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5 Events That Rocked The Legal Industry In 2016

Share us on: By [Melissa Maleske](#)

Law360, New York (December 23, 2016, 5:47 PM EST) -- From a new first-year salary benchmark to the first data breach class action lodged against a law firm, here are the events that shaped the legal industry in 2016.

Associates Get a Raise

[Cravath Swaine & Moore LLP](#) set a new high-water mark for associate pay in June when it **[hiked first-year salaries](#)** to \$180,000 and rolled out commensurate raises for more senior associates. It was the first BigLaw firm to raise starting salaries since [Simpson Thacher & Bartlett LLP](#) made \$160,000 the norm for major market offices a decade ago, and the Cravath announcement had a similar effect on the industry.

The day after Cravath's raises went public, a number of elite BigLaw and boutique firms had already **[jumped aboard the \\$180,000 bandwagon](#)**, including [Paul Weiss Rifkind Wharton & Garrison LLP](#), [Weil Gotshal & Manges LLP](#), [Milbank Tweed Hadley & McCloy LLP](#), [Cahill Gordon & Reindel LLP](#) [Hueston Hennigan LLP](#) and [Irell & Manella LLP](#). The associate-raise frenzy continued throughout the summer, with many of the country's largest law firms following suit. And when **[bonus season](#)** rolled around, Cravath again **[set off a foot race](#)**.

While the newly outsized paychecks may help law firms draw in top-tier talent, some in the industry have **[questioned](#)** whether they'll pay off for clients and even for the firms themselves, particularly those that aren't as profitable as Cravath and its elite-of-the-elite peers. A November **[report](#)** from Citi Private Bank pointed to the associate salary increases as the root cause of a rapid increase in operating expenses already affecting firms struggling with narrowing profit margins.

And among clients that have wrung their hands for years about the effect of overpaid, overbilling associates and outdated law firm compensation practices on corporate bottom lines, the disappointment was palpable.

“[T]hese kinds of increases are unacceptable given the current market environment ... and law firms should not expect to get these increases paid for on the backs of clients,” the [Association of Corporate Counsel](#)’s chief legal strategist Amar Sarwal [told Law360 in June](#).

Data Breaches Come for BigLaw

In the corporate world, data breach attempts are increasingly viewed as inevitable, not just possible, and the law firms that harbor companies' most sensitive information are no exception. It was reported in March that [prestigious law firms including Weil Gotshal and Cravath had been hacked](#) and that the [Federal Bureau of Investigation](#) and federal prosecutors with the Southern District of New York were investigating whether confidential information had been stolen from them and used for insider trading.

According to the cybersecurity firm Flashpoint, hackers had targeted 50 firms including [Sidley Austin LLP](#), [Kirkland & Ellis LLP](#) and [Jenner & Block LLP](#).

Also seen as inevitable are the lawsuits. Shortly after those reports, [Edelson PC](#) announced it planned to file [data security-related class actions](#) against law firms, which the plaintiffs firm founder and CEO Jay Edelson identified as a top target for hackers. Firms that don't implement reasonable protections to protect data are breaching their standard of care, he said, and law firms are “dropping the ball” by failing to mandate data security compliance among all their attorneys.

Additionally, he said he suspected that firms were not informing clients about breaches in a timely manner. Edelson said it would bring breach-of-contract and legal malpractice claims.

Edelson made good in April by filing [the first breach class action against a law firm](#), a malpractice suit against Chicago firm [Johnson & Bell Ltd.](#) that [cited critical security lapses](#) resulting in exposed client data. Unsealed in December as the claims headed into arbitration, the class action brought on behalf of former clients Coinabul LLC and operator Jason Shore [did not cite a specific loss of confidential data](#); rather, it focused on Johnson & Bell's vulnerabilities, which formed a novel basis for a malpractice suit.

“J&B was never hacked, and the suit was based entirely on so-called vulnerabilities, and how do you evaluate that?” one of Johnson & Bell's lawyers asked.

The Confirmation That Never Was

On a Saturday in February, Justice Antonin Scalia [died at age 79](#), leaving behind a vacancy on the [U.S. Supreme Court](#) that remains more than 10 months later. After Scalia's death, President Barack Obama on March 16 [nominated D.C. Circuit Chief Judge Merrick Garland](#) to the high court, noting that his pick “understands the way law affects the lives of everyday people in a big, complicated democracy and in rapidly changing times.”

But legislators in this big, complicated democracy had other ideas. Claiming that because it is an election year, the next president should fill Scalia's seat, the GOP-controlled Senate has [refused to confirm](#) the moderate Judge Garland, who is now the highest profile appointee in a [backlog of federal court nominees](#) that Democrats call the result of obstructionism.

The Supreme Court in October [declined](#) to order the Senate to hold a confirmation hearing; the next month, Republican Donald Trump won the election, and the writing on the wall became clearer than ever. According to the D.C. Circuit's public calendar, Judge Garland is [set to start hearing cases](#) again at the federal appeals court on Jan. 18.

Partners Accuse Firms of "Systemic" Gender Discrimination

As workplaces go, law firms have never been held up as a bastion of gender equality. Male partners [make 44 percent more](#) than their female counterparts, and while women increasingly take on leadership and rainmaker roles at their firms, they're still far [outnumbered](#).

In 2016, female law firm partners struck back. In January, a former shareholder at [LeClairRyan](#) [sued the firm](#) for Title VII and Equal Pay Act violations, accusing LeClairRyan of a "demonstrated history" of firmwide bias against female attorneys that manifested itself through compensation, promotions and benefits and ultimately forced her from the firm after 12 years.

A nonequity partner at [Sedgwick LLP](#) filed a proposed class action against the firm in July, claiming that its ["male-dominated culture"](#) deprived her and other women at the firm of equal pay and promotions and created "an environment where gender stereotypes flourish." Additionally, she said Sedgwick retaliated with an arbitration case after she filed a complaint with the U.S. [Equal Employment Opportunity Commission](#). The case was [ordered to arbitration](#) in November based on a clause in her partnership agreement.

And in August, a partner launched a \$100 million class action against [Chadbourne & Parke LLP](#), again alleging [systematic discrimination](#) that held back women. "Throughout the relevant time period, a committee of five men in Chadbourne's New York office made all compensation decisions for each and every Chadbourne partner worldwide," the lawsuit stated.

Some experts suggested it was the subjective and sometimes opaque nature of compensation decisions that was giving rise to the suits and to a general perception of discrimination.

"Study after study shows those inherent biases we all read about persist. Introduce subjectivity into the compensation formula, and those pesky assumptions sometimes raise their ugly heads," Barbara Mayden, co-founder of legal recruiting firm Young Mayden Legal Search, [told Law360 in September](#).

Small Firm Deals Dominate the Merger Market

The year in law firm mergers kicked off with a western U.S. [deal](#) that created a 300-attorney firm and came to a close with a bang as Atlanta-based [Sutherland Asbill & Brennan LLP](#) and U.K. giant [Eversheds LLP](#) [agreed to combine](#) into a global firm of 2,300 attorneys. In between, the pace of law firm dealmaking had its ups and downs.

The Sutherland-Eversheds merger, which is set to take effect in February, was a rare successful cross-border merger. In the spring, for example, plans by U.S.-based [Greenberg Traurig](#) and U.K.-based [Berwin Leighton Paisner](#) to merge fell apart. Experts chalked up [the drought](#) to the high degree of risk an international merger entails along with cultural clashes and lack of client demand.

The U.S. merger market [started slow](#) this year after a record-setting 2015, with 20 modest deals in the first quarter. By the end of June, however, they had matched the pace of 2015, with [28 deals](#), albeit small ones, mostly involving the acquisition of 25 or fewer lawyers by firms of 50 lawyers or fewer.

A midyear merger report by [Altman Weil](#) noted: "Small firms are increasingly vulnerable in the current market. There's more competition for less work, and small firms need a strategy to avoid being squeezed out." An exception was Kansas City, Missouri-based [Husch Blackwell LLP's acquisition](#) of Whyte Hirschboeck Dudek SC's 144 lawyers to create a 700-attorney firm.

Mergers [slowed again](#) in the third quarter. Just 12 occurred, down from 20 in 2015, and by the end of September, law firm mergers had fallen 21 percent from the same time period in 2015. Among the [highest-profile](#) was the acquisition of former solicitor general Paul Clement's 17-attorney appellate boutique [Bancroft PLLC](#) by Kirkland & Ellis.

While fourth-quarter numbers are forthcoming, the year's final months saw its only megadeals. Along with the Eversheds-Sutherland agreement, [Arnold & Porter LLP](#) and [Kaye Scholer LLP](#) **announced they would merge** Jan. 1 to create a 1000-lawyer firm.

--Editing by Christine Chun and Rebecca Flanagan.

Correction: An earlier story stated that 50 law firms had reportedly been hacked. The error has been corrected.

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