



ILLINOIS STATE  
BAR ASSOCIATION

# ISBA Advisory Opinion on Professional Conduct

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This Opinion was **AFFIRMED** by the Board of Governors in January 2010. Please see the 2010 Illinois Rules of Professional Conduct 1.4, 1.5, 1.6, 1.7, and 1.8. This opinion was affirmed based on its general consistency with the 2010 Rules, although the specific standards referenced in it may be different from the 2010 Rules. Readers are encouraged to review and consider other applicable Rules and Comments, as well as any applicable case law or disciplinary decisions.

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Opinion No. 98-03  
January, 1999

Topic: Conflict of Interest; Client Confidences; Business Transaction with Client; Provision of Law-Related Services

Digest: Patent law firm may not provide or receive a royalty-type fee for services matching client-inventors with client-product promoters, unless the firm can rebut the presumption of undue influence and the firm obtains informed written consent of all affected clients to the fee arrangement, to the potential disclosure of confidential information, and to the inherent conflicts of interest. The specific facts of particular situations may make consent to certain conflicts of interest unreasonable. Any fees for such services must be fair and reasonable to the clients.

Ref: Illinois Rules of Professional Conduct, Rules 1.4, 1.5, 1.6, 1.7 and 1.8.  
ISBA Opinion Nos. 90-03, 90-16, 90-31, 90-32, 94-21, 96-05, 97-04 and 97-07.  
ABA Model Rule 5.7.  
In re Pagano, 154 Ill.2d 174, 607 N.E.2d 1242 (1992).  
In re Anderson, 52 Ill.2d 202, 287 N.E.2d 682 (1972).

## **Facts**

The inquiring law firm concentrates its practice in patent law, including the prosecution of patent applications for its inventor clients. The firm also provides intellectual property legal services to clients that are manufacturers, distributors and promoters (collectively "promoters"). On several occasions, inventor clients have sought the firm's assistance in finding promoters. Promoter clients have also asked the firm's help in finding new inventions and products. In the past, the

law firm has provided this informal referral service without charge. However, the firm indicates that recently this effort has become "a more burdensome task" and the firm would like to charge a "finder's fee" for its time. It proposes that the fee, like a royalty, be based on a percentage of the patented products made, used or sold. The firm contemplates forming a separate corporation, owned by firm lawyers, to provide this service.

### **Questions**

The law firm asks whether it may perform this referral service. It also asks what type of fee, if any, it could charge, assuming that any method used to calculate the fee must be reasonable. Finally, if the referral service is performed by a separate corporation owned by firm lawyers, would that fact impact the Committee's opinion?

### **Opinion**

Initially, this inquiry raises the issue whether the "match-making" services proposed are governed by the Rules of Professional Conduct. In essence, the law firm intends to act as a business broker, providing a service that is not exclusively legal in nature, and there is no prohibition against a lawyer conducting a non-legal business from a law office. ISBA Opinion Nos. 90-16 (January 1991) and 90-32 (May 1991). However, because these referral services will be offered to the firm's current and former clients, and will involve matching one client with another, the Committee believes that the Rules of Professional Conduct would apply. In ISBA Opinion No. 90-32, the Committee concluded that although the Rules permit "dual profession" lawyers to do business relating to their non-legal professions with legal clients, such lawyers must conduct any business transactions with all legal clients in full compliance with the Rules.

There are several concerns that arise when a lawyer is doing business with current and former clients. The primary concerns involve protection of confidential client information, the avoidance of conflicts of interest (including conflicts between multiple clients as well as conflicts between the firm and its clients) and the restrictions on business transactions with clients.

With regard to client confidences, the process of matching interested inventors and prospective promoters (all current or former firm clients) would necessarily require the firm to disclose otherwise protected client information to likely participants to enable them to evaluate any proposed transaction. Illinois Rule 1.6(a) provides that "a lawyer shall not, during or after termination of the professional relationship with the client, use or reveal a confidence or secret of the client known to the lawyer unless the client consents after disclosure." The term "disclosure" is defined to denote communication of information reasonably sufficient to permit the client to appreciate the significance of the matter in question. This is consistent with the mandate of Rule 1.4(b) that a lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation. Thus, the firm should, after appropriate disclosure and explanation, obtain the prior consent of any client or former client whose protected information would be disclosed as part of the matchmaking process.

Although the Rules usually do not require that disclosure and consent regarding the use of client confidential information be written, the unique circumstances of this inquiry suggest the need for a written agreement. It appears that any fee that the firm might earn for its matchmaking efforts will be dependent upon the success of the contemplated venture. As such, the firm's fee will be essentially contingent in nature, and Rule 1.5(c) requires that a contingent fee agreement be in writing.

With regard to conflicts of interest, the process of matchmaking will involve the firm choosing among its present and former clients those that will receive an opportunity to participate in potentially profitable proposals. This decision process could place the firm in a position of favoring the interests of one client over those of another. It is also possible, if not likely, that the firm's choices of individual inventors to match with particular promoters could be influenced by the firm's own interest in maximizing its return on a transaction. Further, once a suggested match is made the firm will probably be involved in negotiating the ultimate business arrangement and drafting the necessary documents, which would involve the firm in representing two clients whose interests are adverse. Finally, if the firm will have a financial stake in the transaction as its fee for services, the firm's interests could conflict with one or both clients.

Each of these situations implicates the general rule on conflict of interest, Illinois Rule 1.7, which provides that:

- (a) A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:
  - (1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and
  - (2) each client consents after disclosure.
- (b) A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:
  - (1) the lawyer reasonably believes the representation will not be adversely affected; and
  - (2) the client consents after disclosure.
- (c) When representation of multiple clients in a single matter is undertaken, the disclosure shall include explanation of the implications of the common representation and the advantages and risks involved.

With careful disclosure and consent, it may be possible under Rule 1.7 to construct the type of arrangement proposed. As noted above, the disclosures and consents should be in writing as part of the overall agreement among the clients and the firm.

However, in many circumstances, it will not be possible for a lawyer to "reasonably" believe that this multiple representation is appropriate. See ISBA Opinion No. 96-05 (October 1996). In ISBA Opinion No. 94-21 (March 1995), the Committee noted that what a lawyer "reasonably believes" in such situations is determined by what a "disinterested lawyer" would conclude under the circumstances. As a practical matter, there may be specific situations where no lawyer can successfully adhere to these guidelines when engaging in a transaction where two or more clients and the lawyer may all have competing interests.

The law firm, as a business broker, has its own financial interests that are separate and apart from the interests of its inventor and promoter clients. In such situations, "care must be taken to continuously monitor the adequacy of the representation of both parties, and, if and when

circumstances dictate that the attorney reasonably believes that the representation of one client adversely affects the representation of the other client, the attorney must withdraw from each such representation. Moreover, the lawyer's disclosure to the clients prior to undertaking the representation of each must refer to the possible necessity of subsequent withdrawal." ISBA Opinion No. 90-31 (May 1991). As the Committee noted in ISBA Opinion Nos. 90-03 (November 1990) and 90-31, the duty of disclosure required by Rule 1.7 is ongoing over the course of the representation and "Disclosure denotes communication of information reasonably sufficient to permit the client to appreciate the significance of the matter in question." ISBA Opinion No. 90-03 (emphasis in original).

When the parties to the transaction are current clients, and the firm has a financial stake in their relationship, the law firm must satisfy the requirements of Illinois Rule 1.8 as well as Rule 1.7. Although Rule 1.8 does not prohibit business transactions with a client, it discourages such relationships. Rule 1.8(a) provides:

- (a) Unless the client has consented after disclosure, a lawyer shall not enter into a business transaction with the client if:
  - (1) the lawyer knows or reasonably should know that the lawyer and the client have or may have conflicting interests therein; or
  - (2) the client expects the lawyer to exercise the lawyer's professional judgment therein for the protection of the client.

In addition to Rule 1.8 of the Rules of Professional Conduct, Illinois common law subjects transactions between lawyers and clients to strict scrutiny. When a lawyer benefits in a transaction with a client, a presumption arises that the transaction proceeded from undue influence. In re Anderson, 52 Ill.2d 202, 206, 287 N.E.2d 682 (1972). The lawyer must show that the transaction was fair, equitable and just, and that the benefit did not proceed from undue influence. See ISBA Opinion No. 97-04 (January 1998) (lawyer may not accept a fee for referring client to an investment advisor unless lawyer rebuts presumption of undue influence). Among the factors considered in determining whether the presumption of undue influence has been overcome include a showing by the lawyer: (1) that the lawyer made a full and frank disclosure of all relevant information; (2) that the client's agreement was based on adequate consideration; and (3) that the client had independent legal advice before completing the transaction. In re Pagano, 154 Ill.2d 174, 186, 607 N.E.2d 1242 (1992). For that reason, as well as the basic requirement of Rule 1.5(a) that a lawyer's fee shall be "reasonable," any fees or royalties received by the firm must be fair and reasonable to the clients.

Finally, the Committee's conclusions stated above would not be affected by the inquiring firm's proposal to utilize a separate corporate entity owned by firm lawyers to perform the matchmaking service. In this regard, the Committee believes that ABA Model Rule 5.7, which has not been adopted in Illinois, provides useful guidance. Model Rule 5.7 states generally that a lawyer shall be subject to the Rules of Professional Conduct with respect to law-related services provided by the lawyer or by a separate entity controlled by the lawyer, in circumstances that are not distinct from the lawyer's provision of legal services to clients, if the lawyer fails to take reasonable measures to assure that a person obtaining the law-related services knows that the services are not legal services. Official comment[5] to Model Rule 5.7 provides that when a client is referred by a lawyer to a separate law-related service entity controlled by the lawyer, the lawyer must comply with Model Rule 1.8 (on which Illinois Rule 1.8 is based). This is

consistent with prior opinions of this Committee. See ISBA Opinion No. 97-07 (January 1998) (lawyers may form company to provide legal publication notice services as long as legal services are conducted in accordance with the Rules of Professional Conduct). Thus, the inventors and promoters cannot be rendered non-clients by conducting the referral business through a separate entity, and the Rules of Professional Conduct would continue to govern the business relationships between the firm and those clients.

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