IP LAW360

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IP Boutiques: Surviving and Thriving

Tuesday, Oct 24, 2006 --- Despite the trend of general practice firms expanding their IP work by acquiring specialty firms of all sizes, many IP boutiques nationwide continue to not only survive, but thrive.

While patent litigation may be on the rise in general practice firms (as noted in the recent IPLaw360 survey) the core of IP work, including patent preparation and prosecution, transactions, opinions, portfolio creation, interferences, appellate work, as well as litigation, continues to fuel the success of IP firms.

Because many of these firms have distinct expertise and offer a high-level of service at competitive rates, they are sought after by independent inventors, universities, startup businesses and major corporations alike.

There is no question that, in the last few years, venerable IP firms like Fish & Neave, Lyon & Lyon, Pennie & Edmonds, and Cushman Darby have ceased to exist as independent entities. The surveys do not lie.

There has indeed been a net migration of patent litigation from IP specialty to general practice firms, and the trend seems to continue. In spite of having ten times as many PTO registered agents/attorneys on a percentage basis as the general firms, the boutiques keep losing patent litigation business to them. In the 2005-2006 period, five of the top patent boutiques lost 20% to 30% of litigation business to general firms.

However, these stories tell only a part of the tale. IP specialty firms are not all created equal, and are not all doomed to be digested. From my own experience and that of law firm colleagues and corporate counsel with whom I have spoken, I am happy to report that all of us observe that not only are parts of the patent legal niche well and alive, but they are flourishing—in many instances at the expense of the mega firms.

Jason Honeyman, managing partner of Wolf Greenfield, an IP specialty firm notes: "Senior management and in-house counsel who rely on IP as a critical strategic asset appreciate the skill and experience that an IP-specific firm such as ours brings to the table."

To go further, I actually believe that the long-term trends are in favor of specialized patent firms, at least in many areas now being handled by general practice firms.

Let us first lay to rest the simplistic assumption that all patent procurement is uniformly price sensitive, bottom-of-the-pyramid work that can be made

profitable only by high volume. This so called "commodification" of patent prosecution envisions as its ultimate notion the outsourcing of writing and prosecution of patent applications to a place like India.

In this "flat Earth" model, the general firms are either happy to leave that work to the "prep-and-pros" boutiques, or use it as a loss leader to attract clients who will give them profitable litigation when it arises.

Yet, not all patent procurement comes in one size; there is clearly an up-market niche for patent writing and prosecution, as well as reexamination and reissue work. As I speak to my colleagues around the country, they express a shared experience of seeing a massive migration of such work back in the last few years, as savvy clients have become dissatisfied with the quality of preparation and prosecution that they receive at the general firms.

"We have seen many clients over the last few years transfer their work from a GP firm to our IP-specific firm because of dissatisfaction with the quality of representation," adds Honeyman. The same phenomenon has been going on in our firm.

Startup companies in the science and high technology sectors consider the strategic buildup of a patent portfolio, its defense or assertion in raising capital, its licensing, and its role in going public or being acquired by a larger player, as "bet the company" legal work.

Educated decision makers do not want to leave such high value work to a litigation associate at a general firm who does prosecution as a filler during down time, while waiting for his case to resume momentum. Litigation is not even on the radar screen for most high technology startup clients.

If anything, one recent worry of well managed IP boutiques is competition from a new generation of procurement boutiques: "There is a real story in the emergence of the mini boutiques fueled by the ability to use software like FoundationIP [which manages matter-related IP activities online] and services like Intellevate [outsourcers of very specific IP activities] to handle docketing and specialty paralegal services," says Bradley Forrest, a partner at Schwegman Lundberg Woessner and Kluth, an IP specialty firm.

Another aspect of non-litigation, high value patent work that keeps IP specialty firms busy and profitable is opinion work. Opinions come in many different guises: on the infringement or validity of patents generally and, in a particularly busy area, on the possibility of certifying Orange Book patents as non-infringed or invalid when a generic pharmaceutical company is planning to file an Abbreviated New Drug Application with the FDA.

Other opinions include analyzing proposed commercialization schemes and whether they are free from third party patents, and assisting clients to design around or license such patents when they are found.

All of these activities are science intensive and naturally right up the alley of

specialty law firms populated with tech-savvy lawyers. "Scientists-lawyers bring a unique focus to a patent problem, especially if they are able to approach it initially from the technological end. Many patent issues can be quickly resolved by a good understanding of the science involved," says Daniel Passeri, president and CEO of Curis, a biopharmaceutical company.

Also, the migration of patent litigation, while real, is far from terminal. IP specialty firms such as Fish & Richardson, Finnegan Henderson, Knobbe Martens, Kenyon & Kenyon, and ours—to name just a few—continue to enjoy an active litigation practice.

"Our firm continues to attract litigations from major corporations," states E. Anthony Figg, managing partner at Rothwell, Figg, Ernst & Manbeck. "A higher percentage of litigations and other projects go to the general practice firms, but that doesn't mean that the good IP specialty firms that are out there do not continue to attract quality."

It is my assessment that the reason for the demise of certain independent IP specialty firms is that they had become too dependent on litigation for their profits. When general practice firms entered the arena of patent litigation, some specialty firms for which patent litigation was the bread and butter practice weren't prepared to deal with the loss of market share.

Those IP firms which continue to thrive are those that can offer highly specialized knowledge and technologically trained lawyers to handle the work in which they can compete the best. Litigation should be part of the mix, of course, but litigation needs to be carefully and proactively managed so that it provides a healthy, yet not too large a part of the profits, and so that it does not end up making the firm vulnerable to competitive drainage of cases and lawyers.

It bears mentioning that our firm has seen a highly specialized kind of litigation grow steadily in the last few years: biopharmaceutical interferences. In this industry sector, interferences are very common and have become quasi-litigations in terms of depositions, motions, hearings and…fees.

Without the possibility of patent protection, investments in new drugs are not made. Moreover, once patent protection is assured to one party the competition by and large moves to other projects. Thus, patent interferences for biotech drugs such as monoclonal antibodies are in essence up-front-loaded litigation.

The practice is highly specialized (it requires registration at the PTO plus experience in the rules of interference practice) and is strongly science-based. "Specialized expertise, such as interference practice is often found in IP specialty firms," offers Michele Wales, general IP counsel at Human Genome Sciences.

Lastly, while Congress has considered going to a first to file system for decades, this has yet to happen. The latest proposals for change have been

to get rid of our first to invent system and replace interferences with post grant oppositions. Such oppositions would use procedures that are very similar to those used in interferences, including practice before the Board and its judges: motions, depositions and hearings—and of course, PTO registration.

Oppositions will in all likelihood shift validity challenges from the Federal Courts to the PTO, in a mode similar to that in Europe or Japan. Commenting on this shift, Ray Arner, general IP counsel at Biogen Idec asserts, "While litigation is a big consideration for clients, the political climate is shifting emphasis back to the PTO." He concludes, "The boutique business model for IP firms should flourish."

--By Jorge A. Goldstein, managing director, Sterne, Kessler, Goldstein & Fox PLLC