

Negotiation Ethics: Guidance for the Intellectual Property Practitioner

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Ethics in Negotiation?

- Aren't "selective" disclosures, misleading answers necessary/accepted?
- Is good faith required?
- Is honesty is the best policy?
- Do the ethics rules *require* an aggressive approach?

Guiding Factors

- Client's instructions
- Significance of the matter to the client
- Other side's tactics
- Client's participation
- Parties' relationship
- Personal style

. . . and the ethics rules!

The Lawyer's Duties

Strive for justice, but serve the client.

Be an honest, but zealous, advocate.

Preserve confidences, but don't assist a fraud .

Test Your (Legal) Ethics . . .



Question 1

A lawyer may not represent both the licensor and the licensee in a licensing transaction.

- (a) True**
- (b) False**

Conflicts Basics

Conflict if:

- “directly adverse” or “materially limited” (Model Rules)
- “professional judgment . . . adversely affected” or “representing differing interests” (USPTO Code)

Potentially consent-able if:

- “lawyer reasonably believes” she can “provide competent and diligent representation to each” (Model Rules)
- “obvious” that she “can adequately represent the interest of each” (USPTO Code)

“Consent-ability”

Consent-able

- “clients are generally aligned in interest”
- “even though there is some difference of interest among them”
- e.g., willing buyer and willing seller

Non-consentable

- clients are “fundamentally antagonistic” to each other
- e.g., patent litigation settlement

Question 1

A lawyer may not represent both the licensor and the licensee in a licensing transaction.

(a) (Generally) True, but:

- *conflict may be consent-able, and*
- *parties may give informed (written) consent*

“Informed Consent” (MR 1.0(e))

- “[T]he agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct.”

“Special Considerations in Common Representation”

- **Common representation:**
 - “plainly impossible . . . where contentious litigation or negotiations . . . are imminent or contemplated.”
 - “improper when it is unlikely that impartiality can be maintained” (e.g., where one party is long-standing client; the other, a new one)

“Special Considerations in Common Representation”

- If common representation fails, “[o]rdinarily, the lawyer will be forced to withdraw from representing all.”
- Must advise clients re lack of privilege as between them.
- Lawyer should “advise each . . . that [material] information will be shared . . .”

Can You Serve Two Masters?

“How can the same lawyer ask himself for a copyright infringement indemnification when representing the licensee and deny or limit it when representing the licensor?”

Larry M. Zanger

Can You Serve Two Masters?

“How can the same lawyer ask himself for audit rights [on behalf of] a licensor and tell himself they are not necessary on behalf of the licensee?”

Larry M. Zanger

Example: Consent Required

- Lawyer asked to represent licensor in negotiations with licensee the lawyer (or his firm) represents in an unrelated matter.
- MR 1.7 cmt. 7: clients are “directly adverse;” consent of each is necessary

Another Example: Joint Ventures

- “A lawyer asked to represent several individuals seeking to form a joint venture is likely to be materially limited in the lawyer’s ability to recommend or advocate all possible positions that each might take because of the lawyer’s duty of loyalty to the others. The conflict in effect forecloses alternative that would otherwise be available to the client.”
- MR 1.7 cmt. 8: “critical questions”:
 - “likelihood that a difference in interests will eventuate”
 - If so, will it “materially interfere” with “independent judgment in considering alternatives”?

Question 2

An in-house lawyer, who wears both “business” and “legal” hats for the corporation, and who negotiates with an unrepresented party, must:

- (a) inform the other party that she is a lawyer**
- (b) avoid creating the impression that she is not a lawyer**
- (c) help the other party to understand the applicable law**
- (d) advise the other party to obtain counsel**

Negotiating with the Unrepresented

- **Model Rule 4.3:**
 - “lawyer shall not state or imply that [she] is disinterested”
 - if knows/should know that the unrepresented party misunderstands the lawyer’s role, “lawyer shall make reasonable efforts to correct the misunderstanding”
 - lawyer must not advise the unrepresented party (except *may* suggest retaining counsel)

Question 2

An in-house lawyer, who wears both “business” and “legal” hats for the corporation, and who negotiates with an unrepresented party, **must**:

- (a) inform the other party that she is a lawyer
- (b) avoid creating the impression that she is not a lawyer*
- (c) help the other party to understand the applicable law
- (d) advise the other party to obtain counsel

Negotiating with the Unrepresented

“[MR 4.3] does not prohibit a lawyer from negotiating the terms of a transaction or settling a dispute with an unrepresented person. So long as the lawyer has explained that the lawyer represents an adverse party and is not representing the person, the lawyer may[:

-] inform the person of the terms on which the lawyer’s client will enter into an agreement or settle a matter,
- [-] prepare documents that require the person’s signature and
- [-] explain the lawyer’s own view of the document or the lawyer’s view of the underlying legal obligations.”

MR 4.3 cmt. 2

Question 3

A lawyer who represents a client in license negotiations with an unrepresented party risks establishing an attorney-client relationship with that party.

- (a) True**
- (b) False**

Question 3

A lawyer who represents a client in license negotiations with an unrepresented party risks establishing an attorney-client relationship with that party.

(a) True

Negotiating with the Unrepresented

- **Test: did the unrepresented party reasonably believe the lawyer was acting on his behalf?**
- **When dealing with unrepresented parties:**
 - **exercise care (avoid explaining provisions or “selling” the deal)**
 - **inform the unrepresented party that you do not represent him**

Question 4

A lawyer representing a client in a negotiation may affirmatively misrepresent the client's "bottom line."

- (a) True**
- (b) False**

Negotiation Tactics

- Lawyer shall not “knowingly . . . make a false statement of material fact or law to a third person” (MR 4.1)
- BUT (MR 4.1 cmt 2): what is a “fact?”
 - under “generally accepted conventions in negotiations,” some statements “ordinarily” are not “taken as statements of material fact”
 - estimates of price or value placed on the transaction
 - parties’ intentions as to an acceptable settlement

Negotiation Tactics (cont'd)

- **Justifications:**
 - statement of client's *intentions*
 - client's "bottom line" is based on her belief about what the other party will take or pay
 - requirement for honesty unworkable

Question 4

A lawyer representing a client in a negotiation may affirmatively misrepresent the client's "bottom line."

(a) Under the above-described circumstances, true, but . . .

Misrepresenting the Bottom Line

- **Not everyone agrees:**
 - “[L]awyer’s only option is to negotiate without revealing this fact. If [the bottom line] is requested, the lawyer must state that this information is confidential and will not be revealed.”
- **Mixed Model Rules messages?**
 - 8.4(c): “professional misconduct” to “engage in conduct involving dishonesty, fraud, deceit or misrepresentation”
 - 4.1 cmt. 1: “[a] lawyer is required to be truthful when dealing with others on a client’s behalf”
- **4.1 cmt. 2 most “on point”**

Statements Re Settlement Authority?

- **Geronemus:**
 - Same rationale applies
 - If rule required honest response:
 - One who disregards would enjoy significant advantage over one who observes
 - Clients would withhold authority

Note: Private vs. Judicial Settings

- **ABA: statements to judicial officers mediating settlement are governed by Model Rule 3.3(a)(1):**
 - **A lawyer shall not knowingly . . . make a false statement of fact or law to a tribunal”**

Question 5

A lawyer representing a licensor in a negotiation may misrepresent the size of an offer it has received from another potential licensee.

- (a) True**
- (b) False**

Question 5

A lawyer representing a licensor in a negotiation may misrepresent the size of an offer it has received from another potential licensee.

(b) False (statement of fact)

Question 6

A lawyer for a patent licensor must inform the potential licensee of all potentially invalidating prior art of which it is aware.

- (a) True**
- (b) False**

Disclosures in Negotiation

- Lawyer shall not “knowingly . . . fail to disclose a material fact when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client” (MR 4.1)
- BUT (MR 4.1 cmt. 1):
 - generally “no affirmative duty to inform an opposing party of relevant facts”

Question 6

A lawyer for a patent licensor must inform the potential licensee of all potentially invalidating prior art of which it is aware.

(b) False, unless asked, and unless other law or relationship (e.g., fiduciary or contractual) so requires

Prohibited Conduct

- **Misrepresentation by partial truths or misleading omissions**
- **Failure to disclose adverse controlling law to a tribunal**
- **Failure to correct a false statement of material fact or law previously made to a tribunal**

Question 7

A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing products must:

- (a) obey his client's instruction not to reveal the correct figures**
- (b) alert the other party regarding the understatement**
- (c) counsel the client to provide the other party with the correct figures**
- (d) withdraw from the representation if the client refuses to correct the record**
- (e) answer (c) and, if necessary, answer (d) and answer (b)**

Question 7

A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing products must:

- (a) obey his client's instruction not to reveal the correct figures? OR**
- (b) alert the other party regarding the understatement?**

Disclosures in Negotiations

- Lawyer shall not “knowingly . . . fail to disclose a material fact when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client” (MR 4.1)
- BUT may not reveal client confidences without consent (MR 4.1 and 1.6)

Confidentiality Duty Exceptions

- **Model Rules (August 2003 revision to MR 1.6):**
“lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary . . .
(2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services”

Question 7

A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing products must:

- (a) obey his client's instruction not to reveal the correct figures? OR
- (b) alert the other party regarding the understatement?

(depends on the applicable confidentiality exceptions)

Question 7

A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing products must:

- (c) counsel the client to provide the other party with the correct figures?
 - *MR 1.6 cmt. 14: “should” advise the client to correct the misstatement*

Question 7

A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing products must:

- (d) withdraw from the representation if the client refuses to correct the record?
- *“shall” if lawyer will violate law or ethics rules*
 - *“may” if “client persists in a course of action involving the lawyer’s services that the lawyer reasonably believe is . . . fraudulent”*

What About the “Victim”?

“Noisy withdrawal”:

- **MR 4.1 cmt. 3:**

- “Sometimes it may be necessary . . . to give notice of the fact of withdrawal and to disaffirm an opinion, document, affirmation or the like.”

- **ABA Formal Opinion No. 92-366:**

- Lawyer permitted to disavow work product used by the client to carry out the deception, but only where necessary to prevent the client’s use to commit fraud.

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- (a) obey his client's instruction not to reveal the correct figures
- (b) alert the other party regarding the understatement
- (c) counsel the client to provide the other party with the correct figures
- (d) withdraw from the representation if the client refuses to correct the record
- (e) *answer (c) and, if necessary, answer (d) and answer (b)*

Additional Considerations

- Analysis is the same whether the client's understatement was intentional or innocent
- Relevant state ethics rules vary significantly
- Some argue that disclosure to prevent fraud is required, not merely permitted (under the ABA version):
 - Professor John Humbach: “Since Rule 4.1(b) requires its disclosure when Rule 1.6 permits them, a new and wide-ranging “duty to warn” has emerged.”

Question 8

A lawyer for a licensee who learns after the transaction has closed that his client has understated its past sales of infringing products may engage in a “noisy withdrawal.”

- (a) True
- (b) False

Question 8

A lawyer for a licensee who learns after the transaction has closed that his client has understated its past sales of infringing products may engage in a “noisy withdrawal.”

(c) It depends:

- *What are the applicable confidentiality exceptions?*
- *Withdrawal is permitted*
- *Is “noisy withdrawal” limited to pre-closing time frame?*

Question 9

A lawyer for a licensee who has agreed to pay the prosecution costs for future patents relating to the licensed technology, but who discovers, before the license is signed, that the licensor's counsel has failed to include this term in the document:

- (a) must remain silent
- (b) must consult with his client to seek permission before calling the error to the attention of the licensor's counsel
- (c) must inform the licensor's counsel of her omission
- (d) should inform the licensor's counsel of her omission

Drafting Errors/Oversights

- Error “relates to the representation.” Disclosure prohibited by MR 1.6?
- ABA Informal Opinion 86-1518:
 - lawyer should correct the error (disclosure is within the lawyer’s implied authority)
 - need not consult with client
 - may not advise client to take advantage

Question 9

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- (b) must consult with his client to seek permission before calling the error to the attention of the licensor's counsel
- (c) must inform the licensor's counsel of her omission
- (d) should inform the licensor's counsel of her omission***

Question 10

A lawyer who conducts negotiations in a state other than the state(s) in which he or she is licensed engages in the unauthorized practice of law.

- (a) True**
- (b) False**

Analysis Under MR 5.5

- As long as the lawyer's work in the other jurisdiction is:
 - “temporary” (note: the work may be “on a recurring basis, or for an extended period of time, as when the lawyer is representing a client in a single lengthy negotiation or litigation”), and
 - either:
 - relates to a pending or potential judicial proceeding in which the lawyer is (or will be) authorized to participate or
 - is otherwise related to the lawyer's practice in his “home jurisdiction

... it is authorized

Question 10

A lawyer who conducts negotiations in a state other than the state(s) in which he or she is licensed engages in the unauthorized practice of law.

(b) Probably false, in most jurisdictions. (But New York, for example, has not adopted the “temporary and related-to-authorized practice” exceptions.)

Additional Considerations

- Of course, a lawyer is subject to the disciplinary authority of a jurisdiction in which she practices
- An out-of-state lawyer who negotiates on behalf of a client in California may also risk fee forfeiture (*see Birbrower, Montalbo, Condon & Frank, P.C. v. Superior Court*, 17 Cal. 4th 119 (1998))
 - . . . unless the out-of-state lawyer's client is not a California resident (*see Estate of Condon v. McHenry*, 65 Cal. App. 4th 1138 (1998))

Some Closing Observations

- **Negotiation is a fundamental part of lawyering**
- **The ethics rules:**
 - **set limits**
 - **provide guidance**
 - **recognize realities**
 - **promote zealous advocacy**



Questions or Comments?