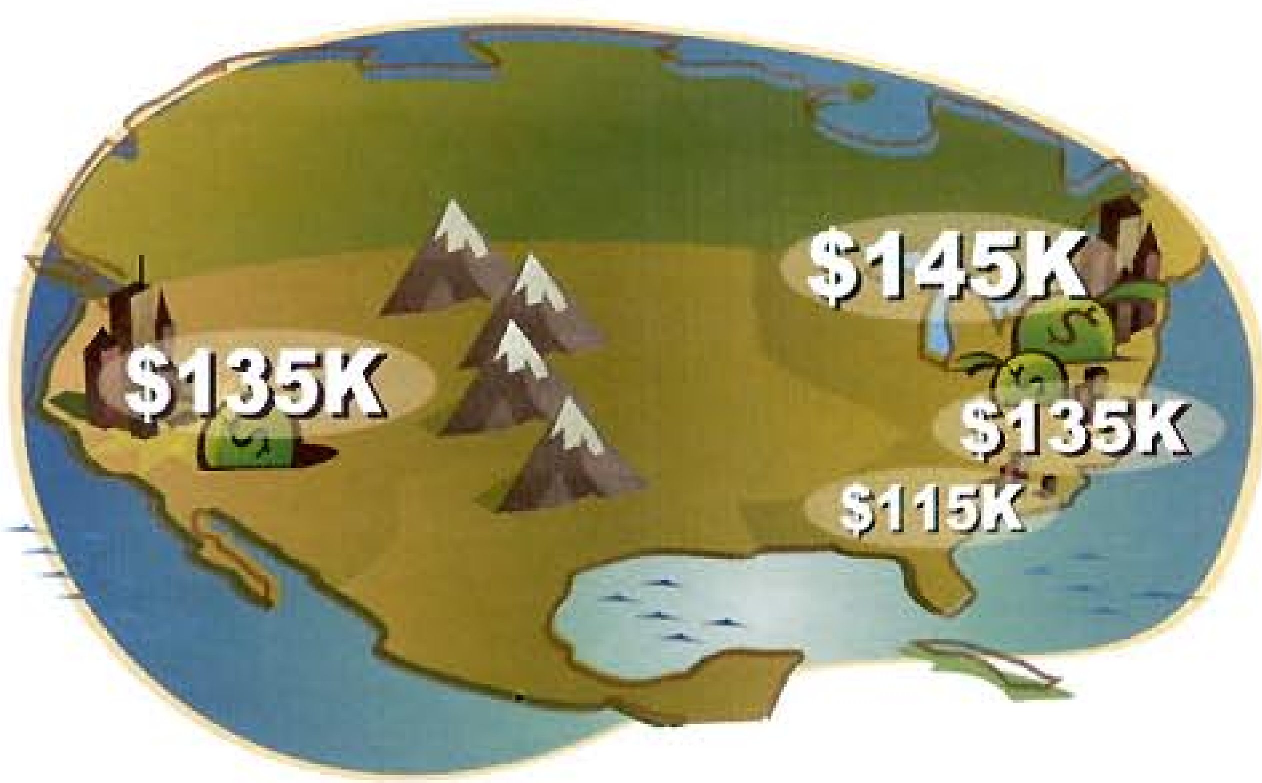
THE GOING RATE

Firms around the country are now paying their first-years anywhere from $115,000 to $145,000.

SINCE THE DAYS OF the dot-com boom, most of the highest-paid first-year associates in the country have been pulling down $125,000. But now a wave of salary hikes is sweeping cities on both coasts. Since September, one firm after another has bumped up first-year salaries by $10,000, to $135,000. "One thirty-five is the new 125," says Dan Binstock, managing director of the Washington, D.C., office of BCG Attorney Search.

At press time the wave was still breaking. In New York, for instance, Sullivan & Cromwell boosted salaries $20,000, to $145,000—topping market leader Boies, Schiller & Flexner, which at press time pays first-years $144,000. Simpson Thacher & Bartlett and others quickly matched. More firms are expected to follow.



It all started in California, where last fall a string of midsize firms increased first-year associate salaries to $135,000. In December, Gibson, Dunn & Crutcher became the first national firm to start paying $135,000 to all first-years.

At times like these, the "herd mentality" kicks in, according to Bay Area consultant and former Thelen Reid & Priest chairman Richard Gary. Within a few weeks, other firms with California headquarters, such as O'Melveny & Myers, Wilson Sonsini Goodrich & Rosati, Latham & Watkins, and Paul, Hastings, Janofsky & Walker, had all matched Gibson, Dunn's rates.

A similar ripple effect has been felt in Washington, D.C., and Atlanta. Atlanta's Alston & Bird set the new norm in late December, raising first-year salaries by $10,000, to $115,000. Two weeks later, King & Spalding; Troutman Sanders; and Morris, Manning & Martin followed. In D.C., two IP boutiques are now paying $135,000: Fish & Richardson, and Finnegan, Henderson, Farabow, Garrett & Dunner. D.C.'s Dickstein Shapiro Morin & Oshinsky and Hogan & Hartson joined the club, too. Firms that already pay above the $135,000 threshold—like New York's Skadden, Arps, Slate, Meagher & Flom, which pays $140,000—had not raised salaries at press time.

"No one wants to be a market leader in associate compensation," Gary says, by way of explaining the herd. "But all of the firms that consider themselves to be competitive with the firms that went to 135 in the first place, they'll all go to 135 for competitive reasons."

Why do they do it? Firms have to pay market rate to attract the best talent, according to Greg Nitzkowski, managing partner at Paul, Hastings. He adds, "The competition for talent is the single most important part of all of our futures."

As it did in the last round of associate pay hikes, a growing economy is driving associate salaries. In Silicon Valley during the dot-com boom, venture capitalists began luring the graduates of top law schools away from big firms by offering more creative and lucrative opportunities.

That had big firms running scared. In 1999 the Menlo Park, California–based firm Gunderson Dettmer Stough Villeneuve Franklin & Hachigian raised first-year associate pay by more than $20,000, to $125,000. After that, a bidding war broke out nationwide, and salaries once unheard-of became the national norm.

In the current round of increases, New York firms initially held back to, in the words of Binstock, "see what the market does." Even some of the firms that raised salaries in other places stopped short for their associates in New York. Nitzkowski said he is waiting to see where the New York market lands. Now that it pays more than the rest of the country, Paul, Hastings may have to follow. A spokesperson for Latham & Watkins says the firm continues to watch the New York market closely.

Of course, even the greediest associate soon learns that record-breaking salaries can be a "double-edged sword," according to Binstock. That's because when a firm offers a $10,000 raise to 100 associates, it means $1 million in additional overhead. And then partners are faced with three options: take it out of their profits, increase billing rates, or up billable hours requirements.

During the dot-com boom, many trend-setting firms chose the third option, strictly enforcing—or even increasing—billable hours requirements. According to Binstock, by 2000 some lawyers were saying, " 'I would rather be paid a 1999 salary without the extra pressure.' "

This time around, first-years aren't looking a gift horse in the mouth. So far, at least, there have been no reports of complaints.

—ROSS TODD

Up, Up, Up

Firms that have increased first-year salaries since fall of 2005*

ATLANTA

OLD NORM **$100,000**
NEW NORM **$115,000**

Alston & Bird
Greenberg Traurig
King & Spalding
Morris, Manning & Martin
Smith, Gambrell & Russell
Sutherland Asbill & Brennan
Troutman Sanders

CALIFORNIA

OLD NORM **$125,000**
NEW NORM **$135,000**

Cooley Godward
DLA Piper Rudnick Gray Cary
Fenwick & West
Gibson, Dunn & Crutcher
Heller Ehrman
Howard, Rice
Irell & Manella
Keker & Van Nest
Latham & Watkins
Munger, Tolles & Olson
O'Melveny & Myers
Paul, Hastings, Janofsky & Walker
Quinn Emanuel
Sheppard, Mullin
Wilson Sonsini Goodrich & Rosati

WASHINGTON, D.C.

OLD NORM **$125,000**
NEW NORM **$135,000**

Covington & Burling
Dickstein Shapiro Morin & Oshinsky
Finnegan, Henderson, Farabow, Garrett & Dunner
Fish & Richardson
Hogan & Hartson

NEW YORK

OLD NORM **$125,000**
NEW NORM **$145,000**

Cahill Gordon & Reindel
Davis Polk & Wardwell
Milbank, Tweed, Hadley & McCloy
Paul, Weiss
Simpson Thacher & Bartlett
Sullivan & Cromwell

*Confirmed at press time, more expected.