INTELLECTUAL PROPERTY
Course Handbook Series
Number G-1308

Advanced Licensing Agreements 2017

Volume Two

Co-Chairs
Marcelo Halpern
Ira Jay Levy
Joseph Yang

To order this book, call (800) 260-4PLI or fax us at (800) 321-0093. Ask our Customer Service Department for PLI Order Number 185480, Dept. BAV5.

Practising Law Institute
1177 Avenue of the Americas
New York, New York 10036

17

Ethical Considerations in Licensing and Negotiation

Ira Jay Levy
Goodwin Procter LLP

BIOGRAPHICAL INFORMATION

Ira Levy is a partner in Goodwin Procter's Litigation Department and a member of its Intellectual Property Practice. His practice focuses on the litigation of patent, trademark, copyright, false advertising and related matters for a wide array of industries and in a variety of technical disciplines. Mr. Levy has extensive experience with disputes involving biotechnology, pharmaceuticals and chemistry; electronics, computers and telecommunications; mechanical devices; industrial and consumer products; and the Internet, new media and ecommerce.

Mr. Levy has handled numerous bench and jury trials in federal and state courts nationwide. He also has significant experience practicing before the Court of Appeals for the Federal Circuit, the USPTO TTAB and PTAB, WIPO and the National Advertising Division of the Council of Better Business Bureau. In addition Mr. Levy works closely with the firm's Business Law Practice counseling clients on general corporate matters involving intellectual property and the Internet, as well as transactional due diligence.

Mr. Levy has advised and represented numerous companies regarding intellectual property disputes, litigation and counseling, including: Teva Pharmaceuticals, Inc., Campbell Soup Company, Pepperidge Farms, Inc., Godiva, Inc., PepsiCo, Inc., The New York Times Company, *The Boston Globe*, boston.com, J.P. Morgan Chase, Honest Tea, Inc., New Balance Athletic Shoes, IBM and Teva Pharmaceuticals, Inc.

Ira has also acted as pro bono counsel to the United Way of New York City and cyberangels.org., and is currently a member of the Board of Directors of the New York Intellectual Property Law Association. Mr. Levy presently serves as Lead Director on the Board of Directors of Stomp Out Bullying, a leading anti-bullying and cyberbullying not for profit, and on the advisory board of BUILD – NYC Chapter.

Mr. Levy is a frequent speaker and has written numerous articles on the topics of intellectual property, patent, trademark and copyright laws that have appeared in *The New York Law Journal* and *Metropolitan Corporate Counsel*. He also authored chapters in *Commercial Damages* (published by Matthew Bender & Co.) and the *Wiley Intellectual Property Law Update* (published by Aspen Law & Business). Mr. Levy serves as the co-chair of the Practicing Law Institutes Advanced Licensing Program, and is a regular presenter at AIPLA, INTA, NYSBA and NYIPLA events. In addition, he maintains an active roster of speaking engagements on intellectual property audit, portfolio development, strategy and management, and Internet and new media matters. He is also an adjunct

Lecturer on Patent and Trademark Licensing at the Jacobs Technion – Cornell University School of Law LLM Program in Law, Technology and Entrepreneurship.

Mr. Levy is listed in *New York Super Lawyers* (2006 – 2015), *The International Who's Who of Trademark Lawyers, The International Who's Who of Patent Lawyers, The International Who's Who of Life Science Lawyers,* Euromoney's *Guide to the World's Leading Experts in Patent Law,* the *IAM 1000,* and *The Legal 500.*

INTRODUCTION

License negotiations present particularly complex ethical challenges. While many of the situations that arise in the context of court proceedings are easily anticipated and often addressed by well-structured ethical rules and numerous bar association opinions, issues arising in the licensing context are often more subtle, and subject to subjective considerations. Understanding the governing rules, the interpretation of those rules by the relevant regulating authorities, and anticipating issues that may arise during the course of negotiations, is critical to staying on the proper side of these ethical issues.

While a wide array of issues arises across the spectrum of an intellectual licensing practice, the issues can generally be distributed into five buckets - 1) advising the client, 2) advocating for the client , 3) truthfulness, 4) confidentiality, and 5) drafting agreements[1].

THE RULES

While the specific rules of conduct vary from state-to-state, certain universal principals are relevant regardless of jurisdiction. For example, here are the relevant New York Rules:

New York Rule of Professional Conduct Rule 1.2

(d) A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is illegal or fraudulent, except that the lawyer may discuss the legal consequences of any proposed course of conduct with a client.

(e) A lawyer may exercise professional judgment to waive or fail to assert a right or position of the client, or accede to reasonable requests of opposing counsel, when doing so does not prejudice the rights of the client.

(g) A lawyer does not violate this Rule by being punctual in fulfilling all professional commitments, by avoiding offensive tactics, and by treating with courtesy and consideration all persons involved in the legal process.

New York Rule of Professional Conduct Rule 4.1

In the course of representing a client, a lawyer shall not knowingly make a false statement of fact or law to a third person

1. Cooley, John, "Mediator & Advocate Ethics," 55 *Dispute Resolution Journal* 73.

New York Rule of Professional Conduct Rule 4.2

(a) In representing a client, a lawyer shall not communicate or cause another to communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the prior consent of the other lawyer or is authorized to do so by law.

(b) Notwithstanding the prohibitions of paragraph (a), and unless otherwise prohibited by law, a lawyer may cause a client to communicate with a represented person unless the represented person is not legally competent, and may counsel the client with respect to those communications, provided the lawyer gives reasonable advance notice to the represented person's counsel that such communications will be taking place.

New York Rule of Professional Conduct Rule 4.3

In communicating on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person other than the advice to secure counsel if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.

In addition to the Rules, there are various relevant commentaries. For example, in connection with Rule 3.4, the Commentaries state:

> [5] The use of threats in negotiation may constitute the crime of extortion. However, not all threats are improper. For example, if a lawyer represents a client who has been criminally harmed by a third person (for example, a theft of property), the lawyer's threat to report the crime does not constitute extortion when honestly claimed in an effort to obtain restitution or indemnification for the harm done. But extortion is committed if the threat involves conduct of the third person unrelated to the criminal harm (for example, a threat to report tax evasion by the third person that is unrelated to the civil dispute).

In connection with Rule 4.1, the Comments provide:

> **Misrepresentation**
>
> [1] A lawyer is required to be truthful when dealing with others on a client's behalf, but generally has no affirmative duty to inform an opposing party of relevant facts. A misrepresentation can occur if the lawyer incorporates or affirms a statement of another person that the lawyer knows is false. Misrepresentations can also occur by partially true but misleading statements or omissions that are

the equivalent of affirmative false statements. As to dishonest conduct that does not amount to a false statement or for misrepresentations by a lawyer other than in the course of representing a client, *see* Rule 8.4.

Statements of Fact

[2] This Rule refers to statements of fact. Whether a particular statement should be regarded as one of fact can depend on the circumstances. Under generally accepted conventions in negotiation, certain types of statements ordinarily are not taken as statements of material fact. Estimates of price or value placed on the subject of a transaction and a party's intentions as to an acceptable settlement of a claim are ordinarily in this category; so is the existence of an undisclosed principal, except where nondisclosure of the principal would constitute fraud. Lawyers should be mindful of their obligations under applicable law to avoid criminal and tortious misrepresentation.

Illegal or Fraudulent Conduct by Client

[3] Under Rule 1.2(d), a lawyer is prohibited from counseling or assisting a client as to conduct that the lawyer knows is illegal or fraudulent. Ordinarily, a lawyer can avoid assisting a client's illegality or fraud by withdrawing from the representation. *See* Rule 1.16(c)(2). Sometimes it may be necessary for the lawyer to give notice of the fact of withdrawal and to disaffirm an opinion, document, affirmation or the like. *See* Rules 1.2(d), 1.6(b)(3).

The distinctions that are discussed in these comments are essential knowledge for the principled negotiator. Understanding the sometimes subtle lines between posturing, puffing, lying and committing fraud is often difficult at the margins.

Rule 4.2 concerns those situations were there may be a need to bypass the other sides attorney, and try to overcome a hurdle by talking directly with the client on the other side. This, under all but the most extreme circumstances, is not permissible. As noted in the Comments:

[1] This Rule contributes to the proper functioning of the legal system by protecting a person who has chosen to be represented by a lawyer in a matter against possible overreaching by other lawyers who are participating in the matter, interference by those lawyers with the client-lawyer relationship, and un-counseled disclosure of information relating to the representation.

[3] Paragraph (a) applies even though the represented party initiates or consents to the communication. A lawyer must immediately terminate communication with a party if after commencing communication, the lawyer learns that the party is one with whom communication is not permitted by this Rule.

[10] A lawyer may not make a communication prohibited by paragraph (a) through the acts of another. *See* Rule 8.4(a).

Client-to-Client Communications

[11] Persons represented in a matter may communicate directly with each other. A lawyer may properly advise a client to communicate directly with a represented person, and may counsel the client with respect to those communications,

provided the lawyer complies with paragraph (b). Agents for lawyers, such as investigators, are not considered clients within the meaning of this Rule even where the represented entity is an agency, department or other organization of the government, and therefore a lawyer may not cause such an agent to communicate with a represented person, unless the lawyer would be authorized by law or a court order to do so. A lawyer may also counsel a client with respect to communications with a represented person, including by drafting papers for the client to present to the represented person. In advising a client in connection with such communications, a lawyer may not advise the client to seek privileged information or other information that the represented person is not personally authorized to disclose or is prohibited from disclosing, such as a trade secret or other information protected by law, or to encourage or invite the represented person to take actions without the advice of counsel.

[12] A lawyer who advises a client with respect to communications with a represented person should be mindful of the obligation to avoid abusive, harassing, or unfair conduct with regard to the represented person. The lawyer should advise the client against such conduct. A lawyer shall not advise a client to communicate with a represented person if the lawyer knows that the represented person is legally incompetent. *See* Rule 4.4.

Finally, and to the extent they differ from the various state rules, the ABA Model Rules of Professional Conduct come into play in considering ethical questions that arise during the course of license negotiations. For example, Model Rule 1.4 requires an attorney to keep her client informed so that the client can make informed decisions about the representation. In the licensing context, at a minimum, this Rule requires counsel to communicate with their client about offers and counteroffers, both those received, and those that counsel intends to make on behalf of the client, presuming broad authority was not previously received.

Rule 1.6 concerns the duty of an attorney to maintain the confidences of his client. Under the various interpretations of this Rule, a lawyer may disclose client information in the context of negotiations where the lawyer has the client's informed consent, or where the disclosure is impliedly authorized.[2]

ABA OPINION 11-461

The "hot" recent news is the recently issued ABA Opinion 11-461. This formal opinion of the ABA Standing Committee on Ethics and Professional Responsibility, is summarized as follows:

---

2. The effective negotiator should also be well aware of the scope of ABA Formal Opinion 06-439 "Lawyer's Obligation of Truthfulness When Representing A Client in Negotiation: Application to Caucused Mediation," as well as Informal Opinion **86-1518** "Notice to Opposing Counsel of Inadvertent Omission of Contract Provision".

Parties to a legal matter have the right to communicate directly with each other. A lawyer may advise a client of that right and may assist the client regarding the substance of any proposed communication. The lawyer's assistance need not be prompted by a request from the client. Such assistance many not, however, result in overreaching by the lawyer.

This opinion, to a degree, reconciles conflicts at the intersection of two Rules, the "no-contact" rule, which states that a lawyer may not communicate with a person known to be represented by counsel without consent of the other counsel, with the rule that counsels that a lawyer may not, through an intermediary, do that which she may not do directly.

According to the opinion, under the Rules, a lawyer may

- Advise a client of his or her right to communicate with an adversary
- Advise a client on the legal aspects of the communication
  - Is it libelous
  - Would it otherwise create risk for the client
- Draft a document for the client to deliver if the client originates the communication
- As long as the process does not circumvent the purpose of the Rules

Similarly, a lawyer may give substantial assistance to a client regarding a substantive communication. This advise may include

  - Determine topics to address
  - Develop tactics and strategy
- Review, redraft and approve a letter or set of talking points otherwise drafted by the client
- Draft the basic terms of a proposed settlement to be presented
- Draft a formal agreement ready for execution

Again, the lawyer needs to take care not to over-reach.

On the other hand, under the Opinion, a lawyer needs to take care so as to not assist the client in obtaining an enforceable obligation from their adversary, assist the client in seeking the disclosure of confidential or privileged information, or assist the client in obtaining admissions against interest, all without the opportunity for the represented adversary to seek the advice of counsel.

In its conclusion, the Opinion counsels:

> *This Rule contributes to the proper functioning of the legal system by protecting a person who has chosen to be represented by a lawyer in a matter against possible overreaching by other lawyers who are participating in the matter, interference by those lawyers with the attorney-client relationship and the uncounselled disclosure of information relating to the representation.*

SITUATIONS TO CONSIDER

- What are the ethical concerns connected with contingent fee licensing?
- Can you negotiate a license to patents with undisclosed knowledge of potential invalidity?
- In response to a direct question, Client makes a material mis-statement of fact.
- Opposing side asks what the lowest royalty rate you will accept is?
- Lawyer for licensor gains publically available knowledge that may impair the value of trademark rights just prior to negotiating a license
- During the course of negotiations, lawyer for licensor states that potential licensee should take the deal because, if not, there are others who are interested (lawyer does not specifically know of anyone). Did an ethical violation occur?
- Can you lie by silence?
- What is your obligation to notify opposing counsel of:
    - drafting errors
    - legal misinterpretations

NOTES

NOTES