

Survival Instinct

Finnegan Henderson avoids the fate of other intellectual property firms by keeping clients close—and the Federal Circuit even closer.

BY CHRISTINE HINES

The Toshiba Corp., the Japanese electronics giant, has an office in the heart of Finnegan, Henderson, Farabow, Garrett & Dunner's eighth-floor suite in downtown D.C.

Two full-time employees work there. And Finnegan partners have decided that whatever makes Toshiba happy is good for them. The company is one of the intellectual property boutique's oldest clients, and giving it a slice of the office allows Finnegan lawyers to have close contact with their client. It also gives Toshiba staff instant access to experts on the intricacies of American IP law.

The arrangement dates back to 1979, and Finnegan partner Douglas Henderson even keeps photo albums with Toshiba and Finnegan employees posing together at the office or at parties.

Indeed, Finnegan touts intimate client contact as a key to its strength. The firm stands as perhaps the healthiest intellectual property boutique in the country—at a time when other IP specialists such as New York's Pennie & Edmonds and San Francisco-based Lyon & Lyon have collapsed because of competitive pressure from general service firms, management woes, and a turbulent economy.

Clients, competitors, and the firm's lawyers say Finnegan has been able to maintain and strengthen its position with high-end litigation, particularly at the U.S. Court of Appeals for the Federal Circuit, and a deep bench of institutional clients such as Toshiba. Finnegan also has a clear succession plan that has allowed midcareer partners to assume greater leadership roles at the firm. That may help the firm to avoid the fate of Pennie & Edmonds, which fell apart after partner Leslie Misrock died in 2001 and Jonathan Marshall, a 35-year Pennie veteran, departed for Weil, Gotshal & Manges. For all IP firms, "the real question [for their survival] is: How well will the next level of management step up?" says William Streff Jr., a partner in Kirkland & Ellis' IP practice.

But any firm that pins its future on a single practice faces challenges. Finnegan profits have been growing—though not dramatically. Average per-partner profits at Finnegan were \$755,000 in 2002. According to Christopher Foley, the firm's managing partner,



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PILL POWER: Finnegan's Christopher Foley says that drug company lawsuits are a boost to the firm.

they were \$760,000 in 2003. By comparison, per-partner profits were higher at general firms with big IP practices—such as Kirkland & Ellis (\$1.8 million) and Jones Day (\$880,000).

And while Finnegan has created a younger leadership team, its chief star remains 72-year-old partner Donald Dunner. Dunner was instrumental in the creation of the Federal Circuit, the venue where much of the firm's litigation practice is centered.

"Don Dunner has been a major force in that law firm's success for a long time," says Robert Karhl, who chairs Jones Day's IP practice group. "How well they have planned for the post-Dunner era is a principal determinant of its success for the future."

Finnegan's leaders say they have in fact taken steps to give younger lawyers clout and prepare for an eventual generational change. And Dunner says he's not planning on slowing down. "I am the oldest partner at 72 years," he says. "I intend to be active for the next 30 years or however long I live."

Competition from IP groups at larger, more-diversified firms is also certain to intensify. Karhl's group has skyrocketed from 70 lawyers three years ago to 260 lawyers today, thanks in large part to refugees from Pennie & Edmonds and Lyon & Lyon. Kirkland's IP group has topped 200 lawyers, and Baker Botts boasts 125 IP lawyers. Jerry Mills, the IP chairman at Baker Botts, says intellectual property is the firm's fastest-growing group. "I think there are a number of quality IP boutiques that can and do compete with larger firms," Mills says, "but there are fewer and fewer of them."

Longtime Finnegan client John Williamson of PPG Industries concedes, "There are very outstanding IP sections at general practice firms today with certainly more than enough critical mass and specialized talent to practice."

Finnegan, however, has a few things going for it that firms such as Pennie did not.

The firm has made a serious effort to ensure that partners share work on major clients, says Peter Zeughauser, a Newport Beach, Calif.-based law firm consultant. Clients belong to the firm, not to individual partners: "That way, you don't lose the client with the partner," Zeughauser says.

Williamson, chief IP counsel to PPG, a global supplier of coatings, glass, and chemicals, listed several Finnegan lawyers with whom he regularly works, including partners Ford Farabow, David Hill, and Tom Irving, senior counsel Larry Hefter, and associate Robert Burns.

"Over the years, I've worked with at least 30 different partners," Williamson says. Lawyers in the firm's offices in Atlanta; Reston, Va.; and Palo Alto, Calif., also pick up work for the company.

When partner Henderson meets with the newest attorneys at the firm, he says one of the most important topics discussed is client relationships: "I tell them, 'We have no individual clients. All clients are firm clients.'"

Given the sheer size of some of its clients, Finnegan can spread around the work. Besides Toshiba, the firm does work for such giants as the Walt Disney Co., the Coca-Cola Co., L'Oreal, and the Boeing Co. But it's the firm's relationship with pharmaceutical

companies like GlaxoSmithKline and Eli Lilly and Co. that has been most prominent in the last two or three years, Foley says.

Finnegan has been front-and-center representing drug companies trying to protect their brands in so-called ANDA, or abbreviated new drug application, litigation. In these cases, generic drug manufacturers—to the dismay of corporations that produce brand names—request the federal government's permission to produce cheaper versions of branded drugs.

On Jan. 5, a packed courtroom at the Federal Circuit witnessed an oral argument in *SmithKline Beecham v. Apotex*. Finnegan's Ford Farabow argued for SmithKline in an appeal relating to the company's name-brand anti-depressant Paxil. Before Farabow began his rebuttal, a judge jokingly asked



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RELEASING THE REINS: Finnegan, Henderson, Farabow, Garrett & Dunner name partners (from left) Ford Farabow, Donald Dunner, Douglas Henderson, and Arthur Garrett, standing in front of a portrait of firm founder Marc Finnegan, maintain active practices. But they've turned over the firm's management to younger partners.

him whether Paxil would be distributed to the three-judge panel.

Farabow shot back: "Would Your Honor like branded or generic?"

Farabow's easy exchange with Federal Circuit judges shouldn't come as much of a surprise. It's likely not lost on the pharmaceutical giants that Finnegan has argued more cases before the Federal Circuit than any other firm. On its Web site, the firm touts its role in helping draft the rules of procedure for the circuit when it was founded in 1982. And 25 former Federal Circuit clerks work for the firm.

The best-known lawyer on the firm's litigation team is Dunner. The senior partner has argued more than 100 cases before the Federal Circuit and served as chairman of the court's advisory committee during its first 10 years in existence. But Dunner downplays his starring role. He says the firm draws from a deep well of talent and produces high-quality work product. The firm has 58 Ph.D.s and a brace of lawyers with in-house

experience on staff. Those qualities draw clients, Dunner says, adding, "It's a vicious circle."

Though Finnegan hires attorneys from other firms, it avoids making outside lawyers equity partners. Foley says partner-level hires can be fired by management after a trial period without a formal procedure should the firm decide the new lawyers do not fit in.

Foley acknowledges the rigorous road laterals must travel to the partnership affects recruiting, with some candidates taking offers at other firms that grant them immediate equity status. He also says the firm discourages laterals from bringing their own business to the firm, because Finnegan's emphasis is on its existing clients. Partner Patrick Coyne, who once headed the IP group at Collier Shannon Scott, says, "I left the bulk of my practice" at Collier after joining Finnegan.

Though a book of business isn't a key requirement, Finnegan does place a premium on litigation experience. Litigation represents 60 percent of the firm's practice. And during the 1990s, the firm—in an early effort to stave off competition from general service firms—began hiring litigators of any stripe to help beef up its team.

One hire was Liam O'Grady, a prosecutor in the U.S. Attorney's Office for the Eastern District of Virginia. O'Grady, now an Eastern District magistrate judge, says he had no IP or big firm experience. "It was like waking up in the morning on Mars instead of on Earth," says O'Grady of his first days at Finnegan.

But for Finnegan managers, adding O'Grady made sense. He was an experienced litigator with detailed knowledge of the workings of the court in the Eastern District, where many of the firm's cases are heard. "[We] realized it would help our firm if we had some people like Liam," says Palo Alto partner Larry O'Rourke, who helped bring O'Grady aboard.

The firm had much the same feeling about partner Gerald Ivey. The civil litigator focused on product liability and medical malpractice defense in the D.C. office of New York's Wilson, Elser, Moskowitz, Edelman & Dicker. Like O'Grady, he lacked IP experience, but he had an important qualification: 60 jury trials.

The strategic hiring of individual lawyers has been the sole way Finnegan has added to its attorney team. Foley says the firm has rejected offers from IP groups—ranging in size from three to 30 lawyers—that have asked to join the firm. Proposals to merge with other firms have gone as far as a discussion in a partnership meeting, but no farther, Henderson says. A merger "would have to make sense to us," Henderson says, but "the reason has never existed."

The firm may also be immune from merger attempts because of its size. Three hundred IP lawyers and eight domestic and international offices could be difficult for another firm to swallow. "The larger IP firms are either going to survive independently or are going to be the last to be taken over," says consultant Ward Bower of Altman Weil, because of the fact that they can handle more business, including big-ticket litigation.

But while Finnegan has the head count right now to match the workload, some wonder how much more it can grow. At some

point, client conflicts can cause a specialty firm to hit the "glass ceiling," says Mills of Baker Botts. Mills questions whether an IP boutique can grow past 250-300 lawyers because there are only so many clients and only so much work in each sector of an IP practice, whether it is computer technology, pharmaceuticals, or biotechnology.

Finnegan has a partner dedicated to reviewing matters for potential conflicts, and Dunner acknowledges there was a time "we feared we'd run into our own clients." Foley, however, says the firm continues to see its head count increase at a moderate pace, climbing 4 percent last year.

In the meantime, recruiters are spending a lot of time trying to lure Finnegan lawyers to other firms. Farabow recounts that even he received a call from an unwitting recruiter who, after realizing he was a name partner, called back to apologize to an amused Farabow.

Finnegan lawyers are likely to continue to feel recruiting pressure as the high demand for IP litigators continues. But Finnegan has had few defections in the last decade. Partner Esther Lim says she was tempted to jump to Silicon Valley a few years ago as she completed a Federal Circuit clerkship, but "the people, the work, and the clients" brought her back. And Julia Anne Matheson, a trademark partner, cites the firm's training efforts and resources, including an in-house writing tutor, as an incentive for remaining.

One of the few to jump ship was Robert Gaybrick, now co-chairman of Morgan, Lewis & Bockius' IP practice in its D.C. office. Gaybrick spent 15 years at Finnegan and headed the firm's electrical patents practice before exiting the firm with four associates and a patent agent in 1994. He says his key reason for leaving was to jump to a general practice firm that could give his clients stronger backing in other areas, including corporate and antitrust law.

Gaybrick, however, still describes himself as a "Finnegan blue blood." And even with competitive pressure from firms such as his own, Gaybrick says his old employer is likely to be an IP player for years to come. Finnegan, he says, will continue "to be a strong boutique indefinitely."

To maintain its strength, the firm has made an effort to train younger players to prepare for the day when rainmakers like Dunner are no longer with the firm. Kirkland's Streff recalls a case he co-counseled with Dunner where Dunner handed the oral argument responsibilities to a younger Finnegan partner.

Finnegan also faced internal pressure during the 1990s from younger partners who questioned the status quo, says partner Tom Jenkins. Compensation, in particular, was a thorny issue, with pay based on seniority rather than merit. Dunner says tensions over those issues prompted some younger partners to leave.

Senior partners decided to act. They altered the compensation system and began stepping down from their management roles—though Farabow, Dunner, and Henderson maintain active practices.

"We wanted youth injected into our firm," Farabow says. Jenkins became the firm's managing partner in 1996 at the age of 44, and Foley took over in 2001. There was a "recognition by senior leadership that this was a healthy thing to do," Jenkins says. They realized a transition was necessary "for the long-term health of the firm," he says.

Farabow contends that "when the older guys are gone, it's not going to make a difference." ■

