AIPLA

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
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April 6, 2007

Koichi Sato
Director, Legal Department, Secretariat
Japan Patent Attorneys Association
3-4-2 Kasumigaseki, Chiyoda-ku
Tokyo 100-0013, JAPAN

Dear Mr. Sato:

We write in response to your letter of April 3, 2007 requesting information on fees for patent attorneys and on "diversified offices." This letter is intended to provide a quick, general summary of information gathered for you by our IP Practice in Japan Committee. As you will appreciate, we have not had the time to conduct an exhaustive study and provide you with an official position of the American Intellectual Property Law Association (AIPLA).

As a general matter, attorneys' fees in the United States are set by individual attorneys and firms, not by the states or bar associations. The U.S. Supreme Court has even held that the setting of minimum fees by a state bar association can be a violation of federal antitrust laws. *Goldfarb v. Virginia State Bar*, 421 U.S. 773 (1975). Fee-setting is regulated by ethical rules of practice set separately in each state, and also under rules set by various agencies such as the U.S. Patent and Trademark Office (USPTO). A substantial majority of U.S. states have adopted ethical rules of practice closely based on the Model Rules of Professional Conduct promulgated by the American Bar Association. Of particular relevance is Model Rule 1.5, which states that a lawyer's fee must be reasonable, and provides guidance for determining reasonableness. The USPTO rule, 37 C.F.R § 10.36, is essentially identical, and applies to practitioners before the Office. Attached below are copies of the referred-to Model Rules and the USPTO Rules of Practice.

We note that AIPLA regularly surveys its members to obtain economic data on, among other things, fees charged by its members. We attach Table A, showing median attorneys' fees indicated by a survey in early 2005 and the standard government fees currently in effect. Please note that such fees can vary significantly, depending on the complexity of a given matter, including the technology involved. Thus, for example, while the median cost for drafting an application and providing an opinion is listed as $10,000 in each case, the cost of some applications and some opinions may be many times that amount, based on the number of hours required to adequately describe and claim an invention or to thoroughly address all of the issues involved. We believe that the AIPLA survey is the best information available for questions regarding the fees of U.S. attorneys in intellectual property matters.

We turn now to your question regarding "diversified offices," including attorneys at law together with other types of professionals. In general, the rules in the United States are perhaps more limiting than in Japan. However, the exact rules in a particular jurisdiction are again a matter of state or agency law and rules. The widely-adopted Model Rules of Professional Conduct and the USPTO Rules of Practice provide guidance. Model Rule 5.4 states that a lawyer or law firm shall not share legal fees with a nonlawyer (with certain limited exceptions such as in the event of the death of a practitioner or as part of a compensation or retirement plan), and that a lawyer shall not form a partnership with a nonlawyer if any of the activities of the partnership consist of the practice of law. USPTO Rule 37 C.F.R. § 10.48 similarly restricts practitioners of IP law from sharing fees with non-practitioners, with limited exceptions which are attached below.

As one example of the variation in these rules among jurisdictions, we note that the District of Columbia Rules of Professional Conduct are more permissive than the Model Rules with regard to diversified offices. The District of Columbia version of Rule 5.4 *does* permit lawyers and non-lawyers to share legal fees under certain circumstances. More precisely, section (b) of the Rule permits sharing of fees with non-lawyers, but only in an organization engaged "solely" in the practice of law, and only if traditional legal ethical requirements are applied to *all* participants in the enterprise. The D.C. rule was amended to allow this limited fee sharing in the late 1990's. A copy of this D.C. rule is attached.

We hope that we have been able to assist you with this matter.

Sincerely,

Michael K. Kirk
Executive Director

Attachments:

American Bar Association—Model Rules of Professional Conduct - Rules 1.5 - Fees and 5.4 - Professional Independence Of A Lawyer.

USPTO Rules – 37 C.F.R § 10.36 - Fees for legal services and 37 C.F.R. § 10.48 - Sharing legal fees.

District of Columbia Rules of Professional Conduct - Rule 5.4 – Professional Independence of a Lawyer.

Annex (Table A) - Attorneys fees.

American Bar Association—Model Rules of Professional Conduct

Client-Lawyer Relationship
Rule 1.5 Fees

(a) A lawyer shall not make an agreement for, charge, or collect an unreasonable fee or an unreasonable amount for expenses. The factors to be considered in determining the reasonableness of a fee include the following:

(1) the time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly;

(2) the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the lawyer;

(3) the fee customarily charged in the locality for similar legal services;

(4) the amount involved and the results obtained;

(5) the time limitations imposed by the client or by the circumstances;

(6) the nature and length of the professional relationship with the client;

(7) the experience, reputation, and ability of the lawyer or lawyers performing the services; and

(8) whether the fee is fixed or contingent.

(b) The scope of the representation and the basis or rate of the fee and expenses for which the client will be responsible shall be communicated to the client, preferably in writing, before or within a reasonable time after commencing the representation, except when the lawyer will charge a regularly represented client on the same basis or rate. Any changes in the basis or rate of the fee or expenses shall also be communicated to the client.

(c) 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 a writing signed by the client 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. The agreement must clearly notify the client of any expenses for which the client will be liable whether or not the client is the prevailing party. 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.

(d) 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.

(e) A division of a fee between lawyers who are not in the same firm may be made only if:

(1) the division is in proportion to the services performed by each lawyer or each lawyer assumes joint responsibility for the representation;

(2) the client agrees to the arrangement, including the share each lawyer will receive, and the agreement is confirmed in writing; and
(3) the total fee is reasonable.

Law Firms And Associations
Rule 5.4 Professional Independence Of A Lawyer

(a) A lawyer or law firm shall not share legal fees with a nonlawyer, except that:

(1) an agreement by a lawyer with the lawyer's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the lawyer's death, to the lawyer's estate or to one or more specified persons;

(2) a lawyer who purchases the practice of a deceased, disabled, or disappeared lawyer may, pursuant to the provisions of Rule 1.17, pay to the estate or other representative of that lawyer the agreed-upon purchase price;

(3) a lawyer or law firm may include nonlawyer employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit-sharing arrangement; and

(4) a lawyer may share court-awarded legal fees with a nonprofit organization that employed, retained or recommended employment of the lawyer in the matter.

(b) A lawyer shall not form a partnership with a nonlawyer if any of the activities of the partnership consist of the practice of law.

(c) A lawyer shall not permit a person who recommends, employs, or pays the lawyer to render legal services for another to direct or regulate the lawyer's professional judgment in rendering such legal services.

(d) A lawyer shall not practice with or in the form of a professional corporation or association authorized to practice law for a profit, if:

(1) a nonlawyer owns any interest therein, except that a fiduciary representative of the estate of a lawyer may hold the stock or interest of the lawyer for a reasonable time during administration;

(2) a nonlawyer is a corporate director or officer thereof or occupies the position of similar responsibility in any form of association other than a corporation; or

(3) a nonlawyer has the right to direct or control the professional judgment of a lawyer.

USPTO Rules –
37 C.F.R § 10.36 Fees for legal services.

(a) A practitioner shall not enter into an agreement for, charge, or collect an illegal or clearly excessive fee.

(b) A fee is clearly excessive when, after a review of the facts, a practitioner of ordinary prudence would be left with a definite and firm conviction that the fee is in excess of a reasonable fee. Factors to be considered as guides in determining the reasonableness of a fee include the following:

(1) The time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly.

(2) The likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the practitioner.

(3) The fee customarily charged for similar legal services.

(4) The amount involved and the results obtained.

(5) The time limitations imposed by the client or by the circumstances.

(6) The nature and length of the professional relationship with the client.

(7) The experience, reputation, and ability of the practitioner or practitioners performing the services.

(8) Whether the fee is fixed or contingent.

37 C.F.R. § 10.48 Sharing legal fees.

A practitioner or a firm of practitioners shall not share legal fees with a non-practitioner except that:

(a) An agreement by a practitioner with the practitioner's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the practitioner's death, to the practitioner's estate or to one or more specified persons.

(b) A practitioner who undertakes to complete unfinished legal business of a deceased practitioner may pay to the estate of the deceased practitioner that proportion of the total compensation which fairly represents the services rendered by the deceased practitioner.

(c) A practitioner or firm of practitioners may include non-practitioner employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit-sharing arrangement, providing such plan does not circumvent another Disciplinary Rule.

DISTRICT OF COLUMBIA RULES OF PROFESSIONAL CONDUCT

Rule 5.4 – Professional Independence of a Lawyer

(a) . . . .

(b) A lawyer may practice law in a partnership or other form of organization in which a financial interest is held or managerial authority is exercised by an individual nonlawyer who performs professional services which assist the organization in providing legal services to clients, but only if:

(1) The partnership or organization has as its sole purpose providing legal services to clients;

(2) All persons having such managerial authority or holding a financial interest undertake to abide by these Rules of Professional Conduct;

(3) The lawyers who have a financial interest or managerial authority in the partnership or organization undertake to be responsible for the nonlawyer participants to the same extent as if nonlawyer participants were lawyers under Rule 5.1;

(4) The foregoing conditions are set forth in writing.

(c) . . . .