

EXHIBIT 2

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Associate billing rates start climbing again

*Average rates going
back up after stagnation
brought on by recession*

By Kevin Lee

Daily Journal Staff Writer

Average law firm billing rates are back on the rise after stagnating somewhat in the years following the 2008 financial crisis. But most of the action is taking place in associate billing rates, which jumped 7.5 percent in the first half of the year compared to the same period in 2011, more than twice the average rate increase in partner billing rates nationwide.

Industry experts say the discrepancy appears to be the market correcting itself after firms sloughed off associates and froze associate hiring in 2009 and 2010.

Partner billing rates, by comparison, rose 3.4 percent in the first half of the year compared to the year-earlier period, according to the latest research by Valeo Partners LLC, a Washington D.C.-based consulting firm.

Valeo compiled data on the billing rates of lawyers at 550 U.S. law firms through publicly available documents, such as court filings, fee applications and disclosure statements submitted to federal agencies.

Chuck Chandler, a Valeo co-founder and partner, said this year's rate increases were instituted to offset the lack of rate movement during the recession.

"The associates took the hit after 2008. Some firms laid off as much as 10 percent of their associates, delayed hiring new classes and froze compensation," he said. "Naturally, billing rates were slow to increase during that period."

For the first six months of this year, California markets all saw associate rate increases below the national average. Associates in San Francisco and Silicon Valley together claimed the highest average rate increase of the California markets — 7.3 percent.

"Northern California has all of the social media, the technology companies, which creates a lot of dealmaking and IPOs and also good fees and hourly rates," Chandler said.

By comparison, Los Angeles associates saw their rates go up an average of 6.6 percent. In San Diego, associate rates rose 4.2 percent.

Law firms generally increase billing rates each year, according to Sheppard, Mullin, Richter & Hampton LLP partner Marc A. Sockol, who manages the firm's Palo Alto office.

"If inflation goes up 3 percent, so do our associate billing rates, because that is what covers rent, lights, computers, telephones, desks," Sockol said. "During those first couple years of this recession, we chose not to

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Average Law Firm Billing Rates

Location	Position	2012	2011	Percent Increase
Los Angeles	Partner	\$797	\$766	4.0%
	Associate	\$550	\$516	6.6%
San Diego	Partner	\$568	\$568	0%
	Associate	\$394	\$378	4.2%
San Francisco	Partner	\$675	\$654	3.2%
	Associate	\$482	\$449	7.3%
National	Partner	\$750	\$725	3.4%
	Associate	\$495	\$460	7.5%

Source: Valeo 2012 Halftime Report

Associate billing rates going up

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boost our billing rates."

Sockol declined to provide specific billing rates but said the firm varies its associate rates by practice group and geography. For 2012, the firm raised associate billing rates roughly 3 percent, he said.

James G. Leipold, executive director of the National Association for Law Placement in Washington D.C., said the jump in billing rates results from the overall decrease of associates at law firms, especially at large law firms. Large law firms, which are the biggest employers of junior lawyers, are relying less on partnership-track associates and more on staff lawyers, paralegals and contract lawyers.

NALP data reveals that from 2008 to 2011, large law firms on average hired entry-level associates at an

annual starting salary of \$160,000. Some law firms cut their starting salaries to \$145,000 during that time but not many. Leipold said he thought more firms would follow suit.

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"What we saw was that law firms reduced their associate class sizes dramatically, but they didn't reduce their pay," Leipold said. "They just

provided many fewer jobs."

Some large firms have turned to creating nonpartnership-track staff lawyer positions for new classes of junior lawyers, whose billing rates and compensation are lower than those of partnership-track associates.

Law firms can then maintain or increase the billing rates for the small number of associates on the partnership track, knowing they can turn to their staff lawyers, paralegals or contract lawyers to drive down the cost of legal services for clients.

"I think you'll see that [approach] more in the next couple of years," Leipold said. "It's another way for them to bring the salary structure back down and meet the cost-containment demands of clients and use people more efficiently."

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