REMARKS ON TRENDS IN PATENT RECRUITING

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Good morning. It's a pleasure to have the opportunity to speak to this group once again. Actually, I have to thank the ACPC for helping me avoid spending two to three weeks on jury duty for a double murder case in New York, since this presentation enabled me to bow out of the jury pool. But while I was waiting to see if I would be called on another, shorter case and thinking about this upcoming event, I found myself wishing that I could fulfill my jury obligation by sitting on a patent trial rather than a murder case. And given the increasing amounts of patent litigation, I knew some lucky people somewhere were getting the opportunity to decide the fate of a potentially infringed small molecule patent or a medical device. Then it occurred to me that I was most likely the only person among the 200 or so potential jurors in that room having that wish. But the fact is that one of the notable changes in recruiting over the past few years has been the increasing demand for patent litigators and the impact that demand has had on the recruiting market in general. So, it's a good place to begin to take a look at the current trends in patent recruiting.

While patent litigation has always been an active part of the patent recruiting market, now, in every major city, most of the active law firm positions are for patent litigators. This increase in patent litigation activity has resulted in a two-fold impact on in-house patent recruiting. On the one hand, more associates are interested in moving in-house to broaden their practice beyond the increasing law firm litigation focus and to reclaim some quality of life. But on the other hand, fewer candidates have the requisite solid patent prosecution underpinnings or the desired breadth of IP experience in agreement or opinion work in order to be the most desirable candidates for in-house positions. And while we are seeing a slight increase in the number of in-house patent litigation positions which can draw upon this larger pool of law firm litigators, this part of the market remains a very, very small segment of in-house hiring. But every day the impact is seen when looking for mid-level candidates to fill positions which involve a mixture of prosecution, agreement and counseling work. And, whatever the differences in percentages in how the IP work is divided, the largest portion of in-house positions continues to involve a mix of work beyond just prosecution. So, in addition to the ongoing scarcity of qualified patent attorney candidates, the training entry-level attorneys in traditional patent practice has diminished as law firms continue to put junior associates onto the ever-present litigation cases. Even at what used to be the "traditional" IP boutiques, which were once the haven for associates interested in preparation and prosecution, we see increasing numbers of associates focusing their time on litigation. And corporations continue to do minimal, if any, entry-level hiring and training.

The high demand and shortage of qualified patent attorneys is also illustrated by the statistics on corporate law department spending for outside counsel. The amount spent on

patent litigation is almost as much as that spent on commercial litigation, and the amount spent on non-litigation counsel fees is virtually the same for IP as for M&A, or general corporate, or regulatory matters. And while the on-line PTO exam has made registration much more accessible, and there has been more than a 20% increase in the number of registered attorneys in the last eight years, patent attorneys still account for only 2 % of the total number of US attorneys, the same percentage that existed in 2004. Therefore, the difference in the supply and demand for patent attorneys as compared to non-IP lawyers remains quite striking.

Regarding differences in recruiting demand among technical specialties, there have also been some notable changes over the last few years. Electrical engineering remains in great demand, as do the life sciences, with mechanical engineering and general chemistry not nearly as active, and most of the mechanical engineering activity involves medical devices. However, finally, all these years after the initial internet explosion and implosion, the demand for people with software experience is increasingly active. The software positions often emphasize transactional work, such as due diligence, agreements, portfolio analysis and patent assertion. These positions are very different from the traditional EE positions involving computer hardware or telecommunications circuitry, which have emphasized patent prosecution, with more peripheral exposure to licensing and agreement issues and litigation support. And, not only are the software positions different, but the candidate skill-set required means that these attorneys are not usually interchangeable between hardware and software positions, even if they have the electrical engineering or computer engineering degree.

The other striking development in the demand for specific technical expertise is that pharmaceutical chemistry has overtaken biotechnology in the life science arena. For every one in-house or law firm biotech position, there are three or four pharmaceutical chemistry positions. Sometimes it feels as though I spend my days dreaming of discovering not a novel drug, but of finding an undiscovered Ph.D. chemist with three to five years of pharmaceutical chemistry patent experience. The shortage of experienced patent attorneys with small molecule chemistry credentials and knowledge of pharmaceutical patents has become so intense that some companies and firms are willing to consider hiring patent agents if they have prosecution experience, with or without the intention of going to law school. Unfortunately, this flexibility has not helped very much in filling the recruitment gap because, with the total number of registered patent agents in the country across all technical backgrounds and all levels of experience at approximately 8500, the number of experienced patent agents in the two to four year range, in any particular technical area, remains extremely small. In addition, many of these patent agents have no interest in committing to future law school enrollment, which is often a requirement for alternative positions. And those agents currently in law school generally will not change positions until they have finished, typically because of the financial commitment to the current firm if tuition is being paid, or the disruption of having to change law schools for a job in a new city.
Therefore, despite the attractiveness of patent law as a career path because of the ongoing demand and the increase in the PTO pass rate, there continues to be many fewer good candidates than open positions nationwide.

Another important variable which continues to reinforce this overall shortage of qualified candidates is the ongoing geographic narrowness of the market. In-house positions are concentrated in essentially the same areas in the U.S. year after year, i.e. Boston, New Jersey/Philadelphia; San Francisco, and San Diego, with much less activity in Texas, the Research Triangle area, Seattle, and the Midwest. There has been somewhat of an increase in activity in Europe, as U.S. companies and European companies expand the desire for U.S. trained attorneys in offices abroad. But while the non-IP corporate law firm market is fairly active in Asia, there has yet to been any significant activity on the IP side there, either at firms or at companies.

Many good candidates who would consider in-house positions are unable or unwilling to do so because they are not interested in these major U.S. markets. This reluctance is most often due to the challenge of relocating to high cost areas and finding affordable housing. Companies in some locations have the advantage of having larger local candidate pools from which to draw. So, for example, New Jersey pharmaceutical companies can take advantage of the desire to move in-house closer to home on the part of people living in New Jersey but working at NYC firms. However, there aren't nearly enough experienced pharmaceutical chemists in the San Francisco area or in Boston for all the open positions there, and it is difficult for people living in the Midwest or the Southeast to easily relocate to these areas. In addition, those New Jersey pharmaceutical companies are competing with many of their neighboring companies for the same candidate population. If only it were possible to move some of these positions to Chicago, or St. Louis, or Denver, or Portland, there would be an increase in interested candidates because of family ties or affordable housing. (I've given up hoping for active markets in Arizona, or Florida, or New Hampshire, or Detroit, or Ohio.) However, the history of patent hiring over the last 20 years has shown a remarkable narrowness regarding in-house locations. So, we continue to dream about a patent search for a well-regarded company in a smaller city, with affordable housing, reasonable commuting patterns, and, hopefully, without prolonged periods of extreme weather, because even though most of the candidate pool might need to be relocated, at least it would not be an impossible goal to achieve.

The other important variable which continues to make in-house recruiting challenging is the increasing compensation disparity between law firms and corporations. The compensation gap between companies and firms is now reaching critical levels. It has always been necessary for most candidates to take a salary cut to go in-house from law firms, but over the last two years the gap has become increasingly unbridgeable. We are starting to hear from candidates who are currently in-house that they would consider returning to a firm because the compensation is so much higher, and the difference in hours is no longer as striking as it has been. And even if they would like to make the change to a corporation, candidates are feeling pressed to stay at their firms for a few more years to pay off student loans faster or put away some money for the future. The problem is that as these candidates remain at firms longer because of higher salaries, they are less likely to be attractive candidates for the more senior in-house positions when they do decide to move because of those additional years spent in the narrower practice areas generally available at firms.

It was challenging before when company salaries were two years behind law firms salaries, but now candidates are wondering how to justify moving to a company to earn in their fifth or sixth year of practice what first year attorneys are earning at firms in most major metropolitan areas. In addition, corporate relocation packages have not kept pace with the overall costs to a candidate who is trying to decide on a job offer, especially when few in-house jobs are in affordable housing locations. And now that the housing market has softened, candidates are often faced with the daunting prospect of figuring out how they could manage to begin a new position when they have no idea how long it will take them to sell their home, and they cannot possibility afford to finance a new home until the sale occurs. Many corporations have been pulling back on their relocation packages for non-VP level attorney positions at the same time that corporate salaries are less competitive and relocations more complex. One might say that this merely makes a stronger case for hiring local candidates, and that is always the optimal situation. But even if a company is fortunate enough to find a good candidate in the general vicinity, you have to be really lucky to find a candidate who is actually within reasonable commuting distance to the new employer.

We recently had a situation where a candidate had an offer at a company in the same state but was not eligible for a relocation package because he lived within the 50 mile exclusion area. This 50 mile rule might have made sense 10 years ago, but now increased traffic means that 40 miles equates to a possible commute of an hour and half each way. So if a candidate is faced with the decision of financing most or all of his own relocation, with no increase in compensation, or remaining at his current job and waiting for something closer to home to open up, that offer is most likely not going to be accepted. It's frustrating to see these lose-lose situations, when a candidate would like to accept the position, and the company does not really want to spend another eight months looking and hoping for another candidate more likely to accept this offer. The next viable candidate, whenever he or she surfaces, might require many more months to locate and might end up being even more expensive for the corporation if that person lives 500 miles away, and a full relocation is required. Not only do compensation and relocation package restrictions present challenging economic realities for candidates with existing mortgages, student loans, children's expenses, and spousal career issues, but candidates express that they perceive it as a message regarding the value placed on in-house attorneys if companies are not willing to remain more competitive with their outside firms. This problem impacts patent hiring much more than general corporate hiring because a great deal of the non-IP in-house hiring is taking place at banks and investment firms where the compensation packages can more easily compete with the law firms.

In addition, contrary to what one might expect, it is at the larger companies where patent departments have the most difficulty competing with law firm salaries. Smaller companies, while operating with limited financial resources, manage to more often come up with salaries and bonuses that allow patent candidates to accept positions. Perhaps it is a result of the fact that they do much less hiring, so the overall budget for recruiting is smaller, and resulting internal equity issues are less critical. But the outcome is that candidates are now often much more interested in hearing about small company

opportunities, where there might be potential for real equity growth, rather than struggling to justify career decisions involving the acceptance of large salary decreases and minimal raises in the future.

I am not a proponent of the large increases law firms seem intent on perpetuating, and candidates understand that the costs of these increases will be felt by the associates, in terms of longer partnership tracks, greater billable hour requirements, and fewer options in their careers as the "golden handcuffs" continue to tighten. However, corporations will need to address the compensation challenge or be faced with even greater difficulty in staffing their departments with the quality people they desire, people who are highly valued and doing well at their current positions and not desperate to make a change. On the other hand, despite some recent attempts by some law firms to address the issue of attrition, fortunately for you managers of corporate patent departments, law firms in general continue to do a pretty good job of keeping large numbers of associates discontented in their careers, so the desire to move in-house remains, even if the ability to make that a reality is difficult to accomplish.

One final factor which is affecting successful hiring, once those hard to find candidates have been recruited and offered employment, is the increasing problem of conflicts. It used to be that conflicts were an occasional part of the hiring process which needed to be addressed, but rarely thwarted the completion of a hire. Increasingly, especially in the areas of medical devices and pharmaceuticals, companies are faced with further reduced candidate pools due to conflicts which might not be able to be remedied. Even when the hiring company is optimistic about being able to wall a candidate off from conflicted work, one can no longer assume that the candidate's current employer will be cooperative in attaining the necessary waiver.

We have had two instances in the last month where candidates accepted positions, understanding that a conflict waiver would be required, and were sadly disappointed when the current employer refused to grant it, or even make any attempt to approach the client about the matter. Since the candidates had not been involved in any work that they or the future employers anticipated as problems, the resulting refusal was quite unexpected. So now in addition to the other obstacles faced by hiring managers, the increasing presence of conflicts is causing tremendous grief to hiring managers and, most importantly, to candidates who did not expect to encounter insurmountable obstacles. In both of these described instances, the attorneys were then let go by their current employers because they had accepted the offer and demonstrated their desire to change jobs. There is a growing need for a fair and consistent policy on conflicts as they relate to recruiting so that unsuspecting candidates are not victims of the process, and employers are not faced with an even greater reduction in the potential pool of patent candidates.

Last summer I read an article about an upcoming book questioning the economic value of patents and proposing data showing that patent litigation costs "outstrip patent profits", and that "companies doing the most research and development are sued the most". On the other side of the argument the article also discussed the need to view the economic data proposed in this book within the context of "the social value of patents…the impact an

invention has for society at large" (1). As more attention is focused on the costs versus benefits of patents, it is possible that there might be dramatic changes in the IP world and in patent recruiting in the future. In addition, the debate over proposed patent rule changes might result in a decrease in patent attorney hiring. Or this debate might lead to an undiminished but improved patent system in this country. Even in the face of an economic downturn, patent recruiting will most likely remain strong. After September 11th, patent recruiting remained strong through most of 2002, unlike corporate and commercial litigation hiring, and then patent recruiting rebounded back to pre-9/11 levels faster than any of the non-IP areas. In addition, when patent recruiting demand did react to the post 9/11 economic downturn, it did not get any easier to fill the open positions because large numbers of potential candidates responded by deciding to remain in their current jobs until economic conditions became less unsettled. In fact, we are already hearing some of this increased cautiousness this month on the part of junior and mid-level attorneys as a reaction to the recent economic news.

So, in conclusion, whatever the outcome of the debate on the structure of the patent system, patent law will most likely remain the most active of all legal recruiting areas. I don't anticipate any significant increase in the number and availability of well-qualified patent attorneys willing to consider new opportunities, and I don't anticipate that corporations will greatly lower their expectations regarding the caliber of candidates that will be considered. As a result, as long as law firm salary increases and housing limitations remain hurdles to overcome, corporate legal departments recruiting from this very limited talent pool will need to find creative approaches to the problems presented by geography and compensation, for as long as innovation is worth protecting.
Thank you.

1. "A Patent Is Worth Having, Right? Well, Maybe Not"
New York Times, 7/15/2007, Michael Fitzgerald.