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Ethics And Professionalism In License Negotiations

Advanced Licensing Institute

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By

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Scope of Presentation

- Introduction
- Ethical Rules
- Examples from negotiation
  - Hypothetical but based on reality
- Discussion

Ethics

"The principles of conduct governing an individual or a group."

Professionalism

"The conduct, aims or qualities that characterize . . . a profession or a professional person"

Webster's Dictionary

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What and Why Ethics?

Honesty and candor instead of gamesmanship and overreaching.

Obtaining enforceable yet workable business arrangement.

Protecting and enhancing a professional reputation.

ABA Model Rules of Professional Conduct

- Adopted in 1983
- Rejected Kutak Commission draft rules for negotiations
  - extent to which attorneys could be misleading
  - extent to which attorneys could take advantage
- Delegates consensus – some misleading conduct permissible in negotiations
- Adopted some general rules proposed by Kutak

ABA Model Rules of Professional Conduct

In the course of representing a client, a lawyer shall not knowingly:

(a) Make a false statement of material fact or law to a third person; or

(b) Fail to disclose a material fact to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by Rule 1.6.

ABA Model Rule 4.1

ABA Model Rules of Professional Conduct

- Rule 4.1(a) forbids
  - Lying about a material fact
    - What is material depends on the situation
    - Distinguish posturing or puffery
  - Failing to disclose a material fact
    - Where failure to disclose amounts to a misrepresentation
  - Making a misstatement of law
    - Cannot assume opponent knows the law

ABA Model Rules of Professional Conduct

"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 in this category."

Comment to ABA Model Rule 4.1

ABA Formal Opinion 06-439*

Under Model Rule 4.1, in the context of negotiation, . . . a lawyer representing a party may not make a false statement of material fact to a third person. However, statements regarding a party's negotiating goals or its willingness to compromise, as well as statements that can fairly be characterized as negotiation "puffing," are ordinarily not considered "false statements of material fact" within the meaning of the Model Rules.

* April 12, 2006

Bright Line vs. Professional

- Negotiation is not a win or lose game
- What is legal and what is right under the circumstances are often different
- Focus on goal – long term business relationship – not litigation
- Examples define bright line, but a professional does not get close to the line

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Lying vs. Puffing

- "Client will not accept less than 4% royalty."
  - Even with knowledge that client will accept less, generally considered puffing, not lying.
- "Because of MFL clause, client cannot accept less than 4% royalty."
  - If there is no MFL clause, lying.

Lying vs. Puffing

- "The licensed right is registered"
  - Lying, if known not to be registered
- "The licensed right is valid"
  - Puffing, despite knowledge of arguable weaknesses
    - prior mark or prior art
    - non-use of mark (as opposed to abandoned mark)
    - even statutory bar - claim scope important
  - Suppose knows of arbitration decision of cancellation or invalidity – is it lying?

Lying vs. Puffing

- Lying.
  - Misstatement of historical, objectively verifiable fact.
    - "Can't accept royalty of 5%; our profit margin is only 5%."
- Puffing.
  - Statement of inference, interpretation or intention.
    - "Can't accept royalty of 5%; we won't make a profit."

ABA Model Rules of Professional Conduct

- Rule 4.1(b) forbids
  - Silence or inaction with knowledge of client's misleading statements or actions
  - Silence with knowledge that opponent misunderstands an issue of fact or law
    - Party with greater knowledge may have to assist other party
    - Opposing counsel's lack of experience may increase obligation to disclose

Hypothetical #1

Before negotiating marketing agreement with retailer, client tells lawyer about new, better, cheaper competitive product to be introduced by competitor within 12 months. During negotiation, retailer's lawyer asks if client knows of any new competitive products soon to be introduced.

What does lawyer do?

--- Changes the subject
--- Says "I can't answer that."
--- Tells the retailer what he knows

Hypothetical #2

Before commencing negotiation to grant exclusive, world-wide trademark license to manufacture a merchandising product, licensor counsel receives common law search results and notes prior use of same mark on similar product but only in metropolitan New York.

What does lawyer do?

--- Refrain from disclosing to licensee counsel and proceed with negotiations

--- Voluntarily disclose to licensee counsel and offer to obtain rights in New York

Hypothetical #2a

Shortly after negotiations begin, potential licensee comments on his marketing plans, noting that his strongest market position is in large cities.

Is lawyer's obligation different?

Hypothetical #3

In negotiations to grant exclusive patent license, lawyer for patent owner knows that his client has granted two nonexclusive licenses under the same patents. Lawyer knows that preexisting nonexclusive licenses do not prevent granting an exclusive license.

What does lawyer do?

-- Say nothing
-- Inform potential licensee

Hypothetical #3a

During review of draft of exclusive license prepared by licensee's counsel, lawyer notes proposed representation that patent owner has granted no other licenses.

What does lawyer do?

-- Leave it in the draft
-- Delete it and wait for licensee's counsel to ask why
-- Call licensee's counsel and disclose preexisting licenses

Hypothetical #4

In drafting exclusive license agreement, lawyer for licensee inserts provision that disclaims any obligation on licensee to make or sell any licensed product. Lawyer then sends draft agreement to licensor's counsel.

What should lawyer do?

-- Nothing more
-- Bring provision to attention of opposing lawyer

Hypothetical #5

Both parties understood that the licensee wanted and would get the right to grant sublicenses. The licensee's lawyer created first draft of the proposed agreement and did not include any express grant of such a right. In reviewing the draft, licensor's lawyer noticed the omission.

What should the licensor's lawyer do?

-- Add the provision to the draft
-- Nothing
-- Ask opposing counsel if he intended to omit it

Hypothetical #5a

Licensor's counsel calls licensee's counsel about the omitted sublicense grant, but the latter says, "The provision is unnecessary since the right to grant sublicenses is inherent in the basic grant." Despite a belief that this is wrong, licensor's counsel agrees, and they leave the agreement as is.

What should the licensor's counsel do?

-- Call licensee's counsel back and explain the law
-- Add the provision as "belt and suspenders"
-- Avoid confrontation since it is the licensee who suffers

Hypothetical #6

During negotiations, client, in response to direct question for potential marketing licensee, says there has been no claim of infringement by any third party. Lawyer knows this to be false.

What should lawyer do?

-- Privately advise client of error and request correction
-- Withdraw from negotiation and representation as to matter if client refuses to make correction
-- Do nothing

Material Misrepresentations??

- Offering license for unregistered mark.
  - No representation of registration.
- Offering license for applied-for mark subject to pending prosecution refusals or oppositions.
  - File history publicly available.
- Licensee knowledge of confusingly similar third party rights in proposed license product area of interest.

Material Misrepresentations??

- Offering license under patent known to be invalid.
  - No representation of validity.
  - Depends on basis for invalidity
- Asserting need for license with knowledge of no infringement due to file history.
  - Equal access to file history.
- Asserting no need for license with knowledge that patent owner is unaware of different model of accused product.
  - Any duty to advise patent owner?

Material Misrepresentations??

- Offering covenant not to sue with knowledge that title to licensed right is in doubt.
  - No warranty of title.
- Failing to note all changes made in draft
  - Modern compare software induces reliance but also provides means for checking

Competitive Negotiation

- ABA Model Rule 4.4 prohibits conduct intended to humiliate or harass
- May be a fine line between aggressive advocacy and harassment
- In negotiation, aggressive advocate often ineffective – winning is not purpose of negotiation

Competent Negotiation

- ABA Model Rule 1.1 requires a lawyer to provide competent representation
- Competence requires negotiation skill and knowledge of applicable law and business issues
- Licensing is business negotiation – a rare lawyer is competent in both law and business
  - Normally, lawyer should team with businessman
  - Otherwise, lawyer may use lack of knowledge as tactic

Negotiations Professional

- Ethical
- Courteous
- Confident
  - Knows business issues involved
  - Knows legal issues involved
  - Knows client's position
  - Knows scope of authority
  - Understands and accepts concept of negotiations