

San Diego Daily Transcript

Established 1886

THE BUSINESS DAILY

75¢ Per Copy

October 24, 2007

San Diego lawyers nonchalant about \$1,000 per hour billing

By CATHARINE HOCKMUTH

When the Wall Street Journal reported last August that some New York attorneys were billing clients as much as \$1,000 an hour, the news splashed in headlines all over the country and sparked a lot of conversation in online legal blogs about the industry's direction.

But the fact of the matter, according to San Diego attorneys, is that the \$1,000 mark was inevitable. New York-based Simpson Thacher & Bartlett raised its top rates to more than \$1,000 in September.

"It's just another number," said John Phillips, managing partner at Fish & Richardson. "I really don't think it's all that remarkable of a development."

The Wall Street Journal reported that billing rates at large firms have risen 6 percent to 7 percent annually since 2000, according to Citi Private Bank, a Citi Group subsidiary that tracks law firm practices.

Phillips and other local attorneys attributed the milestone to a steady increase in first-year associate salaries that started with the dot-com boom of the 1990s and a rising demand for smart and talented young people -- young people who could easily choose Wall Street and "gazillionaire" status over the law, said Edward McIntyre of the San Diego-based firm **Solomon Ward Seidenwurm & Smith**.

National law firms, including those with offices in San Diego, now pay their first-year associates \$160,000 a year, which puts upward pressure on billing rates to cover the expense. Senior associates at large firms here are now billing clients \$450 an hour, which was a partner's billing rate just five years ago, said Larry Watanabe, a founding partner in the San Diego-based legal search firm Watanabe Nason.

By comparison, senior partners at large firms in San Diego are billing at \$600 to \$750 an hour, while top attorneys at regional and local firms are charging about \$450 an hour with occasional spikes into \$700 territory, according to several sources, who spoke on condition of anonymity. Billing rates are closely guarded secrets even though they seem to be common knowledge. Altman Weil's annual Survey of Law Firm Economics reported in August that the national median billing rate in 2006 was \$305 per hour. Washington, D.C., had the highest median billing rate at \$455 per hour.

Attorneys said they don't expect much impact from the \$1,000 marker in San Diego in part because legal practices of big firms aren't local in nature. Paul Hastings Janofsky & Walker may have 40 attorneys in San Diego, but their clients are all over the country and the world. And most firms have a standard billing rate that doesn't fluctuate according to the location of the office or the client.

Moreover, attorneys billing as high as \$1,000 an hour are focused on an extraordinary niche market: high-stakes financial industry clients. And San Diego doesn't

have the business base to require this level of service, according to Watanabe, who said the typical San Diego business even among the much-hyped life sciences and technology companies are not willing to pay \$700 an hour for legal services.

The increases do have an impact on quality of life, however. Watanabe said attrition rates among fourth- and fifth-year attorneys are becoming a significant issue because partnership opportunities are more elusive. That's because expectations of billable hours and profits per partner are higher than ever and typically over \$1.3 million.

"They know the career path ahead is treacherous," Watanabe said.

William Sullivan, a Paul Hastings litigation partner said some attrition among younger attorneys probably has more to do with the high-speed demands and complexity of the business, particularly at large firms with clients spread across the country

Regional and local firms aren't buckling under the pressure.

Solomon Ward's McIntyre offers up the firm's below market rates as a point of pride and a business philosophy that ensures client matters spend as much time in the hands of experienced senior partners as necessary.

"We definitely keep our rates below what we understand to be the market rate," McIntyre said. He added that the rates shouldn't be a "psychological impediment" for clients in need of legal services. The firm's top lawyers charge between \$300 and \$400 an hour while associate billing rates are set between \$175 and \$260 an hour.

The firm also pays less than the standard \$160,000 a year for first-year associates, and instead offers associates something potentially more valuable: a real chance at partnership and a better quality of life.

"When we interview you we're bringing you in as a potential partner," McIntyre said. He added that the surge of national law firms into San Diego is positive. "It simply increases the talent pool and it's good for everybody."

Robert Bell, managing partner of Luce Forward Hamilton & Scripps, which has 200 attorneys practicing across California, also welcomes the competition. Bell said Luce Forward gets plenty of resumes from attorneys at large firms who have been "rated out" of their practice because their clients are no longer willing to pay big-firm prices.

"We try to keep our rates very competitive," Bell said.

Hockmuth is a San Diego-based freelance writer.