NEW YORK STATE BAR ASSOCIATION
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New York State Bar Association
Committee on Professional Ethics

Opinion 1166 (05/07/2019)

Topic: Non-legal business owned by lawyer in intellectual property: Choice of Law, Fee-Sharing, and Supervisory Duties

Digest: A New York lawyer who operates both a law firm and a consulting firm on intellectual property matters in multiple jurisdictions must determine the applicable ethical rules on a matter-by-matter basis, is not engaged in work distinct from the practice of law, may associate and share fees with a non-U.S. lawyer if certain criteria are met, may not share ownership or share fees with a person not thus qualified as a lawyer, and may not delegate the duty to supervise the work of a non-lawyer.

Rules: 5.3(a), 5.3(b), 5.4(a), 5.5, 5.7(a), 8.5(a) & (b).

FACTS

1. The inquirer is a New York attorney who is also admitted in other U.S. jurisdictions and before the U. S. Patent and Trademark Office ("USPTO"). The inquirer is the sole owner of a law firm, through which the inquirer practices intellectual property law, and also the lone shareholder of a corporation that provides business and consulting services on issues relating to intellectual property. The two entities have separate, but linked, websites and the inquirer uses a different email address for each entity. The mailing address for both entities is the inquirer's home in New York, where the majority of the work is performed. The inquirer also provides services to clients elsewhere in the U.S. and in countries around the world.

2. The inquirer provides intellectual property-related services through the entity the inquirer deems appropriate. For services that the inquirer deems to be "clearly not the practice of law (*e.g.*, the brokering of patents)," the inquirer would engage clients through the consulting firm and provides "an appropriate disclaimer that [the] services are NOT the practice of law." For services that the inquirer deems to "clearly [constitute] the practice of law or where there is some potential confusion," the inquirer would engage clients through the law firm and treats the matter as a legal matter. The inquirer notes that one need not be a lawyer to practice before the USPTO.

3. The services the inquirer proposes to render include, among others, assessing the validity and value of intellectual property, whether registered (*e.g.*, patents) or unregistered (*e.g.*, trade secrets); advising on whether property should be registered or otherwise classified; drafting and reviewing business arrangements between the client and third parties; counseling on how best to exploit and protect the intellectual property; outlining best practices for policies governing issues such as human resources, cyber-security, risk management, contracts with manufacturers and suppliers, insurance, and corporate governance; advising on strategies to raise capital for the client's business and to sell or otherwise transfer the intellectual property; and representing the

client in pursuing registrations of intellectual property, issuing opinions, negotiating contracts with third parties in jurisdictions around the globe, and managing other counsel in litigation, arbitration or regulatory proceedings on behalf of the client.

4. The inquirer is in the process of engaging four individuals: (a) a U.S. lawyer with a profile similar to the inquirer's; (b) a U.S. patent agent (who is not and need not be a lawyer); (c) a person certified to practice law in Europe but not admitted to practice in any U.S. jurisdiction; and (d) a technologist who is neither a lawyer nor a patent agent. These individuals would like to be partners or shareholders in the entities the inquirer owns, or at least employees who not only receive fixed salaries, but also share in the profits and fees generated by the entities.

QUESTIONS

5. The inquirer poses several questions, two of which ask whether the non-lawyers the inquirer plans to hire would be engaged in the unauthorized practice of law if they perform any of the above services without the direct supervision of a properly admitted firm lawyer in the relevant jurisdiction. This Committee does not provide opinions on the unauthorized practice of law. As Comment [2] to Rule 5.5 states: "The definition of the 'practice of law' is established by law and varies from one jurisdiction to another." Thus, determining what constitutes the practice of law is a question of law that is outside our jurisdiction. N.Y. State 1093 ¶ 14 (2016); N.Y. State 1082 ¶ 7 (2016). We turn, therefore, to the inquirer's remaining questions, and the issues thereby raised, which are:

(a) Since the inquirer practices in several jurisdictions, which ethical rules will apply?

(b) Do the New York Rules of Professional Conduct (the "Rules") apply to the activities of the consulting firm?

(c) Is the non-U.S. lawyer a non-lawyer for purposes of the application of Rule 5.4 which prohibits sharing legal fees with a non-lawyer?

(d) May the inquirer share fees from the legal services or non-legal services with the non-lawyers the inquirer hires?

(e) If a non-lawyer is involved in any of the activities above that are deemed the practice of law, and is merely an employee of either the law firm or the consulting firm, what degree of lawyer supervision is required? May the lawyer be from a third party law firm or be an in house counsel of the client?

OPINION

Disciplinary Authority and Choice of Law

6. The inquirer is admitted in New York as well as several other U.S. jurisdictions and before the USPTO. The inquirer provides services to clients across the U.S. and around the world, but most of the work is physically performed in New York. Being admitted in New York, the inquirer "is subject to the disciplinary authority of this state, regardless of where the lawyer's conduct occurs." Rule 8.5(a). Being admitted in other U.S. jurisdictions, the inquirer may also be "subject to the disciplinary authority of both this state and another jurisdiction where the lawyer is admitted for the same conduct." *Id.*

7. Rule 8.5(a) is jurisdictional; it tells us the forum authorized to exercise authority over the lawyer. That New York may have the power to discipline a lawyer does not mean that the Rules will apply in evaluating the lawyer's compliance with ethical standards. N.Y. State 1058 ¶ 6 (2015). Rather, the rules of conduct that a New York disciplinary authority will apply will depend on the choice of law rules set forth in Rule 8.5(b), which provides:

> In any exercise of the disciplinary authority of this state, the rules of professional conduct to be applied shall be as follows:
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> (1) For conduct in connection with a proceeding in a court before which a lawyer has been admitted to practice (either generally or for purposes of that proceeding), the rules to be applied shall be the rules of the jurisdiction in which the court sits, unless the rules of the court provide otherwise; and
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> (2) For any other conduct:
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> > (i) If the lawyer is licensed to practice only in this state, the rules to be applied shall be the rules of this state, and
> >
> > (ii) If the lawyer is licensed to practice in this state and another jurisdiction, the rules to be applied shall be the rules of the admitting jurisdiction in which the lawyer principally practices; provided, however, that if particular conduct clearly has its predominant effect in another jurisdiction in which the lawyer is licensed to practice, the rules of that jurisdiction shall be applied to that conduct.

8. In addition, a practitioner, including a lawyer, who handles matters before the USPTO may need to adhere to the Rules of Professional Conduct that the USPTO adopted, effective May 3, 2013, and "that govern a wide range of professional conduct by lawyers and others practicing before the USPTO. *See* 37 C.F.R. §§ 11.101 et seq." N.Y. State 1027 ¶ 18 n. 5 (2014). The USPTO, like New York, followed the format of the ABA Model Rules of Professional Conduct, but with provisions tailored to the USPTO's jurisdiction; among other things, the USPTO defines "tribunal" to include the Office itself, 37 C.F.R. § 11.101. Whether the USPTO Rules preempt and therefore take precedence over the New York Rules is, however, a question of law beyond our jurisdiction to resolve. N.Y. State 1027 ¶ 18 n. 7.

9. N.Y. State 1027 is also instructive on identifying the place where a lawyer "principally practices" for purposes of Rule 8.5(b)(2)(ii). There we named factors that could bear on that determination, including (a) the number of calendar days the lawyer spends working in each jurisdiction; (b) the number of hours the lawyer bills in each jurisdiction; (c) the location of the clients the lawyer serves; and (d) the activities the lawyer performs in each jurisdiction (e.g., legal work for clients vs. administrative work for the law firm). We added that, in light of "the increase in law practice over the Internet, and the corresponding decrease in the importance of the lawyer's physical location, the jurisdiction in which a lawyer 'principally practices' for purposes of Rule 8.5(b)(2)(ii) is becoming less certain, and we should consider a lawyer's significant contacts with all jurisdictions, not only the jurisdiction in which the lawyer is most often physically present." *Id.* ¶ 14.

10. No matter where the inquirer "principally practices," if a lawyer's "conduct clearly has its predominant effect in another jurisdiction in which the lawyer is licensed to practice, the rules of that jurisdiction shall be applied to that conduct." Rule 8.5(b)(2)(ii). Determinations under Rule 8.5(b) are necessarily fact specific. Such are the multiplicity of the inquirer's proposed activities,

and the locations where the inquirer expects to engage in them, that we are in no position to guide the inquirer beyond saying that the lawyer should assess the potential choices of ethics rules with respect to each discrete activity in which the lawyer is involved. For now, we assume that the applicable Rules are those in New York.

Application of the Rules to the Consulting Firm

11. This Committee has issued a number of opinions on the application of the Rules to non-legal services provided by a lawyer who provides both legal and non-legal services to clients. *See, e.g.*, N.Y. State 1162 (2019) (patent law and consulting on research and development tax credits); N.Y. State 1157 (2018) (legal and engineering services); N.Y. State 1155 (2018) (family law and financial planning services); N.Y. State 1135 (2017) (state and local tax services); N.Y. State 1026 (2014) (mediation in domestic relations matters); N.Y. State 938 (2012) (law firm owns firm that provides services with respect to social security disability insurance claims). One of the major issues discussed in these opinions is whether the Rules apply to non-legal services provided to clients, including the rules on advertising and solicitation and the rules on payment of referral fees and profit-sharing. Rule 5.7 provides:

> (a) With respect to lawyers or law firms providing non-legal services to clients or other persons:
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> > (1) A lawyer or law firm that provides non-legal services to a person that are not distinct from legal services being provided to that person by the lawyer or law firm is subject to these Rules with respect to the provision of both legal and non-legal services.
> >
> > (2) A lawyer or law firm that provides non-legal services to a person that are distinct from legal services being provided to that person by the lawyer or law firm is subject to these Rules with respect to the non-legal services if the person receiving the services could reasonably believe that the non-legal services are the subject of a client-lawyer relationship.
> >
> > (3) A lawyer or law firm that is an owner, controlling party or agent of, or that is otherwise affiliated with, an entity that the lawyer or law firm knows to be providing non-legal services to a person is subject to these Rules with respect to the non-legal services if the person receiving the services could reasonably believe that the non-legal services are the subject of a client-lawyer relationship.
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> > (4) For purposes of paragraphs (a)(2) and (a)(3), it will be presumed that the person receiving non-legal services believes the services to be the subject of a client-lawyer relationship unless the lawyer or law firm has advised the person receiving the services in writing that the services are not legal services and that the protection of a client-lawyer relationship does not exist with respect to the non-legal services, or if the interest of the lawyer or law firm in the entity providing non-legal services is *de minimis*.
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> (b) Notwithstanding the provisions of paragraph (a), a lawyer or law firm that is an owner, controlling party, agent, or is otherwise affiliated with an entity that the lawyer or law firm knows is providing non-legal services to a person shall not permit any non-lawyer providing such services or affiliated with that entity to direct or regulate the professional judgment of the lawyer or law firm in rendering legal services to any person, or to cause

the lawyer or law firm to compromise its duty under Rule 1.6(a) and Rule 1.6(c) with respect to the confidential information of a client receiving legal services.

(c) For purposes of this Rule, "non-legal services" shall mean those services that lawyers may lawfully provide and that are not prohibited as an unauthorized practice of law when provided by a non-lawyer.

12. Under Rule 5.7(a)(1), whether non-legal services provided to a person by a lawyer or law firm are subject to the Rules depends upon whether the non-legal services are distinct from legal services being provided to that person. In N.Y. State 1135 ¶¶ 7-8 (2017), we said that, in determining distinctness, one should look to the substance of the service to be provided, the proposed recipient and the degree of integration of the two services. That the two different entities provide the services is not sufficient; if the services are not distinct, and a single person receives both services, the recipient is presumed to believe that the attorney-client relationship applies to both. Non-legal services that are not distinct from legal services are always subject to the Rules, no matter what disclaimer a lawyer may provide about the non-legal services. N.Y. State 1155 ¶ 13.

13. In our opinion, the services that the inquirer proposes to render through the law firm and the consulting firm are not distinct. The vast majority of the services provided by the inquirer involve the protection of intellectual property, whether intellectual property is subject to registration, and the validity and infringement of registered intellectual property. They involve legal determinations and advice. Users of the services are likely to view the services as part of a continuum of legal services. The fact that the USPTO authorizes certain of the services to be performed by persons who are not lawyers is irrelevant. Consequently, under Rule 5.7(a)(1), the activities of the consulting firm will be subject to the Rules. *See* N.Y. State 1162 ¶ 14 (Rules apply when lawyer provides both legal patent advice non-legal tax credit services); N.Y. State 1155 ¶ 15 (Rules apply when lawyer provides both legal estate planning and non-legal financial planning affecting estate); N.Y. State 1157 ¶ 11 (Rules inapplicable when lawyer provides engineering services); N.Y. State 938 ¶ 10 (Rules inapplicable to lawyer-owned business processing disability claims when business employed no lawyers, operated from separate facility, and disclaimed legal services).

Sharing Legal Fees with a Non-U.S. Lawyer Not Admitted to Practice in a U.S. Jurisdiction

14. The inquirer next asks whether the inquirer may share legal fees with a person who is certified to practice law in a civil law country in Europe, but does not have a license to practice law in any of the United States. We are mindful that it is not uncommon for law firms today to operate around the world using various juridical entities and, in some instances, sharing legal fees with persons qualified to practice law in an extraterritorial jurisdiction but not in any of the United States. In the past, we have endorsed this practice – *see, e.g.*, N.Y. State 1072 (2015) (Japanese benrishi); N.Y. State 806 (2007) (Italian law firm); N.Y. State 658 (1993) (Swedish law firm); N.Y. State 646 (1993) (Japanese bengoshi); N.Y. State 542 (1982) (U.K. solicitors) – with two caveats. First, the arrangement must comply with the substantive law of New York and with the ethical and legal codes of the non-U.S. jurisdiction. Second, the New York lawyer must make an independent evaluation that the educational requirements for the non-U.S. lawyer are equivalent to those for a New York lawyer, and that nothing in the arrangement would compromise the New York lawyer's ability to uphold the ethical requirements of this State, including those requiring the exercise of independent professional judgment and protecting the confidentiality of attorney-client communications. If the inquirer is satisfied that the non-U.S. lawyer here would meet these requirements, then the inquirer may share legal fees with that person.

Sharing Ownership of and Fees Generated by a Non-Distinct Services Firm

15. The same is not true of a person who fails to qualify as a lawyer under the foregoing criteria, including in particular the inquirer's proposed retention of a non-lawyer patent agent and a technologist. Having concluded that the services the inquirer proposes to render in the consulting firm are not distinct from those to be rendered through the law firm, the full panoply of the Rules applies. Thus we believe that Rule 5.4(b) prohibits a lawyer from forming a partnership with a non-lawyer if any of the activities of the partnership consist of the practice of law. Although the inquirer maintains that the consulting firm will not engage in the practice of law, we have often remarked that there are some activities that would not constitute the unauthorized practice of law when engaged in by a non-lawyer that would still constitute the practice of law when engaged in by a lawyer. *See, e.g.*, N.Y. State 779 (2004) (even though tax services can be performed by both lawyers and non-lawyers, when the services are performed by a lawyer designated as such they constitute the practice of law and the lawyer, in performing them, is governed by the rules of lawyer conduct); N.Y. State 662 (1994) (if activity is the practice of law when performed by lawyer, lawyer does not escape ethical requirements by "announcing he is to be regarded as a layman" for that particular purpose).

16. Rule 5.4(a) prohibits a lawyer or law firm from sharing legal fees with a non-lawyer, with limited exceptions. A lawyer is prohibited from sharing legal fees from either the law firm or the consulting firm with the non-lawyer employees unless an exception to Rule 5.4(a) applies. A significant exception is that Rule 5.4(a)(3) permits a lawyer to "compensate a non-lawyer employee . . . based in whole or in part on a profit sharing plan." Comment [1B] explains:

> Paragraph (a)(3) permits limited fee sharing with a non-lawyer employee, where the employee's compensation or retirement plan is based in whole or in part on a profit-sharing arrangement. Such sharing of profits with a non-lawyer employee must be based on the total profitability of the law firm or a department within a law firm and may not be based on the fee resulting from a single case.

17. For example, in N.Y. State 887 (2011), we said that a lawyer or law firm may have a profit-sharing plan that pays bonus compensation to a non-lawyer marketer based on the overall profits of the firm or on a percentage of the employee's base salary, but that the bonus compensation could not be based on referrals of particular matters or based on the profitability of the firm or the department for which the employee markets if such profits are substantially related to the employee's marketing efforts, or on the fees paid by clients that resulted from such marketing. The same is true here.

Supervision of Non-Lawyers at Inquirer's Firms

18. The inquirer's final question entails the degree to which lawyer supervision is required over the non-lawyer employees. The Rules recognize that lawyers will frequently require the assistance of non-lawyers to provide legal advice in a competent fashion. *See* Rule 5.5, Cmt. [1] (noting that the Unauthorized Practice of Law Rule "does not prohibit a lawyer from employing the services of paraprofessionals and delegating functions to them, so long as the lawyer supervises the delegated work and retains responsibility for their work."). Rule 5.3 provides in its opening subparagraph that "[a] law firm shall ensure that the work of non-lawyers who work for the firm is adequately supervised, as appropriate." *See* N.Y. State 774 (2004) (addressing supervisory duties of firm hiring paralegal or other non-lawyer). Rule 5.3 dictates that "[a] lawyer with direct

supervisory authority over a non-lawyer shall adequately supervise the work of the non-lawyer, as appropriate." The Rules thereby impose upon both law firms and individual lawyers a duty of direct supervisory authority over a non-lawyer. This is a rule of reason: Rule 5.3(a) provides that the degree of supervision required is that which is reasonable under the circumstances, taking into account factors such as the experience of the person whose work is being supervised, the amount of work involved in a particular matter and the likelihood that ethical problems might arise in the course of working on the matter.

19. The rule requiring a law firm and a lawyer with direct supervisory authority over a non-lawyer to adequately supervise the work of a non-lawyer serves an important goal. It provides "reasonable assurance that the conduct of all non-lawyers employed by or retained by or associated with the law firm, including non-lawyers outside the firm working on firm matters, is compatible with the professional obligations of the lawyers and firm." Rule 5.3(a), Cmt. [2]; *see Matter of Galasso*, 19 N.Y.3d 688, 695 (2012) (observing that attorneys are not prohibited from delegating tasks to firm employees, but also stressing that any delegation must be accompanied by an appropriate degree of oversight by a lawyer). The duty of supervision is supplemented by Rule 5.3(b), which imposes responsibility on a lawyer for the conduct of a non-lawyer in certain circumstances. Accordingly, the inquirer must assure that the work of the non-lawyers is adequately supervised, as appropriate, in accordance with the standards outlined above.

20. The inquirer asks whether the necessary degree of supervision must be achieved by a supervising lawyer from within the law firm or, alternatively, may be satisfied by a lawyer from a third party law firm or by an in house counsel of the law firm's client. We have opined that certain fundamental obligations imposed by the Rules upon law firms and lawyers cannot be delegated to another. *See* N.Y. State 693 (1997) ("Attorneys must be aware that responsibility for client funds may not be delegated"). A law firm's responsibility for developing and implementing systems to ensure professional and ethical practice, which would include adequate supervision of non-lawyers, may be delegated to a management committee or similar group within the firm. *See* N.Y. State 762 (2003); Rule 5.1, Cmt. [3]. Given that the duty of supervision over non-lawyers housed in Rule 5.3 is fundamental to the ethical practice of law, we conclude that it may not be delegated to a lawyer not associated with the inquirer's firm. *See* N.Y. State 807, ¶¶ 2-3 (discussing factors to consider in determining if a lawyer is "associated" with law firm). Therefore, the inquirer cannot rely on a third-party law firm or an in house counsel of a client to comply with Rule 5.3's duty of supervision of non-lawyers who work for his law firm.

CONCLUSION

21. A lawyer admitted in New York State and other jurisdictions is subject to the disciplinary authority of New York State regardless of where the lawyer's conduct occurs, and may be subject to the disciplinary authority of another jurisdiction. The rules of conduct that a New York disciplinary authority will apply will depend on the choice of law rules set forth in Rule 8.5(b). Whether a lawyer's non-legal consulting firm is subject to the Rules depends on whether the services it provides are distinct from legal services. If the non-legal services are not distinct, as in the inquiry presented, then a disclaimer that they are legal services is not effective. Whether a non-U.S. lawyer is a "lawyer" for purposes of the Rules depends on whether the admitting jurisdiction's educational requirements are equivalent to those for a New York lawyer and whether New York's ethical requirements will be upheld. A New York lawyer may not share fees with a non-lawyer employee except under a profit-sharing plan permitted by Rule 5.4. Reliance on a third-party law firm or in-house counsel of a client to supervise the lawyer's employees does not

relieve the lawyer of supervisory responsibility under Rule 5.3.

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