

IP Boutiques Right The Ship In Choppy Market

By **Cristina Violante**

Law360, New York (May 30, 2017, 5:23 PM EDT) -- After a rough stretch that resulted in two intellectual property firms going belly up, IP boutiques have adjusted to heightened price scrutiny and a slowdown in patent cases to stabilize their headcount, according to the latest Law360 400.

The 18 boutiques that reported their headcount to Law360 in 2015 and 2016 grew collectively by around 2 percent during that time frame. The uptick ends a downward trend in the industry that dates back to at least 2013, the first year Law360 tracked this data.

Experts say some IP firms have successfully adjusted to the decline in patent litigation that followed the 2011 passage of the America Invents Act by shifting their focus to U.S. Patent and Trademark Office proceedings created by the legislation. On the patent prosecution side, IP firms have responded to pressure for reduced rates by embracing alternative fee arrangements and legal process outsourcing.

“We’re still living the significant changes that the AIA has brought to patent law, and we’re trying to figure out how to deal with them and how to counsel our clients to best deal with those changes,” said Michael Ray, managing director of Sterne Kessler Goldstein & Fox PLLC.

Fish & Richardson PC is still the biggest IP boutique on the Law360 400 — 80 attorneys larger than the next firm on the list. Finnegan Henderson Farabow Garrett & Dunner LLP and Knobbe Martens Olson & Bear LLP clock in at No. 2 and No. 3, respectively. These firms hold the top three spots of the IP boutiques on the survey for the fourth straight year, according to Law360’s annual ranking of the largest U.S.-based law firms as measured by domestic attorney headcount.



Michael Ray

Fish & Richardson added the most attorneys of the trio, boosting its headcount by over 6 percent in 2016. Finnegan and Knobbe Martens were more level, with the former growing and the latter shrinking by 2 percent.

One familiar name, Kenyon & Kenyon LLP, fell off the list when it became part of Andrews Kurth Kenyon LLP in August. Kenyon & Kenyon announced last April that it was looking for merger opportunities after a rocky 2015 that saw almost a quarter of its attorneys leave the firm.

It left the No. 10 spot on the list vacant, giving Banner & Witcoff Ltd. the chance to jump into the top 10.

Weeks before Kenyon & Kenyon announced its intent to find a merger partner, Polsinelli PC revealed that it had acquired 44 attorneys from the struggling Novak Druce Connolly Bove & Quigg LLP, signaling the end of what had been one of the country's largest IP firms. Numerous partners had left the boutique in 2015, and several told Law360 that they were owed money by the firm. Former attorneys have brought suits against the firm, including one filed in 2015 alleging that the firm failed to pay 2014 bonuses.

But while some firms closed their doors, others grew their ranks, and the Law360 data suggests that the sector is reversing a trend of attorney exits.

The Largest US Intellectual Property Firms

400 Rank	Firm	Home City	2016 Total Partners	2016 Total Attorneys
115	Fish & Richardson	<i>Boston**</i>	175	383
146	Finnegan	<i>Washington, D.C.</i>	114	303
159	Knobbe Martens	<i>Irvine, Calif.</i>	152	278
311	Schwegman Lundberg	<i>Minneapolis</i>	28	135
319	Brinks Gilson	<i>Chicago</i>	66	132
328	Sterne Kessler	<i>Washington, D.C.</i>	47	130
354	Fitzpatrick Cella*	<i>New York**</i>	49	117
364	Harness Dickey	<i>Troy, Mich.</i>	72	114
376	Merchant & Gould	<i>Minneapolis</i>	60	110
380	Banner & Witcoff	<i>Chicago</i>	70	108

*Headcount estimated by Law360 rather than provided by the firm.
**Firm declined to specify a home office and instead listed its largest U.S. office by attorney headcount.

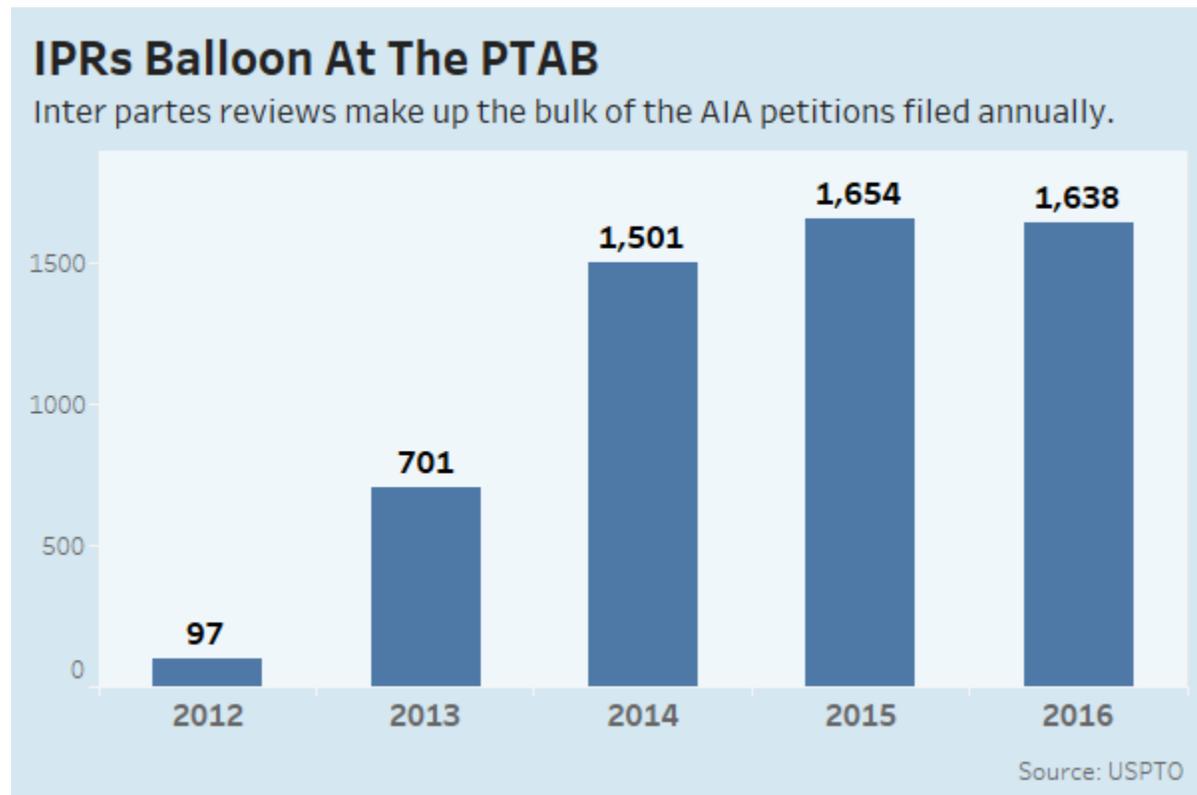
Eleven intellectual property firms provided headcount information to Law360 each year from 2013 to 2015, and they collectively shrank by 6 percent during that period. But in 2016, eight of those firms grew collectively by 2 percent, mirroring the sector's overall average gain.

Last year's data was not available for the two firms that closed their doors in 2016, and one other firm from this group, Fitzpatrick Cella Harper & Scinto, declined to provide the information.

Getting a Piece of PTAB

The 2011 America Invents Act created new kinds of post-grant proceedings — the most common of

which is inter partes review — that provide an inexpensive way for accused infringers and third parties to challenge patent validity at the USPTO’s Patent Trial and Appeal Board. Since the PTAB began hearing these reviews five years ago, they have ballooned to over 1,700 petitions per year.

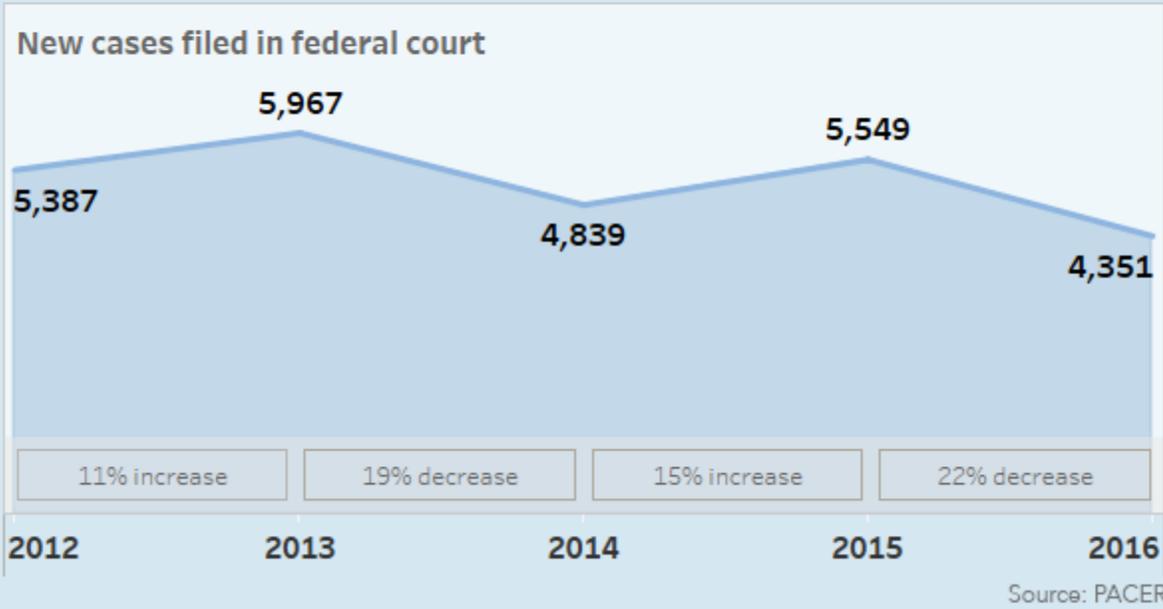


A side effect of the new PTAB proceedings has been a slowdown in district court patent litigation, largely due to cases being paused for IPRs. As a result, IP firms have lost their district court work, which hit a five-year low in 2016, and Law360 data shows a more than 20 percent drop in patent complaints from 2012 to 2016.

But savvy IP boutiques have gotten in on the IPR action, positioning themselves as go-to Patent Trial and Appeal Board practitioners. The passage of the AIA presented a chance for attorneys who had some previous USPTO experience to become experts in the new proceedings, said Ray, the Sterne Kessler attorney.

Patent Cases Sink In 2016

Patent lawsuits surged 15 percent in 2015, but dropped back last year, with the number of new patent complaints filed falling nearly 22 percent.



“We quickly saw that opportunity and got on it and really owned the IPR space, as did some of the other specialty firms,” he said.

According to legal analytics firm Lex Machina, Fish & Richardson and Sterne Kessler were the two most frequent counsel to both petitioners and patent holders in PTAB trials last year, with Fish & Richardson appearing before the board more often than any other firm.

Peter Devlin, Fish & Richardson’s president and CEO, attributes this success to the firm’s deep technical expertise and to its ability to combine prosecution and litigation experience.

“On the PTAB side, we’ve been able to develop that practice very strategically by bringing our patent prosecution practitioners and our litigation attorneys together,” he said. “We’ve cross-staffed those practice groups in nearly every PTAB case that comes into the firm.”

PTAB expertise also helps those on the patent prosecution side understand how to craft patents that can survive a post-grant trial, and Ray said clients are coming to Sterne Kessler for patent prosecution because of its IPR track record.

Aside from the AIA, the Supreme Court has also reined in patent eligibility in recent rulings, including *Alice Corp. v. CLS Bank*, its 2014 holding that abstract ideas implemented using a computer are not patent-eligible under Section 101 of the Patent Act.

But despite such hurdles, litigation is starting to bounce back as patents are prosecuted in a way that anticipates PTAB scrutiny and decisions like *Alice*, Devlin said.

“More patents are making it through this process and proceeding to full-blown litigation,” he noted.

Weathering Price Pressure

Intellectual property boutiques have also had to answer to clients who are increasingly looking to reduce their IP budget following the 2008 economic downturn.

“It was only 10 years ago that IP didn’t seem to have a care in the world as a practice area,” said Kent Zimmermann, a consultant at Zeughauser Group. “The prosecution more often than not led to litigation and wasn’t as rate pressured as it is now.”

Recent legislation and case law have also contributed to this pushback on rates by reducing the value of a patent, according to Sterne Kessler’s Ray.

It is now easier and less costly to invalidate patents through an IPR or another post-grant proceeding at the USPTO, meaning that accused infringers are unlikely to settle or pay for a license, he said. From the patent holder’s perspective, it is harder to see a return on investment when litigation is less likely to lead to licensing fees or settlement.

“There are some companies, major companies, that I understand are asking the question internally: ‘Why are we getting patents?’” Ray said. “Or ‘Why are we spending so much money on patents if they don’t have the value that they did?’”

With companies questioning the value of a patent portfolio and looking to get that portfolio on the cheap, favorable pricing models have become imperative for law firms.

Fish & Richardson, for example, has long utilized alternative fee structures in its prosecution practice, and it integrated such arrangements into its litigation work following the recession.

“I would say about 20 percent or so of our patent litigation is fixed-fee, either fully or at least in some phases,” Devlin said. “As a result of that, we’ve collected a lot of data over the years and track what these cases cost, how we can staff them most leanly and efficiently for clients.”

In addition to alternative fee structures, new technology such as legal process outsourcing can help reduce costs and increase efficiency.

Ray said Sterne Kessler uses such outsourcing in its prosecution practice, including software that can draft certain kinds of pleadings as well as a third-party vendor that double-checks the firm’s docketing. The firm is also beta-testing software that detects certain errors in patent applications.



Peter Devlin

Finding New Venues

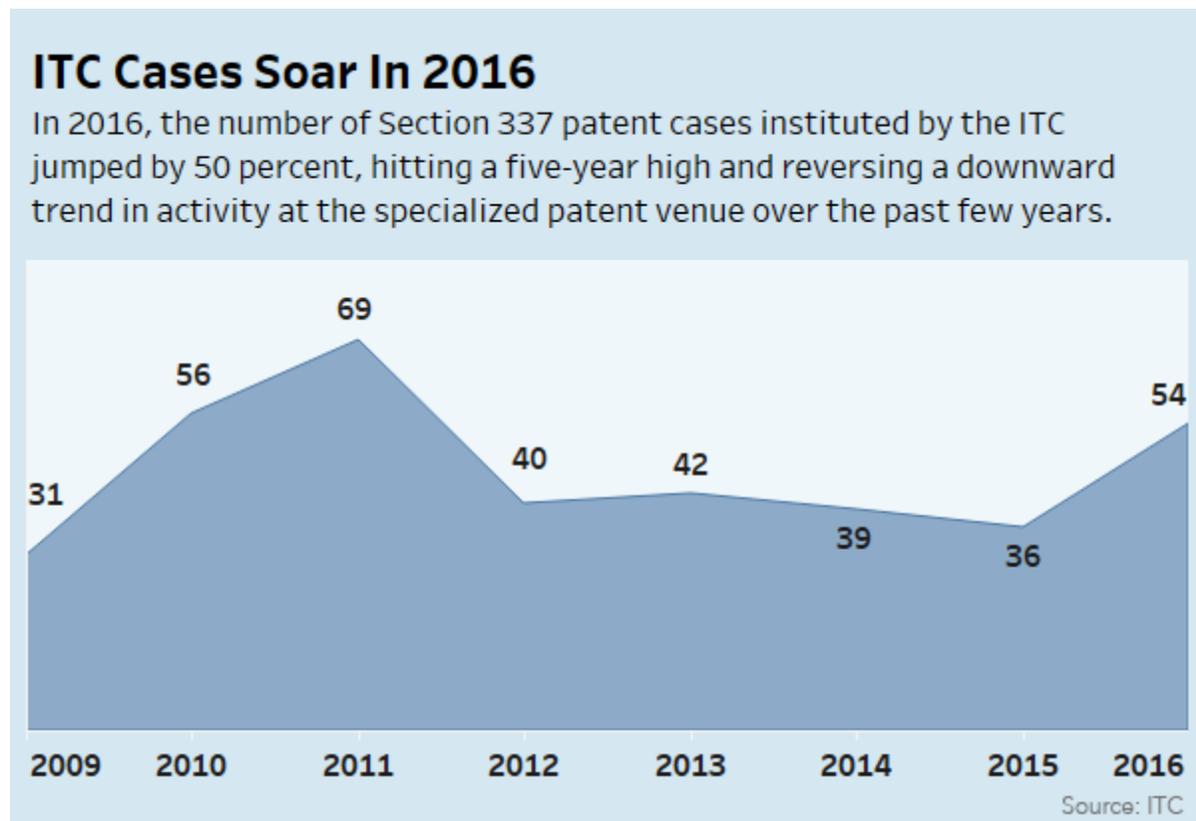
In addition to coping with price pressures and developing a PTAB practice, calculating IP boutiques are finding new venues and industries in which they can expand.

Last week’s Supreme Court decision in *TC Heartland v. Kraft Food Brands*, which says that patent suits

must be filed in the state of the defendant's incorporation, means that district court patent litigation will soon shift geographically. Hotbeds such as the Eastern District of Texas will likely languish, while others such as Delaware and Northern California could see a boom.

"I expect one impact is that our people in Delaware would get a lot busier," Devlin said, describing the potential fallout of the decision before the ruling came down.

The U.S. International Trade Commission has also become a more attractive forum for patent holders looking to stop imports of infringing products. Unlike in district court litigation, ITC cases are not stayed for PTAB proceedings, meaning that companies can quickly reach an order banning imports. The venue saw a five-year high in patent cases last year.



"The AIA is causing more patent owners to look to the ITC," Ray said.

Sterne Kessler is also working with clients to develop a more global strategy for enforcement.

Many multinational companies have sought patent protection overseas for years but have not actively used those patents. With the current slowdown in district court litigation in the U.S., Ray said, parallel proceedings abroad can often yield a final decision faster and at a lower cost.

Lawyers looking for clues on the general future of the IP boutique model are watching the new Ropes & Gray LLP spinoff. The 1,100-attorney general practice firm announced in March that more than 100 attorneys would depart to join a new firm focused on patent prosecution.

Zimmermann said the move makes sense for a firm like Ropes & Gray, which is prioritizing growth in

high-fee areas like private equity. But for the majority of the market, this may not be an ideal time to be opening an IP boutique.

Many smaller specialty firms are still looking to go the Kenyon route, searching for a larger, full-service firm to call home, Zimmermann said. Such mergers can provide an avenue into big-ticket IP litigation and bring about the stability that BigLaw offers.

Ray, though, is optimistic about boutiques' position in the market.

"There's always a place in there for specialty firms," he said. "It's all about the expertise. It's the opposite of the one-stop shopping that general firms were selling for a long time."

--Editing by Jeremy Barker and Jocelyn Allison.

Methodology: Law360 surveyed U.S. law firms, and vereins with a U.S. component, on domestic attorney and partner headcount information as of Dec. 31, 2016. Firms based outside the U.S. were not surveyed, and only attorneys based in the 50 states and the District of Columbia were included in the responses. Firms that have shareholders, members or principals in lieu of partners have those numbers listed in the "partner" field.

Several IP boutiques submitted data to Law360 but did not make the Law360 400 list. They are Cantor Colburn LLP with 96 attorneys, Sughrue Mion PLLC with 90 attorneys, Brooks Kushman PC with 88 attorneys, Oblon McClelland Maier & Neustadt LLP with 87 attorneys, Wolf Greenfield & Sacks PC with 86 attorneys, Marshall Gerstein & Borun LLP with 85 attorneys, Fitch Even Tabin & Flannery LLP with 49 attorneys, Fross Zelnick Lehrman & Zissu PC with 42 attorneys, Kacvinsky Daisak Bluni PLLC with 32 attorneys, Russ August & Kabat with 30 attorneys, Osha Liang LLP with 28 attorneys and Bookoff McAndrews PLLC with 21 attorneys.