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*VIA ELECTRONIC MAIL ADDRESSED TO:  
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Re: Comments to Notice of Proposed Rulemaking  
Changes to Representation of Others Before the  
United States Patent and Trademark Office  
68 Federal Register 69442 (December 12, 2003)

Dear Mr. Moatz:

Invention Submission Corporation (“ISC”) submits the following comments to the changes proposed by the United States Patent and Trademark Office (“the Office”) in the above referenced notice. These comments address the proposed USPTO rules of professional conduct found in Subpart D of Part 11 (§11.100-11.806). ISC’s comments to Subparts A, B and C were previously submitted on February 10, 2004.

The Office has stated that its reason for changing its Rules of Professional Conduct is to provide practitioners with consistent ethical standards by basing its rules on the American Bar Association’s Model Rules. However, the Office has strayed far from that goal by creating two sets of standards: one for practitioners who accept referrals from invention promoters, and one for all other practitioners.

Although the Office states that patent practitioners are not prohibited by the proposed rules from associating with a person or entity such as ISC which provides invention promotion services, *see* 68 FR 69463, the proposed rules themselves do not bear this out. The requirements and

restrictions placed on relationships between patent attorneys and invention promoters are so onerous that such relationships likely will cease to exist. The Office singles out patent attorneys who choose to accept client referrals from invention promoters and unfairly subjects those patent attorneys to the possibility of professional discipline, including exclusion (disbarment), based on the fact that the patent attorney has a referral relationship with an invention promoter. With the addition of these promoter-specific rules, many practitioners will be unable or unwilling to continue to accept referrals from invention promoters.

The Office attempts to justify these unique rules by noting that the Federal Trade Commission has investigated several invention promoters in the past and claiming that this gives the Office “reasonable cause to scrutinize” relationships between practitioners and promoters. Like every other industry and profession within the U.S. economy, the invention promotion industry has seen service providers who have chosen to use improper practices in conducting their business. This fact, however, is not a valid basis for condemning the invention promotion industry as a whole which is precisely what the Office has done.

ISC offers the following specific objections to the proposed rules of professional conduct found in Subpart D.

#### **I. The Regulatory Flexibility Act**

The Regulatory Flexibility Act, 5 U.S.C. §§601-612, requires federal agencies to consider the impact that their regulations will have on small businesses. Under the Act, an agency which publishes proposed rules must either include an initial regulatory flexibility analysis in its publication or certify to the Small Business Administration that the rules will not have a significant impact on a substantial number of small businesses.

In order to make a proper certification that the rules will not have a significant impact on small businesses, the agency must indicate that it performed a sufficient analysis to support its conclusion that certification was appropriate. The agency cannot simply state this conclusion without showing that it actually considered the impact that the rules will have on small businesses. *See North Carolina Fisheries Association v. Daley*, 16 F. Supp.2d 647 (E.D. Va. 1997).

The Office certified to the Small Business Administration that its proposed rules will not have a significant impact on a substantial number of small entities because the fees charged under the rules, ranging from \$100 for annual registration to \$1,600 for a petition for reinstatement, will not have a significant impact on practitioners, who earn an average salary of over \$100,000. The Office also indicated that the small amount of time required for the continuing legal education program instituted by Rule 11.12 will not have a significant impact on practitioners.

That is the extent of the Office's discussion of the basis for its certification to the Small Business Administration. The Office did not consider the economic impact that the rules will have on practitioners whose practice will be severely impaired by the Office's restrictions on referral relationships with invention promoters.

ISC believes that a substantial number of practitioners accept referrals from invention promoters. Few of these practitioners are likely to continue to accept these referrals knowing that their professional judgment is profoundly limited by the Office's promoter-specific rules, and that they become subject to numerous strict and unique grounds for disciplinary action by the Office simply because they obtained clients through referrals. These practitioners obviously are aware that the Office strongly disapproves of invention promoters and that they will become targets of the Office of Enrollment and Discipline if they accept referrals from them. The Office's proposed rules will have a significant impact on these practitioners, who will lose a large part of their business as a result of the severe limits placed on referral relationships with invention promoters.

The Office failed to consider this impact when it certified to the Small Business Administration that the proposed rules will not have a significant impact on a substantial number of small entities. Therefore, the Office's certification was improper, and the Office did not satisfy its obligations under the Regulatory Flexibility Act.

Before adopting final rules, the Office must comply with the Regulatory Flexibility Act by considering the impact that the rules restricting referral relationships will have on affected practitioners, who can no longer accept referrals from invention promoters. If, after considering the impact of its promoter-specific rules, the Office still concludes that the proposed rules will not have a significant impact on a substantial number of practitioners, the Office must again certify this conclusion to the Small Business Administration and explain why the proposed rules will not have such an impact. If the Office concludes after considering the impact of these promoter-specific rules that the proposed rules will have a significant impact on a substantial number of practitioners, the Office must conduct an Initial Regulatory Flexibility Analysis as required by 5 U.S.C. § 603.

## **II. United States Anti-trust Policy**

It is the policy of the United States to encourage competition among businesses and to prohibit activities that disturb the natural workings of market forces. This policy is based on Congress' determination that competition ultimately produces lower prices and better services for consumers. National Society of Professional Engineers v. United States, 435 U.S. 679, 695 (1978).

There is a market in America for invention services, as each year thousands of inventors seek the services offered by invention promoters. These services include submitting an invention to industry and attempting to obtain contracts with manufacturers to license and produce inventions.

Some invention promotion companies establish referral arrangements with patent attorneys and agents for the convenience of their inventor clients. By establishing group-referral relationships with practitioners, promoters are able to obtain legal services for inventors at significantly lower rates than practitioners would otherwise charge. For example, the 2002 median charge for a

utility or design patent novelty search was \$1,500. *See American Intellectual Property Law Association, Report of the Economic Survey 2003 20* (2003). Some invention companies' customers who obtained these same services from a practitioner with whom the promoter has a referral relationship paid as little as \$165. The 2002 median charge for a utility patent application for an invention of minimal complexity was \$5,504. *See American Intellectual Property Law Association, Report of the Economic Survey 2003 20* (2003). Some invention promotion companies' customers who obtained these same services from a practitioner with whom the promoter has a referral relationship paid as little as \$1,650. These referral relationships between practitioners and invention promoters provide a valuable savings to inventors, and give low or moderate income inventors access to legal services they might not otherwise be able to afford.

The American Bar Association Commission on Multidisciplinary Practice, in its Report and Recommendation, offered the opinion that these types of preferential referral arrangements between lawyers and nonlawyers do not constitute ethical or professional rule violations, and that such relationships have benefited consumers, attorneys, and nonlawyers. *See American Bar Association Commission on Multidisciplinary Practice Report to the House of Delegates* (2000). In Thomas R. Andrews, *Nonlawyers in the Business of Law*, 40 *Hastings L. Rev.* 577 (1989), Professor Andrews also explains that relationships between lawyers and nonlawyers need not cause lawyers to violate their ethical duties, and the potential for public harm is outweighed by the benefits of such relationships.

Despite the fact that referral relationships between lawyers and nonlawyers create many benefits for both businesses and consumers, the Office has apparently adopted the position that the referral relationships between practitioners and invention promoters are inherently unethical. While the Office states that the proposed rules do not prohibit practitioners from having "an arrangement" with an invention promoter, the rules themselves contradict this statement. The rules impose such onerous requirements on practitioners who receive referrals from promoters that it is likely that many practitioners will no longer accept such referrals. The rules, through threats of disciplinary action, strongly encourage all practitioners to refuse to deal with any invention promoter.

Prohibiting referrals will have a serious adverse effect on competition and prices. When practitioners are able to obtain large numbers of clients through volume referrals, these practitioners are able to reduce their fees. The fact that low-cost patent services are available through such referral relationships, in turn, requires other practitioners who represent independent inventors to moderate their own fees. If referrals are no longer permitted, consumers will no longer have a low-cost option, and all practitioners' fees are likely to escalate.

The result of this agency-imposed boycott of invention promoters by practitioners will be harmful to consumers: an inventor will either have to spend thousands of dollars more for legal services than he would have had an invention promoter been able to refer him to a practitioner who has agreed to give the promoter's clients a discount, or he will forego legal services to protect his invention because the cost is too high. The winners are those practitioners, who, without the competition created by referral arrangements, no longer have an incentive to keep fees low. The rules serve certain practitioners' own economic self-interest and harm the consumer, contrary to the objective of rules of professional conduct of protecting clients and

preventing practitioners from acting for their own benefit.

The Office's attempt to protect the economic interests of certain practitioners by restricting other practitioners' ability to associate with nonlawyers is contrary to United States policy. *See* Thomas R. Andrews, *Nonlawyers in the Business of Law*, 40 *Hastings L. Rev.* 577, 620 (1989) (noting that ethical rules which unjustifiably limit relationships between lawyers and nonlawyers are "incompatible with federal antitrust policy," and "Protection of the economic well-being of the profession is not... a valid interest" which can justify such restraints on trade).

If an association or group of practitioners decided on their own not to accept referrals from promoters in an effort to drive up prices, their conduct would violate federal antitrust laws. In this regard, see, for example, the Supreme Court's decision in United States v. General Motors Corp., 384 U.S. 127 (1966), where the Supreme Court determined that the agreement of a group of car dealers to refuse to accept referrals from discount houses and to punish car dealers who did accept referrals, in an effort to put the discount houses out of business and eliminate price competition, was an illegal restraint on trade. Similarly, in FTC v. Super. Ct. Trial Lawyers Ass'n, 493 U.S. 411 (1990), the Supreme Court found the refusal of a group of lawyers to accept appointments in an effort to increase fees to be an illegal boycott, despite the lawyers' justification that increased fees would improve the quality of legal services.

In another example, when dental associations organized to encourage all dentists to refuse to do business as part of the Blue Shield dental program, in which participating dentists agreed to treat Blue Shield members at a discount price, they were held to have violated the antitrust laws even though they said they were acting to prevent interference in the doctor-patient relationship. Pennsylvania Dental Association v. Medical Service Association of Pennsylvania, 815 F.2d 270 (3d Cir. 1987). The American Medical Association's promulgation of ethical rules that prohibited doctors from referring patients to or receiving referrals from chiropractors, in an effort to eliminate chiropractic as a profession, was found to be an antitrust violation in Wilk v. American Medical Association, 895 F.2d 352 (7<sup>th</sup> Cir. 1990). The refusal of a group of dentists to comply with requests from insurance companies for x-rays for use in benefits determinations was also found to be an antitrust violation in FTC v. Indiana Federation of Dentists, 476 U.S. 447 (1986).

Even if a group were motivated by legitimate ethical concerns, its boycott would still constitute an unreasonable restraint on trade if the concerns could have been satisfied in a way that did not have as great an anticompetitive effect. Wilk v. American Medical Association, 895 F.2d 352 (7<sup>th</sup> Cir. 1990).

These cases establish that it is United States policy to prohibit professionals from restricting price competition by engaging in group boycotts. The Office's proposed rules are contrary to federal policy because, as is discussed fully in the following section, they impose a *de facto* boycott of invention promoter referral relationships. The Office has acknowledged that referral arrangements between practitioners and invention promoters yield lower prices for legal services, yet it condemns the relationships for this very reason. The Office has offered no explanation of why less restrictive regulations, i.e. rules of general applicability such as the ABA Model Rules, would fail to achieve the Office's goals.

### **III. Specific Rules**

The Office has attempted to explain its reasons for proposing these anticompetitive rules which effectively prohibit practitioners from accepting referrals from promoters. However, the justifications offered are based on unfounded assumptions about competition, invention promoters, and the practitioners who establish referral relationships with promoters, and do not justify the unreasonable restraint on competition created by these rules.

#### **The Quality of Legal Services §§ 11.104, 11.201(b)**

In the Office's explanatory comments to Rule 11.104, which addresses practitioners' communications with their clients, and in Rule 11.201(b), which imposes unique requirements for the contents of patentability opinions for clients referred to a practitioner by an invention promoter, the Office has expressed the view that inventors are harmed by the low prices for legal fees made possible by competition and referral relationships with promoters. The Office apparently believes that practitioners who engage in referral relationships with promoters charge a standard fee that is so low that the practitioner will cut corners and generally do shoddy work in an effort to increase volume and be able to take more referrals. The Office also assumes that practitioners who maintain a referral relationship with an invention promoter will not be inclined to properly support their patentability opinions unless the Office spells out the proper elements for them.

The Office's position that practitioners who depend on a large volume of business to enable low fees will necessarily provide inferior services has been rejected by the United States Supreme Court.

In Bates v. State Bar of Arizona, 433 U.S. 350 (1977), the Supreme Court found nothing improper with the practice of attorneys who sought to depend on a substantial volume of clients in order to support their low set fees. In that case, one of the arguments against offering legal services at a set price was that attorneys doing so would be inclined to provide a standard package of services regardless of whether it fit a client's particular needs. The Supreme Court rejected the argument, noting that attorneys who are inclined to cut quality will do so no matter what the circumstances. Just because a standard fee is charged does not necessarily mean that undesirably standardized services will be provided.

The Supreme Court stated that there was no reason to assume that most attorneys would not continue to comply with their ethical duties. The appropriate way of dealing with attorneys who provide incompetent or unethical services is to punish them for specific violations, not to impose overbroad regulations that will burden legitimate activity.

The Supreme Court also noted that many people who need legal services do not hire attorneys because the perceived or actual cost of legal services is too great. Operating a high-volume, low-cost legal business actually benefits low or moderate income people by giving them affordable access to legal services, which is one of the goals of the bar.

The argument that the quality of services offered suffers when price competition is present was

also rejected by the Supreme Court in Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975) and National Society of Professional Engineers v. United States, 435 U.S. 679 (1978). In Goldfarb, a local bar association published a minimum fee schedule designed to uphold the “integrity” of the legal profession, and published opinions indicating that attempting to compete with other attorneys by charging less than the suggested minimum fee constituted professional misconduct. The Supreme Court found that the association’s conduct constituted price fixing in violation of federal antitrust law.

In National Society of Professional Engineers, the association attempted to justify its ethical canon which prohibited competitive bidding by arguing that lower prices would tempt engineers to do inferior work. The Supreme Court, noting that Congress has made the legislative judgment that competition leads to both lower prices and better services, rejected this argument and held that the association violated the Sherman Act.

Because both Congress and the Supreme Court have rejected the argument that low prices and price competition necessarily lead professionals to render inferior services, the Office cannot justify its position that the low fees charged by practitioners who accept referrals from invention promoters will necessarily motivate those practitioners to render inadequate services to inventors. Contrary to this assertion, the low prices resulting from referral relationships provide inventors who would otherwise be unable to afford legal representation with access to legal services.

The Office offers no support for its conclusion that the practitioners who accept referrals from promoters must be treated differently from other practitioners, since all practitioners have the same general ethical obligations to provide competent and diligent representation. The Office has submitted no evidence that practitioners who accept referrals from promoters are incapable of abiding by the general ethical principles applicable to all attorneys.

Under Rule 11.201(a), which is virtually identical to ABA Model Rule 2.1, all practitioners have an ethical duty to exercise independent professional judgment and render candid advice. If any practitioner, whether or not he has a relationship with a promoter, neglects his professional responsibility, the Office should initiate disciplinary proceedings against the practitioner based on the specific facts and circumstances surrounding his alleged violation of the rules.

If proper patentability advice must include identification of the elements of the references and invention considered and must specify the element or combination of elements of the invention that are believed to support the practitioner’s conclusion that an invention is patentable, then Rule 11.201(b) should apply to all practitioners. If not, there is no need for Rule 11.201(b), which unfairly and improperly subjects practitioners who maintain a referral relationship with an invention promoter to grounds for professional discipline, based on their provision of patent advice, which are not applied to other practitioners.

Therefore, the Office should delete from its explanatory comments all suggestions that lower fees produced by volume referrals lead to inferior or inadequate legal services. The Office should eliminate Rule 11.201(b) from the final rules and adopt ABA Model Rule 2.1 without modification.

**Unauthorized Practice of Law**  
**§§ 11.104, 11.203(c), and 11.505(c)**

The Office deals with the issue of unauthorized practice of law in Rules 11.104, 11.203(c), and 11.505(c).

Rule 11.505(c) provides that a practitioner shall not aid a non-practitioner in the unauthorized practice of law.

Rule 11.104 governs communications between practitioners and their clients, and requires practitioners who obtain clients through referral arrangements with invention promoters to communicate directly with the inventor-client. The Office's explanatory comments to Rule 11.104 explain that communicating with the inventor through the promoter could constitute aiding the unauthorized practice of law.

Rule 11.203(c) specifies that, if a practitioner performs an evaluation for an invention promoter which the promoter will forward to the inventor, the inventor shall constitute a client of the practitioner for purposes of Rules 11.104(a)(1), 11.107(a)(2), 11.107(b)(2), 11.108(f)(1), 11.201(b), 11.202(d), 11.701(b), 11.804(h)(2) and 11.804(h)(3). Rule 11.203(c) also prohibits the practitioner from disclosing or basing his evaluation upon information that the inventor regards as confidential, and prohibits the practitioner from providing publication of the invention prior to the filing of an application for the inventor. In its comments to Rule 11.203(c), the Office explains that "providing a nonlawyer, who offers legal services to potential customers, with legal advice to pass on to the nonlawyer's customer(s) would be... viewed as aiding the unauthorized practice of law."

The Office bases these three Rules on an overly-broad definition of the practice of law. The Office does not have a proper basis for including within this definition the act of merely causing a patent application to be prepared by referring an inventor to a practitioner, the mere collection of information which may be used by a practitioner to assist him in preparing and prosecuting a patent application, or the sharing of a legal opinion with a nonlawyer. The Office has no basis for its blanket assumption that invention promoters engage in the unauthorized practice of law.

The Office takes the position that merely causing a patent application to be prepared by referring a client to a practitioner is the practice of law. The explanatory comments to Rule 11.505 cite Lefkowitz v. Napatco, Inc., 415 N.E.2d 916 (N.Y. 1980) for the proposition that a nonlawyer corporation's referral of clients to a practitioner for the practitioner to prepare a patent application constituted legal rather than clerical services. However, the Office fails to mention that the court stated that if a nonlawyer merely refers the client to a practitioner, thereby causing a patent application to be prepared, and the practitioner maintains direct responsibility for his clients, then the nonlawyer would not be engaging in the unauthorized practice of law, and the practitioner would not be aiding the unauthorized practice of law.

In further support of its contention that promoters engage in the unauthorized practice of law, the Office points to numerous cases involving living trust companies. The Office's discussion of these cases implies that the act of merely collecting information to forward to an attorney constituted the unauthorized practice of law. However, as another of the living trust cases not

cited by the Office points out, "[m]erely gathering information for use in a legal document does not necessarily constitute the unauthorized practice of law." In re: Mid-America Living Trust Associates, Inc., 927 S.W.2d 855, 865 (Mo. 1996). Rather, it is when a nonlawyer uses the information to give legal advice or prepare legal documents that the nonlawyer engages in the unauthorized practice of law, and that an attorney who merely reviews and rubber stamps these documents aids the unauthorized practice of law.

The explanatory comments to Rule 11.505 contain a lengthy discussion of the decision in Committee on Professional Ethics and Conduct of the Iowa State Bar Association v. Baker, 492 N.W.2d 695 (Iowa 1992). The Office indicates that the defendant in the Baker case was found to have aided a company's unauthorized practice of law by accepting referrals and client information that had been gathered by the company's marketers, even though Baker spoke with the clients, answered their questions, prepared the legal documents, and met with the clients in person to review the information and documents.

The Office's discussion of the Baker case is misleading and does not reflect the real reasons why Baker was found to have aided the unauthorized practice of law. The nonlawyers involved in that case did not merely collect information and forward it to Baker; they also gave legal advice based on the facts that they gathered. Baker allowed the nonlawyers to recommend the living trust as the appropriate estate planning vehicle and to select the appropriate legal documents. By the time the clients got to Baker, it was already a "done deal" based on the nonlawyers' professional judgment rather than Baker's.

The Office mistakenly uses these cases to express the view that invention promoters engage in the unauthorized practice of law. However, it is clear, based on the cases the Office has cited, that the promoter is *not* engaged in the unauthorized practice of law if the promoter merely gathers information which it uses to provide its own non-legal services, and shares the information with practitioners for the convenience of the inventors, without providing patent advice or drafting patent applications. Practitioners are responsible for exercising independent professional judgment in determining what information they need to provide competent legal services.

Nor is there any factual or legal basis for the Office's conclusion that providing an evaluation to an invention promoter to pass on to a customer prior to the time the practitioner files a patent application constitutes aiding the unauthorized practice of law. To the contrary, the act of delivery of a patentability opinion by a registered practitioner in itself has none of the attributes of the practice of law. The broad prohibition against providing the invention promoter any information prior to the filing of a patent application cannot be justified as falling within any authority to regulate the unauthorized practice of law.

Although, as the Office discusses in justification of its position that invention promoters engage in the unauthorized practice of law, there has obviously been "reasonable cause to scrutinize" living trust companies, the ABA Model Rules do not contain unique provisions applicable only to attorneys who accept referrals from living trust companies. The ABA apparently believes that the generally-applicable ethical rules are sufficient to guide the conduct of attorneys who have referral arrangements with nonlawyers. The Office should do the same.

## **Limitations Upon A Practitioner's Representation §§ 11.102(c), 11.105, 11.504(d), and 11.804(h)(3)(v)**

Rules 11.102(c), 11.105, and 11.804(h)(3)(v) prohibit a practitioner from accepting a referral from an invention promoter if the promoter's contract with the inventor-client limits the scope of the practitioner's representation or specifies which type of patent application the practitioner will prepare and file.

Specifically, Rule 11.102(c) provides that a practitioner may limit the objectives of the representation if the client consents in writing after full disclosure. The Office's comments to Rule 11.102(c) warn that practitioners who accept referrals from invention promoters must assure that the promoter has not attempted to limit the scope of the representation in its agreement with the inventor-client.

The Office's explanatory comments to Rule 11.105, which governs the reasonableness of practitioners' fees, state that a practitioner may not enter into an agreement with an invention promoter to provide limited services, such as only for a particular type of patent application.

Rule 11.504(d) prohibits a practitioner from allowing a person who recommends, employs, or pays the practitioner to render legal services for another person from directing or regulating the practitioner's professional judgment in rendering legal services.

Rule 804(h)(3)(v) provides that it is professional misconduct for a practitioner to accept a referral from an invention promoter if the invention promoter's contract provides for the preparation, drafting, or filing of a patent application for a design or utility invention.

ISC recognizes that, unlike collecting information and referring a client to a patent practitioner, giving advice about the patentability of an invention and recommending that an inventor seek a particular type of patent protection involve the practice of law. However, the Office's blanket assumption that invention promoters give patent advice, which is the Office's apparent justification for Rules 11.102, 11.105, 11.504(d), and 11.804(h)(3)(v), is unjustified.

There is nothing unethical about a practitioner providing only limited representation of a client, for this is expressly permitted by Rule 11.102(c). *Accord* ABA Model Rule 1.2(c). A practitioner who accepts inventor-clients from sources other than referrals from invention promoters may, in compliance with the proposed rules, limit his representation to a patent search and patentability opinion. These practitioners have the right to decline to further represent these clients so long as the clients consent to the limited representation.

This is a reasonably limited representation, for whether a particular invention may be patented is a legal question which is separate from the drafting, filing, and prosecuting of a patent application. It is not unreasonable for an inventor to initially inquire only about the patentability of his invention, and to delay any decision about further representation until the question of whether the invention at issue can or should be patented has been answered.

Because this limitation is not unethical, there is no reason why the invention promoter should not be permitted to agree with an inventor-client to refer him to a practitioner for a patent search and

patentability opinion. Nothing in such an arrangement would prohibit the practitioner from providing additional services for the inventor-client if both the practitioner and inventor are inclined to extend the representation.

The Office also assumes that if the invention promoter's contract provides for the filing of a particular type of patent application, the invention promoter must have engaged in the unauthorized practice of law by advising the inventor regarding which type of patent should be sought. The Office apparently believes that with invention promoters, like with the living trust company in the Baker case discussed above, the decision regarding the appropriate type of patent is a "done deal" based on the promoter's professional judgment rather than that of a practitioner.

The Office is not justified in making this assumption. Invention promoters may initially refer clients to practitioners for the purpose of obtaining a patentability opinion. After the practitioner has advised the inventor whether his invention is patentable and which type of patent protection the inventor should seek, the inventor, based on the advice of this licensed practitioner, must decide whether to pursue a patent, and, if so, whether it should be utility and/or design patent protection. If the inventor chooses to utilize the invention promoter's services and decides to pursue a patent, based on the advice of a practitioner, through a practitioner with whom the invention promoter has established a referral relationship, the inventor and invention promoter may enter into a contract which reflects the type or types of patent for which the referral practitioner will apply.

As this illustrates, the limitation on the practitioner's representation and the decision to pursue a utility patent, a design patent, or both may be based on the advice of an authorized practitioner, not upon the advice of the invention promoter. In such a case, the invention promoter has not engaged in the unauthorized practice of law. Therefore, there is no justification for the Office's absolute prohibition against a practitioner accepting a referral if the inventor-client's contract with an invention promoter provides for the preparation, drafting, or filing of a patent application for a design or utility invention.

The anticompetitive effect of Rules 11.102(c), 11.105, 11.504(d), and 11.804(h)(3)(v) is not justified by ethical concerns. As such, the Office should delete Rules 11.504(d) and 11.804(h)(3)(v), and the invention promoter-specific explanatory comments to Rules 11.102(c) and 11.105 from the final rules.

## **Confidentiality of Information**

### **§ 11.106**

Rule 11.106 governs practitioners' duty to keep client information confidential. Rule 11.106 is similar to the ABA Model Rule in its provisions for circumstances in which a practitioner may disclose client information, such as based on implied authorization to carry out the representation, or based on client consent.

However, the Office has modified the Model Rule in a significant respect. While the Model Rule allows an attorney to disclose confidential information if the client gives "informed consent," Rule 11.106 requires the client consent to be "in writing after full disclosure by the practitioner."

As ISC explained in its earlier comments to Subpart A of the proposed rules, the definition of “full disclosure,” which incorporates the term “differing interests,” is also targeted at invention promoters. The information that a practitioner is required to explain under the definition – the advantages of seeking independent legal advice, the disadvantages to the client of the arrangement, and the financial losses that may occur – precisely track the supposed risks that the Office believes exist when invention promoters have referral relationships with practitioners. The definition is not one of general applicability.

The terms “differing interests” and “full disclosure” are not found in the comparable ABA Model Rules. Rather, the Model Rules define “informed consent” as “the agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct.” *See* ABA Model Rule 1.0.

There is no reason for the Office to depart from the Model Rules in defining and describing the types of disclosures a practitioner should make when conflicts of interest are likely or when client confidences may be shared. Rather than providing novel definitions and requirements, the Office should adopt ABA Model Rules 1.6 without modification.

### **Conflict of Interest** **§§ 11.107 and 11.108**

Rules 11.107 and 11.108, based on ABA Model Rules 1.7 and 1.8 establish the general guidelines regarding conflicts of interest. Rule 11.107, like Model Rule 1.7, prohibits a practitioner from representing a client if representation of the client will be directly adverse to another client, or if the representation would be materially limited by the practitioner's responsibilities to another client or third party. Rule 11.108, like Model Rule 1.8, proscribes specific, conflict-implicating transactions, such as a practitioner's acquiring an ownership interest adverse to a client.

The Office, however, deviates from the Model Rules by adding specific provisions applicable only to practitioners who accept referrals from invention promoters. The Office’s rules provide that a conflict of interest is present in all instances in which a practitioner has a referral relationship with a promoter, and prohibits the practitioner from accepting a referral from a promoter without obtaining the informed consent of the client in writing after “full disclosure” of the “implications of the common representation and the advantages and risks involved.”

As interpreted by the Office, these two rules require all practitioners who accept referrals from invention promoters to tell the inventors referred by the promoter that the practitioner is likely to engage in self dealing at the expense of the inventor’s interests. Rules 11.107 and 11.108 discourage honest and reputable practitioners from accepting referrals from promoters and discourage inventors from taking advantage of the benefits of referrals from promoters which provide low cost quality legal services.

In its explanatory comments to Rules 11.107 and 11.108, the Office suggests that one of the risks that must be disclosed by the practitioner is that he is likely to be more interested in maintaining

his referral relationship with the invention promoter than in serving the best interests of the inventor. The Office also suggests that other conflicts of interest *might* exist as a result of the referral relationship between the practitioner and invention promoter. For example, the Office suggests that a practitioner “may” view the promoter as a client, that the promoter and inventor “may” have conflicting interests, that the promoter “may” insist on a particular type of patent application, that the practitioner “may” feel obligated to provide only narrow protection of the invention to satisfy the promoter and maintain the referral relationship, that the promoter “may” attempt to interfere with the practitioner's independence and professional judgment, that the promoter “can” interfere with the relationship between the inventor and the practitioner, and that there is a “potential” that the inventor's funds will not be protected if paid to the promoter.

Normally, an attorney does not have a conflict of interest unless he determines that there is a substantial or significant risk that the representation will be materially adversely affected. *See* ABA Model Rule 1.7(a)(2), Restatement (Third) of the Law Governing Lawyers § 121 cmt. c(iii) (2000). The attorney determines whether a conflict exists based on the specific circumstances of each case. The attorney is required to examine all of the relevant facts and interests and to determine whether his representation of the client will be materially limited by his responsibilities to a third party. If the attorney believes that there is no substantial risk that the representation will be materially limited, he is not required to make a disclosure.

However, under the Office’s proposed rules, if the practitioner receives referrals from a promoter then he is no longer able to make his own decision, based on the particular circumstances and the specific practices of the promoter who made the referral, whether there is a substantial risk that the representation may be materially limited by his responsibilities to the promoter. Instead, the Office has already determined a conflict of interest arises in every situation where a practitioner accepts a referral from an invention promoter. The Office’s rules in this regard stand in stark contrast to the generally accepted principles which permit the practitioner to exercise his own professional judgment when considering possible conflict situations.

There is no justification for the Office to impose these special and inflexible ethical rules upon practitioners who have referral relationships with promoters. There is no indication that these practitioners are less capable of exercising professional judgment and upholding their professional responsibilities than are all other practitioners.

Because there is no valid reason behind the rules that define accepting referrals from promoters as a *per se* conflict of interest, there is no justification for the portions of the conflict of interest rules which mandate that practitioners who engage in referral relationships necessarily make a disclosure and obtain client consent in all cases. The Office is unable to justify the unreasonable restraint on competition created by these rules.

These sections of Rules 11.107 and 11.108 which impose different standards on practitioners who accept referrals from promoters should be deleted from the final rules. The Office should adopt Rules 1.7 and 1.8 of the ABA Model Rules without modification.

## **Imputed Disqualification**

### **§ 11.110**

Rule 11.110 of the Office's proposed rules is based on the ABA's Model Rule 1.10 and sets forth the general rule for imputed disqualification of a patent practitioner in connection with the representation of a client having business before the patent office. However, the Office has modified the ABA's Model Rule by inserting a specific provision directed towards practitioners who have referral relationships with invention promoters. In this regard, Rule 11.110(a) provides, as follows :

“(a) While practitioners are associated in a firm, or ***are associated on a continuing basis with an invention promoter***, none of them shall knowingly represent a client having immediate or prospective business before the Office when any one of them practicing alone would be prohibited from doing so by §§11.107 [Conflict of Interest: General Rule], 11.108(b) [Conflict of Interest: Prohibited Transactions], 11.109 [Conflict of Interest: Former Client], or 11.202 [Intermediary]. [Emphasis added.]

There are no explanatory comments to this section in which the Office even attempts to describe its reasons for inserting the provision relating to a practitioner's association with an invention promoter. It is not clear what exactly the Office intended by the insertion of this provision in the rule. The comments to this rule which are set forth at page 69482 of the notice of proposed rulemaking were copied by the Office from the ABA's comments to its Model Rule 1.10. In those comments, the Office states that Rule 11.110(a) governs ***only*** among practitioners who are currently associated in a firm. The provision inserted by the Office which expands application of the imputed disqualification rule to practitioners who are associated on a continuing basis with an invention promoter would seem to contradict the Office's statement in the comments concerning the scope of the rule's applicability.

Rule 11.101(a) states that the group of practitioners who happen to associate with the same invention promoter are the equivalent of a law firm. This unique view is not supported by the reasons for the imputed disqualification rule offered by the Office and the ABA: to give effect to the principle of loyalty to the client. The Office explains: “a firm of practitioners is essentially one practitioner for purposes of the rules governing loyalty to the client” and “each practitioner is vicariously bound by the obligation of loyalty owed by each practitioner with whom the practitioner is associated.” 68 F.R. 69482.

An invention promoter may refer inventors to unrelated practitioners throughout the country. These practitioners are not members of a single firm, and have no association with each other. They do not have a common financial interest as members of a firm have. The only connection they have is that they all accept referrals from the same promoter. There is simply no reason for these unrelated practitioners to be treated as “essentially one practitioner.”

Applying the Office's position to other situations in which attorneys have regular arrangements with nonlawyers demonstrates its unreasonableness. Insurance companies hire attorneys from all over the country to represent their insureds. Often the only connection these attorneys have is the fact that they represent the same company's insureds. Under the Office's reasoning, if one attorney had a conflict of interest which would prevent him from representing a particular insured, the insurance company could not hire any one of the hundreds of other attorneys who

were associated on a regular basis with that insurance company. Similarly, numerous otherwise unrelated attorneys register with their local bar association's lawyer referral service. Under the Office's reasoning, these attorneys should be treated as "essentially one" attorney for purposes of the conflict of interests rule such that if any one could not accept the referral due to a conflict of interests, no other attorney who has been associated with the referral service on a continuing basis could represent that client. The extension of imputed qualification to these attorneys is entirely unreasonable.

This provision is yet another example of the Office imposing additional ethical burdens on practitioners who have referral relationships with invention promoters for the apparent purposes of dissuading practitioners from maintaining such referral relationships and of regulating invention promotion companies. The Office should remove this unreasonable provision and adopt ABA Model Rule 1.10 without modification.

### **Practitioners' Responsibilities For Law-related Services and Safekeeping Property §§ 11.115(b) and 11.507**

Rule 11.115(b) requires practitioners who accept referrals from invention promoters to safeguard funds forwarded by their clients to the invention promoters. The Office is proposing to make these practitioners responsible for safeguarding property out of their possession, which has not been entrusted to them and over which they do not exercise control. The Office states that the basis of this requirement is the fact that invention promoters may cease to do business, in which case there would be no guarantee that the practitioner would be fully paid for his services.

Rule 11.507(a)(3), which similarly makes practitioners responsible for the actions of persons over whom they have no control, provides as follows:

- (a) A practitioner shall be subject to the Rules of Professional Conduct with respect to the provision of law-related services before the Office, as defined in paragraph (b) of this section, *if the law-related services are provided*.

\* \* \*

- (3) *By a separate entity controlled by an invention promoter which refers legal services to the practitioner* if the practitioner fails to take reasonable measures to assure that a person obtaining law-related services knows that the services of the invention promoter are not legal services and that the protections of the client-lawyer or client-agent relationship do not exist." [Emphasis added.]

Rules 11.115(b) and 11.507(a)(3) are unnecessary and unreasonable extensions of the ABA Model Rules. These rules merely serve to discourage referral relationships between practitioners and invention promoters. These rules discourage referral relationships by subjecting these practitioners to unique grounds for professional discipline, inapplicable to other practitioners, stemming from the property and conduct of others over whom that practitioner has no control.

- **Rule 11.115(b)**

Rule 11.115(b) imposes a unique and novel requirement not found in the ABA Model Rules. Under the Model Rules, under which an attorney may accept payment from a third party, his fiduciary duty extends only to property held in his possession. Although a third party has agreed to pay for his client's legal fees, an attorney is not required under the Model Rules to take steps to ensure that the third party will pay the attorney, or to demand the entire fee up-front to make sure he will be paid.

Allowing an invention promoter to retain funds forwarded by the client has no bearing on the professional responsibility of the practitioner. If the Office's true concern is ensuring that practitioners rather than their clients bear the risk of the loss of funds forwarded to an invention promoter, the Office should promulgate a rule stating that the practitioner in such cases will be responsible for continuing to provide legal services to the client, as suggested by the Office's explanatory comments. *See* 68 F.R. 69485. The Office should not impose a duty on a practitioner to safeguard property that is not in his possession.

- **Rule 11.507**

Rule 11.507 of the Office's proposed rules is based upon Rule 5.7 the ABA's Model Rules of Professional Conduct. *See* 68 F. R. 69509. However, unlike the ABA's Model Rule 5.7, which limits a lawyer's responsibility for law-related services to those services which are either performed by the lawyer himself or by a separate entity which is controlled by the lawyer, the Office's proposed Rule 11.507(a)(3) expands the responsibility of a practitioner who has a referral relationship with an invention promoter to make the practitioner responsible for the law-related work which is performed by an entity over which the practitioner has no control.

Although based on the ABA Model Rule 5.7, the Office's expanded version of the rule exceeds the scope contemplated by the ABA. The Office's proposed Rule 11.507(a)(3) unfairly subjects practitioners to the imposition of professional discipline for services which are properly performed by entities over which the practitioner has no control. The intended scope of a lawyer's responsibilities relating to law-related services under the ABA Model Rule includes only those law related services which are either performed by the lawyer himself or by a separate entity which is controlled by the lawyer in question. While the language of the ABA model rule is fairly clear, any doubts as to the proper scope of the rule are dispelled when the comments to the rule are read. The ABA's comments address the ethical problems which may arise when a lawyer or an entity controlled by him provides law-related services to a client. The principal problem envisioned by the ABA is the possibility that the recipient of law-related services may not understand that the services may not carry with them the protections normally afforded as part of the lawyer-client relationship. This concern stems from the fact that it is the lawyer or an entity controlled by him which is performing the law-related services for the client. In such circumstances, the client is presumably aware that a lawyer is performing a law-related service for the person.

The circumstances contemplated by the Office in subsection (3), which makes the practitioner responsible for law-related services provided to a client by an entity controlled by an invention

promoter, are not the same as those of concern to the ABA which led to Rule 5.7 because it would not seem likely that a person who receives law-related services from an entity which is *not operated by an attorney*, but rather by an invention promoter, would expect those services to be cloaked with the protections of the attorney-client relationship.

Rules 11.115 and 11.507(a)(3), by making practitioners responsible for property and persons over which they are not in control, are unreasonable extensions of the principles behind the general rules and should be eliminated from the proposed rules. The Office should adopt Model Rules 1.15 and 5.7 without modification.

### **In-Person Solicitation** **§§ 11.701(b)(5) and 11.703**

Rule 11.703 prohibits practitioners from soliciting clients through in-person contact if the practitioner has no prior relationship with the prospective client and the practitioner's motive is pecuniary gain. Rule 11.701(b), which extends this rule to clients obtained through referrals from invention promoters, provides:

A practitioner, or another on behalf of a practitioner, shall not seek by in-person contact, employment (or employment of a partner, associate, or other person or party) by a potential client having immediate or prospective business before the Office who has not sought the practitioner's advice regarding employment of a practitioner, if:

\* \* \*

(5) The solicitation involves the use of an invention promoter and the practitioner has not taken all reasonable steps to ensure that the potential client is informed:

- (i) In every contract or other agreement between the potential client and invention promoter the specific amount of all legal fees and expenses included in funds the client delivers or is obligated to deliver to the promoter;
- (ii) In every communication by the invention promoter requesting funds from the client the specific amount of all legal fees and expenses included in funds the client delivers or is obligated to deliver to the promoter; and
- (iii) The discount (expressed as a percent) from the customary fee the practitioner gives or will give in the fees charged for legal services rendered for a client referred by the promoter.

The Office's broad interpretation of "in-person solicitation" in the context of Rules 11.703 and 11.701(b)(5) effectively prevents practitioners from accepting referrals from invention promoters which, as discussed above, will have a significant anticompetitive effect.

In its interpretive comments on Rule 11.703, the Office improperly concludes that a practitioner engages in in-person solicitation of professional employment when the practitioner accepts a referral from an invention promoter. The Office's conclusion is based on its assumption that invention promoters act as agents of practitioners for the purpose of soliciting business for practitioners for pecuniary gain. The Office's assumption in this regard is erroneous.

Solicitation of professional employment by an attorney refers to situations where the attorney or his intermediary *initiate contact* with a prospective client when the attorney's goal is pecuniary gain. See ABA Model Rule of Professional Conduct 7.3.

Invention promoters typically do not initiate in-person contact with prospective clients. Rather, invention promoters provide information about their services to the public through advertising in television, radio, and print media. Consumers who see the advertising are free to act upon the advertisement or not as they see fit. Any contact which an invention promoter has with a prospective client concerning the invention promoter's services is solely in response to an inquiry initiated by a prospective client. This contact does not fall within the definition of in-person solicitation.

The Office has used this incorrect conclusion that invention promoters improperly engage in solicitation on behalf of practitioners as a basis for Rule 11.701(b)(5). The requirements of Rule 11.701(b)(5) have no connection with the ethical conduct of practitioners. All practitioners are prohibited from sharing legal fees with nonlawyers under Rule 11.504(a) and prohibited from making any false or misleading communications to prospective clients by Rule 11.701(a). To the extent that this Rule 11.701(b)(5) attempts to reinforce these obligations for practitioners who accept referrals from invention promoters, it is redundant and unnecessary.

Instead of regulating practitioners, the promulgation of Rule 11.701(b)(5) demonstrates an improper attempt by the Office to regulate invention promoters. The Office is attempting to impose specific requirements on the content of invention promoters' contracts with their clients. As discussed more fully below, the Office does not have authority to do so.

Rather than prohibiting practitioners from using an intermediary to engage in misleading communications about the practitioner's services, which is the main thrust of ABA Model Rule 7.1 and the Office's proposed Rule 11.701(a), Rule 11.701(b)(5)'s requirement that the invention promoter specify the percentage discount the clients will receive actually encourages communications which could mislead or unduly influence clients.

The Office's position that referrals from invention promoters constitute solicitation on behalf of practitioners is untenable. There is therefore no justification for the restraint on competition created by Rules 11.701(b)(5) and 11.703 and their interpretative comments. The Office should delete §11.701(b)(5) from the final rules.

### **Required Disclosure of Complaints Against Invention Promoters § 11.804(h)(2)**

Under Rule 11.804(h)(2), a practitioner commits an act of professional misconduct if he represents a client referred to him by an invention promoter without disclosing to the client that

“a formal complaint ... alleging a violation of any law relating to securities, unfair methods of competition, unfair or deceptive acts or practices, mail fraud, or other civil or criminal conduct” is either pending or has been “resolved unfavorably” against the invention promoter when the practitioner has knowledge of such proceedings or unfavorable resolution.

Rule 11.804(h)(2) unfairly labels the practitioner as lacking integrity or honesty solely by virtue of his acceptance of a referral from an invention promoter who has been accused by a governmental agency or authority of engaging in misleading sales practices. It is inevitable that after making such disclosures about the referring invention promoter, the practitioner will suffer harm to his own reputation in the eyes of his client solely by virtue of the practitioner’s association with an invention promoter whose own reputation for integrity and honesty is or has been questioned. In effect, Rule 11.804(h)(2) requires the practitioner to inform his client that his own business integrity and honesty are questionable because of his relationship with the invention promoter.

The Office’s position that it is unethical for a practitioner to accept a referral from an entity which has been the subject of prior complaints without disclosing those complaints to the potential client is a unique requirement which has not been implemented by any other disciplinary body. No jurisdiction’s ethical rules have such a requirement.

If the Office wishes to impose a novel requirement on practitioners to disclose prior complaints which could influence a client's decision whether to engage the practitioner, there is no reason why this requirement should be limited to practitioners who have referral arrangements with invention promoters.

The Office should require practitioners to disclose to the potential client that charges of professional misconduct are pending against him or were resolved unfavorably against him through imposition of censure, reprimand or suspension of his license to practice law. Potential clients should find this information more relevant in their decisions whether to engage the practitioner than they would information about the person or entity that referred the client to the practitioner.

Rule 11.804(h)(2) is also improper because there is no definition in the rules or any discussion or interpretive commentary by the Office on the meaning of the term “resolved unfavorably.” While “resolved unfavorably” can be interpreted to mean a verdict or final decision by the court or agency against the invention promoter which includes findings of fact that the invention promoter engaged in misleading and deceptive sales practices, it is also conceivable that “resolved unfavorably” may be interpreted to include the entry of a consent decree between the invention promoter and the federal or state agency which initiated the action. Including consent decrees within the meaning of the term “resolved unfavorably” is misleading because consent decrees often do not include either adjudication of any issue of fact or law in the case or any admission of liability by the defendant invention promoter. Consent decrees, like other types of legal settlements, are often entered by the defendant invention promoter in order to avoid the cost and expense of engaging in lengthy and time-consuming legal proceedings.

Rule 11.804(h)(2) is also improper because it does not place a limitation on the amount of time which has elapsed between the events of the filing of the formal complaint by the governmental

agency and/or the unfavorable resolution of the action against the invention promoter and the practitioner's acceptance of the client referral from the invention promoter. This is unfair to both the practitioner and the invention promoter from whom the attorney has accepted the referral, as it subjects them to repeated impeachment of their reputations through the stigma associated with accusations of deceptive business practices, without regard to the fact that the proceedings between the invention promoter and the governmental agency may have concluded many years before the referral relationship arose. The perpetual dissemination of outdated information as called for under Rule 11.804(h)(2) creates the impression to the client that there is reason to believe that the invention promoter continues to conduct its business in violation of the law. As a matter of policy, it is unfair to create this impression in the mind of the inventor when, in fact, the government agency resolved its concerns with the invention promoter many years ago and the invention promoter is conducting its business in compliance with the law.

For the above stated reasons, Rule 11.804(h)(2) is improper and should be deleted from the final rules.

### **Invention Promoters Holding Client Funds § 804(h)(3)(iii)**

Rule 11.804(h)(3)(iii) provides that a practitioner engages in professional misconduct when he accepts a referral from an invention promoter where the inventor has advanced funds for legal fees, expenses and costs to the promoter. In addition to being directly contradicted by the terms of Rule 11.115(b) as discussed below, Rule 11.804(h)(3) unfairly singles out practitioners who have a referral relationship with an invention promoter and subjects them to professional discipline simply because of that referral relationship.

Rule 11.804(h)(3)(iii) improperly prohibits as misconduct the acceptance of referrals by attorneys under circumstances which are not recognized as violating ethical standards. Acceptance of referrals of clients from invention promoters under the circumstances prohibited by Rule 11.804(h)(3)(iii) does not violate an attorney's duty to his clients. There is nothing unethical about an attorney accepting a referral from an invention promoter which is holding client funds intended for attorneys' fees, unless the attorney has reason to believe that the client funds are at risk. The Office has not cited to any authority which supports the assertion that such conduct is improper.

Ethical rules applicable to attorneys other than those of the Office do not address a situation where a third party holds funds intended for attorney fees or costs, but instead address only the attorney's own handling of funds and property entrusted to him, or the payment of the attorney's fee by a third party. *See, e.g., Restatement (Third) of the Law Governing Lawyers*, § 44, (regarding an attorney's obligation to segregate client funds and property, and safeguard them), and §134, (requiring disclosure to the client and client consent where a third person compensates an attorney (citing the ABA Model Rules of Professional Conduct)).

Rule 11.804(h)(3)(iii) is another example of how the proposed rules are likely to have the anticompetitive effect of eliminating referral relationships between practitioners and invention promoters. For these reasons and in light of its clear conflict with Rule 11.115(b), which is discussed below, Rule 11.804(h)(3)(iii) should be deleted from the final rules.

## **Use of Patentability Opinions and Evaluations**

### **§§ 11.203(c) and 11.804(h)(3)(iv)**

As noted above, Rule 11.203(c) specifies that, if a practitioner performs an evaluation for an invention promoter which the promoter will forward to the inventor, the inventor shall constitute a client of the practitioner for purposes of Rules 11.104(a)(1), 11.107(a)(2), 11.107(b)(2), 11.108(f)(1), 11.201(b), 11.202(d), 11.701(b), 11.804(h)(2) and 11.804(h)(3). Rule 11.203(c) also prohibits the practitioner from disclosing or basing his evaluation upon information that the inventor regards as confidential, and prohibits the practitioner from providing publication of the invention prior to the filing of an application for the inventor.

Rule 11.804(h)(3)(iv) provides that it is professional misconduct for a practitioner to accept a referral from an invention promoter if a patentability opinion or patent search report “is included in, accompanies, or is referenced in any report issued by the invention promoter.”

Rules 11.203(c) and 11.804(h)(3)(iv) present an unreasonable burden on referral relationships between practitioners and invention promoters. These rules, which purport to protect clients and their confidential information, actually harm these clients by increasing the legal fees they will pay and interfering with their rights to determine who may have access to their information.

While it is true that the Office has a legitimate interest in regulating a practitioner’s disclosure of confidential information, it is equally true that any regulation in this area must be narrowly drawn in a manner that materially advances that interest without improperly restraining the client from exercising fundamental rights in choosing how he wishes to conduct his own personal business and with whom he chooses to associate in connection with his personal affairs. The regulatory justification for restricting the practitioner’s communication of confidential information is “defined in terms of the risk of harm.” See Restatement (Third) of the Law Governing Lawyers §60(1)(a) and comments (c)(i). As provided in Rule 11.106, a practitioner may make disclosures “impliedly authorized in order to carry out the representation” or where “the client gives informed consent in writing after full disclosure by the practitioner.”

It is thus the client’s decision, and not the Office’s, whether to disclose information about the patentability of the client’s invention to the invention promoter with whom the inventor has chosen to work in connection with marketing his idea or submitting it to industry. The Office has taken away the client’s right to have his attorney communicate with the invention promoter who is working on the client’s behalf.

The Office’s targeting of referral relationships in this manner appears to be entirely unconnected with any ethical concerns relating to the administration of practice before the Office.

#### **▪ Rule 11.804(h)(3)(iv)**

The Office takes the position that it is proper for a third party service provider to include the patentability opinion in its report as long as the third party does not refer clients to patent attorneys. The only restriction is where the patentability opinion or search report accompanies a report prepared by an individual or entity who “(1) advertises in media of general circulation

offering assistance to market and patent an invention, or (2) enters into a contract or other agreement with a customer to assist the customer in marketing and patenting an invention.” *See* Rules 11.1 and 11.804(h)(3)(iv).

It is apparent from the unequal application of Rule 11.804(h)(3)(iv) that the Office is not concerned with the content and context of the disclosure, that is, the fact that a patentability opinion accompanies a report discussing commercialization. Rather, the Office is only concerned with further discouraging the relationships between practitioners and invention promoters.

To promulgate a rule as the Office has done in Rule 11.804(h)(3)(iv) which rests on the unfounded presumption that invention promoters misuse patentability opinions and search reports in all cases and practitioners, while other inventor services providers who do not provide referrals for patent services act properly, fails even the most basic scrutiny. As drafted, 11.804(h)(3)(iv) is intended to serve the self interest of those opposed to competition as the prohibition only applies to those individuals and entities who provide inventors access to low cost quality legal services.

Rather than furthering the interest of the client, the opposite effect is achieved by denying the client the opportunity to exercise his or her fundamental rights and eliminating competition at the expense of the client. There is no ethical basis for restraining the right of the inventor to obtain low cost legal services from a practitioner who accepts referrals from invention promoters and authorize the practitioner to cooperate with the invention promoter in the invention promoter’s efforts to commercialize the inventor’s invention.

▪ **Rule 11.203(c)**

Rule 11.203(c) suffers from many of the same defects evidenced in Rule 11.804(h)(3)(iv) in that it targets the referral relationship between practitioners and invention promoters and suppresses the communication of information which is otherwise entirely proper and authorized.

The general sections of Rule 11.203, which mirror ABA Model Rule 2.3, regulate the practitioners' disclosure of legal “evaluations” where he or she is retained by the client for the primary purpose of establishing information for the benefit of third parties. *See* 68 F.R. 69490. As a general rule the attorney may disclose his evaluation to a third person provided that the client gives informed consent after full disclosure and the practitioner “reasonably believes that making the evaluation is compatible with other aspects of the practitioner’s relationship with the client.”

With Rule 11.203(c), the Office again supplements the ABA Model Rule and provides unique requirements for practitioners who have referral relationships with invention promoters. Under this subsection, regardless of the client’s instructions or interests, a practitioner is prohibited from exchanging information with the invention promoter “prior to the filing of an application for the inventor” and prohibited from exchanging information after the filing of the application that discloses or is “based upon knowledge or information that the inventor regards as confidential.”

Any other practitioner, under Rule 11.203(a), may perform an evaluation for a third party if, upon the exercise his own professional judgment, the practitioner determines that the undertaking is compatible with the practitioner's relationship with the client, and the client gives informed consent. But the Office again unjustifiably assumes that practitioners who have referral relationships with invention promoters are incapable of abiding by the general rules of professional responsibility or of exercising professional judgment.

With Rule 11.203(c), the Office also improperly takes the decision regarding with whom the practitioner may share clients' information out of the clients' hands. Inventors have the right to instruct their practitioners to communicate information about their inventions to the invention promoters that they have employed to help them promote their inventions. The Office cannot abridge these inventors' rights.

Rules 11.203(c) and 11.804(h)(3)(iv) are improper and only serve to unduly burden referral relationships between practitioners and invention promoters. A practitioner's disclosure of an evaluation to an invention promoters should be treated no differently than the disclosure of an evaluation to any other third party. A practitioner must exercise independent professional judgment and refrain from disclosing an evaluation if he believes that the disclosure would be incompatible with his representation. The clients of the practitioner have the right to give informed consent to allow these practitioners to share information with whomever the clients choose. Therefore, Rules 11.203(c) and 11.804(h)(3)(iv) should be deleted from the final rules.

### **Declining Representation and Committing Misconduct Based on Violation of the Rules of Professional Conduct** **§§ 11.116(a) and 11.804(a)**

Rule 11.116(a) prohibits a practitioner from representing a client if the representation will result in a violation of the Office's Rules of Professional Conduct. Rule 11.804(a) provides that it is professional misconduct for a practitioner to violate the Office's Rules of Professional Conduct.

ISC objects to Rules 11.116(a) and 11.804(a) to the extent that these rules prohibit a practitioner from representing a client and define such representation as misconduct based on any of the Office's other improper rules to which ISC has objected in these comments.

### **IV. The Proposed Rules Are Irreconcilably Conflicting**

The ABA Model Rules present a system of ethical guidelines which can be applied to all attorneys in all areas of practice. The Model Rules provide a tried and true set of standards which are internally-consistent, easily understood, and with which all practitioners are familiar.

By adding its own unique, ad hoc promoter-specific rules to the generally applicable ABA Model Rules, the Office has, in contrast, created an ill-conceived and unworkable set of guidelines plagued by irreconcilable conflicts. The following highlights these conflicts and further demonstrates why the Office should adopt the ABA Model Rules without modification.

### **Collection of Legal Fees** **§§ 11.115(b), 11.701(b)(5), and 11.804(h)(3)(iii).**

These rules address the propriety of accepting a referral from an invention promoter under circumstances where the practitioner's legal fees are advanced by the client to the invention promoter.

Rules 11.115(b) and 11.701(b)(5), each addressed above, indicate that inventors **may** pay legal fees directly to an invention promoter for the promoter to forward to the referral practitioner. Under Rule 11.115(b), a patent practitioner is permitted to accept a referral from an invention promoter under circumstances where funds for payment of the practitioner's legal fees and expenses are advanced by the client to the invention promoter, provided that the practitioner take reasonable steps to safeguard the funds. Under Rule 11.701(b)(5), a practitioner must take reasonable steps to ensure that the invention promoter's contracts and communications requesting funds specify that portion of the funds which the client delivers to the promoter which represents legal fees and expenses.

These provisions, however, conflict directly with Rule 11.804(h)(3)(iii) which prohibits a patent practitioner from accepting a referral from an invention promoter "wherein the inventor delivers funds for legal fees, expenses or costs to the invention promoter." This prohibition is absolute.

There is a clear, irreconcilable conflict between Rules 11.115(b), 11.701(b)(5), and 11.804(h)(3)(iii). As discussed above, all three of these rules are each independently improper for reasons other than this conflict. The Office should therefore remove the conflict by adopting ABA Model Rules 1.15 without modification and by deleting Rules 11.701(b)(5) and 11.804(h)(3)(iii) from the final rules.

#### **Disclosure of Information to an Invention Promoter §§ 11.106 and 11.804(h)(3)(iv)**

These rules address the disclosure of a patentability opinion or patent search by the practitioner directly to an invention promoter.

Under Rule 11.106, the practitioner is permitted to disclose information relating to his representation of a client to a third party, provided that the practitioner has fully discussed the ramifications of such disclosure with the client and has received the client's informed consent in writing. The disclosure of a patentability opinion or patent search report by the practitioner to an invention promoter was specifically considered by the Office in connection with its promulgation of Rule 11.106. *See* 68 F. R. 69473. In these interpretive comments, the Office states that, so long as the practitioner has the client's written informed consent to the disclosure, the practitioner is permitted under Rule 11.106(d)(1) to communicate a confidence, which can include a patentability opinion, to an invention promoter.

Rule 11.106, which permits a practitioner to disclose a patentability opinion to an invention promoter, is contradicted by Rule 11.804(h)(3)(iv) which prohibits a practitioner from accepting a referral from an invention promoter "wherein a patentability opinion or patent search report by a registered practitioner is included in, accompanies, or is referenced in any report issued by the invention promoter." This prohibition is absolute.

As discussed above, the impropriety of Rule 11.804(h)(3)(iv) mandates its removal from the rules which will resolve the conflict with Rule 11.106.

### **Relationship of Invention Promoters to the Lawyer-Client Relationship §§ 11.107, 11.108, 11.202, 11.507, 11.701, and 11.703**

The Office's position on the nature of the relationship between a practitioner and the invention promoter who referred a client to that practitioner varies throughout the proposed rules.

In some contexts, the Office states that the invention promoter and the inventor are both clients of the practitioner, who provides a joint representation. The Office utilizes this position to find that a potential conflict of interest necessarily exists between the inventor and the promoter in Rules 11.107 and 11.108, and to support the Office's promoter-specific Rule 11.202(d) regarding the role of a practitioner as an intermediary between clients.

In other contexts, the Office views invention promoters as the agents of practitioners. The Office uses this view to justify its conclusion in Rules 11.701(b)(5) and 11.703 that promoters engage in improper in-person solicitation on behalf of practitioners. The Office also apparently uses this agent-of-the-practitioner view to justify Rule 11.507(a)(3), which makes practitioners ethically responsible for the provision of law related services performed by invention promoters.

The Office then ignores these joint-client or agent-of-the-practitioner concepts when discussing invention promoters in the context of other rules. For example, the Office's suggestion in its discussion of Rule 11.106 that disclosure of information to promoters would violate the duty of confidentiality and/or the attorney-client privilege is invalid if both the invention promoter and the inventor are clients of the practitioner, or if the invention promoter is the agent of the practitioner. The prohibitions against practitioners communicating information directly to invention promoters found in Rules 11.104, 11.203(c), 11.804(h)(3)(iv), and 11.804(h)(3)(v) are similarly unjustified if both the invention promoter and the inventor are clients of the practitioner or the promoter is the agent of the practitioner. The Office's refusal to allow invention promoters to collect legal fees and forward them to the practitioner, as proscribed by Rules 11.115(b) 11.504 (b), and 11.804(h)(3)(iii), is also invalid if the invention promoter is a co-client or agent of the practitioner.

Rather than taking a consistent position on the nature of the relationships between practitioners and invention promoters, the Office arbitrarily utilizes that description of the relationship which will justify the most severe restrictions on referral arrangements in each particular rule.

If some practitioners may view invention promoters as clients, others may utilize invention promoters as their agents. Still others may view invention promoters as third parties to their relationships with their inventor-clients. The precise nature of the relationship will differ depending on the specific circumstances of each relationship.

The Office has consistently refused to acknowledge that not all invention promoters operate in the same way. Because of the differences among both promoters and practitioners, absolute rules based on inflexible views of referral relationships are unreasonable and unfair to those practitioners and invention promoters who operate legitimate ethical businesses.

This is precisely why the ABA suggests only general rules to describe the proper conduct of attorneys – because the particular and varying circumstances in each case do not lend themselves to specific, absolute rules. The ABA Model Rules set general guidelines and require each practitioner to apply his professional judgment to the unique circumstances he faces with each client to determine the proper course of conduct.

The Office should follow the sound example set by the ABA Model Rules and remove these overbroad and inconsistent promoter-specific provisions from its final rules.

## **V. The Office Does Not Have the Authority to Regulate Invention Promoters**

As discussed above, the Office does not need promoter-specific rules to ensure that practitioners who accept referrals from invention promoters conduct themselves ethically - rules of general applicability are sufficient to achieve this goal. The Office's promulgation of these promoter-specific rules evidences the Office's attempt to regulate invention promoters to ensure that they conduct their businesses to comport with the Office's notions of how invention promoters should operate.

Through these rules which purportedly regulate the conduct of practitioners, it appears that the Office is attempting to regulate the conduct of invention promoters rather than the conduct of practitioners. By forbidding practitioners from accepting referrals unless the invention promoters' contracts, reports, and communications satisfy the Office's standards, the Office is effectively proposing to regulate invention promoters themselves.

For example, Rule 11.804(h)(3)(iii) prohibits invention promoters from collecting legal fees, costs, or expenses from an inventor to forward to the referral practitioner. Rules 11.115(b) and 11.504(b) require invention promoters to return the portion of their clients' funds representing legal fees to the clients for the clients to forward directly to practitioners. Rules 11.701(b)(5), 11.804(h)(3)(i), 11.804(h)(3)(ii), and 11.804(h)(5) mandate that invention promoters include in their contracts and all communications requesting funds the specific amount of legal fees and expenses and the percentage discount that the promoter was able to obtain for the client. Rule 11.804(h)(3)(iv) prohibits an invention promoter from including a patentability or patent search report in any of its reports, sending such an opinion in accompaniment with one of its report, or even referencing such an opinion in one of its reports. Rule 11.804(h)(3)(v) prohibits an invention promoter from allowing its clients to choose, in its contracts with the clients, which type or types of patents for which they want to apply.

The Office does not have the authority to regulate invention promoters.

A federal agency has the authority to make rules implementing a statute which it administers, but these rules must be reasonably related to the purpose of the statute and must not be inconsistent with the purpose of the statute in order to withstand judicial scrutiny. *See, e.g., Carpenter, Chartered, v. Sec'y of Veterans Affairs*, 343 F.3d 1347 (Fed. Cir. 2003), *citing Mourning v. Family Publ'ns Service, Inc.*, 411 U.S. 356 (1973). The above-referenced rules are not reasonably related to the purpose of 35 USC §§ 2 and 32, which permit the Office to regulate attorney conduct, because these proposed rules do not address attorney ethics or conduct which

is recognized as violating an attorney's duty to his or her clients.

The Office specifically sought regulatory authority over invention developers through enactment of the Inventor's Rights Act. As originally drafted, the Inventor's Rights Act provided the Office with authority to regulate invention promoters by requiring invention promoters to enroll with the Office and to disclose, among other things, "any administrative, civil or criminal action taken against the invention developer by any agent of Federal, State or local government." However, this regulatory provision was deleted from the version of Inventor's Rights Act enacted into law by Congress.

Congress' refusal to delegate regulatory authority to the Office and its decision to impose specific requirements with the Inventors' Rights Act demonstrate that the Office's rules which regulate the conduct of invention promoters are outside the scope of the authority delegated to it by Congress. See FDA v. Brown & Williamson Tobacco Corp., 529 U.S. 120 (2000), in which the Supreme Court found that the FDA did not have jurisdiction to regulate tobacco products because Congress had considered granting the FDA this authority but rejected the proposals, instead enacting statutes which regulated the tobacco industry.

Because these rules have no place in the Office's regulations which are intended to implement statutory provisions permitting the Office to govern attorney conduct, they should be deleted from the final rules.

## **VI. Conclusion**

Rather than promulgate consistent ethical standards for all practitioners, the Office has established two sets of standards: one for practitioners who have referral arrangements with invention promoters, and one for all other practitioners. Although the rules of general applicability are sufficient to ensure that practitioners meet proper ethical standards, the Office has supplemented the ABA Model Rules with ad hoc promoter-specific rules. These rules are based on the Office's unfair and unjustified assumptions that all invention promoters are dishonest and that the practitioners who have referral relationships with them are incapable of understanding and abiding by the Model Rules.

These novel rules, rather than addressing ethical considerations not addressed by the ABA Model Rules, will only discourage practitioners from accepting referrals from invention promoters. Few practitioners are likely to accept these referrals knowing that their professional judgment is severely limited by these promoter-specific rules, and that they become subject to numerous strict and unique grounds for disciplinary action by the Office simply because they obtained clients through referrals.

The Office ignored the effect that the restrictions on referral arrangements will have on practitioners when it certified to the Small Business Administration that the proposed rules will not have a significant impact on a substantial number of small entities. As such, the Office's certification violated the Regulatory Flexibility Act. Before adopting its final rules, the Office must satisfy its obligations under the Regulatory Flexibility Act.

The Office's severe and improper regulation of referral relationships between practitioners and

invention promoters will have an adverse impact on competition. The Office's rules amount to an agency-imposed boycott that would violate antitrust laws if it were undertaken by practitioners privately. As discussed in detail above, the scope of these restraints is not justified under the circumstances because the Office's concern about the ethical conduct of practitioners is sufficiently addressed by rules of general applicability.

Not only are the Office's promoter-specific rules each independently invalid for the reasons discussed above, but the Office has also created an unworkable system of directly-conflicting standards by adding these ad hoc rules to the Model Rules. In numerous circumstances, the Office's invalid additions to one Model Rule are directly contradicted by its novel and unjustified supplement to another Model Rule. Rather than attempting to figure out which of the improper and contradictory rules is applicable in any given situation and risking suspension or exclusion, practitioners are likely to forego referral relationships with invention promoters altogether.

The Office has promulgated these ad hoc rules in an attempt to regulate the conduct of invention promoters rather than to regulate the conduct of practitioners. The Office does not have the authority to do so.

The Office can and should rectify all of these problems by abandoning its ill-conceived and unworkable ad hoc rules and merely adopting the ABA Model Rules without modification.

Very truly yours,

Nora H. Miller  
Compliance Director