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HOW FAR SHOULD THE PTO REGULATE BUSINESS RELATIONSHIPS OF PATENT PRACTITIONERS?

Kenneth R. Shurtz*

I. INTRODUCTION

The Patent and Trademark Office (PTO) and the American Bar Association (ABA) have both established rules of professional conduct intended to regulate the practice of attorneys. While the PTO’s standards regulate the practice of patent attorneys and patent agents that practice before it, the ABA’s standards are adopted in whole or in part by the majority of the states to regulate the practice of attorneys within each state. Patent attorneys are bound by both PTO rules and the state Rules of Professional Conduct found within their respective state. While for the most part, the PTO rules have been effective, periodically, uncertainties within the rules and conflicts between the PTO rules and state rules have an adverse affect on the business practices of patent attorneys. The current PTO rules offer little guidance as to how courts should deal with those

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uncertainties and conflicts. Although the current PTO rules allow for
preemption of state rules, the PTO rules only displace state rules to the
extent necessary to accomplish the PTO’s federal objectives, which has
been largely inadequate to resolve these conflicts.

The PTO enforces its regulations by investigating patent practitioners
that may have violated its Code of Professional Responsibility and holding
disciplinary proceedings when necessary. If a client or third party files a
complaint with the PTO alleging misconduct or violations of a disciplinary
rule, the Office of Enrollment and Discipline (OED) initiates an
investigation. The results of the investigation are reviewed by the OED’s
Committee on Discipline, comprised of at least three PTO employees
appointed by the Patent Commissioner. If the Committee on Discipline
agrees by majority vote to bring charges of a violation, the Director
commences disciplinary proceedings.

At the disciplinary proceeding, an administrative law judge determines
whether a violation occurred; in finding a violation, the judge may issue a
reprimand, a suspension, or exclusion from further practice before the
office. The judge considers not only the patent practitioner’s interaction
with the PTO, but also the nature of the practitioner’s relationship with
clients and third parties. The nature of the relationship may be investigated
through examination of contracts or agreements between patent practitioners
and clients, client interviews, or client responses to request-for-information
(RFI) forms regarding their understanding of various aspects of any
agreements. While these rules aim to regulate the practice of practitioners
before the PTO, the rules also dictate many aspects of the business
relationship between practitioner and client. This note examines the effects
of the PTO’s rules on the practitioner-client relationship, the necessity of
those effects in accomplishing the PTO’s objectives, and how the PTO can
revise the proposed rules to accomplish its goals without needlessly
prohibiting ethical business practices.

(“Nothing in this part shall be construed to preempt the authority of each State to regulate the practice
of law, except to the extent necessary for the Patent and Trademark office to accomplish its Federal
objectives.”).
5. Id.
13. Id. at 1364, 1369.
14. See generally William Jacob, Professional Ethics before the USPTO: A Discussion for
Beginners, 16 PROF. LAW. 22 (2005).
II. PTO CODE OF PROFESSIONAL RESPONSIBILITY

Under its authority to regulate patent practitioners, the PTO established the Code of Professional Responsibility (PTO Code), patterning them after an old version of the ABA Model Code. The PTO Code is set out in canons and disciplinary rules. The canons outline the norms of professional conduct expected of patent practitioners "in their relationships with the public, with the legal system, and with the legal profession," while the disciplinary rules set the "minimum level of conduct below which no practitioner can fall without being subjected to disciplinary action."

A. PTO STANDARDS

The PTO's Code of Professional Responsibility for those that practice before the office is located in Title 37 of the Code of Federal Regulations. The nine canons in the PTO Code set out general guidelines for the PTO Code of Professional Responsibility for patent practitioners, including both patent attorneys and patent agents. Canon 1 states that practitioners should assist 'in maintaining the integrity and competence of the legal profession;' Canon 2 involves making "legal counsel available;" Canon 3 states that practitioners should "assist in preventing the unauthorized practice of law;" Canon 4 states that practitioners must preserve client confidentiality; Canon 5 states practitioners must exercise "independent professional judgment on behalf of a client;" Canon 6 involves representing a client with competence; Canon 7 states practitioners should zealously represent a client "within the bounds of the law;" and Canon 8 involves "improving the legal system," and Canon 9 states practitioners

17. Rose and Jessup, supra note 3, at 581.
“should avoid even the appearance of professional impropriety.” These nine canons are modeled after the old version of the ABA Model Code of Professional Responsibility, as are many of the PTO’s disciplinary rules. The ABA states that “obviously the Canons... and Disciplinary Rules cannot apply to non-lawyers,” but then asserts that the public has a right to expect ethical conduct from lawyer’s associates as well, in “matters pertaining to professional employment.” The PTO, within their statutory authority, has expanded these canons to apply to non-attorneys that practice as patent agents before the board.

The PTO’s disciplinary rules, many of which are modeled after the ABA’s Model Code, derive from the general principles expressed in the canons; the disciplinary rules provide detailed explanations of conduct in keeping with the principles expressed in the canons to establish a “minimum level of conduct” required for patent practitioners. These explanations provide proper notice to patent practitioners of what conduct is expected of them in practicing before the board and of the disciplinary actions and sanctions against breaches in ethical conduct.

B. STATUTORY AUTHORITY OF THE PTO

The PTO derives its authority to regulate the practice of patent practitioners under Federal statute, which provides:

The [PTO] may establish regulations, not inconsistent with law, which... may govern the recognition and conduct of... attorneys... representing applicants or other parties before the Office, and may require them... to show that they are of good moral character and reputation and are possessed of the necessary qualifications to render to applicants or other persons valuable service, advice, and assistance in the presentation or prosecution of their applications or other business before the Office... 

33. Compare 37 C.F.R. § 10 (2008), with ABA/BNA Lawyers’ Manual on Professional Conduct, supra note 1; see also Rose and Jessup, supra note 3, at 581.
36. See Rose and Jessup, supra note 3, at 581; 37 C.F.R. § 10.20(b) (2008).
37. Jaskiewicz v. Mossinghoff, 822 F.2d 1053, 1057 n.15. (“We note that disciplinary action under the ABA Model Rules is properly pursued under the Disciplinary Rules (DR’s) but not the more general Canons of Ethics... In contrast, the Canons ‘are statements of axiomatic norms, expressed in general terms, from which the Disciplinary Rules are derived.’” (citations omitted)).
Since the PTO has statutory authority to establish and enforce the Code of Professional Responsibility, the PTO’s interpretations of its rules at disciplinary proceedings are analyzed under the Chevron framework. An agency’s interpretations of its own regulations should prevail over a court’s interpretation, unless clearly erroneous. When a regulation is questioned, the courts look to the authorizing statute for guidance, and if the statute does not address the issue or if it is ambiguous, courts defer to the agency’s reasonable interpretation.

C. PREEMPTION OF STATE RULES

The Code of Federal Regulations states that nothing in the PTO’s rules should be “construed to preempt [State law], except to the extent necessary for the Patent and Trademark Office to accomplish its federal objectives.” This section codified the scope of federal preemption recognized by the Supreme Court in Sperry v. Florida, 373 U.S. 379, 400 (1963). Both the current and proposed PTO rules reject any intent to preempt state authority to regulate the practice of law, which necessarily leaves many conflicts and preemption issues open to interpretation. Despite the PTO’s broad discretion to interpret their own rules, most often it is the courts that decide whether the PTO rules preempt state laws; the result is that the PTO Code rarely preempts state law and when preemption does occur, outcomes vary from state to state.

III. EFFECTS ON BUSINESS RELATIONSHIPS

A. NEGLECT OF AN ENTRUSTED LEGAL MATTER

One of the grounds most frequently relied upon by the PTO for disciplining a practitioner is “(i) neglect of a client’s interest, (ii) prejudice

41. Chevron, 467 U.S. at 842-43.
or damage to a client’s interest, or (iii) failure to carry out a contract of employment." Disciplinary proceedings brought by the Director for neglect arise under Rule 10.77(c), which simply states that a practitioner shall not “neglect a legal matter entrusted to the practitioner." This rule is largely modeled after ABA Model Code Rule 1.3. The ABA defines neglect under this rule as “indifference and a consistent failure to carry out obligation” which “usually involves more than a single act." The ABA also states that errors of judgment made in good faith are not considered neglect. Although modeled after the ABA rule, the PTO does not defer to the ABA definition of neglect.

While the PTO does not define neglect, comments issued by the PTO indicate that “under § 10.77(c), neglect could be based on a single instance of neglect" and makes no mention of good faith errors.

Neglect of an entrusted legal matter often arises when practitioners fail to file office actions by certain deadlines resulting in excess fees or damaging their client’s interests. In Bender v. Dudas, the PTO recognized neglect of an entrusted legal matter when Bender, a patent practitioner, failed to effectively communicate pertinent issues to his clients. The Federal Circuit noted Bender’s inadequate engagement letters to his clients as substantial evidence in support of the PTO’s determination of neglect. The form letters failed to adequately explain the difference between a design patent and a utility patent. The court noted the engagement letter to each client was “essentially the same,” and failed to provide advice geared toward each client as to whether a design or utility patent was “best suited to protect the invention” and the consequences of pursuing each type of patent. The discussion in the letter of the difference between a design and a utility patent was an “entirely

46. 37 C.F.R. § 10.77(c) (2008).
47. See Timir Chheda, A Handy List: Comparison of the ABA Model Rules of Professional Conduct With the Patent Rules of Ethics, 5 J. MARSHALL REV. INTELL. PROP. L. 476, 484 (2006) (comparing the PTO rules and ABA Model Rules), and Rose and Jessup, supra note 3, at 581 (discussing how many PTO disciplinary rules are modeled after the old ABA Model Code).
49. Id.
51. Id.
52. Bender v. Dudas, 490 F.3d 1361, 1367 (Fed. Cir. 2007); Moatz v. Rosenberg, Proceeding No. D06-07, 5-6 (2007); Moatz, supra note 45, at 22-30.
53. Bender, 490 F.3d at 1366.
54. Id. at 1367.
55. Id. at 1366.
56. Id. at 1364.
hollow and formalistic gesture." Complicating matters, Bender had received payments from an invention-promoter to represent each client. An invention promoter is defined in 35 U.S.C. section 297(c) as any entity that procures or offers to procure development or marketing services for a client’s invention and acquires clients “through advertising in any mass media.” The court then suggested that the invention-promoter’s money-back guarantee motivated Bender’s failure to communicate to his clients the consequences of pursuing design patents over utility patents. Although the circumstances in Bender were evidence of his intent, under PTO guidelines, intent is not a requirement to find neglect of an entrusted legal matter under 37 C.F.R. section 10.77(c). One might infer from the PTO’s determination and the Federal Circuit’s affirmance in Bender, that form engagement letters to clients, which explain initial basic patent concepts, could easily violate Rule 10.77(c). Such a broad holding would necessarily raise the question of how in depth and how extensive a practitioner’s communication with each client must be. Potentially, as demonstrated in Bender, the sufficiency of a communication could be determined by a client’s subjective understanding—or lack of understanding—of the concepts in each communication or agreement.

Perhaps the ruling in Bender should not read so broadly. The situation in Bender involved a series of ethical violations of which the form engagement letter was only one issue. Bender’s case involved especially egregious conduct including engaging in fraud and deceit at the expense of his clients. The analysis of the PTO and the court in Bender’s case suggest implicitly that the totality of the circumstances—the money-back guarantee, inadequate engagement letters, conflicts of interest, and the client’s lack of understanding—played a determinative role in finding rule violations. If these extenuating circumstances had not been present, it is unclear whether the disciplinary hearing would have found violations of the PTO Code. However, it should be noted that the PTO has never explicitly acknowledged a totality of the circumstances test to determine if conduct constituted a violation. Although the PTO stated that one instance of neglect could be termed a violation, most disciplinary hearings involve multiple violations and extenuating circumstances. Regardless of this observation, patent practitioners would still be well advised to avoid using form letters under extenuating circumstances, such as possible conflicts of interest or other indications that the client’s rights are vulnerable.

57. Id. at 1366.
58. Id. at 1364.
59. Id. at 1364.
60. See Moatz, supra note 45, at 22-23.
61. Bender, 490 F.3d at 1364.
62. Id.
63. Id. at 1366-67.
In practice, lawyers consistently use form letters in client communications. A well-crafted form letter could sufficiently explain basic patent concepts from which the client could make an informed decision. Given the increasing burden of the practitioner in explaining a client’s interests, rules of engagement, fee arrangements, and other aspects of the practitioner-client business relationship, it seems clear that the use of form letters, standard disclosure letters and form contracts during client representation is a necessity. As long as the client’s interests are sufficiently guarded and there is no other evidence of ethical violations, form letters by patent practitioners should not be looked upon as suspect in violation of Rule 10.77(c). The PTO could further reduce the uncertainty within 10.77(c) by further defining neglect, addressing good-faith errors and giving more detailed guidance as to interpreting and enforcing 10.77(c), particularly within the context of form letters.

B. FULL DISCLOSURE TO THE CLIENT

Two other commonly violated disciplinary rules, sections 10.62(a) and 10.68 of the PTO Code, deal with the concept of full disclosure to the client.64 Section 10.62(a) requires that when a practitioner’s own interests might impair their independent “professional judgment,” the practitioner should refuse employment “except with the consent of a client after full disclosure.”65 Section 10.68 requires that the practitioner avoid influence “by others than the client.”66 Additionally, subsections 10.68(1) and 10.68(2), state that practitioners should not receive compensation from a third party relating to the practitioner’s legal services or representation to the client, unless the client consents after full disclosure.67

To determine violations under Rules 10.62 and 10.68, the PTO disciplinary proceeding must first determine if the practitioner fully disclosed the circumstances to the client and whether the client consented in response to the disclosure. The PTO must also determine when the practitioner’s interests might impair professional judgment regarding client representation. In Bender, this conflict of interest was apparent from the circumstances of the practitioner’s involvement with an invention-promoter combined with other highly questionable conduct.68 The PTO’s disciplinary hearing determined that adequate disclosure in Bender’s case would require disclosing to each client his employment with the invention-

64. 37 C.F.R. § 10.62(a) (2008); 37 C.F.R. § 10.68 (2008).
67. Id.
promoter, the conflicts of interest caused by a money-back guarantee and the invention-promoter's prior bad acts.\textsuperscript{69} Full disclosure under Rule 10.68(1) also required that Bender disclose the amount of the payments from the invention-promoter.\textsuperscript{70}

While there is little question Bender's clients did not receive full disclosure nor give informed consent, these issues reveal the uncertainties within rules Rule 10.62 and 10.68 which may adversely affect the everyday business practices of patent practitioners. Currently, the PTO does not specifically define full disclosure; PTO disciplinary hearings determine whether full disclosure has been satisfied on a case-by-case basis and courts defer to an agency's own interpretations of their own regulations.\textsuperscript{71} The PTO could significantly reduce this uncertainty by revising the associated rules to more fully define the requirements of full disclosure and informed consent, while being mindful of the business needs of patent practitioners.

The PTO has recently proposed Rule 11.107 to clarify the concept of full disclosure.\textsuperscript{72} The proposed rule suggests it would be "prudent" for a practitioner to provide potential clients "a written summary of the considerations disclosed, and to request and receive a written consent," however, proposed Rule 11.107 does not require the disclosure be in writing.\textsuperscript{73} In practice, there might be instances in which oral communication to the client could disclose information even more effectively than a written document, as the practitioner could better respond to questions in person. Alternately, proposed Rule 11.107 does require that a client's informed consent be in writing.\textsuperscript{74} This concept could be further clarified in the proposed rule because it is unclear whether informed consent must be a separate writing, whether the client must produce the writing or whether the client's signature on a form is sufficient. Additionally, in long-standing business relationships between a patent practitioner and a client, it seems needless to require disclosure and consent repeatedly throughout the course of that relationship. Since the full disclosure and written informed consent requirement cannot be waived, it would seem a separate disclosure and consent would be necessary for every potential change in the business relationship. This raises the concern that the current and proposed PTO rules might interfere with the rights of the practitioner and client to lawfully contract with one another.

69. Id.
70. Id.
73. Id.
74. Id. at 69,549-50.
Another aspect of disclosure addressed in the proposed rules involves the sufficiency of the disclosure. In the supplementary information section of the proposed rules, the PTO further defines full disclosure as a standard that may be different for sophisticated clients as compared to unsophisticated clients. According to the ABA, the disclosure required by "informed consent" requires communicating the "material risks of and reasonably available alternatives to the proposed course of conduct." The proposed PTO Rules 11.107, 11.108, and 11.109 suggest that if any interest under 10.62(a) has even the "potential" to cause a conflict-of-interest, then the circumstance should be disclosed. Although the PTO standard is higher, the flexible standard expressed in the supplementary information section of the proposed rules reinforces the view that requirements for full disclosure might vary from client to client. Although the lack of disclosure in Bender is apparent, would the same be true of a more sophisticated client? For instance, if Bender’s clients had been a large company with an established patent portfolio, it is arguable that the form engagement letter might have been an adequate disclosure. Furthermore, if such a company had in-house counsel, the need for the patent practitioner to explain the dynamics of the business relationship or the intricacies of patent law would seem redundant. The need for a standard of disclosure that accounts for the sophistication of the client is apparent and the PTO should include this guidance as a definition within the rules themselves.

Another consideration is that by making the adequacy of full disclosure depend on the sophistication of the client, this increases the amount of time and costs incurred by the patent practitioner in representing unsophisticated clients, such as first-time individual inventors or small companies. As a practical result, many patent practitioners may refuse to take individual inventors or charge prohibitive up-front costs. Individual inventors, eager to save money, would be more easily lured by invention-promoters promising lower costs. While much of the PTO’s proposals requiring extensive disclosure and written consent seems aimed at preventing misuse by invention-promoters, the resulting increased costs might discourage innovation by individual inventors. To counter this, the PTO might consider further reducing costs for small entities or creating a new “ultra-small” entity. Alternatively, state or federal regulations could address abuses by invention promoters by limiting their activities,
advertising or business practices, many of which are not validly within the jurisdiction of the PTO. In attempting to regulate invention-promoters by substantially increasing the burden on patent practitioners in dealing with individual clients and increasing costs for the individual inventor, the patent system becomes less efficient and more burdensome for the individual inventor.

This variable standard also raises the question of how one differentiates unsophisticated clients from sophisticated clients. Individual inventors, many of whom have little exposure to patent prosecution, are the exact type of unsophisticated client vulnerable to misrepresentation and neglect. Companies with large patent portfolios can be presumed to know the difference between design and utility patents and such a disclosure would seemingly be unnecessary. However, there is obviously a gray area in which a small company might not necessarily be as savvy as they appear in seeking patent protection. Ideally through the course of prosecution, the patent attorney or patent agent should be able to quickly discover a client’s lack of knowledge regarding patents. In such a case, application of the full disclosure rule would be less mechanical and would require closer examination of what the patent attorney should have known regarding their client and the representations the client made to the patent attorney.

Further complicating the disclosure standard, the Federal Circuit held in Brasseler v. Stryker Sales Corporation that “inventors represented by counsel are presumed to know the law.”\(^{81}\) This presumption would seem to reduce the amount of disclosure required. The factual circumstances of Brasseler, however, are distinguishable in that the patentees claimed that ignorance of the law relieved them of their duty under Rule 1.56 to disclose information relating to an on-sale bar.\(^{82}\) There was additional evidence that Brasseler understood the concept of an on-sale bar—the fact that Brasseler had applied for and received a patent and sued to enforce that patent; this evidence also suggested that Brasseler was a sophisticated client.\(^{83}\) Had Brasseler been an unsophisticated client with little evidence to suggest an understanding of what information was material to disclose, it is uncertain whether this presumption would have applied to find inequitable conduct on the client’s duty to disclose. The holding of Brasseler, however, is most applicable to circumstances involving inequitable conduct for failure to disclose under Rule 1.56.\(^{84}\) Even if this holding did apply to all disclosure in practitioner-client relationships, the presumption that a client knew the law would not relieve a patent practitioner of the duty to fully disclose issues that may compromise the client’s interests. Since the circumstances

82. Id. at 1379.
83. Id. at 1385.
84. Id.; 37 C.F.R. § 1.56 (2008).
of the Rule 1.56 violations in *Brasseler* are distinct from other disclosures between patent practitioners and their clients, it is doubtful that clients would be presumed to know the law within the context of the PTO Code of Professional Responsibility.

C. PRACTITIONER-CLIENT FEE ARRANGEMENTS

1. Fee-Splitting

Under PTO Rule 10.48, a practitioner cannot share or split legal fees with a non-practitioner, except for a few enumerated exceptions.\(^8^5\) This rule seems to contemplate partnerships between patent attorneys and patent agents. However, ABA Model Rule 5.4(a) states that a lawyer or law firm shall not share legal fees with a non-lawyer,\(^8^6\) while Rule 5.4(b) states that a lawyer shall not form a partnership with a non-lawyer if any of the activities of the partnership consist of the practice of law.\(^8^7\) Concurrently applied, these rules may conflict, as shown when one state bar association declared that a patent agent and attorney could not form a partnership to prosecute patents.\(^8^8\) Additionally, the ABA issued a formal opinion, which it later rejected, that an attorney practicing law with a non-attorney violates state law that prohibits such partnerships.\(^8^9\) By prohibiting practitioner and

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89. ABA Comm. On Prof'l Ethics and Grievances, Formal Op. 257 (1944), rejecting Formal Opinion 201, stated the following: ...
patent agent partnerships, these opinions demonstrate the dilemma caused by conflicting PTO and state ethics rules. A similar conflict is present under PTO Rule 10.48, which could be viewed to prohibit partnerships between patent attorneys and non-practitioner attorneys—a common business relationship in numerous law firms. The PTO rules seem to preempt this situation, but does not expressly do so. Prospective revisions to the PTO Code should consider these detrimental effects to ethical business practices and expressly state either detailed exceptions to the rule or an intent to preempt state rules.

2. Contingent Fees and Royalties

Under the ABA Model Rules of Professional Responsibility, an attorney is allowed to take ownership in a client's interests in exchange for performing legal services, such as receiving royalties or ownership of a client's stock. The attorney must satisfy Rule 1.5(a)'s requirement that the fees be "reasonable," the attorney must disclose any possible conflicts under Rule 1.7(b) and the terms to the client must be "fair and reasonable" under Rule 1.8(a). The PTO has similar provisions under 37 C.F.R. section 10.65, which requires that the practitioner "not enter into a business transaction with a client" if the practitioner has "differing interests" than the client that might affect professional judgment. Again, there is an exception if the client has consented after receiving full disclosure from the practitioner. One area of contention might be what constitutes differing interests. If the practitioner arranges to receive 5 percent royalties from sales of a patented invention, it would seem that the interests of both the practitioner and the client would best be served by prosecuting a high quality patent. It is uncertain whether a contingent fee in patent prosecution is per se a differing interest and if so, whether the signed royalty agreement would satisfy full disclosure and informed consent.

ABA Rule 1.8(a) is even more restrictive than the corresponding PTO Rule 10.65, since Rule 1.8 covers more than client relations, requires written "fair and reasonable" terms and informed consent. This creates a conflict between the rules, since patent attorneys must adhere to both PTO Rule 10.65 and Rule 1.8(a) or the corresponding state rule. While it is possible for the PTO Code to preempt state law, the PTO Code rarely does so since Rule 10.1 expressly rejects any intent to preempt state authority to govern the practice of law. Although the Supreme Court held that the

Canon 34, which prohibits the division of fees for legal services with a layman.
92. Chheda, supra note 47, at 482.
prosecution of patents is considered "the practice of law," this still does not subject patent agents to the state laws regulating the practice of law. This uneven application leads to a situation where patent agents could validly create a fee agreement in accordance with ethical standards, where patent attorneys could not. For instance under Rule 1.8(a), a 75 percent royalty to a patent attorney might be termed beyond what is "fair and reasonable," yet if a patent agent contracted an identical agreement, under PTO Rule 10.65, such an agreement would be allowable providing full disclosure and consent. Whether or not this result is unintended should be clarified by the PTO in updated revisions to its rules. Either "fair and reasonable" should be added to the PTO Rules regarding fees or Rule 10.65 should expressly state a preemptive effect over state rules modeled on Rule 1.8(a).

Several cases demonstrate the uncertainty in resolving conflicts between the PTO Code and state ethics rules regarding fee-splitting. In Buechel v. Bain, the court ruled that while PTO's standard under 37 C.F.R. 10.64(a)(3) allowed the patent attorney to take an interest in a patent in lieu of a fee, the attorney must still meet disclosure requirements under the NY state bar's disciplinary rules. In California, the Los Angeles County Bar said that a patent attorney could agree to a contingent fee in exchange for patent prosecution. Additionally, the bar decided that 5 percent of net profits from the patented invention was not considered unconscionable. Further, the attorney was not required to comply with California's version of ABA Model Rule 1.8(a). The District of Columbia Bar held the same as the Los Angeles County Bar. These varying outcomes further confuse the question of when the PTO Code applies and when state ethics rules apply.

The PTO's proposed Rule 11.504 does little to resolve conflicts concerning fee-sharing or partnerships. Unlike ABA Model Rule 5.4, the proposed rule does not prohibit fee-sharing arrangements between non-lawyers and lawyers. This reiterates the inference that patent agents and patent attorneys can validly create partnerships. Despite this implied intent to include this type of partnership in the PTO Code, almost every state has adopted a state bar rule similar to ABA Model Rule 5.4 prohibiting such an

96. Los Angeles County Bar, supra note 44.
97. Id.
98. Id. The Los Angeles County Bar did not address the PTO Rules, although the bar decided the attorney did have to comply with California Business & Professions Code section 6147(a) regulating contingent fees.
99. District of Columbia Bar, supra note 44.
arrangement. As previously discussed, states could conceivably discipline a patent attorney for such an arrangement under the state's code. The issue of whether a patent attorney and patent agent or a patent attorney and non-practitioner attorney can form partnerships should not be open to interpretation by state judges. As part of its revisions to the PTO Code, the PTO should define which partnerships are allowed under the code and expressly provide preemption over state rules that could prevent those partnerships. Partnerships between patent agents, patent attorneys and non-practitioner attorneys are foreseeable partnership arrangements in patent prosecution that by their nature do not compromise the clients' interests or the PTO canons of professional responsibility.

IV. ADDITIONAL PROPOSED PTO RULES

Proposed PTO Rules 11.504 and 11.701 contain provisions that target the growing problem of unscrupulous invention-promoters, discussed at length in Bender. Proposed Rule 11.504(b) states, among other things, that "a practitioner accepting a client referred by an invention-promoter shall not divide legal fees paid by the client with the promoter for legal services rendered in regard to practice before the Office." The rule goes on to prohibit the transfer of funds between a practitioner and invention-promoter before or after services, which would presumably prevent fee arrangements designed to circumvent the rules. The legal services the practitioner is prohibited from engaging in with the invention-promoter include "but are not limited to, providing an opinion regarding the patentability of the client's invention, . . . registrability of a mark, preparing a patent or trademark application, and prosecuting a patent or trademark application." This rule has taken an aggressive stance against invention-promoters, and it would seem that the objective of this rule is already accomplished in PTO Rules 10.47(a) and (c) that prohibit aiding a non-practitioner and a non-attorney in the unauthorized practice of law, 10.49 which prohibits forming a partnership with a non-practitioner, and 10.48 which prohibit sharing legal fees with a non-practitioner. Additionally, the PTO has used Rules 10.62(a) (compromised professional judgment), 10.68(a)(1) (barring accepting compensation from a third party) and 10.77(c) (neglecting an entrusted legal matter) to sanction a practitioner, when employment with an invention-promoter compromised clients’

102. Rogan, supra note 72, at 69557.
103. Id. at 69496.
104. Id. at 69557.
interests. However, this rule does call attention to the growing problem of invention-promoters and by doing so, ensures proper notice and discourages practitioners from becoming involved with invention-promoters. In practice, a practitioner could write opinion letters of patentability of an invention for a promoter, but under this rule would be precluded from accepting that inventor as a client. While certainly an aggressive rule, it appears to accomplish its goal in an enforceable manner.

One provision of Rule 11.701 targets the actions of third parties and invention promoters by seeking to regulate "communications concerning a practitioner’s services." Although paragraph (a) applies to “a practitioner, or another on behalf of a practitioner,” it is questionable whether the PTO has jurisdiction over someone who is not registered to practice before the PTO. Largely modeled after ABA Model Rule 7.1, proposed Rule 11.701 includes subsection (b) and (c), which the ABA deleted from the current Model Rule 7.1. Subsection (b) and (c) relate to communications and advertising that might “create unjustified expectations about results” and that “compare the lawyer's services with other lawyer’s services, unless the comparison can be factually substantiated.” The necessity of including these provisions within 11.701 is questionable, given that enforcement would be largely subjective and advertising in itself does not directly involve practice before the PTO.

Other provisions of Rule 11.701 target the actions of third parties—specifically invention-promoters. Section 11.701 attempts to obtain jurisdiction over, or to control conduct of “another, on behalf of the practitioner.” Despite the PTO’s broad discretion in creating, interpreting and applying their own Rules of Professional Responsibility, attempts to regulate the actions of third parties that do not practice before the office could be held to step outside those bounds by the courts. Rules preventing a third party, such as an invention-promoter, from performing acts that a patent practitioner is prohibited from doing, however well intentioned, could be difficult to enforce. The PTO Code “can only govern the conduct of practitioners.” Furthermore, the sanctions only limit or exclude practitioners from practicing before the office and cannot provide

107. Rogan, supra note 72, at 69498.
108. Id. at 69558 (emphasis added).
110. Rogan, supra note 72, at 69559.
111. Id.
112. Id.
113. Letter from Dennis Archer, supra note 100, at 22.
meaningful sanctions against a third party directly.\textsuperscript{114} As such, these provisions should be further revised to expressly prohibit a practitioner from acting in accordance with a third party that conducts the prohibited activities. As far as preventing invention-promoters from performing or advertising patent prosecution services, state business codes might be a more effective way to prohibit the activity directly.

Proposed section 11.504 essentially combines current sections 10.48 and 10.49, into one rule regarding the professional independence of a practitioner.\textsuperscript{115} Rule 11.504 restates the current conditions prohibiting the partnership of a patent practitioner with a non-practitioner, but does not explicitly state that it pre-empts state law. Again, the PTO should explicitly state the intent to preempt state regulations within this rule to allow the valid and ethical business practice of patent attorneys and patent agents working in a partnership. Although, the scope of a patent attorney’s duties differs from those of a patent agent’s duties, there is no inherent conflict of interests that should preclude them from forming a partnership to represent a client.

V. CONCLUSION

For the most part, the current PTO Code of Professional Responsibility achieves its goal of regulating conduct to ensure the integrity of the practice before the PTO and to protect client’s interests. The rules accomplish this goal by providing notice of acceptable conduct to practitioners and deterring misconduct through disciplinary hearing and sanctions. However, the PTO must also be sensitive to unintentional interpretations of the rules that may adversely affect practitioner’s business practices. As a transactional practice, patent practitioners must rely on practitioner-client business relationships and business contracts for their livelihood, more so than litigation attorneys. In particular, small firms or solo practitioners that deal primarily with individual inventors could be adversely affected by some interpretations of the rules regarding disclosures to the client. Although vague rules may offer the PTO flexibility in interpretation and enforcement, this does not provide proper notice to practitioners as to the requirements of professional conduct. To reinforce the notice function of the PTO Code, the PTO should revise the rules to more clearly define ambiguous terms and avoid unnecessarily regulating ethical business practices that do not endanger the ethical

\textsuperscript{114} The third party could be excluded from any future practice before the PTO; however, if the invention-promoter has no intention of practicing before the PTO, this sanction might not have much direct effect on their business.

\textsuperscript{115} Rogan, \textit{supra} note 72, at 69557-58.
standards of the PTO or the clients' interests.

The PTO may have been trying to avoid conflict in avoiding questions of pre-emption by relying on a general preemption phrase that allows for preemption "only necessary to the extent to accomplish its Federal directives." However, by failing to analyze how ABA standards and PTO standards apply to patent practitioners, this has created even more conflicts. It seems inconsistent not to preempt state ethics rules in situations where the PTO has specifically contemplated and regulated business relationships and fee-arrangement standards. To maintain the full force and effectiveness of its Code of Professional Responsibility, the PTO needs to specifically call out which ABA standards it intends to preempt and rely on the general preemption phrase only as a catch-all exception for certain unforeseen situations. Since the PTO is given extremely broad discretion to regulate the professional conduct of practitioners, the PTO should carefully examine the business necessities of practitioners and avoid unduly burdening practitioners that engage in lawful, ethical practices. Additionally, since the courts defer to the PTO's interpretations of its own rules, there is little indication the courts would consider the unique business needs of patent practitioners in interpreting PTO and states' ethics rules. While several of the PTO's proposed rules seem to specifically target invention-promoter companies and the unique abuses by these entities, the PTO should guard against any potential adverse affects on patent practitioners.

One increasingly problematic issue has been fraudulent activities by invention-promoter companies. The current rules regulate such activity by sanctioning attorneys that contribute to these abuses. However, as demonstrated in Bender, such companies simply find other ways to continue their activities once specific practitioners have been excluded from practice. Although, the PTO's proposed rules offer creative ways in which to limit practitioner involvement with invention-promoters, federal and state regulations targeting abuses by such companies might be a better alternative. The PTO must stay within its bounds of regulating activities of practitioners that relate to practice before the office. Although additional proposed rules can call attention to abuses by invention-promoters, such rules cannot regulate the conduct directly. In attempting to regulate unscrupulous conduct, the PTO should be careful to consider the costs and burdens of patent prosecution. Over the past few decades, patent practitioners have developed innovative partnerships and fee-sharing arrangements, including the use of flat fees, contingent fees and royalties. Many of these arrangements are conducted ethically, and the PTO should be cognizant of creating proposed rules or interpreting current rules in a

manner that could prohibit ethical financial relationships that ultimately discourage innovation.

The PTO Code has performed a vital function in ensuring a minimum level of professional responsibility and ethics in the practice before it. Over the past few decades, many commentators have criticized the profession of law as becoming a business.\textsuperscript{117} A profession has been distinguished from a business by the extensive training, licensure, and code of ethics elevating it above the norms in the marketplace.\textsuperscript{118} Others have categorized the practice of law as a profession of public service.\textsuperscript{119} It is this dedication to a profession and awareness of the importance of adequate representation of a client that the PTO seeks to protect by enforcing its Code of Professional Responsibility. In revising its rules, the PTO should closely examine the business needs of today's practitioners and avoid unclear, inconsistent and needless regulation, while still maintaining a high level of professional responsibility among practitioners.

\textsuperscript{118} Matter of Freeman, 311 N.E. 2d 480, 483 (N.Y. 1974).
\textsuperscript{119} Roscoe Pound, \textit{The Lawyer From Antiquity to Modern Times}, 5 (1953).