

The State Of The IP Boutique: Part 2

Law360, New York (April 4, 2017, 10:22 AM EDT) -- In the first part of this article we provided historical background as well as financial and legal contexts to help understand the business model of IP boutiques, and why so many have failed as stand-alone firms. In the second half, we will ask and answer the question, “What is the secret of the success of those who have survived and are thriving?”

The Formulae for Success

It is comforting that our law firm (founded in 1978) is not alone in the present world of long-lived, prosperous IP boutiques. (To mention just two measures: We have seen 94 percent growth in the number of lawyers at our firm over the past 10 years, with a corresponding increase of 79 percent in the number of equity partners, and no dilution in profits. In fact, our profits per partner grew significantly during the same period.) Many of our prominent and older competitors have also survived and thrived; to name a few: Fish & Richardson PC (founded in 1878); Brinks Gilson & Lione (founded in 1917); Knobbe Martens (founded in 1962); Finnegan Henderson Farabow Garrett & Dunner LLP (founded in 1965); and Fitzpatrick Cella Harper & Scinto (founded in 1971). Is there a common story to the survivors?

While each of us survivors has a unique tale to tell, we believe that one thing that binds us is that we have remained true to our identities as, and have not forgotten that we started off as, patent attorneys. We are all deeply grounded in U.S. Patent and Trademark Office expertise, and have never drifted too far from it. Certainly, some are prominent in court litigation, others in USPTO litigation, some are renowned for their expertise in a particular science or technology (for example, IP boutiques that specialize only in the life sciences), and others have a top reputation in successful and reliable patent preparation and prosecution (prep and pros). But all of us have achieved — and are constantly striving to maintain — a proper balance grounded in the world of patents.

Moreover, given the changed landscape of the last decade, maintaining a proper balance is no longer based on expertise only in prep and pros or only in litigation. Today, a proper balance must include a mix of several elements, some external, some internal.

External Elements



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Successful IP boutiques must combine four fundamental practice elements, and must be able to project them to the world of clients and potential clients. These external factors are based on four proficiencies: (1) in-depth prep and pros, (2) USPTO post-grant proceedings, (3) court or U.S. International Trade Commission litigation, and (4) deep technological and scientific training. A careful inter-relationship and balance between all four external elements is necessary to properly serve modern clients and to maintain the health of the IP boutique model. Let's look at how these elements relate to one another.

Prep and Pros

Not all prep and pros is price-sensitive. We commented on that 10 years ago, and we reaffirm it today. At an industry level, clients in the life sciences (which include pharma and biotech of different sorts) exist in a culture of higher exclusivity than clients in the electronics world. The life sciences are heavily regulated and entry costs are high; exclusivity can be more important there than in electronics, which is unregulated and much more interdependent. Given the generally shorter lifetimes of products in electronics, clients in that field require fast patent issuances, and will oftentimes celebrate the quantity of issuances over the carefully crafted broad scope of one unique patent that has taken years to obtain. Biotech prep and pros will generally be more complex and take longer. As a consequence, and as a rough generalization, price pressures in the electronics prep and pros realm are greater than those in the life sciences.

Plus, not every patent in the life sciences will be price-insensitive, and not every patent in electronics will be price-sensitive. Fundamental inventions in either area, such as the novel platforms of startups in either field, tend to be seen by clients as worthy of more legal time and effort, and thus are less price-sensitive. It behooves all of us to remind our clients and prospective clients that — depending on individual circumstances — it is worth paying a higher price in order to obtain patent claims that will withstand the challenges of a post-grant review or an inter partes review. And, at times, a pending application may acquire a new value (higher or lower) than the one it had at filing. At that point, the client's perception may shift from price sensitive (or insensitive) to the opposite. A well-run IP boutique needs to be able to then shift gears to the other level of handling.

IP boutiques need to have procedures in place to handle both types of work, the price-sensitive and the not-so-sensitive. They need to customize their internal procedures and training by industry and by technology. And, regardless of what industry, they need to educate their clients to distinguish between the two types of work, whether price sensitive or not, and to recognize when it may be time to shift from one to the other. Boutiques that rely entirely on prep and pros, hoping against experience that all they will ever do is price-insensitive work, will quickly run into the harsh realities of the marketplace

USPTO Post-Grant Proceedings

The need to obtain strong claims that will survive validity litigation has always been with us, even before the advent of the America Invents Act. However, in the age of post-grant validity challenges that, so far, seem to have favored the challenger, it is critical to be an expert in PTO procedures from both sides of any case. Good IP boutiques know how to challenge patents in the USPTO and, because of this, they also know how to write and prosecute with an eye to withstanding challenges. The more that lawyers in IP boutiques learn about IPRs, the better writers and prosecutors of patent applications they become. And, since IPRs are judged by Patent Trial and Appeal Board judges who are savvy in technology, the standard tricks of the trade used by court litigators appearing before scientifically untrained juries (for example, flashy and at times histrionic presentations), don't work well before a panel of techie PTAB judges.

That is where expertise in patent law and procedure becomes the grounding of the practice of IP boutiques. Many existing or new clients, aware of the new post-grant validity procedures, come to realize the vulnerability of their IP holdings. They may then transfer to IP boutiques portfolios of pending patent applications that have been handled on a fixed (i.e., low) price basis by previous counsel. The transfer occurs when they reach a point where they are willing to pay more in order to buttress the resulting patent against an expected IPR or PGR.

Court Litigation

The arrival of post-grant procedures has also led to an increase in court or ITC work for IP boutiques and, importantly, a decrease in patent litigation for the general firms. While 10 years ago we discussed the migration of patent litigation to general litigation firms, the dynamic has since changed. It is now possible to challenge the popular conclusion that IP boutiques are best for USPTO matters but big litigation firms are better for court matters. The growing frequency of early stays of court litigation in favor of an IPR proceeding before the USPTO has led to some noticeable consequences.

- More and more clients are asking their general litigation firms whether they have the right PTAB expertise and tech-savvy bench to handle the IPRs were a pending lawsuit to be stayed. As a result, and as compared to pre-AIA days, our firm is seeing more court litigation beauty contests go our way. We suspect that other IP boutiques are seeing similar things.
- To counter this effect, and in the interest of beefing up their own strength in post-grant proceedings, the general law firms have increased their attempts at poaching boutique lawyers. After all, the possibility of being the head of a newly formed post-grant proceeding practice at a big name firm, together with promises of more money, is a tempting offer, and some will take it.
- We are experiencing increased interest in our firm from general law firm patent litigators who see the opportunities for them in joining like-minded domain experts. This last result bears repeating because it is counterintuitive, but real. Experienced litigators see the growth opportunities offered by a firm of focused domain experts. Our firm has benefited from lateral lawyers who have joined us from prestigious general firms, and we are working together to expand our district court and ITC litigation practices.
- And, lastly, given the increased dockets of USPTO post-grant, district court, and ITC procedures, we are now seeing growth in our appellate litigation practice before the Federal Circuit.

It is not a coincidence that, among the successful IP boutiques, three of us, Fish and Richardson, Finnegan and Sterne Kessler, were the top three firms in 2016 in terms of involvement with USPTO litigation at the PTAB. Our firms have leveraged historical know-how of the USPTO, and depth in science and technology, to support the continued viability of the IP boutique model.

It is also apparent that successful IP boutiques are aware of the need to properly balance prep and pros

revenues with court litigation revenues. The past managing partner of one of the major IP boutiques commented to one of our partners a few years ago — before the enactment of the AIA — that his continued concern even then was, "to try and make sure that court litigation in my firm does not provide more than about 50% of the revenues." This is a wise strategy, in that it prevents drifting too much into one or the other of litigation or prep and pros. Too much litigation pits a boutique into fierce competition with the general litigation firms, and too much prep and pros leads to intense price pressures. As with Goldilocks, the mix has to be "just right." We are thus watching with interest the new IP boutique that is being spun off from Ropes & Gray LLP this year to house the firm's prep and pros practice. We hope that it will survive and thrive (since we like IP boutiques), but are curious to see the balance of practices of the new firm.

Internal Elements

In addition to external practice elements and their consequences, successful IP boutiques must also focus on at least four important internal elements: proper training, diversity, the right compensation plan for the owners, and succession planning. We turn to these next. These internal elements (training, diversity, compensation and succession) are common to all growing firms, not just IP boutiques. Yet it is worth evaluating them in IP boutiques because, due to our very nature, they may be particularly damaging to us if left unmanaged.

Proper Training

IP boutiques need to hire and train wisely so as to reach and maintain the right balance between technologically focused and court-focused lawyers. Good scientists or engineers don't always make good advocates, and good litigators don't always shine at getting into the weeds of hard science. Rare is the lawyer who is talented in both areas; firms need to make sure that neither talent is lost altogether in any one lawyer. Training scientist/engineer lawyers in good writing and public speaking, and educating court lawyers in the details of technology are important internal elements of a successful IP boutique. But even then, the best results are often achieved in a boutique with a team that puts the best court lawyer with the right scientist/engineer lawyer for the particular project at hand. Such teamwork is a hallmark of the IP boutique.

Diversity

IP boutiques have to ensure that their lawyers include men and women of all colors, ethnicities and orientations. Today, it is simply not enough not to discriminate against one group or another. General counsels of clients in the high-tech industries (a very diverse population themselves) expect and ask about diversity in their requests for proposals, or during discussions of representation. It is not possible to answer, "We can't find enough qualified women electronic engineers who have become patent attorneys." Firms need to make an effort to identify qualified candidates, and once in the firm, provide them with mentoring and support so that they may rise on their own merits and become partners.

Compensation Controls Culture

As firms evolve, the successful ones transition from a formulaic compensation plan to one which is more subjective, and that takes into account several factors in addition to rainmaking and billing. Well-drafted compensation plans include nonbillable elements, such as managing the firm and practice groups; exhibiting team play, as by sharing origination opportunities, and team efforts in marketing; training less experienced lawyers; and practicing good administrative hygiene, such as paying attention to the

monthly tasks of invoicing, timekeeping and managing difficult clients. Subjective compensation plans stress the importance of putting the firm first, without detracting from individual contributions and talents. The transition from a formulaic comp plan to a more subjective one that compensates for nonbillable activities is not always easy in IP boutiques. Remember that IP boutiques tend to be owned by scientifically trained partners, who were taught since grade school to think quantitatively. They will not always feel comfortable with the fuzziness of subjective factors. But it is a transition that is required for long-term success of the boutique. Subjectivity in compensation can foster a firm-first culture, resulting in an entity that transcends the individuals (including founders and rainmakers) and provides clients with strong, team-based institutional representation.

The compensation committee of an IP boutique is charged with evaluating the several factors, balancing the purely numerical ones, such as origination and billing, with the less quantifiable ones, such as team play or management. The committee also makes sure that the compensations of the various constituencies of an IP boutique, which include court litigators, USPTO litigators, and prep and pros specialists, do not get out of balance relative to one another. For example, it is harder for a patent prosecutor to bill as many hours per year as a busy court litigator. It is the committee's responsibility to make sure that the plan does not lead to two distinct cultures, where one group will always earn substantially more than the other. That is a recipe for resentment and dissolution.

Succession Planning

Young firms, IP boutiques included, seldom plan for succession. However, at some point they need to do so in order to survive as institutions. When we look at the list of the still standing older IP boutiques (e.g., Finnegan, Fish, Fitzpatrick, Knobbe) it is apparent that, long ago, they stopped being first generation founders' firms. They navigated the inevitable conflicts that arise when the founders have to let go and transfer power (and profits) to the next generation of leaders. A prominent law firm management consultant with deep experience with, and knowledge of, IP boutiques stresses the importance of succession: "I have placed more than half a dozen IP boutiques into general law firms and, in most instances, the reasons for these mergers were that the boutiques had failed to plan for succession."

Succession planning is a crucial process in the history of any law firm, and many have not survived it. The authorship of this article shows that Sterne Kessler has survived it. Properly balancing the needs of the founders with those of the next generations has been one of the secrets of our success.

Lessons Learned

In view of our analyses, it bears asking: Why did some of the prominent IP boutiques mentioned earlier stop functioning as stand-alone firms and either dissolved or were merged? It is, of course, not possible to know the reasons in all cases — and there are probably several and different ones. But we think that they likely lost the delicate balance necessary for survival.

We venture to say that many of them became disconnected from their origins as patent attorneys. Dazzled by the higher profits of court litigation, many — especially the older ones — presented themselves as "patent litigation firms," treating prep and pros as a sideshow and loss leader. In the pure litigation arena, however, they could not compete with the deep benches and expertise of the top name general firms so that, by the time the AIA came around, it was already too late. Shortly after the disappearance of a famous IP boutique that had allowed itself to drift, and described itself at the end of its life as a "patent litigation firm," one of the ex-partners said to one of us: "I knew we were in trouble

when we started losing more beauty contests to general litigation firms than we had in the past; we thought it was going to get better but it never did."

On the other hand, IP boutiques that remained as pure prep and pros shops and did not do much or any litigation, saw ever-increasing price pressures erode their profits until their viability as stand-alone firms became untenable.

Yet others that did balance prep and pros with litigation, and even welcomed the arrival of the AIA and its USPTO-based procedures, failed because of distorted compensation plans. One of us heard the following comment from the ex-partner of another one of the now dissolved top IP boutiques: "When the time came to renegotiate the lease, there was no one around who wanted to do it because it did not pay. Only billings and origination were compensated at our firm."

And, firms who did not do proper succession planning lost their most promising younger partners, as they gave in to the temptation of accepting the latest offer proposed by the headhunter who had just called.

Conclusions

Success for IP boutiques lies in the careful balancing of multiple external and internal factors:

- Balance between prep and pros, and court litigation: Neither too much of one nor of the other.
- Balance between different types of prep and pros: IP boutiques should always search for high-stakes, price-insensitive prep and pros work, yet must accept that it cannot all be of that type; there will always be some amount of price-sensitive work. Hopefully, it shouldn't be the only type that the firm does.
- Balance between different industries, so that when one is down the others can support the profits. Our own firm has seen years when the electronics industry was suffering yet the biotech one was expanding, and vice versa. Software patents are out of favor these days, yet design patents are in the limelight.
- Balance between PTO litigation and prep and pros, so that expertise in one informs expertise in the other.
- Balance between law and technology, based on a solid grounding in — even a passion for — science, so that our lawyers do not disconnect from the currency of our specialty: the exciting world of inventions.

- Balance the different types of lawyers needed for the firm’s success. Do not over compensate one group (litigators) at the expense of another (prosecutors). Promote the concept of a “well balanced IP lawyer,” even while recognizing the highly sub-specialized nature of the profession.
- Create, promote and maintain a collection of diverse IP lawyers.
- Compensate the partners so that, instead of a focus on numbers at the expense of everything else, team play and firm-first philosophies will take hold.
- Create a strategic plan and foster a culture that addresses all types of successions, not just first generation ones. Every generation of senior lawyers needs to understand that it is their obligation to train younger ones, and to transfer know-how, clients and profits to them.

Only by continuously balancing all of these factors will IP boutiques survive and thrive.

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