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The State Of The IP Boutique: Part 1

Law360, New York (April 3, 2017, 12:53 PM EDT) -- Ten years ago, one of us (Jorge Goldstein), who was then the managing partner of Sterne Kessler, published an article in Law360 decrying the persistent drumbeat that foresaw the end of intellectual property boutiques, a portion of the legal industry of which our firm was then (and is today) a proud member. The article predicted that, while many IP boutiques would continue failing as stand-alone firms, those who had the right mix of strategy and talents would survive and, further, would thrive.

Jorge A. Goldstein

It is time to update the decade-old article, not the least because, negating all those dire predictions from the past, our firm and several of our boutique competitors are still standing, and quite nicely. But more than a tale of individual resiliencies, it is worth revisiting the topic because the drumbeat of imminent doom continues as unabated today as it was then. If anything, a decade later, the patent system is under renewed strain. (In fact, the legal business as a whole is under the stress of slow demand along with client pressures to do more for less.) It is therefore a good time to revisit the ongoing debate on the viability of IP boutiques.

Michael B. Ray

This article comes in two parts. In Part 1, we will provide a historical background as well as financial and legal contexts to help understand where we are today. In Part 2, we will provide what we perceive to be a properly balanced mix of factors for making IP boutiques successful.

Historical Context

Several things have happened in the last 10 years, which we might loosely classify as (1) upheaval and (2) atmospherics.

Upheaval

The patent law on topics central to practice before the U.S. Patent and Trademark Office and the courts has suffered a noticeable upheaval, with mixed results for IP boutiques. The case law on eligibility of biotechnology or software inventions (fewer inventions are eligible after Myriad/Mayo/Alice), or that of obviousness (fewer inventions are nonobvious after KSR), or of written description (fewer generic biotech inventions are well described after Regents v. Eli Lilly) has made it harder to get and assert patents in high technology. The statutory changes brought by a first to file system under the America

Invents Act have removed interferences from the highly specialized (and traditional) offerings of IP boutiques. At the same time, the AIA has replaced inter partes re-examination by inter partes review and post-grant review, shifting much of validity litigation to the USPTO, a move that should favor IP boutiques.

Atmospherics

The arrival of the AIA, however, has generated novel controversies, as clients and law firms continue absorbing what the new regime means to them. IPR challenges are seen as too pro-challenger, with a high invalidation rate of challenged patents making it increasingly difficult for patent owners to successfully enforce their patents; short sellers have started using IPRs to challenge patents with the aim of driving down the stock price of the patent holders; nonpracticing patent holder entities have become the bane of congressional and lobbying groups; and legislation has been discussed to carve out one industry or another from IPRs. Even The Economist, a paragon of free enterprise, in a 2015 cover article entitled "Set Innovation Free!" decried the whole patent system, saying that "with a few exceptions … society as a whole might be even better off with no patents than with the mess that is today's patent system."

What have these changes meant to IP boutiques? Are they a net plus or a net setback for them, compared to 10 years ago? As in legal analysis, the answer is, it depends. Competition for patent legal work is as fierce as ever, and the picture is grimly Darwinian. But, to carry the evolutionary analogy one more step, the fittest among us boutiques do (and will continue to) survive and even thrive. It is all a matter of adapting to our tough and always changing world, and doing so by becoming as diverse as possible. Diversity in biology leads to survival, while lack of diversity leads to extinction. The same is true with IP boutiques: The more diverse we are — diverse in practices, in industries, in offerings, in people — the better our chances. In this article, we analyze the world of IP boutiques as it is today, separate fact from fiction, and, based on hard-earned lessons, provide some conclusions.

At the outset, it bears noting that the original author of the 2006 paper is no longer the managing partner of Sterne Kessler. Succession has occurred to a new generation of leaders and rainmakers, led by a new managing partner (Michael Ray, the co-author). This adaptive event has played a crucial role in our firm's survival and growth, and is one of the core lessons we have learned. Together then, the former and the present managing partners will update the 2006 predictions and try and respond to the question: What does and what does not work for the success of IP boutiques?

The Grim Numbers

USPTO statistics show that newly filed patent applications grew from about 453,000 in 2006 to about 630,000 in 2015, a growth of about 40 percent. Other published statistics, such as the National Association for Law Placement's, show that, as a percentage of all law firms reporting IP as a practice (205 firms in 2006 and 761 in 2016), the number of IP boutiques (which we define as stand-alone law firms, regardless of size, that exclusively practice IP law), has gone from about 9 percent to about 3 percent over the same period of time, a threefold decrease. While NALP numbers are not fully reliable due to reporting inconsistencies, the general trend is that, while the number of all firms with an IP practice has grown more than threefold in the last decade, the percentage of IP boutiques has shrunk threefold. All of this suggests that, while there is more filing and prosecution work at the USPTO (the traditional work for IP boutiques) there are fewer IP boutiques doing it. What is going on?

The answer has to do with simple economics. The number of firms providing a particular service

increases during boom times and decreases during down times. Down times bring consolidation and contraction to any industry. And the legal industry is no different. The atmospherics and upheaval discussed above have brought us, in the IP service sector, a “down time.” This has resulted in falling prices for IP work and overcapacity in some IP firms has exacerbated the problem. Price pressures on patent application preparation and prosecution (prep and pros) work have grown fierce in the last decade, with inside counsel expecting the same or more work at less price. For example, we have seen expectations from some clients that our prices be similar to those we were charging in the mid-1990s. The explanation for more prep and pros work yet fewer IP boutiques doing it is increased competition, from both clients and general law firms. Some companies are keeping in-house some of the prep and pros work that was traditionally outsourced. The general law firms are competing aggressively for patent prep and pros, offering deep discounts in the interest of getting their clients' higher price court or USPTO litigations. In the process, some IP boutiques have been squeezed out of existence.

This general picture confirms the widespread notion that many IP boutiques continue disappearing, either by closing shop altogether or by being acquired into general firms. The well-publicized disappearances of venerable IP boutiques confirm this. The pre-2006 disappearances included Lyon & Lyon (bankrupted in 2002); Pennie & Edmonds (merged into Jones Day in 2003); Fish & Neave (in 2004 they merged into Ropes and Gray LLP; but Ropes & Gray recently announced a plan to spin off its prep and pros practice into a stand-alone IP boutique (the apparent remnants of Fish & Neave? ... more on this below)); Brown & Bain (absorbed into Perkins Coie LLP in 2004); and Burns Doane (acquired by Buchanan Ingersoll & Rooney PC in 2005). The post-2006 disappearances include Morgan & Finnegan (dissolved in 2009), Darby & Darby (dissolved in 2010), Townsend & Townsend (merged into Kilpatrick Townsend & Stockton LLP in 2011), and Kenyon & Kenyon (merged into Andrews Kurth Kenyon LLP in 2016).

Some of these IP boutiques have vanished, their lawyers spread to the four winds, and others have stayed together and become reincarnated as "the IP group of ..." Those of us still standing, bewildered (and saddened) by the loss of our venerable competitors, must continuously ask: What went wrong with them and how can we avoid being next? And, more importantly, can we thrive in this highly competitive environment? What are the elements of a successful business model for IP boutiques?

Before we dig for answers, let's ask an even more fundamental question: Is it worth saving the IP boutique model? Why not let the practice of IP law become part of the ever-growing, globalized firms that are now populating the legal universe? Why insist on maintaining what may be an obsolete structure, when the one-stop-shop model of general firms is taking over the world? (Or at least that is what the general firms want us and our clients to believe).

The IP Boutique Model

Setting aside our obvious bias in favor of, and commitment to, IP boutiques, the reasons for survival and maintenance of the model are perfectly rational. When a patient has a heart problem, the best place to go for proper diagnosis and cure is a heart specialist, not a general physician. It goes further: The best place to go is to a specialized practice with several cardiologists. Not only will they be up on the latest medical thinking about hearts, and will have periodic internal discussions about what works and what does not, but it is more likely that in any group of cardiologists, one of them has seen — and perhaps even solved — a problem similar to the one presented by the patient.

Similarly, it is the synergy of highly specialized and focused IP lawyers who practice together day in and day out that presents a clear advantage to a client with an IP problem. Most IP boutiques are

subspecialized in technologies and industries. For example, our firm doesn't just have one attorney with a Ph.D. We have dozens, and among them are Ph.D.s in chemistry, further subspecialized in generic pharmaceutical litigation; Ph.D.s in immunology, subspecialized in patenting antibody therapeutics; or Ph.D.s or master's degree in electrical engineering, subspecialized in telecommunications, and others in computer architecture or semiconductor materials.

And the subspecialties of an IP boutique continue in legal niche areas too. For example, in addition to technical and scientific specialties, boutique lawyers can focus on niche areas of expertise such as design patents, litigation before the Patent Trial and Appeal Board, reissue strategy, patent prep and pros, trademark clearance, litigation before the U.S. International Trade Commission, accelerated patent examination, global patent strategy, or patent monetization. The support structure of an IP boutique allows its practitioners to have a high degree of specialization, yet still provide its clients with a full menu of IP services.

Clients of IP boutiques appreciate the subspecializations and the lack of learning curve on legal as well as technological issues. They also value the experience in USPTO and other IP-related procedures, such as familiarity with examiners or PTAB judges, and the availability of other IP lawyers in the firm who have confronted similar problems. Thus, the IP boutique model is worth saving and growing for the better service of clients; not simply as an exercise in legal nostalgia.

One more comment before we start our inquiry: While many old-line IP boutiques have disappeared, there are new ones arriving every year. One or a few partners from an existing firm, unhappy with their compensation or frustrated by ethical conflicts that do not allow them to bring in as many new clients as they would wish, leave the firm and form their own IP boutique. Such recent IP boutiques do not have any survival lessons to teach the rest of us — at least not until, say, a decade has passed. We will thus seek our answers among survivors who have been around a long time, and, in part two of this article tomorrow, will ask and answer the question, "What is their secret sauce?”

Stay tuned.

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