

RECEIVED

DEC 10 2012

OFFICE OF ENROLLMENT
AND DISCIPLINE

Harry I. Moatz
1721 Crestview Drive
Rockville, MD 20854
(301) 461-3826

December 7, 2012

Mail Stop OED-Ethics Rules
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, Virginia 22313-1450,

Attention: William R. Covey, Deputy General Counsel for Enrollment and Discipline
and Director of the Office of Enrollment and Discipline

**Re: Comments on Proposed Changes to Representation of Others Before The United States
Patent and Trademark Office**

Dear Will:

I am pleased to see the progress made to update the United States Patent and Trademark Office (“Office” or USPTO) ethics rules to correspond to the ABA’s Model Rules of Professional Conduct. I applaud the many of the changes included in the proposal as they are the same as had been under discussion for years while I was Director of OED. Some changes reflect an effort to keep rules succinct with some success. As I agree with many of the proposed changes, I will not comment on them individually. However, some proposals do merit comment. Set forth below are my comments.

Section 11.2(e). The proposed change to this rule has the potential to have unintended consequences and could result in vexatious litigation. Like the current rule, the change permits a person filing a grievance (hereinafter “grievant”) or accused practitioner to seek review of a decision. For example, a grievant may seek review of a decision to not investigate a grievance or not bring disciplinary action. Unlike the current rule, the proposed rule recognizes a grievant as being a “party.” By recognizing all grievants as a “party,” the proposed rule provides them with footing to argue to a court that the Office has recognized them and given them standing to participate in investigations, to bring private disciplinary actions, or to participate in disciplinary proceedings though their petition for review of a decision was unsuccessful.

Amendment to procedural rules in §§ 11.2(b)(4) and 11.19 – 11.64 is necessary if a grievant is to be permitted to participate in an investigation and disciplinary proceedings. For example, would permission of the USPTO Director be necessary for a grievant or anyone else to file an amicus brief at the hearing level, the appellate level, or both?

It is not apparent that Office intends to go so far. No amendments are proposed to §§ 11.2(b)(4) and 11.19 – 11.64 to permit a grievant to participate in the investigation or discipline proceeding before the ALJ or the USPTO Director. Nevertheless, some grievants are adamant in their search for justice, and would pursue legal recourse in court arguing that the Office has

recognized them as a party by adopting the proposed rule change. An adamant grievant could expose the Office to costly, vexatious and otherwise needless litigation on this point. While there is plenty of case law that there is no private right to disciplinary action, the Office need not open the door to such litigation.

It is suggested that § 11.2(e) reference the person filing a grievance, and the individual under investigation as being those to whom the rule would apply. The change would avoid an unintended recognition of any entity or individual as a party.

To the extent the change to § 11.2(e) is intended to make language therein comparable to language in § 11.2(d), then it is suggested that the latter rule's language be changed to "individual seeking enrollment or recognition." A member of the public rarely provides information regarding anyone seeking enrollment or recognition. Thus, it is very unlikely that anyone but the applicant or individual seeking recognition would be a "party." If an objective the current rulemaking is the use of consistent language in the rules, then replacement of "party" with "individual seeking enrollment or recognition" would provide the same while avoiding issues raised by the use of "party."

Sections 11.11(b) and 11.115: The proposed rules refer to "persons granted limited recognition." The proposed definition of "person" in § 11.1 makes it clear that a person need not be an individual, whereas a practitioner, including one "granted limited recognition," must be an individual. See the definition of "practitioner" as "3. [a]n individual authorized to practice before the Office in a patent case or matters under § 11.9(a) or (b)." Therefore, the use of "person" in the quoted phrase should be changed to "individual" in these instances. The Proposed Rulemaking clearly states that "the USPTO registers individuals, not law firms or corporations, to practice in patent matters." Therefore, the use of "person" in all rules in Part 11, including those not included in the Proposed Rulemaking, should be reviewed to see if "individual" or other language should replace "person" when the subject of the rule is an applicant or practitioner.

Sections 11.19(a) and 11.34: The proposed rule refers to a "person not registered or recognized to practice." This appears to be an instance where "individual" should be used instead of "person" inasmuch as a practitioner must be an individual, see § 11.1, but a "person" need not be an individual.

Sections 11.19(a) and 11.20: The last sentence of this rule provides that "person not registered or recognized to practice before the Office is also subject to the disciplinary authority of the Office if the person provides or offers to provide any legal services before the Office." However, there is no corresponding amendment to § 11.20, which provides sanctions for violation of disciplinary rules. It is not apparent what sanctions the Office anticipates imposing on an unregistered or unrecognized "person." It is not evident how an unregistered individual, firm, corporation or trust can be excluded or suspended from practice before the Office when they could not legally represent others in the first place. The Office should specify what sanctions it anticipates imposing on an unregistered or unrecognized "person," as well as whether and how sanctions may impact any application or documents submitted to the Office by the "person." Does the Office plan to take action if an unregistered or unrecognized person violates a sanction? Will the Office seek to enjoin the unregistered or unrecognized "person" from practice before the Office?

Section 11.32: The comments to the rule indicate that the USPTO proposes to clarify that the OED Director has discretionary authority to recommend settlement and issue warnings without having first convened a panel of the Committee on Discipline, and further that the OED Director has authority to recommend settlement or issue a warning after the Committee on Discipline has made a probable cause determination. The comment is clearer than the proposed rule. It is suggested that in the first sentence, after “Discipline” the following be inserted: “, or recommend settlement or issue a warning without convening a panel of the Committee on Discipline”. In the third sentence, after “§ 11.34,” insert “, recommend settlement or issue a warning after the Committee on Discipline has made a probable cause determination.”

Section 11.108(e): The comment to this section explains that the rule “provide[s] that a practitioner shall not provide financial assistance to a client in connection with pending or contemplated litigation or proceeding before the Office.” Unlike the comment, the proposed rule does not reference a “proceeding before the Office.” The rules do not use “litigation” and “proceeding before the Office” interchangeably. If the proposed rule is intended to include a “proceeding before the Office,” it should be explicitly stated in the rule.

Section 11.108(i)(3): The Office proposes to continue the current practice found in 37 CFR § 10.64(a)(3) of permitting a practitioner, in a patent case or proceeding before the Office, to take an interest in the patent as part or all of his or her fee. Though it repeats the language of § 10.64(a)(3), the language in § 11.108(i)(3) is inconsistent with terms of § 11.108(a) and therefore misleading, does not promote the “harmonization of these regulations with corresponding rules adopted by bars in the States and the District of Columbia,” and can lead to discriminatory enforcement between patent agents and attorneys.

The literal words of this section, “take an interest,” are inconsistent with subparagraphs (1) – (3) of § 11.108(a). A practitioner may comply with § 11.108(i)(3) without complying § 11.108(a) by not fully disclosing the transaction and terms in writing to the client; by the transaction and terms being unfair and unreasonable to the client; by the practitioner not advising the client in writing of the desirability of seeking nor being given a reasonable opportunity to seek the advice of independent legal counsel in the transaction; and by the client not giving informed consent, in a writing signed by the client, to the essential terms of the transaction and the practitioner’s role in the transaction, including whether the practitioner is representing the client in the transaction.

A practitioner would be misled to rely on § 11.108(i)(3) to believe it is unnecessary to comply with its provisions without complying with § 11.108(a). In *Buechel v. Bain*, 713 N.Y.S.2d 332 (N.Y. Supp 2000), *affm’d*, 766 N.E.2d 914 (N.Y. 2001), the court held that the Office’s rule, § 10.64(a)(3), did not excuse attorneys from the disclosure requirements of the state’s disciplinary rule, DR 5-104(A). In a related case, *Rhodes v. Buechel*, 713 N.Y.S.2d 332 (N.Y. Sup. 1999), the court upheld rescission of a fee agreement as the appropriate remedy when an attorney obtained interest in client’s inventions and patents when there was inadequate disclosure of conflicts of interest and lack of advice to obtain independent counsel regarding the agreement. See also *Monco v. Jamus*, 583 N.E.2d 575 (Ill. App. 1991) (upholding finding of attorney’s failure to rebut the presumption of use of undue influence to acquire a 50% interest in a client’s patent by failing to make full and complete disclosure of conflicts of interest, adequate consideration for interest, and advising client to obtain advice of independent counsel). The

language of § 10.64(a)(3) and § 11.108(i)(3) is identical. Therefore, compliance with the language of the proposed rule is not *per se* ethical for attorneys. Nor should it be for agents.

Retaining § 11.108(i)(3) may result to discriminatory enforcement of the rule or discriminatory imposition of disciplinary sanctions. A patent agent who is not an attorney need not comply with state ethics rules. Therefore, the patent agent may simply “take” the interest without complying with § 11.108(a), be in compliance with § 11.108(i)(3), and not be subject to disciplinary action by a State disciplinary agency or the Office for violation of 11.108. In contrast, an attorney who, following § 11.108(i)(3), simply “takes” an interest in a patent, *i.e.*, without full disclosure of conflicts of interest, without advising clients to obtain independent legal counsel in the transaction, or without obtaining the client’s informed consent in writing signed by the client, may well suffer consequences for violation of state ethics rules requiring full disclosure, etc. An attorney who is disciplined by a state jurisdiction for violating its version of Model Rule 1.8(a) would be subject to reciprocal discipline by the USPTO under §§ 11.24 and 11.804(h), though the attorney complied with 11.108(i)(3). There is no rational basis that could justify the disparate impact the proposed rule could have on attorneys and patent agents.

The proposed rule does not promote harmonization with corresponding rules adopted by bars in the States and the District of Columbia. The United States Court of Appeals for the Federal Circuit recognized the Office regulations do not preempt a state’s authority to regulate the practice of law regarding a registered patent attorney’s practice before the Office. *Kroll v. Finnerty*, 242 F.3d 1359 (Fed. Cir. 2001). In *Buechel v. Bain*, 713 N.Y.S.2d 332 (N.Y. Supp 2000), the court held that the Office’s rule, §10.64(a)(3), did not excuse attorneys from the disclosure requirements of the state’s disciplinary rule when acquiring an interest in the client’s property, DR 5-104(A). The decision was affirmed by the New York Court of Appeals, *Buechel v. Bain*, 766 N.E.2d 914 (N.Y. 2001). The court noted that 37 CFR 10.1 (now 37 CFR 11.1) provides that the Office regulations do not preempt the right of states to regulate the practice of law. In *Monco v. Janus*, *supra*, the attorney was found to have not complied with state ethics rules for full and fair disclosure.

It is unnecessary to have a rule enabling practitioners to “take” an interest in the patent case or proceeding in the Office. Practitioners have entered into contracts for a reasonable contingent fee by acquiring an interest in the proceeds from a granted patent. The conduct is consistent with the States’ versions of Model Rule 1.8. For example, both the Los Angeles County Bar and the District of Columbia Bar have issued ethics opinions recognizing that an attorney may accept a percentage of the profits from a patented invention to be consistent with their versions of Model Rule 1.8. Los Angeles County Bar Op. 507 (2001) recognized that an attorney may contract with a client for a contingent fee in connection with a new patent prosecution. The Los Angeles County Bar opined that 5% of net profits from the sale of the invention were not unconscionable. The opinion noted an interest is considered “adverse” to a client if, under the circumstances, an attorney acquired “the ability to summarily extinguish the client’s interest in property.” The Los Angeles County Bar concluded that the attorney did not have to comply with California Rule 3-300, California’s version of Model Rule 1.8(a), inasmuch as the attorney did not obtain pecuniary interest adverse to a client. The opinion does not mention the Office’s ethics rules. D.C. Op. 195 (1988) also recognized that it is permissible to take in interest in the proceeds from a patent, but did not address what percentage of profits would be permissible.

It is suggested that after “case” in § 11.108(i)(2) the language “; and (3) In a patent case or a

proceeding before the Office, take an interest in the patent as part or all of his or her fee” be deleted. This would be particularly apropos should the Office publish, as guidelines, comments to the rules. The ABA’s comments to Model Rule 1.8(i) do not address taking interest in proceeds from a patent as a contingency fee. Therefore, it would be beneficial to agents and future practitioners to provide them with written guidelines by adopting official comments.

Alternatively, whether or not guidelines will be published, if the Office desires that the rules provide some guidance, it is suggested that in § 11.108(i)(2), after “case” the Office insert “or in a patent in a proceeding before the Office” and delete “; and (3) In a patent case or a proceeding before the Office, take an interest in the patent as part or all of his or her fee.” In both suggestions, owning a share of patent or invention would be prohibited by the prohibition in § 11.108(i) against “acquir[ing] a proprietary interest in the cause of action, subject matter of litigation, or a proceeding before the Office.” Practitioners desiring to co-invent with their clients or improve upon their client’s inventions would need to comply with § 11.108(a) before making their contribution.

Sections 11.505(c), (d) and (e): In § 11.505(c), the USPTO proposes to prohibit a practitioner from assisting a person who is not a member of the bar of a jurisdiction in the performance of an activity that constitutes the unauthorized practice of law, or assist a person who is not a registered patent practitioner in the performance of an activity that constitutes unauthorized patent practice before the Office. In §§ 11.505(d) and (e), the USPTO proposes to prohibit a practitioner from aiding a suspended, disbarred or excluded practitioner in the practice of law in any other jurisdiction. The proposal in § 11.505(c) is too narrow by limiting the prohibition to “a person who is a member of the bar.” The proposals for §§ 11.505(d) and (e) are unnecessarily narrow in restricting the rule to aiding suspended, disbarred or excluded practitioners.

Section 11.505(c) should include a person who is a member of the bar who is ineligible to practice law. Sections 11.505(d) and (e) should proscribe aiding any practitioner who is ineligible to practice law.

Attorneys can be ineligible to practice law for a variety of reasons. For example, an attorney may be placed on disability status due to substance abuse. Also, an attorney who fails to cooperate with a State disciplinary investigation or who may be causing irreparable injury to others may be involuntarily placed on inactive status or orders administratively suspended to protect the public while the investigation proceeds. In some states, the laws or rules proscribe the attorney from the practice of law. In other states, the laws or rules only prohibit the attorney from appearing in court. No Office rule should enable attorneys to practice law when they are ineligible under State laws or rules. Likewise, no Office rule should place some practitioners, *i.e.*, attorneys, in the position of violating State ethics rules prohibiting aiding the unauthorized practice of law by permitting practitioners to aid an attorney who is ineligible to practice law but has not been suspended or disbarred.

The proposed rules may result to discriminatory enforcement of the rules or discriminatory imposition of disciplinary sanctions. For example, a first attorney, following proposed rule 11.505(e), aids a second attorney who is ineligible under state law or rule to practice law (but has yet to be suspended or disbarred by a state). The first attorney may be disciplined by a state disciplinary agency for violating its broader rules proscribing aiding the unauthorized practice of law. The first attorney is then subject to being reciprocally disciplined by the Office for having

been disciplined by the State disciplinary agency. See 37 CFR §§ 11.24 and 11.804(h). However, a patent agent providing the same assistance to the second attorney in the same State cannot be disciplined by the State or and would not have violated the Office's prohibition against aiding the unauthorized practice of law. There is no rational basis that could justify the disparate impact the proposed rule could have on attorneys and patent agents.

Attorneys who are ineligible to practice law nevertheless do practice before the Office, taking advantage of the Office's present rule, 37 CFR § 10.47, which does not proscribe them from practice before the Office. While the conduct of an attorney may violate other rules, including 37 CFR §§ 10.23(b)(5) and 10.23(b)(6), the narrowness of the current and proposed rules addressing unauthorized practice may lead one to construe the rules as permitting an attorney who is ineligible to practice law to nevertheless practice before the Office. For example, authorities in California can place an attorney in involuntary inactive enrollment of the State Bar pursuant to Business & Professions Code § 6007. An attorney so enrolled is ineligible to practice law pending further order. Involuntary inactive enrollment is not discipline, but rather a regulatory procedure. See

<http://www.calbar.ca.gov/portals/0/documents/members/DisciplineKey.html>. An attorney in California, after being enrolled as involuntary inactive to prevent irreparable harm, filed trademark applications in the Office and prosecuted them. Shortly after the applications became abandoned this year, the Supreme Court of California issued a decision disbaring the attorney. Nothing in the decision suggests that the Court was aware of his trademark filings. The attorney is not among the practitioners reported as disciplined by the USPTO in its FOIA Reading Room.

Section 11.705(d): Although the comment says §11.705(d) is reserved, this section is omitted from the proposed rules.

You invite comment whether the changes adopted in August 2012 by the ABA House of Delegates to the ABA Model Rules of Professional Conduct should be incorporated into the USPTO Rules of Professional Conduct. It has taken the Office more than 25 years to get this far in proposing adoption of the ABA Model Rules. The arguments pro and con to the changes adopted by the ABA House of Delegates are before the public now. It is unnecessary to await action by the States and longer while the Office focuses on other issues before the changes are incorporated into the USPTO Rules of Professional Conduct.

I trust at least some of the foregoing will be found helpful.

Respectfully submitted,



Harry I. Moatz
Registration No. 69553