3 Tex. Intell. Prop. L.J. 255

Texas Intellectual Property Law Journal
Spring, 1995

Note

FEDERAL OBJECTIVE OR COMMON LAW CHAMPERTY?--ETHICAL ISSUES REGARDING LAWYERS ACQUIRING AN INTEREST IN A PATENT

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I. Introduction

Undeniably, the goal of the U.S. patent system is to foster, reward and promote invention. Unfortunately, this goal is hindered by the sometimes prohibitive cost of actually obtaining a patent. Today it is not unheard of for the prosecution of a standard mechanical patent application to exceed $10,000. Furthermore, litigating a relatively-simple claim can be expected to exceed $250,000. The party most affected by this financial hurdle is the lone inventor. Forced to incur significant fees to even determine whether his invention is patentable, this party may decide to simply forego developing his new discovery.

The easiest solution to this problem is to allow a patent attorney simply to take an interest in a patent in exchange for his services with respect to that patent. This solution, however, raises additional concerns. The first is whether the patent attorney may ethically acquire this interest. Second, if obtaining an interest in a patent is ethically allowed, exactly what scope of work is permitted. The purpose of this note is to determine the range of activities for which a patent attorney ethically may acquire an interest in a patent as a condition of his services with respect to that patent.

The United States Constitution specifically grants Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Inventors the exclusive ***256** Rights to their respective Writings and Discoveries."[1] Congress has statutorily delegated the power to regulate the actions of individuals appearing before the Patent Office to the Commissioner of Patents.[2] As these regulations were enacted pursuant to Constitutional authority, they are part of the supreme "Law of the Land"[3] and thereby preempt state laws in areas where they conflict.[4]

These oft-cited sources certainly should not be a revelation to anyone, yet answering the question at hand is a bit more involved. Central to the decision whether a patent attorney may ethically acquire an interest in a patent is the determination as to which set of ethical rules governs the attorney's actions. For the Texas PTO-registered attorney, either the Texas Disciplinary Rules of Professional Conduct[5] (Texas Rules), the Patent and Trademark Office Code of Professional Responsibility[6] (PTO Rules), or both will apply.

This determination, in turn, is governed by the nature of the work being performed for the patent attorney's client. The best way to approach this problem is to begin by recognizing the nature of the interests authorized by the PTO Rules and the Texas Rules. Once armed with the knowledge of what the rules allow, the next step will be to ascertain the scope of activities to which each of the sets of rules applies.

As the following analysis will demonstrate, it is possible to delineate some specific actions which are controlled by a particular set of rules. In such areas, strong policy reasons will justify allowing a particular set of ethical rules to control. With other activities, however, no bright-lines have been drawn. While this analysis will present arguments for and against allowing a given set of rules to apply, Texas PTO-registered attorneys should be cautious when performing work in these areas.

II. A Brief Look at the Rules[7]

Simply stated, the Texas Rules and the PTO Rules exist on opposite sides of the spectrum with respect to whether a Texas PTO-registered attorney may ethically acquire an interest in a patent in exchange for his services with respect to that patent. Texas Rule 1.08(h) specifically ***257** prohibits an attorney from acquiring an interest in the subject matter of the litigation.[8] This view is not uncommon, since it is predicated upon the American Bar Association's Model Rule 1.8(j).[9]

In harmony with Texas Rule 1.08(h), PTO Rule 10.64 begins with essentially the same general prohibition.[10] The difference arises from PTO Rule 10.64(a)(3)'s unique exception to this general rule. Specifically, the rule provides that in a patent case, an attorney is permitted to acquire an interest in the patent in exchange for that attorney's services.[11] While certain formalities must be followed in order to ethically acquire this interest,[12] the PTO Rules essentially allow the Texas PTO-registered attorney to acquire a "stake" in the subject matter of the litigation.

To understand reasons for this divergence between the two sets of rules, one must reflect upon the fears and concerns which constitute their foundation. Texas Rule 1.08(h) originated in the common law doctrines of champerty and maintenance.[13] The essential fear in this case is that the possession of a proprietary interest in the subject matter of the litigation would interfere with a lawyer's duty to exercise independent judgment on behalf of his client.[14] This concern certainly is not without merit. The fact that an attorney has an interest in the litigation definitely raises some ethical concerns. While it is ultimately the client's decision to accept a settlement offer or determine the objectives of the representation,[15] it is naive to believe that the client's attorney is without influence.

On the other hand, the PTO Rules were designed specifically to further the goals of the United States patent system. The Supreme Court revisited these purposes in 1974 with its decision ***258** in *Kewanee Oil Co. v. Bicron Corp*.[16] According to the Court, the patent system seeks to foster and reward invention, promote the disclosure of invention, and ensure that ideas in the public domain remain there for the free use of the public.[17] The fact that PTO Rule 10.64(a) begins with the same general prohibition as Texas Rule 1.08(h) demonstrates that the Texas concerns are still present in the federal system. The difference, however, is that the specific goals of the patent system override the general concerns about a lawyer's independence.

After pausing to reflect upon this idea for a moment, one will soon agree with its reasoning. The alternative to the current PTO Rule would be to prohibit a patent attorney from acquiring an interest in a patent in exchange for his work with respect to that patent. The reality of this hypothetical situation is that the public would suffer, not the patent attorney. The patent attorney would simply not accept the representation of the indigent inventor and instead would represent a party who could

afford to pay for the lawyer's services. The public, on the other hand, would be harmed because this inventor's idea would consequently remain out of the public domain.

Furthermore, the dangers of a patent attorney acquiring an interest in a patent simply are not analogous to those associated with another attorney possessing an interest in the subject matter of his litigation for a client. Conceivably, a state-licensed attorney's interests could begin to diverge from that of the client with respect to the proper objectives of the litigation. The client is supposed to control the objectives of the representation, and co-ownership of the subject matter of litigation will likely cause friction between the client and his attorney. With a patent case, on the other hand, there really is only one objective. Regardless of who possesses an interest in the patent, the sole purpose of the representation is simply to further the goals of the patent system by obtaining a patent and thereby disclosing the new invention to the public. Therefore the PTO Rules have been drafted to allow a patent attorney to acquire such an interest.

III. Determining the Scope of the Rules

Now that the interests permitted by the Texas Rules and the PTO Rules have been identified, it is time to determine the specific activities to which each of these rules applies. Theoretically, a Texas PTO-registered attorney's activities could range from work entirely bound by the PTO Rules to work entirely bound by the Texas Rules. Delineating the point at which one set of rules ceases to control and the other takes over historically has not been an easy task.

A. Areas Delegated to the PTO Rules

A situation involving a Texas PTO-registered attorney engaged solely in prosecuting patents is perhaps the easiest scenario to analyze. The place to begin in this case is with the Model Rules of Professional Conduct for Federal Lawyers[18] (Federal Rules) which were adopted in 1990 ***259** by the Federal Bar Association.[19] While essentially a modification of the ABA Model Rules, these rules establish a guideline for lawyers engaged in the federal practice of law.

Federal Rule 8.5 states that a "Federal lawyer shall comply with the rules of professional conduct applicable to the Federal Agency that employs the Government lawyer or the Federal Agency before which the Federal lawyer practices."[20] As the PTO has adopted its own code of professional responsibility,[21] it follows that a Texas patent attorney engaged in pure patent prosecution is bound by the PTO rules and not the Texas Rules. Only if the PTO had not adopted its own rules of professional responsibility would the Texas patent attorney be bound by the Texas Rules.[22]

Thus, a lawyer practicing before the PTO should follow the PTO Rules, and thereby could ethically acquire a proprietary interest in the patent in exchange for his work prosecuting that patent. However, a patent attorney does more than prosecute patents before the PTO. Antecedent to the actual prosecution of the patent a significant amount of preparatory research and effort must be performed. Which set of ethical rules should govern the patent attorney during this time period? What about when the attorney drafts a patentability opinion? An amendment to an existing patent? A license of an existing patent?

Fortunately, the United States Supreme Court created the foundation for determining the answers to these questions in 1963 with its unanimous decision in *Sperry v. Florida ex. rel. Florida Bar*.[23] In *Sperry*, the Florida State Bar sought to enjoin Sperry from practicing as a patent agent in the state.[24] Sperry was registered to practice before the Patent Office, but was not licensed to practice in Florida, or any other state.[25] In addition to practicing before the Patent Office, Sperry maintained an office in Florida, advertised as a patent attorney in the state, issued patentability opinions, and prepared and filed "various legal instruments including applications and amendments to applications for letters patent."[26] The Supreme Court of Florida permanently enjoined Sperry from engaging in these activities in the State of Florida until he became a member of the Florida State Bar.[27]

The United States Supreme Court reversed the decision of the Florida Supreme Court, holding that "[n]o state law can hinder or obstruct the free use of a license granted under an act of Congress."[28] According to Justice Warren:
***260** A State may not enforce licensing requirements which, though valid in the absence of federal regulation, give 'the State's licensing board a virtual power of review over the federal determination' that a person or agency is qualified and entitled to perform certain functions, or which impose upon the performance of activity sanctioned by federal license additional conditions not contemplated by Congress.[29]
Thus, according to the Court, Sperry was not required to be licensed in the state of Florida in order to engage in actions which are "necessary and incident to the preparations and prosecution of patent applications" before the Patent Office.[30]

Admittedly, the *Sperry* decision begins to pave the road towards determining when the PTO Rules trump the Texas Rules. Unfortunately, a considerable amount of gray area still remains. The fact that Sperry was a patent agent and not a patent attorney only further contributes to the lack of conclusions which can be drawn at this point. The primary reason for continued uncertainty, however, is that Justice Warren avoided deciding the scope of activities authorized by the PTO.[31] While he agreed that rendering patentability opinions is within the scope of activities incidental to preparing patent applications, he refrained from further defining the range of activities within the scope of *Sperry*.[32]

Just five years after the *Sperry* decision, however, the Fifth Circuit was faced with *Silverman v. State Bar of Texas*,[33] a case even more on point to the issue at hand. While *Sperry* involved a patent agent who was not licensed to practice in any state,[34] *Silverman* dealt with a Texas PTO-registered attorney.[35] The sole issue in *Silverman* was whether this attorney was bound by the Texas Rules or the PTO Rules with respect to advertising.[36]

The Fifth Circuit reversed the district court's decision which upheld Opinion 289 of the Texas State Bar.[37] Opinion 289 purported to bind the Texas Patent Attorney to the Texas Rules unless he limited his practice solely to the scope of practicing patents.[38] In reaching its decision, ***261** the district court held that a license to practice in front of the PTO is a license limited only to "those services necessary to the accomplishment of the federal objectives of the patent system."[39] These objectives were limited to preparing and amending patents, as well as issuing patentability opinions.[40] Essentially, this comprised the activities within the scope of practice of a patent agent.[41] A patent attorney's practice, however, was determined to exceed these federal objectives, and therefore was bound by the Texas Rules.[42]

In reversing the district court's opinion, the Fifth Circuit held that an "attorney engaged in patent practice is obviously, inescapably, and inseparably performing within a field committed by the Constitution to the regulation of the general government."[43] Therefore, it simply did not make sense to the court to bind a patent agent to the PTO Rules, yet force a patent attorney to abide by the Texas Rules.[44] Thus, when performing any of the aforementioned activities, Silverman, a Texas PTO-registered attorney, was bound by the PTO Rules instead of the Texas Rules.[45] In support of this decision, the Fifth Circuit argued that it was a legitimate objective of Patent Law that "every registered patent attorney may make known his specialty in the manner prescribed in the PTO Rules ."[46] Today, Texas Rule 7.04 explicitly allows a Texas PTO-registered attorney to advertise with respect to this specialized area of practice.[47]

***262** After *Silverman*, it appears clear that as a bare minimum, the PTO Rules trump the Texas Rules with regards to issuing patentability opinions, preparing patent applications, and preparing amendments to patent applications. Admittedly, *Silverman* dealt with an ethics opinion of the Texas State Bar while the issue at hand involves one of the Texas Rules. Nonetheless, the result should be the same since the Texas Bar Rules are "at least quasi-statutory and have the same legal effect as Texas Rules of Civil Procedure."[48] In fact, in *Silverman*, the Texas State Bar conceded that "its rules have the force and effect" of statutes in Texas.[49]

More importantly, each PTO Rule involved in the preceding cases has a legitimate federal objective to justify preempting its respective Texas Rule. In *Silverman*, it was the need for individuals to be able to readily locate patent attorneys;[50] in the question at hand, the preemption of the Texas Rules is justified by three of the most basic and salient purposes of the Patent Code.[51] Simply stated, these rules are designed to foster and reward invention, promote the disclosure of invention, and assure that ideas in the public domain remain there for the free use of the public.[52] By allowing the PTO Rules to govern these activities, the public will not be denied access to a useful invention simply because the inventor is without means to pay for the patenting process. The inventor may simply exchange an interest in the patent for the services of a patent attorney.

B. Areas Reserved to the States

The preceding analysis makes it clear that those activities which are "necessary and incident to the preparation and prosecution of patent applications"[53] are controlled by the PTO Rules. The activities falling within this domain essentially encompass all of a Texas PTO-registered attorney's efforts to obtain a patent for a client. Therefore, to find an area controlled by the Texas Rules, it is necessary to look beyond the acquisition of the patent. In this area, the following analysis will reveal that most of the activities are controlled by the Texas Rules.

To begin, it must be remembered that a patent realistically does not enable its owner to do anything with the claimed invention.[54] While a patent authorizes its holder to prevent another from making, using, or selling the patented invention for a

period of seventeen years,[55] it does not specifically authorize the patent holder to manufacture, utilize, or sell the patented item.[56]

***263** If the claimed invention incorporates elements of a patent owned by a party other than the inventor, the inventor needs to acquire a license to use this component of his invention. Accordingly, a license agreement essentially functions as "a mere waiver of the right to sue."[57] Only when the inventor obtains the right to make, use, or sell all of the patented component parts of an invention may the new invention be legally marketed, used or sold.[58]

It is with respect to contractual agreements such as licensing another to use an existing patent that the first area of state law control is discovered. The United States Supreme Court established the foundation for determining the scope of this control in *Aronson v. Quick Point Pencil Co*.[59] In *Aronson*, while her patent application was pending, Aronson gave an exclusive license to a manufacturer in exchange for an agreed upon royalty.[60] In the event that the patent application was not approved in five years, the license agreement provided that the royalty would be reduced by half.[61] The patent was not issued in the predetermined time period.[62] Fourteen years later, the manufacturer attempted to obtain a declaratory judgment that the contract was unenforceable because of federal preemption of the applicable state law.[63]

The Supreme Court reversed the Eighth Circuit's opinion[64] which held the license agreement to be invalid as being contrary to the patent system's policy of favoring "the full and free use of ideas in the public domain."[65] In reversing the Court of Appeals, Chief Justice Burger held:

> Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.[66]

The Court proceeded to analyze the license agreement in order to determine whether it was "an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[67] Chief Justice Burger concluded that Aronson's agreement was not inconsistent with any of these aims.[68]

***264** Thus, the decision whether an activity is governed by the Texas Rules or the PTO Rules again comes down to the underlying goals of the patent system. If the state law does not hinder the fulfillment of the objectives of the patent system, *Aronson* indicates that the state law governs.[69] In light of the *Aronson* decision, it appears that contractual agreements with respect to a patent would be governed by the Texas Rules. Therefore a Texas PTO-registered attorney would be prohibited from acquiring an interest in the patent in exchange for his services in this area. The question to answer now is the breadth of these "commercial agreements."[70]

While the Supreme Court has been relatively silent on this issue since its decision in *Aronson*, the Federal Circuit has further defined the scope of state control on several different occasions. Specifically, state laws have been held to govern in areas of contract interpretation[71] as well as in the settlement of patent infringement claims.[72] Since Texas law would govern in these areas, a Texas PTO-registered attorney should not acquire an interest in a patent in exchange for his commercial endeavors with respect to that patent.

In these areas of state control, allowing a Texas PTO-registered attorney to acquire an interest in the patent gives rise to the same fears which the Texas Rules were designed to allay. By not allowing a Texas PTO-registered attorney to get into such situations in the first place, the possibility of such a conflict of interests arising is eliminated. Furthermore, an argument can be made that the need to allow a Texas PTO-registered attorney to acquire an interest in a patent simply is not present in these situations. The inherent concern which justified allowing the attorney to take an interest in the patent was the fear that society would be deprived of new and useful inventions. In the case of a patent contract or license, the patent has already been obtained. Therefore, the public already has knowledge of the claimed invention. It follows that if society values the new invention, the fact that the inventor is without means should not be a detriment to accomplishing the desired result. Thus the patent system's objectives are not hindered by this result.

***265 C. The Middle Ground**

Despite the numerous areas which appear to be clearly within the scope of either the Texas Rules or the PTO Rules, some gray areas still exist. For instance, a question arises as to whether the PTO Rules govern more activities than have been discussed thus far. In *Silverman*, the court specifically noted that the patent attorney's activities greatly exceeded those of a

patent agent.[73] The nature of the attorney's specific activities is unclear, however, since the district court's opinion was not published. This uncertainty is only increased by the fact that Texas has not further defined those activities which it concedes are controlled by the PTO Rules. Unfortunately, the PTO also has not published an opinion as to the precise scope of activities which are controlled by the PTO Rules.

In the early 1970's the New Jersey Supreme Court Committee on Unauthorized Practice attempted to answer this question.[74] It seems logical that a state would not concede more power than it was absolutely certain it could not possess. This is exactly the holding of the New Jersey opinions. They agreed that the state had no control over those activities necessary and incidental to the preparation and prosecution of patents, but were quick to draw the line at that point.[75]

The areas a Texas PTO-registered attorney needs to be most cautious about are those that appear to be governed by the PTO Rules, but which could give rise to work which is bound by the Texas Rules. A chief source of this problem is the fact that state law has been determined to govern the settlement of patent infringement claims.[76] As an illustration, it is entirely plausible that a Texas PTO-registered attorney could agree to prosecute a patent for a client in exchange for an interest in that patent. Should the acquired patent later give rise to a claim of patent infringement, it only follows that the client would want to continue to use his attorney who is already familiar with the claimed invention. Where the attorney gets in trouble is when he agrees to represent the client in the infringement action in exchange for an interest in the patent. This agreement in itself does not appear to violate the preceding analysis. As soon as any mention of settling the infringement action arises, however, the attorney's actions would become governed by the Texas Rules instead of the PTO Rules. This single example should be sufficient to demonstrate how the rules which govern a Texas PTO-registered attorney's actions can quickly vary.

Another area of uncertainty pertains to a patentee's rights when a license agreement is breached in a manner which arguably constitutes infringement of the associated patent.[77] Should the patentee sue for breach of contract or for patent infringement? In one situation, the Texas Rules would appear to govern,[78] while the other would be controlled by the PTO Rules. Such apparent forum shopping should cause the Texas PTO-registered attorney to proceed with caution. The best advice is not to acquire an interest in the patent in exchange for this representation. First of all, any ***266** recovery in this case should yield a monetary settlement from which any attorney's fees could be paid. Second, the interests of the patent system are not at all advanced by allowing this sort of forum shopping.

IV. Conclusion

While some degree of gray area remains, the preceding study has uncovered some definite differences between the Texas Rules and the PTO Rules. The PTO Rules clearly trump the Texas Rules with respect to all activities "necessary and incident to the preparation and prosecution of patents."[79]

According to the Fifth Circuit's opinion in *Silverman*, federal preemption covers more than the mere drafting, amending, and prosecuting of the patent application. *Silverman* clearly authorized the Texas PTO-registered attorney to follow the PTO Rules with respect to advertising. In other areas where the PTO Rules and Texas Rules come into conflict, the central deciding factor is whether there is a valid PTO interest to justify the preemption. Attorneys wishing to argue that the PTO Rules control other actions which would be otherwise barred by the Texas Rules should be certain that a valid federal objection exists to support their argument.

In contractual matters, however, the established precedent states that the Texas Rules govern.[80] A Texas PTO-registered attorney needs to be aware of these areas of state control when agreeing to represent a client. To prevent future ethical conflicts, the attorney wishing to acquire an interest in a patent in exchange for his services should clearly state in the attorney-client contract that his services do not include any of the aforementioned contractual matters. For these matters, a separate provision should establish a fee schedule or other allowable method of payment for activities controlled by the Texas Rules.

Finally, for situations which do not fall neatly into any of the clearly defined areas, a Texas PTO-registered attorney should proceed with caution. Perhaps the best indicator as to which rules govern the activity can be obtained by considering how that activity affects the aforementioned purposes of the United States Patent System. Unless it is absolutely necessary, why risk possible disciplinary action and loss of any compensation by acquiring an interest in a patent when it is possible to obtain payment through a normal fee agreement?

*267 V. Appendix A: A Detailed Analysis of the Applicable Rules

Both the Texas Rules and the PTO Rules are predicated upon the American Bar Association's Model Rules of Professional Conduct (Model Rules). Therefore the easiest way to understand the Texas Rules and PTO Rules is by understanding the rules from which they were derived. Once this foundation is understood, any deviations from these Model Rules can be easily recognized and discussed.

A. The American Bar Association Model Rules of Professional Conduct

The Model Rules, as amended in February 1994, are divided into eight sections. These sections are as follows:

I.	Client-Lawyer Relationship
II.	Counselor
III.	Advocate
IV.	Transactions with Persons Other Than Clients
V.	Law Firms and Associations
VI.	Public Service
VII.	Information About Legal Services
VIII.	Maintaining the Integrity of the Profession[81]

It is the section defining the client-lawyer relationship which discusses the allowable interests and liens which a lawyer may acquire in the subject matter of his work for a client. Specifically, Model Rule 1.8(j)[82] defines the bounds of this issue.

Model Rule 1.8(j) begins by restating the historical rule that a lawyer may not obtain an interest in the subject matter of his work for a client.[83] This general rule originated in common law champerty and maintenance,[84] and is virtually unchanged from its predecessor Model Code[85] ***268** version.[86] Model Rule 1.8(j) subsequently provides two exceptions to this general prohibition. Under these rules, a lawyer has not acted unethically if he obtains a lien granted by law on the subject matter of the litigation to guarantee payment of his fee or if he enters into a contingent fee agreement with his client.[87] While the general rule is relatively straightforward, the exceptions to this rule are more involved.

The critical issue raised by the first exception is determining what liens are "granted by law."[88] It is with respect to this issue that individual states differ most vividly.[89] Liens granted by law include judicial liens, statutory liens, retaining liens, and charging liens.[90] Contractual liens and security interests, however, do not fall within this relatively broad group and therefore may not be used to enable an attorney to obtain a "proprietary interest in the subject matter of the litigation."[91]

In order to acquire a security interest or other contractual lien in the subject matter of the litigation, an attorney must carefully follow the provisions of Model Rule 1.8(a).[92] Remember, however, that these liens are not granted by law and therefore cannot be obtained in the "cause of action or subject matter of the litigation."[93]

Finally, when entering into a contingent fee agreement with a client, an attorney needs to carefully abide by Model Rules 1.5(c)[94] and 1.5(d)[95] in order to avoid disciplinary action. Model ***269** Rule 1.5(c) essentially requires a detailed written agreement which specifies when and by what method all fees and deductions will be calculated. Model Rule 1.5(d) on the other hand, prohibits the use of contingent fee agreements in domestic relations or criminal defense matters.

B. The Texas Disciplinary Rules of Professional Conduct

The Texas Rules became effective January 1, 1990. The rules are mandatory in nature,[96] replacing the Texas Code of

Professional Responsibility which was more aspirational and discretionary in nature.[97] Texas Rule 1.08(h) is essentially identical to Model Rule 1.8(j).[98] Similarly, Texas Rule 1.08(h) is subject to the same exceptions with respect to liens granted by law[99] and contingent fee agreements.[100] Additionally, Texas is extremely leery of allowing an attorney to secure his fee by acquiring a lien on the subject matter of the litigation.[101] This is evidenced by the fact that Texas has no statutory retaining or charging lien.[102]

Thus, in harmony with the Model Rules and other forty-nine states, Texas generally prohibits an attorney from acquiring an interest in the subject matter of the litigation.[103] Furthermore, acquiring an interest in a patent simply does not fall within either of the exceptions to this general rule. It is therefore clear that the Texas Rules do not permit a Texas PTO-registered attorney to acquire an interest in a patent in exchange for his services with respect to that patent.

***270 C. The Patent and Trademark Office Code of Professional Responsibility**

Analysis of this question under the PTO Rules is fairly straight-forward. The PTO Rules are organized into nine canons,[104] similar to the original ABA Model Code of Professional Responsibility. Each canon is followed by a series of disciplinary rules which "are mandatory in character and state the minimum level of conduct below which no practitioner can fall without being subjected to disciplinary action."[105] The portion of the PTO Rules pertinent to the question at hand is Canon 5.[106] Section 10.64(a) of Canon 5 is the equivalent of Model Rule 1.8(j), with one very important exception. Section 10.64(a) provides:

A practitioner shall not acquire a proprietary interest in the subject matter of a proceeding before the Office which the practitioner is conducting for a client, except that the practitioner may:

(1) Acquire a lien granted by law to secure the practitioner's fee or expenses; or

(2) Contract with the client for a reasonable contingent fee; or

(3) *In a patent case, take an interest in the patent as part or all of his or her fee*.[107]

It is the third exception which is unique to the PTO Rules. Under this provision, it is possible for a patent attorney to obtain a "stake" in the subject matter of his work for a client.

A patent attorney seeking to acquire an interest in a patent in exchange for his services with respect to that patent must be sure to comply with section 10.65 in order to avoid possible disciplinary action.[108] Therefore, it is necessary to discuss with a client the intended scope of licensing, further appeals, and intended use of the patent prior to the commencement of the ***271** agreement. Furthermore, written records should be made of this discussion and of the client's informed consent, in order to preserve the agreement in case a dispute arises at a later date.[109]

Finally, one should note that the District of Columbia Bar issued an ethics opinion which prohibits agreements that assign all patent rights to the attorney with the condition that they be reassigned to the client upon his payment of the attorney's fees.[110]

Footnotes

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1 U.S. CONST. art. I, § 8, cl. 8.

2 Section 31 of Title 35 of the United States Code provides:
The Commissioner, subject to the approval of the Secretary of Commerce, may prescribe regulations governing the recognition and conduct of agents, attorneys, or other persons representing applicants or other parties before the Patent and Trademark Office, and may require them, before being recognized as representatives of applicants or other persons, 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.

35 U.S.C. § 31 (1988 and Supp. 1995).

[3] U.S. CONST. art. VI, cl. 2.

[4] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229, 140 U.S.P.Q. (BNA) 524, 527 (1964).

[5] TEX. DISCIPLINARY R. PROF. CONDUCT (1990), *reprinted in* TEX. GOV'T CODE ANN., tit. 2, subtit. G app. A, (Vernon Supp. 1995) (STATE BAR RULES art. X, § 9).

[6] 37 C.F.R. §§ 10.20-10.129 (1994).

[7] For a detailed analysis of the Texas Rules and PTO Rules with respect to this issue, see Appendix A.

[8] Texas Rule 1.08(h) provides:
A lawyer shall not acquire a proprietary interest in the cause of action or subject matter of litigation the lawyer is conducting for a client, except that the lawyer may:
(1) acquire a lien granted by law to secure the lawyer's fee or expenses; and
(2) contract in a civil case with a client for a contingent fee that is permissible under Rule 1.04 [regarding attorney fees].
TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h) (1994); *see infra* note 98.

[9] MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8(j) (1994); *see infra* note 82.

[10] 37 C.F.R. § 10.64(a) (1994).

[11] 37 C.F.R. § 10.64(a)(3) (1994).

[12] 37 C.F.R. § 10.65 (1994) ("A practitioner shall not enter into a business transaction with a client if they have differing interests therein and if the client expects the practitioner to exercise professional judgment therein for the protection of the client, unless the client has consented after full disclosure.").

[13] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08 cmt. 7 (1994).

[14] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h) (1994).

[15] Texas Rule 1.02(a) provides in relevant part:
(1) concerning the objectives and general methods of representation;
(2) whether to accept an offer of settlement of a matter, except as otherwise authorized by law[.]
TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.02(a) (1994).

[16] 416 U.S. 470, 181 U.S.P.Q. (BNA) 673 (1974). *See also* Tone Bros., Inc. v. Sysco Corp., 28 F.3d 1192, 1198, 31 U.S.P.Q.2d (BNA) 1321, 1324-25 (Fed. Cir. 1994).

[17] *Id*. at 480-481, 181 U.S.P.Q. at 678.

[18] MODEL RULES OF PROFESSIONAL CONDUCT FOR FEDERAL LAWYERS (1990).

[19] *Id*.

[20] MODEL RULES OF PROFESSIONAL CONDUCT FOR FEDERAL LAWYERS Rule 8.5(a) (1990).

[21] *See supra* note 6.

[22] MODEL RULES OF PROFESSIONAL CONDUCT FOR FEDERAL LAWYERS Rule 8.5(b) (1990) ("If the Federal Agency has not adopted or promulgated rules of professional conduct, the Federal lawyer shall comply with the rules of professional conduct of the state bars in which the Federal lawyer is admitted to practice.").

[23] 373 U.S. 379, 137 U.S.P.Q. (BNA) 578 (1963).

[24] *Id*. at 381, 137 U.S.P.Q. at 579.

[25] *Id*.

[26] *Id*.

[27] *Id*. at 382, 137 U.S.P.Q. at 579.

[28] *Id*. at 385, 137 U.S.P.Q. at 580 (quoting Pennsylvania v. Wheeling & Belmont Bridge Co., 54 U.S. (13 How.) 518, 566 (1851)).

[29] *Id.*, 137 U.S.P.Q. at 580.

[30] *Id*. at 386, 137 U.S.P.Q. at 581.

[31] Footnote 47 reads as follows:
Because of the breadth of the injunction issued in this case, we are not called upon to determine what functions are reasonably within the scope of the practice authorized by the Patent Office. The Commissioner has issued no regulations touching upon this point. We note, however, that a practitioner authorized to prepare patent applications must of course render opinions as to the patentability of the inventions brought to him, and this it is entirely reasonable for a practitioner to hold himself out as qualified to perform his specialized work, so long as he does not misrepresent the scope of his license.
Id. at 402 n.47, 137 U.S.P.Q. at 588 n.47.

[32] *Id.*, 137 U.S.P.Q. at 587.

[33] 405 F.2d 410, 160 U.S.P.Q. (BNA) 171 (5th Cir. 1968).

[34] 373 U.S. at 381, 137 U.S.P.Q. at 579.

[35] 405 F.2d at 411, 160 U.S.P.Q. at 171-72.

[36] *Id*. at 412, 160 U.S.P.Q. at 172.

[37] *Id*. at 411, 160 U.S.P.Q. at 171.

[38] *Id*. at 412, 160 U.S.P.Q. at 172. Opinion 289 of the Texas State Bar reads as follows:
A registered U.S. Patent Attorney may list himself as a Patent Attorney in the classified or city directory or in any other manner permitted by pertinent patent regulations, if he limits his practice to the scope of his license from the U.S. Patent Office; but the Registered U.S. Patent Attorney who also practices law under or by reason of his Texas license may not list himself or his qualifications on letterheads or in a telephone directory or in any other way forbidden to other Texas lawyers. Except as provided in Canons 39 and 42 and the pertinent interpretative opinions, the fact that the scope of one's practice is influenced by the existence of a limited-license from another source such as the U.S. Patent Office is immaterial and may not be used as the basis of any direct or indirect solicitation or advertisement. ... Thus the one who holds both a limited license from the Federal agency and a general license from the State of Texas has no problem if he limits his practice to the scope of his limited license. ... But if he wishes to practice under his general state license, he must conform to state standards, and this means that all 'specialists' are handled as general practitioners (Canon 41) and that as a Texas lawyer he cannot hold himself out by means of letterheads, calling cards, office sign, etc., as having any special talents or qualifications.
Id. (quoting Tex. Comm. on Interpretation of the Canons of Ethics, Op. 289 (1959)).

[39] *Id*. at 414, 160 U.S.P.Q. at 174.

[40] *Id*.

[41] *Id*.

[42] *Id*.

[43] *Id*.

[44] *Id*. ("We can detect no logic in the idea that while the lesser activity is to enjoy the protection to be derived from the federal statutory scheme the major function may not.").

[45] *Id*.

[46] *Id*. at 415, 160 U.S.P.Q. at 174.

[47] Texas Rule 7.01(b) provides in pertinent part:
(a) A lawyer shall not advertise publicly that the lawyer is a specialist, except as permitted under Rule 7.01(c) or as follows:
(1) A lawyer admitted to practice before the United States Patent Office may use the designation "Patents," "Patent Attorney," or "Patent Lawyer," or any combination of those terms. A lawyer engaged in the trademark practice may use the designation "Trademark," "Trademark Attorney," or "Trademark Lawyer," or any combination of those terms. A lawyer engaged in patent and trademark practice may hold himself or herself out as specializing in "Intellectual Property Law," "Patents, or Trademarks and Related Matters," or "Patent, Trademark, Copyright Law and Unfair Competition," or any of those terms.
TEX. DISCIPLINARY R. PROF. CONDUCT Rule 7.04 (1994).

[48] 405 F.2d. at 412, 160 U.S.P.Q. at 172.

[49] *Id*. at 414, 160 U.S.P.Q. at 173-174.

[50] 405 F.2d at 414, 160 U.S.P.Q. at 174 (the Fifth Circuit felt it would be an overwhelming burden if one had to call attorney after attorney in order to locate a patent attorney).

[51] 35 U.S.C. §§ 1-376 (1988 and Supp. 1995).

[52] *See supra* note 17.

[53] *Sperry*, 373 U.S. at 381, 137 U.S.P.Q. at 579.

[54] Waterbury Buckle Co. v. G. E. Prentice Mfg. Co., 286 F. 358, 360 (2nd Cir. 1922) ("A patent is not a grant of a right to make, use, or sell. It does not directly or indirectly imply any such right. It grants only the right to exclude others.").

[55] The patent term will soon be extended to 20 years from the date of application, subject to the terms of the URUGUAY ROUNDS AGREEMENT ACT. *See* 108 Stat. 4984 (1995).

[56] 35 U.S.C. § 154(a)(1) (1988).

[57] General Talking Pictures Corp. v. Western Electric Co., 304 U.S. 175, 181 (1938) (quoting De Forest Radio Tel. & Tel. Co. v. United States, 273 U.S. 236, 242 (1927)).

[58] 35 U.S.C. § 271(a) (1988) ("Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefore, infringes the patent.").

[59] 440 U.S. 257, 201 U.S.P.Q. (BNA) 1 (1979).

[60] *Id*. at 259, 201 U.S.P.Q. at 3.

[61] *Id*.

[62] *Id*. at 260, 201 U.S.P.Q. at 3.

[63] *Id.*, 201 U.S.P.Q. at 4.

[64] 567 F.2d 757, 196 U.S.P.Q. (BNA) 281 (8th. Cir. 1977).

[65] 440 U.S. at 261, 201 U.S.P.Q. at 4.

[66] *Id*. at 262, 201 U.S.P.Q. at 4.

[67] *Id.*, 201 U.S.P.Q. at 4 (quoting Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479; 181 U.S.P.Q. 673, 678).

[68] *Id*. at 262-263, 201 U.S.P.Q. at 4-5. The Chief Justice argued:
Enforcement of Quick Point's agreement with Mrs. Aronson is not inconsistent with any of these aims. Permitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention. Similarly, encouraging Mrs. Aronson to make arrangements for the manufacture of her [invention] furthers the federal policy of disclosure of inventions. ...
Enforcement of the agreement does not withdraw any idea from the public domain. ...
Finally, enforcement of this agreement does not discourage anyone from seeking a patent.
Id.

[69] *Id*. at 262, 201 U.S.P.Q. at 4.

[70] *See supra* note 66.

[71] American Medical Sys., Inc. v. Medical Eng'g Corp., 6 F.3d 1523, 1532, 28 U.S.P.Q.2d (BNA) 1321, 1327 (Fed. Cir. 1993) (state law controls not only in matters of contracts, but also the interpretation of said contracts).

[72] S & T Mfg. Co., Inc. v. County of Hillsborough 815 F.2d 676, 678, 2 U.S.P.Q.2d (BNA) 1280, 1281 (Fed. Cir. 1987) (state contractual law governs settlement agreements with respect to patent infringement claims); Sun Studs, Inc. *v*. Applied Theory Assoc., Inc. 772 F.2d 1557, 1560-61, 227 U.S.P.Q. (BNA) 81, 83-84 (Fed. Cir. 1985); Power Lift, Inc. v. Weatherford Nipple-up Sys., Inc. 871 F.2d 1082, 1085, 10 U.S.P.Q.2d (BNA) 1464, 1466 (Fed. Cir. 1989); *see also* Florida Educ. Ass'n, Inc. v. Atkinson, 481 F.2d 662, 663 (5th Cir. 1973).

[73] 405 F.2d at 414, 160 U.S.P.Q. at 174.

[74] *See* N.J. Comm. on Unauthorized Practice, Formal Op. 9 (1972) and Formal Op. 7 (1971).

[75] *Id*.

[76] *See supra* note 72.

[77] For a more complete discussion of this issue, see Phillip B.C. Jones, *Violation of a Patent License Restriction: Breach of Contract or Patent Infringement?*, 33 IDEA: J.L. & Tech. 225 (1993).

[78] *See supra* note 72.

[79] *See supra* note 30.

[80] *See supra* notes 71 and 72.

[81] MODEL RULES OF PROFESSIONAL CONDUCT (1994).

[82] Model Rule 1.8(j) provides:
A lawyer shall not acquire a proprietary interest in the cause of action or subject matter of litigation the lawyer is conducting for a client, except that the lawyer may:
(1) acquire a lien granted by law to secure the lawyer's fee or expenses; and
(2) contract with a client for a reasonable contingent fee in a civil case.
MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8(j) (1994).

[83] *Id*.

[84] MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8, Official Comment 6 (1994).

[85] In 1983, the American Bar Association adopted the Model Rules of Professional Responsibility as a replacement for the Model Code of Professional Responsibility. *See* JOHN S. DZIENKOWSKI, SELECTED STATUTES, RULES AND STANDARDS ON THE LEGAL PROFESSION, p. 237 (1994).

[86] MODEL CODE OF PROFESSIONAL RESPONSIBILITY DR 5-103(A) (1983).

[87] MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8(j) (1994).

[88] MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8(j)(1) (1994).

[89] As an example, thirteen states statutorily provide for both retaining and charging liens, twenty have only codified charging liens, while the remaining seventeen states and the District of Columbia authorize no statutory attorney's liens. Texas is among the latter group of states. *See* ABA/BNA LAWYER'S MANUAL ON PROFESSIONAL CONDUCT, 41:2102 (1992).

[90] *See* Marcia L. Proctor, *Clarifying Liens*, 73 MICH. B.J. 690 (1994).

[91] *Id*.

[92] Model Rule 1.8(a) provides:
A lawyer shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to the client unless:
(1) the transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing to the client in a manner which can be reasonably understood by the client;
(2) the client is given a reasonable opportunity to seek the advice of independent counsel in the transaction; and
(3) the client consents in writing thereto.
MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.8(a) (1994).

[93] *See supra* note 8.

[94] Model Rule 1.5(c) reads as follows:
A fee may be contingent on the outcome of the matter for which the service is rendered, except in a matter in which a contingent fee is prohibited by paragraph (d) or other law. A contingent fee agreement shall be in writing and shall state the method by which the fee is to be determined, including the percentage or percentages that shall accrue to the lawyer in the event of settlement, trial or appeal, litigation and other expenses to be deducted from the recovery, and whether such expenses are to be deducted before or after the contingent fee is calculated. Upon conclusion of a contingent fee matter, the lawyer shall provide the client with a written statement stating the outcome of the matter and, if there is a recovery, showing the remittance to the client and the method of its determination.
MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.5(c) (1994).

[95] Model Rule 1.5(d) provides:
A lawyer shall not enter into an arrangement for, charge, or collect:
(1) any fee in a domestic relations matter, the payment or amount of which is contingent upon the securing of a divorce or upon the amount of alimony or support, or property settlement in lieu thereof; or

(2) a contingent fee for representing a defendant in a criminal case.
MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.5(d) (1994).

[96] TEX. DISCIPLINARY R. PROF. CONDUCT Preamble, Scope, at ¶10 (1994) ("Rules are imperatives cast in terms of 'shall' or 'shall not.'").

[97] *See* John B. Sales, *The Texas Disciplinary Rules of Professional Conduct: A Model to Replace the Outdated Texas Code of Professional Responsibility*, 52 TEX. B.J. 388, 388 (1989).

[98] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h) (1994).

[99] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h)(1) (1994); *See supra* note 14.

[100] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h)(2) (1994) (Subject to Texas Rules 1.04(d) and 1.04(e), the Texas analogs to Model Rules 1.5(c) and 1.5(d)).

[101] *See* J. Lindsey Short, Jr. & Lynne Little St. Leger, *You've Earned It ... Now How Do You Collect?*, 11-FALL FAM. ADVOC. 26 (1988).

[102] ABA/BNA LAWYER'S MANUAL ON PROFESSIONAL CONDUCT, 41:2102 (1992).

[103] TEX. DISCIPLINARY R. PROF. CONDUCT Rule 1.08(h) (1994).

[104] The nine canons are codified in 37 C.F.R. §§ 10.21-110 as follows:

§ 10.21-Canon 1:	A practitioner should assist in maintaining the integrity and competence of the legal profession.
§ 10.30-Canon 2:	A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available.
§ 10.46-Canon 3:	A practitioner should assist in preventing the unauthorized practice of law.
§ 10.56-Canon 4:	A practitioner should preserve the confidences and secrets of a client.
§ 10.61-Canon 5:	A practitioner should exercise independent professional judgment on behalf of a client.
§ 10.76-Canon 6:	A practitioner should represent a client competently.
§ 10.83-Canon 7:	A practitioner should represent a client zealously within the bounds of the law.
§ 10.100-Canon 8:	A practitioner should assist in improving the legal system.
§ 10.110-Canon 9:	A practitioner should avoid even the appearance of professional

impropriety.

37 C.F.R. §§ 10.21-10.110 (1994).

105 37 C.F.R. § 10.20(b) (1994).

106 37 C.F.R. § 10.61 (1994).

107 37 C.F.R. § 10.64(a) (1994) (emphasis added).

108 37 C.F.R. § 10.65 (1994) ("A practitioner shall not enter into a business transaction with a client if they have differing interests therein and if the client expects the practitioner to exercise professional judgment therein for the protection of the client, unless the client has consented after full disclosure.").

109 For a general discussion of important issues which must be considered before entering into a contingent fee agreement with respect to intellectual property cases, as well as sample forms for such agreements, see William E. Jackson, *Contingent Fee Representation in Intellectual Property Cases*, 1 U. BALT. INTELL. PROP. L.J. 207 (1993).

110 District of Columbia Bd. on Professional Responsibility, Formal Op. 195 (1988).