

# Extinct? Hardly.

Patent litigator John Gallagher worked for 20 years at IP boutique Morgan & Finnegan. But this spring, as he left to join the general practice firm Dickstein Shapiro, Gallagher predicted that “few if any IP boutiques [will be] around” in the future.

Sound familiar? Similar predictions have been made for more than a decade. IP specialty firms faced extinction. They were dinosaurs destined to die out in a changing climate—struck by the meteor of general practice firms that were recognizing that IP was increasingly important to their corporate clients and a lucrative avenue for law firm growth. Indeed, highly respected IP boutiques such as Fish & Neave, Pennie & Edmonds, Lyon & Lyon, and Cushman Darby & Cushman have vanished—they’ve

been swallowed up in mergers with general practice firms, or have simply perished. This spring Welsh & Katz, a Chicago-based IP boutique specializing in IP litigation, announced plans to merge with the general practice firm Husch Blackwell Sanders. New York-based Morgan & Finnegan has lost ten partners in the past year, and its overall head count is down considerably.

Despite years of such news, many IP boutiques still thrive. Large IP specialty firms such as Fish & Richardson and Finnegan, Henderson, Farabow, Garrett & Dunner have more than held their own, even in high-stakes patent litigation. Many smaller IP boutiques are growing, helped by increasingly cost-conscious clients. And there is little sign of total destruction. “Boutiques have survived the prophesized demise,” says Robert Sterne, cofounder





**The long-predicted demise of the IP boutique just hasn't happened. Remember, dinosaurs lived for 160 million years.**

By Lisa Shuchman Illustration by Trip Park

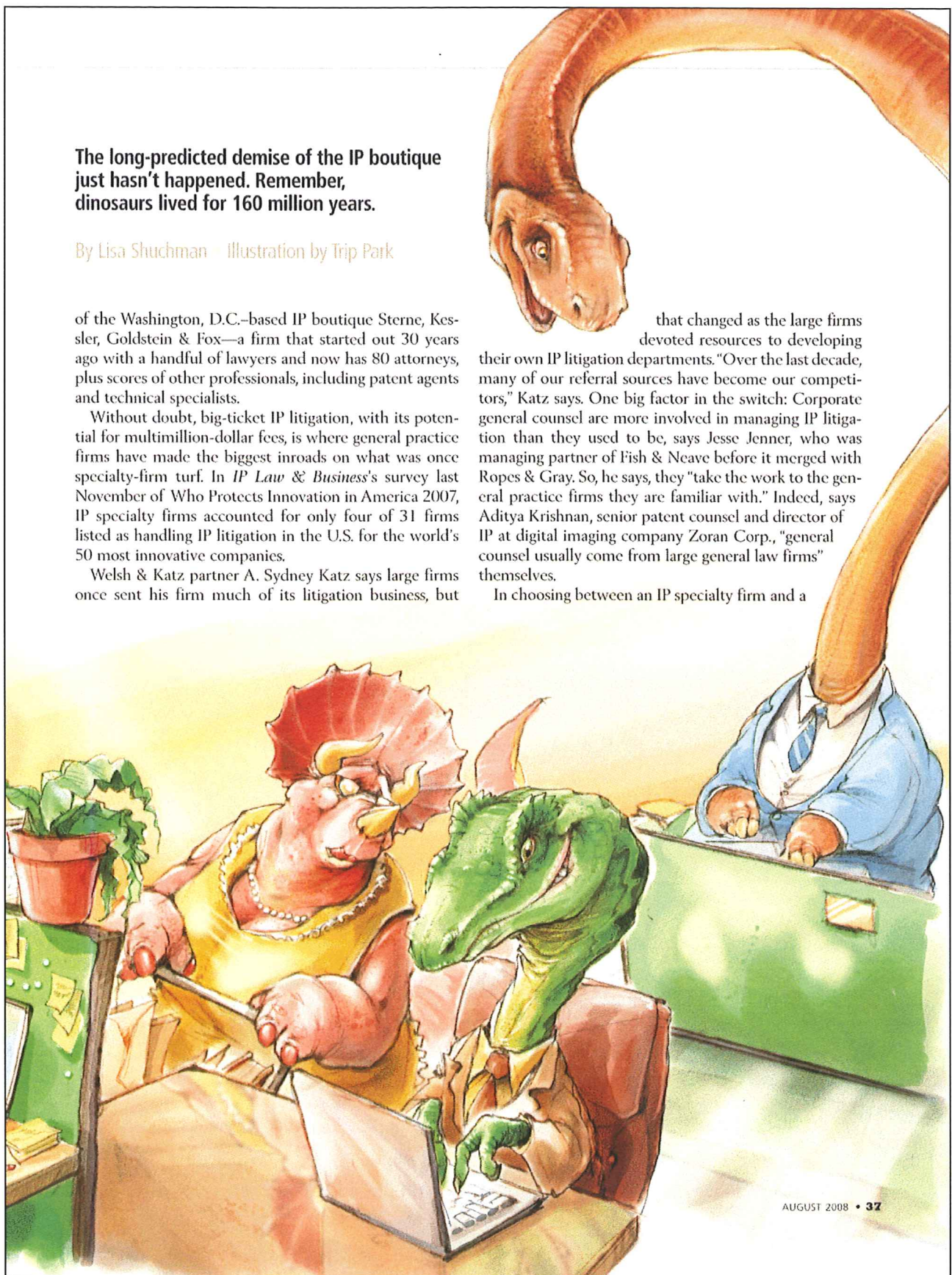
of the Washington, D.C.-based IP boutique Sterne, Kessler, Goldstein & Fox—a firm that started out 30 years ago with a handful of lawyers and now has 80 attorneys, plus scores of other professionals, including patent agents and technical specialists.

Without doubt, big-ticket IP litigation, with its potential for multimillion-dollar fees, is where general practice firms have made the biggest inroads on what was once specialty-firm turf. In *IP Law & Business's* survey last November of *Who Protects Innovation in America 2007*, IP specialty firms accounted for only four of 31 firms listed as handling IP litigation in the U.S. for the world's 50 most innovative companies.

Welsh & Katz partner A. Sydney Katz says large firms once sent his firm much of its litigation business, but

that changed as the large firms devoted resources to developing their own IP litigation departments. "Over the last decade, many of our referral sources have become our competitors," Katz says. One big factor in the switch: Corporate general counsel are more involved in managing IP litigation than they used to be, says Jesse Jenner, who was managing partner of Fish & Neave before it merged with Ropes & Gray. So, he says, they "take the work to the general practice firms they are familiar with." Indeed, says Aditya Krishnan, senior patent counsel and director of IP at digital imaging company Zoran Corp., "general counsel usually come from large general law firms" themselves.

In choosing between an IP specialty firm and a



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general practice firm for patent litigation, in-house counsel at large corporations may find themselves weighing which is more important: litigation firepower or a truly in-depth understanding of the technology at issue. Peter Schechter, an IP litigator who in 2007 left the IP boutique Darby & Darby for Edwards, Angell, Palmer & Dodge, believed for most of his career that general firms could not practice intellectual property law well. He now believes that skilled litigators—especially those who can turn to IP attorneys within their firms for help—can be very successful. “Intellectual property has become just another area of federal practice,” he says. Rees Morrison, a consultant who helps in-house lawyers choose

law firms, says that in big, complex litigation, the scale has been tipping toward general practice firms more often “because discovery has become so expensive and dangerous.”

Still, Morrison says, it’s easy to overemphasize the importance of behemoth suits in the overall sphere of patent litigation. “There are plenty of smaller companies that want to use smaller law firms for patent litigation,” Morrison notes.

For instance, Seattle-based Widevine Technologies Inc., which provides content security technologies to movie studios and video operators, considered retaining a general practice firm when it started out 11 years ago because of the diversity of services such a firm could offer, says

**“The patent is the key to the whole thing. It is the poorly prosecuted patents that have problems and end up in litigation.”**



*Gregory Maier, president of Oblon, Spivak, McClelland, Maier & Neustadt.*

## Boutiques Need Creativity to Compete For Talent

When litigator Ruffin Cordell felt compelled to move from general practice firm Baker & Botts in 1996 because of client conflicts of interest, he didn’t consider going to an IP boutique. “I thought IP boutiques were a thing of the past,” he says. But after a call from a Fish & Richardson recruiter, Cordell decided to give the firm a try. Twelve years later, Cordell, one of *IP Law & Business’s* Top IP People Under 45 [May], says he often gets headhunter calls, but he can’t imagine working anywhere else. “I wouldn’t leave for all the tea in China,” he says.

IP firms certainly win the loyalty of some of their stars, but those firms do face a growing challenge in recruiting and retaining talent. General practice firms often build their IP practices by luring away experienced partners and associates who have been trained by boutiques. They can often promise

more money. Among the Am Law 100 law firms, profits per partner in 2007 were noticeably higher at general practice firms than at IP boutiques. In fact, when ranked by profits per partner, the top IP firm—and there were few that made the cut—was Fish & Richardson, and it ranked fifty-first in the list with \$1.2 million.

Some of the larger IP specialty firms, such as McAndrews, Held & Malloy and Fish & Richardson, have matched the high salaries being offered to first-year associates by large general practice firms. But even smaller boutiques that don’t pay the astronomical salaries of a New York top-tier general practice firm have strategies to bring in smart lawyers.

Often, boutiques offer associates better hours and lower billing requirements. At Sterne, Kessler, for example, associates are required to bill between 1,700 and 1,800 hours

a year, as opposed to 2,000 at a large general practice firm. Those who bill more hours are compensated in a performance bonus, but those who do not are not penalized, says partner Robert Sterne.

And there can be less pressure at a boutique in other ways. “A general practice firm may hire a class of associates, expecting that some will leave through attrition and others will be kicked out,” says Gregory Maier, senior partner and president of Oblon, Spivak, McClelland, Maier & Neustadt. “But we don’t hire 30 and keep five. Potentially everyone we hire will stay on.” Making partner at some boutiques does not necessarily rest on whether an associate can bring money and clients to the firm. “We have equity partners who are not rainmakers and don’t have their own clients,” says Christopher Winslade, a partner at McAndrews, Held & Malloy. “They’re

valued for their legal and technical expertise.”

Associates with ambitions to work in-house, and perhaps eventually to become a GC, sometimes leave general practice firms to get experience in patent prosecution—training they can often only get at a boutique. In fact, attorneys with a science or technical background are often attracted to boutique firms where their skills are especially valued. And the boutique environment can help those firms retain experienced IP attorneys who are constantly hounded by headhunters. “IP attorneys want to be with like-minded ‘geek lawyers’ who see themselves as scientists who happen to also practice law,” says Wolf, Greenfield & Sacks managing partner Tim Oyer, a Ph.D. in inorganic chemistry from the Massachusetts Institute of Technology. “Collegiality goes a long way in recruitment and retention.” —L.S.



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general counsel Mani Aliabadi. But it decided instead to "go with the best people available" in each specialty. "It really comes down to what kind of attention you want your law firm to give you, and since we're not a Microsoft, attention is critical," says Aliabadi. Darby & Darby handles both patent prosecution and patent litigation for Widevine.

The ability to do a good job for lower fees is one factor now working in boutiques' favor with inside counsel at companies both big and small. With economic times uncertain, legal expenses are being monitored and scrutinized more than ever, law firm partners say. Clients are requiring their outside counsel to use sophisticated billing software programs, which they put into place to better track expenditures, analyze bills, and watch for padding, says Larry Iser, a partner at the boutique Kinsella, Weitzman, Iser, Kump & Aldisert in Los Angeles.

What's more, as legal fees have increased and starting salaries at top-tier firms have hit \$160,000 for first-year associates, CEOs and general counsel have started to protest. Wal-Mart Stores, Inc. told its law firms last year that it was instituting a moratorium on across-the-board rate increases and would only consider individual requests for rate increases for those attorneys who are performing at an exceptional level. And last year, Thomas Sager, then litigation chief and now general counsel of E.I. du Pont de Nemours and Company, warned last year that law firm mergers aren't in the clients' best interest—in part because consolidation creates a bloated management structure that results in higher fees with no gain in efficiency. DuPont's law department, he said, had parted ways with a few of its primary law firms "because their mergers produced some untenable situations."

Japan-based Roland Corp., one of

the world's largest makers of electronic musical instruments, retains the services of several different U.S. law firms, but it relies on Kinsella to handle its patent litigation. Roland general counsel Jun Yamato and Kinsella's Iser have had a strong working relationship for over a decade, and Yamato says he uses the Kinsella firm largely because he is confident that its lawyers will get good results. "But cost is also a major factor behind choosing a boutique," he says. "General practice firms overstaff cases—something boutiques just don't do."

That's why even boutiques that pay top rates to associates can offer savings to clients. Many general practice firms routinely assign several associates to each case. IP boutiques, on the other hand, run leaner, says Sterne of Sterne, Kessler. Clients, who are getting more sophisticated, now question the necessity of having five lawyers at a deposition when one or two would suffice, he says.

Anne Craig, an attorney and the director of IP at the Office of Technology Development at Harvard University, says she uses both boutiques and general practice firms to handle the university's patents. "But I find there is more flexibility on staffing and pricing arrangements at boutiques," she says, noting that seven of the top ten firms she uses for patent prosecution and opinion work are boutiques, including Boston-based Wolf, Greenfield & Sacks and Lahive & Cockfield.

Cost-effectiveness, however, is only one reason boutiques remain strong. Though some boutiques such as New York-based Fross, Zelnick, Lehrman & Zissu and Chicago-based Pattishall, McAuliffe, Newbury, Hilliard & Geraldson do well specializing in copyright and trademark work, it's the technical expertise that many specialized firms offer in the patent arena that boutiques would argue is unmatched. Many boutique patent attorneys are



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*Peter Devlin, managing partner of Fish & Richardson.*



scientists and engineers as well as lawyers—self-described “geek lawyers” with advanced degrees in electrical engineering, inorganic chemistry, or biotechnology. “We speak the clients’ language,” says Jim Hanft, a partner at Darby & Darby who has a degree in electrical and computer engineering. “Boutiques have people with stronger technical skills,” agrees Krishnan of Zoran Corp.

A strong technical background is of course an asset for patent litigators, says Ruffin Cordell, a partner at Fish & Richardson with a degree in electrical engineering. “It’s great when you’re as knowledgeable about the science and technology behind a patent as the other side’s expert witnesses,” he says, adding that he loves to cross-examine his opposition’s experts.

But it’s in patent prosecution that the boutiques really score. In our Who

Protects Innovation in America survey, all but four of the 26 firms listed for patent prosecution for the top 50 innovative companies are boutiques. Their ranks include Silicon Valley-based Blakely, Sokoloff, Taylor & Zafman, which has grown along with clients such as Intel Inc., and Hartford-based Cantor Colburn, which works with General Electric. EMC Corp., a Fortune 500 manufacturer of information storage systems, relies on boutiques to handle the company’s prosecution work, says vice president and assistant general counsel Krish Gupta. “When lawyers understand the technology it’s more efficient: less time needed from our engineers and lower fees for us,” Gupta says.

Because of the thinner margins on patent prosecution, boutiques face much less competition from general practice firms in that business.

“It’s hard for a general practice firm to make patent prosecution profitable,” says Peter Zeughauser, chairman of the law firm consultancy The Zeughauser Group. Notes Harvard’s Craig: “A patent prosecution practice requires a whole different docketing system and financial management system, and large firms often have a hard time implementing the systems needed.”

And corporations continue to recognize the importance of patent prosecution, say boutiques. “The patent is the key to the whole thing,” says Gregory Maier, president of Oblon, Spivak, McClelland, Maier & Neustadt. “It is the poorly prosecuted patents that have problems and end up in litigation.” Offering quality patent prosecution “has allowed us to differentiate ourselves from general practice firms,” says Peter Devlin, managing

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prosecution "has allowed us to differentiate ourselves from general practice firms," says Peter Devlin, managing partner of Fish & Richardson, which handled more cases than any other firm, according to *IP Law & Business's* 2008 patent litigation survey [July]. "A boutique that handles a client's patent prosecution becomes steeped in knowledge of the client's products, its competitors, and its future."

Indeed, many firms find that patent prosecution can lead to higher-margin business like strategic planning and licensing. "You just can't fake the technology know-how needed for these tasks," explains Karl Hermanns, managing partner of Seed IP Law Group in Seattle. The IP boutique Lee & Hayes, for instance, does no litigation at all and specializes in patent development and the commercialization of IP portfolios for large multina-

tional corporations. The firm recently increased the size of its Spokane headquarters staff and announced in June that it is expanding its office in Seattle and opening an office in Austin. Its clients include Microsoft Corp., Hewlett-Packard Co., Honeywell International, Intel Corp., and Boeing Co.

Finally, boutique attorneys say their firms have an organizational advantage: "We don't have to make compromises between practice groups," says Thomas Jenkins, partner and chairman of the management committee at Finnegan, Henderson. "We devote all of our resources to IP."

The arguments about the virtues of boutique versus general practice firms are likely to continue for at least as long as the debate about what really caused the death of the dinosaur. For instance, general-prac-

tice firm attorneys point out that IP cases have gotten more complicated and often involve more courts, complicated cross-border problems, and tax matters that require input from other kinds of experts. "A general practice firm can offer these services seamlessly," says David Bernstein, an IP litigator and partner at Debevoise & Plimpton. "Clients often prefer the one-stop shop." Boutiques counter that at many of the big firms, compensation is based on success at the internal cross-sell—getting a client to go to a lawyer at another part of the firm, even if he is not the best in that specialty. "Sophisticated clients see through this and direct the work to attorneys who they know are tops in their respective fields—which in many cases are attorneys at boutiques," says Hermanns.

Then there is the somewhat bitter

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to general practice firms because “no matter what the outcome, the general counsel can tell the CEO, who in turn can tell the shareholders, they hired the biggest name available,” says Darby’s Hanft. This holds true for start-ups backed by venture capital firms as well, says Harvard’s Craig. “Venture capitalists are wowed by big names, so if a particular technology looks like start-up material, we need a firm that’s recognized and can do more than IP,” she says.

Certainly some IP boutiques could do better at burnishing their brands. Some specialty firms will continue to falter, with the culprit often being lackluster management, poor planning, and internal disputes, just as with big general practice firms that fail. But, says Debevoise’s Bernstein, IP boutiques “have an important place in the legal profession and aren’t going away.” In fact, it’s time for the dinosaur metaphors about IP boutiques to become extinct. ■



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Karl Hermanns, managing partner of Seed IP Law Group.

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