GROWING YOUR START-UP IP PRACTICE

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Introduction

In this presentation, we have been asked to discuss important issues for growing your small firm or solo practice. This paper provides a brief overview of our firm and discusses three specific growth stages we experienced and the steps we took in each stage. I would also highly recommend you read Achieving Pre-eminence: The Seven Pillars by Glen Jackson, which is some of the best thought and advice going. http://www.jacksonspalding.com/blog/achieving-preeminence-seven-pillars/ (accessed March 28, 2017).

Firm Overview

J.A. Lindeman & Co. is an intellectual property law firm located in Falls Church, VA. J.A. Lindeman & Co. works together with its clients to successfully develop, commercialize and defend their patent and broader intellectual property portfolios. The firm’s clients do business in a wide range of industries including chemical, cosmetics, pharmaceuticals, medical devices, computer systems, broadcast media and manufacturing. Some of the technologies where we have worked extensively include crystalline forms of pharmaceuticals, new pharmaceuticals and formulations, chemical reagents and polymers, medical and assay devices, bioelectric devices, web-based technology, nanotechnology, computer software, network applications, search engines, and business methods. Beyond patents we work with clients to have a broad intellectual property portfolio including trademarks, designs, copyrights, etc.

The firm’s attorneys and our other legal professionals have diverse backgrounds in science and technology as well as in academia and business. In addition to legal and technical expertise, the firm’s professionals have worked at the Patent and Trademark Office, achieved high level management positions and frequently speak and teach on a variety of legal and technical subjects.

J.A. Lindeman & Co. began on December 1, 2009. The firm opened with three attorneys and one staff person, an intellectual property specialist. Today, J.A. Lindeman & Co. has six attorneys and four full-time staff persons – one paralegal, two intellectual property specialists and a bookkeeper.

Growth Stage 1: Refining cash flow

In our early years one of the challenges we faced was cash flow. While we did from time-to-time request retainers or advance payments for large patent office or foreign counsel fees, we were often concerned about having the cash on hand to pay foreign counsel expenses, annuities/maintenance fees and our operating expenses. Clients would promise payments but for any number of reasons those payments would be delayed. We took steps to make sure we had available cash to operate smoothly month-in and month-out.
Step 1: Establish a Line of Credit

We established a revolving line of credit (LOC) with our bank. To do this we applied for a loan based on our accounts receivable. We first asked for a credit limit equal to about 1x to 1.5x of our monthly operating expenses. After having the LOC for a few years we increased the credit limit to about 3x of monthly operating expenses. Given the size of our firm the bank requires a personal guaranty which also informed the decision about the credit limit.

It is our policy not to draw on the LOC unless absolutely necessary. If we do draw on the LOC we pay it back down to a zero balance as quickly as possible. We do this, not only because we pay interest on the money borrowed, but because you have to pay back the principle borrowed. Think of it this way, when you draw on an LOC you have just added to the monthly operating expenses that must be paid. Still, this is an important safety net to have available to smooth out cash flow.

Step 2: Use a foreign currency exchange

We began to use a foreign currency exchange service for payments of foreign counsel invoices. Another challenge we faced was invoicing clients for foreign counsel invoices. When we recorded a foreign counsel invoice as a client expense, the foreign exchange rates might change across the time of recording the client expense, invoicing the client and receiving payment to then pay foreign counsel. Although several services offer this, we began to use Western Union to get a definite amount in US dollars for each foreign counsel invoice that we could bill to our client and pay foreign counsel. This avoided daily changes in exchange rates. Western Union has a program designed for law firms that allows you to submit invoices, receive the definite amount for client billing and then, through their website, pay foreign counsel. This has been transformative for us as we routinely have clients filing in ten or more countries.

Step 3: Streamlining billing procedures

We have a target of completing our client billing by the 10th of each month. For our clients, we primarily bill on a monthly basis rather than a task or project basis. Our process involves entering all expenses and time by month end (done primarily by the attorneys and prosecution support), preparing and reviewing pre-bills, finalizing invoices and emailing invoices to clients. For some time I would be the only person doing everything from preparing the pre-bills to emailing the invoices to clients. This was time consuming. It was also hard to fit billing in among client work and managing the firm. Knowing that billing was central to the firm’s health and operation, we decided it would be better if billing attorneys would be only responsible for reviewing pre-bills. Our bookkeeper now does all other steps in the process. This increased efficiency and had other benefits. Our bookkeeper now has direct, personal relationships with the financial departments at our clients. We had hoped for this. An added benefit – we now get paid faster and if a question arises our bookkeeper is usually handles it herself.

Step 4: Establish a Money Market Account

We established an interest-bearing money market account alongside our operating account. This is simply a savings account. When we have extra cash we move it into our money market account. The target balance for our money market account is equal to the available amount for our LOC (or more). We draw from our money market account before our LOC. We use the money market account to cover operating expenses when client payments are delayed and expenses must be paid. We save for large
expenses, taxes, the firm’s contribution to employee retirement, year-end bonuses, etc. Since we have instituted and begun funding the money market account we have not drawn our LOC. We use “our money” before we use “the bank’s money.”

Growth Stage 2: Focusing Your Practice

It has been helpful to us to consider just what our practice areas are. Even within patent law, there are particular areas of practice on which a firm can focus. Our firm was originally designed to be a patent prosecution and counseling practice. Our planned areas of practice involved preparing and developing worldwide patent portfolios, assisting our clients in commercializing their patent portfolios, and preparing agreements and opinions to achieve client’s goals. Even so, from the beginning we were involved in patent and intellectual property litigation matters, both in the US and abroad. And, we also referred out any and all trademark matters. Looking at our firm we realized we had to decide what our practice would be and, more importantly, what it would not be. The purpose of this was to serve our clients better and to direct our marketing activities. As a small firm we recognized we could not be all things to all possible clients.

Step 1: Identifying Primary and Secondary Practice Areas

Our patent practice, particularly the counseling and strategy aspects, generates significant and on-going work on opinions, licensing and litigation. Litigation, in contrast, did not generate significant work beyond itself. We also considered how to become involved in post-grant proceedings as an emerging practice area but recognized the heavy competition from larger firms. Applying a “historical lens” to our work allowed us to identify areas of practice which generated work not only in that area but also in other areas. These sustaining practice areas we designated as “primary practice areas.” The other “receiving” practice areas we designated as “secondary practice areas.” Some secondary practice areas we realized could become primary practice areas. Effort in the primary practice areas and the secondary areas with potential would give us the most return on investment and future growth. Other secondary practice areas were clearly opportunities to team with other attorneys and firms and to establish our own expertise.

Step 2: Finding Missing Practice Areas

After identifying our primary and secondary practice areas we also looked at the types of work we were doing for our clients and what work we were not doing. For us, this quickly pointed out a “missing” practice area – trademarks. A number of our clients were start-up and emerging companies. We would talk with them about a well-rounded intellectual property portfolio and the importance of capturing all forms of intellectual property in that portfolio. Specifically, we would talk with them about branding and the importance of trademarks. But, when asked if we did trademark work we say “no” and refer them to other counsel. We had a missing secondary practice area, trademarks, which could like our patent practice become a primary practice area. So, we added a trademark practice.

It would have been possible to hire a trademark attorney to add this practice area. Having attorneys who had worked on trademark matters, we did not go that route. Instead, we spent time learning, we established the necessary internal procedures, and we hired a retired trademark attorney to be a coach.
It was important to us not to end-up with a “home grown” trademark practice but one designed based on experience and scalability.

**Step 3: Assessing Practice Areas**

Assessing practice areas, especially primary practice areas, is an important and ongoing task. We are looking for ways to improve our internal processes and procedures, to anticipate client needs, to communicate better and to look ahead for developments – legal and strategic developments. We recognize that taking an invention through a patent preparation into examination in the US and throughout the world and finally to commercialization is a complex process that occurs over the span of years. The same is true for establishing a trademark portfolio. There are many moving parts. We want to always be asking questions such as: “What went right?” What could be improved?” and “Where can we innovate?” We also ask if there is an emerging area of technology that we see in what our clients are doing or that is peaking our personal interests. Assessing practice areas often uncovers opportunity.

**Growth Stage 3: Organizing for Growth**

Start-up firms often have a flat organization structure. The “org chart” often places the founding attorney (or attorneys are) at the center with individual lines to each attorney and staff member. This flat organizational structure may be necessary and effective for the start-up phase when the firm’s practice and procedures are being established. Our firm had this flat organizational structure well after our start-up phase. Even though we had a relatively small number of attorneys we have moved to a team-based structure to prepare for growth.

**Step 1: Deficiencies of a Flat Organizational Structure**

While our flat organizational structure worked well because we were small, we noted some possible vulnerabilities inherent in the structure. We asked ourselves, “What would happen if the managing attorney, the person at the center, could not work for six months?” We were able to say that we would continue to serve our clients and meet deadlines – a very good answer. We have always made sure that more than one attorney has a relationship with each client. Our view is that all clients are firm clients. We also had cross-trained our staff on key practice procedures such as docketing and patent prosecution support.

We did see, however, that we could improve our operational readiness. For example, we need to make sure that there was more than one attorney who could sign checks. There was also not enough
familiarity with monthly operations beyond the managing attorney and our bookkeeper. Thus, although we had much of what we wanted in place on the practice side, work was needed on the operations side.

**Step 2: Implementing a Team-based Organizational Structure**

We considered a variety of organizational structures before deciding on a team-based structure. Since we had only a small number of attorneys a two-team structure was selected. The direct line of responsibility flowed from the firm managing attorney to the team leaders and to the attorneys on each team. The team structure provides for work-flow and firm management, not for work distribution. Our teams were defined by primary areas of client work. We have always had and want to continue cross-team projects as opposed to team silos. Even though we are a small firm, we saw a number of purposes and advantages for a team-based organizational structure:

- Creating more involve community with the firm
- Better work planning and workflow
- Established framework for firm growth, attorney accountability and client/project management
- Having a structure for training new attorneys
- Team leaders learning and developing firm management skills

Another particular benefit was to see where we needed to add attorneys and to know how they would fit within our organization. We also planned for future growth and dividing the teams into new teams. For example, our trademark practice is currently in our “engineering and design team” but as that practice continues to grow it will become its own team.

**Step 3: Establishing Criteria for Partnership**

This is something we did prior to establishing our team-based organizational structure. We established criteria for becoming a non-equity partner and for becoming an equity partner. We wanted clear criteria for the attorneys at our firm and for any lateral partners who may join the firm. Understanding what is required for and expected of a partner provides basis for discussion, career growth and partnership decisions. You do not want to have situations where partners are made without common, stated requirements or with differing requirements. While every firm will have its own requirements, our requirements involve legal experience, time at our firm and six criteria for partnership:

- Integrity
- Legal Ability
- Judgment
- Industry and Responsibility
- Ability to work with others
- Client development skills

Our focus is on long-term relationships, the attorney’s relationship and commitment to the firm and the attorney’s relationship with clients.