Ethics in Intellectual Property Negotiations: Issues and Illustrations

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I. INTRODUCTION

Negotiating – formally or informally – is a characteristic aspect of law practice. The requisite skills are acquired “on the job” and, for some, via the formal study of negotiation processes and attributes. The negotiator has much to consider, including the client’s goals and interests, likely litigation outcomes should negotiations fail or any ultimate agreement be breached, and what the counterparty is likely seeking to accomplish.

Many excellent resources are available for those who wish to enrich their understanding of the negotiation process or improve their negotiation skills. There is also a rich body of literature relating to the complex subject of ethics in negotiations. This paper identifies key authorities relevant to negotiation ethics and illustrates their operation in the context of hypotheticals based on intellectual property practice. In

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1 See generally Charles B. Craver, Negotiation Ethics for Real World Interactions, 25 OHIO ST. J. ON DISP. RESOL. 299, 300 (2010) (observing that in addition to representing clients in negotiations on behalf of clients with third parties in the context of transactions and litigation, lawyers negotiate routinely with colleagues, clients, and prospective clients); Douglas R. Richmond, Lawyers’ Professional Responsibilities and Liabilities in Negotiations, 22 GEO. J. LEGAL ETHICS 249, 249 (2009) (“Indeed, almost all lawyers negotiate.”).

2 See Craver, supra note 1, at 300-303 (discussing the author’s own and others’ law school courses on negotiation skills).


particular, it highlights some hotly debated aspects and implications of the professional conduct rules relating to representing clients in negotiations.

II. ETHICS IN THE NEGOTIATION CONTEXT: AN OVERVIEW

A number of factors make negotiation ethics a challenging subject. For one thing, experts disagree regarding the propriety and effectiveness of various bargaining approaches. For another, most negotiations are private affairs, and conduct that is “merely” unethical, but not subject to criminal or civil sanction, does not generally come to light.

And for lawyers, the matter is complicated by the competing obligations imposed on them by the governing professional conduct standards: the American Bar Association Model Rules of Professional Conduct (“Model Rules”). Lawyers are exhorted on the one hand to strive for justice and to eschew dishonesty, but are also duty-bound to “act with commitment and dedication to the interests of the client and with zeal in advocacy upon the client's behalf.” Tension can also arise between the duty to preserve our clients’ confidences and the obligation to refrain from assisting a client’s fraud.

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5 See, e.g., G. Richard Shell, Bargaining with the Devil Without Losing Your Soul: Ethics in Negotiation, in CARRIE MENKEL-MEADOW AND MICHAEL WHEELER, WHAT’S FAIR: ETHICS FOR NEGOTIATORS 65-71 (2004) (comparing the “‘It’s a Game’ Poker School” with the “‘Do the Right Thing Even If It Hurts’ Idealist School” and the “‘What Goes Around Comes Around’ Pragmatist School”); Craver, supra note 1, at 303-05 (describing the “communitarian” approach which “requires negotiating parties to be completely open and honest with each other with respect to their true interests and settlement intentions” as “based upon the naïve belief that attorney bargaining interactions are primarily integrative with few conflicting underlying interests”).

6 Most state ethics rules are based on the American Bar Association (“ABA”) Model Rules of Professional Conduct. This paper discusses general ethics principles, and incorporates amendments to the Model Rules through August 2009. As always, specific provisions of the applicable rules should be consulted for guidance on particular fact situations.

7 MODEL RULES OF PROFESSIONAL CONDUCT Preamble 1 (“A lawyer, as a member of the legal profession, is a representative of clients, an officer of the legal system and a public citizen having special responsibility for the quality of justice.”).

8 MODEL RULES OF PROFESSIONAL CONDUCT Rule 8.4(c) (“It is professional misconduct for a lawyer to engage in conduct involving dishonesty, fraud, deceit or misrepresentation”).

9 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.3 cmt. 1.

10 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6(a).

11 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2(d).
Thus, “ethics” in the context of negotiations is a bit of a paradox. After all, “selective disclosures” and other techniques of deception are generally accepted as part of the process. Second, absent fraud, the legal obligation to act in good faith attaches only to the performance – not the negotiation – of contracts. Third, it would be disingenuous to argue that conducting negotiations with scrupulous honesty and candor is always, or even usually, the most effective way.

Of course, lawyers are required to observe the applicable rules of ethics. The rules themselves, however, re-define what it means to be truthful in the context of negotiations. Further, with respect to some of the most challenging circumstances, the correct interpretation of the applicable rules is subject to reasonable debate. Even when the rules are violated, a lawyer's misrepresentations or material non-disclosures can be difficult to detect, and thus are unlikely to result in disciplinary action. Clearly, there is little incentive to go beyond what the ethics rule require, at least when doing so would disadvantage the lawyer's client. In fact, some argue that the obligation of zealous representation requires a “competitive” approach, at least in the absence of the client's consent to the use of “problem-solving” techniques.

The approach and techniques employed in any given negotiation will, appropriately, depend on a variety of factors, including the client's instructions, the significance of the matter to the client, the tactics used by the other side, the extent of the client's participation, and the parties' relationship and prior dealings. Nevertheless, negotiation counsel must understand the limits set by the rules of ethics.

The hypotheticals considered below are designed to implicate key ethics authorities relevant to negotiations and to illustrate their operation in the context of intellectual property transactions. The discussion highlights some areas of debate regarding the application of the ethics rules and calls attention to important differences among the various state adaptations of the Model Rules.

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13 See Burr, supra note 12, at 10.

14 See infra notes 39-41 and accompanying text.

15 See infra notes 38-56 and accompanying text; see also infra notes 67-82 and accompanying text.


18 See, e.g., id. at 351.
III. NEGOITIATION ETHICS ILLUSTRATIONS AND ISSUES

The following hypotheticals illustrate the application of key ethics rules in the negotiation context, and the accompanying discussions highlight additional considerations, challenges and debated propositions.

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

(a) True
(b) False

Generally, true. Rule 1.7(a) of the Model Rules prohibits the simultaneous representation of two clients where “the representation of one client will be directly adverse to another client,” or where “there is a significant risk that the representation of one [client] will be materially limited by the lawyer’s responsibilities to another client . . .” 19 However, notwithstanding the “concurrent conflict of interest” that exists in the situations described in Rule 1.7(a), the representation may proceed if “the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client”, “the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal”, and “each affected client gives informed consent, confirmed in writing.” 20

Accordingly, in some circumstances, even where common representation in a transaction would give rise to a conflict of interest, as defined by the ethics rules, the clients can “waive” the conflict. Importantly, a lawyer engaged in the common representation of multiple clients in a proceeding before a tribunal could not represent those clients in negotiations to settle claims between them in the proceeding. And in general, according to Comment 28 to Model Rule 1.7, “a lawyer may not represent multiple parties to a negotiation whose interests are fundamentally antagonistic to each other”. 21 However, “where the clients are generally aligned in interest even though there

19 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7(a).

20 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7(b). Rule 1.7(b) also requires that the representation be “not prohibited by law”. Id.

Model Rule 1.0 defines “informed consent” as “the 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.” MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.0(e). “Confirmed in writing,” according to Model Rule 1.0(b), means “informed consent that is given in writing by the person or a writing that a lawyer promptly transmits to the person confirming an oral informed consent.” MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.0(b).

21 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 28.
is some difference of interest among them,” common representation, carefully undertaken,\textsuperscript{22} is permissible.\textsuperscript{23}

The universe of license transactions includes situations at both extremes. At the “fundamentally antagonistic” end of the spectrum, where common representation would be improper, there is the negotiation to settle a vigorously disputed infringement claim. However, many license transactions involve parties whose interests are largely, if not entirely, aligned. Consider, for example, a trademark license between an intellectual property holding company and its corporate operating affiliate. In such a case, it is likely that there is no conflict at all, and no need for consent. Other license transactions lie on the continuum between the two extremes.

In many cases, the parties' objectives for the transaction may be best met if only one lawyer is involved. When determining whether to undertake a common representation, counsel should consider several factors. First, of course, the lawyer needs to determine whether a conflict exists, and (if so) whether it is “consentable.” Beyond those issues, however, the Comments to Model Rule 1.7 identify other factors to consider:

- if the common representation fails, “[o]rdinarily, the lawyer will be forced to withdraw from representing all of the clients,”\textsuperscript{24}

- “representation of multiple clients is improper when it is unlikely that impartiality can be maintained”\textsuperscript{25}

- the clients should be advised that the privilege will not protect their attorney-client communications should litigation ensue between the clients\textsuperscript{26}

- absent the clients’ (informed) agreement to the contrary, information relevant to the common representation will have to be shared among the clients, and the clients should be so informed at the outset.\textsuperscript{27}

\textsuperscript{22} The Comments to Rule 1.7 provide extensive cautionary guidance for lawyers considering representing multiple clients in transactions or otherwise. See infra notes 24-28 and accompanying text.

\textsuperscript{23} See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 28.

\textsuperscript{24} See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 29.

\textsuperscript{25} See id.

\textsuperscript{26} See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 30.

\textsuperscript{27} “For example, the lawyer may reasonably conclude that failure to disclose one client's trade secrets to another client will not adversely affect representation involving a joint venture between
The bottom line, however, is that a lawyer considering undertaking a common representation must carefully evaluate the extent to which the parties' interests diverge, and consider whether proceeding (with the clients' informed consent) is appropriate. As one commentator has noted, representing both parties in a business transaction, even where they have consented, raises difficult questions. For example:

How can the same lawyer ask himself for a copyright infringement indemnification when representing a the [sic] licensee and deny it or limit it when representing the licensor? How can the same lawyer ask himself for audit rights to confirm the proper payment of royalties to a licensor and tell himself they are not necessary on behalf of the licensee?

Comment 8 to Model Rule 1.7 uses the example of co-representation in the context of a joint venture formation to raise other cautions and considerations:

Even where there is no direct adverseness, a conflict of interest exists if there is a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's other responsibilities or interests. For example, 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 alternatives that would otherwise be available to the client. The mere possibility of subsequent harm does not itself require disclosure and consent. The critical questions are the likelihood that a difference in interests will eventuate and, if it does, whether it will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client.

Furthermore, even when it is appropriate for one lawyer to consummate a transaction between two parties, the lawyer should be aware of issues beyond the need to comply with Model Rule 1.7. For example, suppose a corporate parent asks the lawyer to prepare

the clients and agree to keep that information confidential with the informed consent of both clients.” MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 31.

28 See id.


30 Id.

31 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.7 cmt. 8.
documents and close a license transaction with one of its subsidiaries, which is not otherwise represented in the transaction. While the mere fact of the corporate relationship does not necessarily make the subsidiary a client of the lawyer and his firm for purposes of conflicts of interest analysis, the lawyer's work on the license transaction in this scenario very well may. Thus, until the “representation” of the subsidiary in the license transaction is concluded, the lawyer and his firm are barred from representing parties adverse to the subsidiary, even in unrelated matters.

(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

Clearly, the lawyer must avoid creating the impression that she is not a lawyer. According to Model Rule 4.3:

In dealing 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.

Moreover, she should explain that she represents her client, and that the client has interests adverse to those of the other party. She should refrain from advising the other party about the law or other matters, except that she may suggest that the other party obtain counsel. Thus, the correct answer is (b) and, in addition, the lawyer is authorized to “(d) advise the other party to obtain counsel”.

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33 See *id.* at 476.

34 See *MODEL RULES OF PROFESSIONAL CONDUCT* Rule 4.3.

35 See *MODEL RULES OF PROFESSIONAL CONDUCT* Rule 4.3 cmt. 1-2.

36 See *MODEL RULES OF PROFESSIONAL CONDUCT* Rule 4.3 cmt. 2.
(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

True. One very good reason to avoid giving advice to unrepresented parties (other than to suggest that the unrepresented party obtain counsel) is that the unrepresented party could conclude that the lawyer is also acting on his behalf. Whether such a conclusion is reasonable, potentially giving rise to an attorney-client relationship, depends on the sophistication of the unrepresented party and the statements and actions of the lawyer and that party during the negotiations.37 Clearly, a lawyer who unreasonably fails to correct any misunderstandings regarding his allegiance invites trouble. But even where the unrepresented party does not evidence any misconceptions about whom the lawyer represents, he may later claim that the lawyer led him to believe the lawyer was acting on his behalf, for example, by explaining the implications of certain license provisions. And if an attorney-client relationship is created, the lawyer, of course, owes the “unintended” client all of the associated duties (i.e., loyalty, confidentiality, etc.). Consequently, a lawyer who negotiates with an unrepresented party should make clear that he does not represent that party in the negotiation.

(4) A lawyer representing a client in a negotiation may affirmatively misrepresent the client’s “bottom line.”

(a) True
(b) False

Model Rule 4.1(a) provides the relevant guidance. It provides that “[i]n the course of representing a client a lawyer shall not knowingly . . . make a false statement of material fact or law to a third person.”38 However, the commentary to Rule 4.1 defines what is a “fact” for purposes of negotiation. Specifically, according to Comment 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 . . ..39

37 See Johnson, supra note 32, at 470-72.

38 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1(a).

39 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1 cmt. 2.
Thus, “ordinarily” (assuming that Model Rule 4.1(a) applies, and if Comment 2 has any significance), a lawyer is free to “misrepresent” the client’s “number.” Several justifications for this rule have been offered. First, arguably, the lawyer is not making a statement of fact, but rather a statement regarding his client’s intentions. Second, exaggerating what the client has indicated is its bottom line is not misleading, because in settling on its number, the client has factored in the amount that it believes the other party is willing to pay or accept. The client’s “bottom line” thus fluctuates with the other party’s intentions. Third, a rule that did not permit lying about what one’s client is willing to pay or accept would be unworkable in the context of negotiations. And fourth, since such misrepresentations are very difficult to detect, the lawyer who scrupulously obeyed such a rule would be placed at a serious disadvantage.

One commentator has argued that misrepresentations relating to the limits of the lawyer’s settlement authority fall into the same category, again because the client’s instructions as to authority are, no doubt, influenced by what the client believes it can get, and because a lawyer who disregarded a rule requiring honesty would enjoy a significant

40 The New York County Lawyers’ Association Ethics Committee similarly interpreted the corresponding provision of the older ABA Model Code of Professional Responsibility – DR 7-102(A)(5). According to its 2003 ethics opinion, “[p]uffery and exaggeration, which have long been prevalent in settlement negotiations, is not prohibited conduct per se . . . . It is customary and appropriate for negotiators to conceal how far their clients are prepared to go to resolved disputes amicably, but the ethical line is drawn short of making material misrepresentations or knowingly offering false statements by others.” NYCLA Eth. Op. 731 (2003).

41 See, e.g., Craver, supra note 1, at 317 (“It is thus ethical for negotiating attorneys to deliberately misrepresent such matters. They may do this overtly, partially, or through the nondisclosure of information.”); Maurice E. Schweitzer & Rachel Croson, Curtailing Deception: The Impact of Direct Questions on Lies and Omissions, 10 INTL. J. CONFLICT MGMT. 225, 227 (1999) (“[N]egotiators typically consider lies about one's reservation price to be acceptable, but consider fabrications about material facts to be unethical.”); Peter R. Jarvis and Bradley F. Tellam, A Negotiation Ethics Primer for Lawyers, 31 GONZ. L. REV. 549, 558 (1995) (stating that a lawyer’s statement “to the effect that the lawyer’s client does not think tha the assets which the client proposes to buy are worth more than $X would probably not constitute conduct involving dishonesty, fraud, deceit or misrepresentation even though the lawyer knows that the client would actually be willing to pay as much as $2X for those assets.”).

42 See Geronemus, supra note 12, at 12-13.

43 See id. at 12.

44 See id.

45 See id. at 12-13.

46 See id. at 13.
advantage over a scrupulous adversary.\textsuperscript{47} Furthermore, to require sincerity in disclosures relating to the limits of authority would simply encourage lawyers and their clients to agree that the lawyer has no authority, hamstringing negotiations.\textsuperscript{48}

The notion that an ethical lawyer can overtly misrepresent the client’s “bottom line” is not universally accepted. As one example of an opposing viewpoint, consider the following response to a similar analysis in an earlier paper of mine:

While it may be strategic to withhold what one’s client is willing to pay or accept or the client’s “bottom line” as client confidence, this does not justify lying or misrepresentation concerning this fact. The lawyer’s only choice is to negotiate without revealing this fact. If this information is requested, the lawyer must state that this information is confidential and will not be revealed.\textsuperscript{49}

Although I disagree with the respondent’s interpretation, debate among reasonable people on this issue is not surprising, particularly given the tensions inherent among the lawyer’s duties and roles. The Model Rules and associated commentary arguably send mixed messages relating to the lawyer’s truth-telling obligations. For example, Model Rule 8.4(c) provides that it is “professional misconduct” to “engage in conduct involving dishonesty, fraud, deceit or misrepresentation”.\textsuperscript{50} Model Rule 1.2(d) forbids a lawyer from “counsel[ing] a client to engage, or assist[ing] a client, in conduct that the lawyer knows is criminal or fraudulent . . . .”\textsuperscript{51} And Comment 1 to Model Rule 4.1 states “[a] lawyer is required to be truthful when dealing with others on a client’s behalf . . . .”\textsuperscript{52} But on the precise subject of false statements regarding “a party’s intentions as to an acceptable settlement of a claim” in private negotiations,\textsuperscript{53} the above-quoted Comment 2 to Model Rule 4.1 is the most “on point” authority.

\textsuperscript{47} See id.

\textsuperscript{48} See id. The commentator, though, notes the lack of specific guidance or consensus on this issue. See id.

\textsuperscript{49} Letter to the Editor, ABA SECTION OF INTELLECTUAL PROPERTY LAW (IPL) NEWSLETTER Vol. 22, No. 2 (Winter 2004), at 4. The author characterized my position as “unconscionable”, and stated that to suggest that the lawyer could do anything beyond responding that the information was confidential was “scandalous.” See id.

\textsuperscript{50} MODEL RULES OF PROFESSIONAL CONDUCT Rule 8.4(c).

\textsuperscript{51} MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2(d).

\textsuperscript{52} MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1 cmt 1.

\textsuperscript{53} See infra note 39 and accompanying text.
It is important to note that the ABA distinguishes for purposes of the permitted “puffery” and “embellishment” between statements made to opposing counsel or parties in the context of private negotiations and non-judicial mediations, on the one hand, and those made to judicial officers mediating settlement. The ABA regards the latter as governed by Model Rule 3.3(a)(1), which prohibits knowingly “mak[ing] a false statement of fact or law to a tribunal”. In contrast, the ABA “indicated that Comment 2 to Rule 4.1 would apply to communications between advocates and nonjudicial mediators, allowing parties to engage in traditional puffing and embellishment in such settings.”

(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

False. Such a misrepresentation is a statement of fact, and assuming the size (or existence, for that matter) of other offers is material, it is prohibited by Model Rule 4.1, and not excused by Comment 2, quoted above. Such factual misrepresentations could also subject the lawyer and her client to liability for fraud.

(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


55 See id.; see also MODEL RULES OF PROFESSIONAL CONDUCT Rule 3.3(a)(1).

56 Craver, supra note 1, at 320-21.

57 See supra notes 38-39 and accompanying text. See also Craver, supra note 1, at 319 (distinguishing between a lawyer telling the other side that “other parties will undoubtedly be interested in her client's firm, even if no one else has yet contacted her client about a possible purchase”, which Professor Craver indicates is permissible, and telling a “$42 million bidder” while sitting on “an offer of $45 million from another party” that “they have received a $50 million offer”).

58 See Craver, supra note 1, at 319-320.
It depends on the context – in particular, on factors such as whether the licensee or its representative have requested such information, or the licensor has through its statements or its conduct, misled the licensee regarding the art of which it is aware. Model Rule 4.1(b) governs here. It provides that “a lawyer shall not knowingly . . . 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 . . ..”\(^{59}\) Comment 1 to Rule 4.1 provides that “[a] lawyer . . . generally has no affirmative duty to inform an opposing party of relevant facts.”\(^ {60}\) Thus, Rule 4.1 places the onus on the licensee in Question 6 to ask about known prior art, not on the licensor’s attorney to volunteer what she knows.

However, “[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.”\(^ {61}\) Thus a licensor’s attorney is obliged by Rule 4.1(b) to respond truthfully and completely to a request for known material information – such as potentially invalidating prior art documents or events of which it is aware. But absent such a request from the would-be licensee, the attorney for the licensor generally\(^ {62}\) need not volunteer information detrimental to her client’s interests, unless other law (such as a fiduciary relationship, a contractual duty, or a governing statute) so requires.\(^ {63}\) Professor John A. Humbach explains:

In our version of the adversary system, there is no general obligation to disabuse an opposing attorney even when the lawyer knows the other attorney is making an obvious mistake or laboring under serious misapprehension of fact or law . . . In transactions, it means that a lawyer need not inform the opposite party of key circumstances which, if it were aware of them, would almost certainly change its mind about the terms of the deal, or doing the deal at all.\(^ {64}\)

\(^{59}\) **MODEL RULES OF PROFESSIONAL CONDUCT** Rule 4.1(b).

\(^{60}\) See **MODEL RULES OF PROFESSIONAL CONDUCT** Rule 4.1 cmt. 1.

\(^{61}\) Id.

\(^{62}\) But see ABA Comm. on Ethics and Prof'l Responsibility, Formal Op. 95-397 (1995) (“When a lawyer's client dies in the midst of the settlement negotiations of a pending lawsuit in which the client was the claimant, the lawyer has a duty to inform opposing counsel and the court in the lawyer's first communications with either after the lawyer has learned of the fact.”); see also Note, **Between Scylla and Charybdis: The Importance of Internal Calibration in Balancing Zeal for One's Client With Duties to the Legal System When Your Adversary Is Incompetent**, 23 U.S.F. MAR. L.J. 265, 299 n.91 (2010-11) (collecting authorities relating to sanctionable nondisclosures in the context of negotiations).

\(^{63}\) See Craver, *supra* note 1, at 322.

\(^{64}\) John A. Humbach, **Shifting Paradigms of Lawyer Honesty**, 76 TENN. L. REV. 993, 1013-14 (2009).
What a lawyer may not do, however, is fail to disclose adverse controlling law to a tribunal, nor can he “fail to correct a false statement of material fact or law previously made to the tribunal by the lawyer.”

(7) A lawyer for a licensee who learns during negotiations that his client has understated its past sales of infringing product 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)

This situation is different from that described in Question 6, because the client, having chosen (even in response to a question) to speak, is obligated to speak the truth, and the lawyer is obligated by Model Rule 4.1(b) to “avoid assisting a . . . fraudulent act by a client.” However, Rule 4.1(b) imposes an important limitation on the lawyer’s course of action in this situation. It further provides that the lawyer’s duty to protect her client’s confidences by Model Rule 1.6 trumps her disclosure obligations under Rule 4.1(b).

Model Rule 1.6(a) forbids the disclosure of “information relating to the representation of a client unless the client gives informed consent . . ..” Rule 1.6(b) sets forth six exceptions, two of which are potentially relevant to this hypothetical. Pursuant to those provisions, “[a] 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;

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65 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 3.3(a)(2).

66 MODEL RULES OF PROFESSIONAL CONDUCT Rule 3.3(a)(1) (emphasis added).

67 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1(b).

68 See id.

69 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6(a).
(3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services . . . .

To summarize, Rule 4.1(b) appears to require a lawyer “to disclose a material fact to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client” to the extent Rule 1.6 permits. Rule 1.6(b) permits the disclosure of information relating to the representation to the extent necessary “to prevent the client from committing a . . . fraud . . . reasonably certain to result in substantial injury to the financial interests . . . of another” or “to prevent, mitigate or rectify substantial injury to the financial interests . . . of another that is reasonably certain to result or has resulted from the client's commission of a . . . fraud” — if “the client has used or is using the lawyer's services” in furtherance of the fraud. Synthesizing (and paraphrasing) the language of these rules, then, a lawyer must disclose confidential material information to avoid assisting a client who is using the lawyers services to commit a fraud. The circumstances described in question (7), above, certainly could satisfy these conditions, requiring the lawyer to speak up, if necessary. The analysis thus far, if the fraud would result in “substantial” financial injury, points to answer (b) – “alert the other party regarding the understatement.”

But that, of course, should be the last resort. A responsible lawyer would begin with answer (c) – “counsel the client to provide the other party with the correct figures.” If the client complies, the lawyer’s obligations are satisfied. If not, however,

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70 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6(b). The other exceptions authorize disclosures necessary to

(1) . . . prevent reasonably certain death or substantial bodily harm;

(4) . . . secure legal advice about the lawyer's compliance with these Rules;

(5) . . . establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client; or

(6) . . . comply with other law or a court order.

Id.

71 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1(b).

72 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6(b).

73 “Where practicable, the lawyer should first seek to persuade the client to take suitable action to obviate the need for disclosure.” MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6 cmt. 14.
the lawyer is permitted to withdraw if “the client persists in a course of action involving the lawyer’s services that the lawyer reasonably believes is ... fraudulent.”74 And, as noted above, if the lawyer reasonably believes some notice to the other party is necessary to avoid assisting the client’s use of the lawyer’s services to commit fraud, such notice is permitted under the rules.75

Professor Humbach has argued that the language of Model Rules 4.1(b) and 1.6 does not merely permit, but requires the lawyer to make appropriate disclosures:

Since Rule 4.1(b) requires its disclosure when Rule 1.6 permits them, a new and wide-ranging “duty to warn” has emerged. Whenever a lawyer believes that a Rule 4.1 disclosure is reasonably necessary 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,” then disclosure by the lawyer seems not merely permitted by Rule 1.6 but required under a joint reading of Rules 1.6 and 4.1.76

He cites additional concurring commentary,77 and his interpretation finds support not only in the language of Rules 1.6 and 4.1, taken together, but also in several Comments to the Model Rules.78 However, Professor Humbach also notes that the Reporter for the Task Force of Corporate Responsibility that recommended the 2003 changes adding the financial crime or fraud-related exceptions to Model Rule 1.6(b) to the ABA House of

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74 See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.16(b)(2).

75 “[Model Rule 1.6](b) permits disclosure only to the extent the lawyer reasonably believes the disclosure is necessary to accomplish one of the purposes specified. . . . In any case, a disclosure adverse to the client's interest should be no greater than the lawyer reasonably believes necessary to accomplish the purpose.” MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6 cmt. 14.

76 Humbach, supra note 64, at 1009.

77 Id. at 1009 n.102.

78 See, e.g., MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2 cmt. 10 (“In some cases, withdrawal alone might be insufficient. It may be necessary for the lawyer to give notice of the fact of withdrawal and to disaffirm any opinion, document, affirmation or the like. See Rule 4.1.”); MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6 cmt. 15 (“A lawyer's decision not to disclose as permitted by paragraph [1.6](b) does not violate this Rule. Disclosure may be required, however, by other Rules. Some Rules require disclosure only if such disclosure would be permitted by paragraph (b). See Rules 1.2(d), 4.1(b), 8.1 and 8.3.”); MODEL RULES OF PROFESSIONAL CONDUCT Rule 4.1 cmt. 3 (“Ordinarily, a lawyer can avoid assisting a client’s crime or fraud by withdrawing from the representation. 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.”).
Delegates has stated that “the Task Force . . . had no intention or expectation that it was recommending a mandatory disclosure obligation.”

In addition, ABA Formal Opinion No. 92-366 offers the lawyer the opportunity, in some cases, to alert the client’s “victim” to the fraud. Specifically, the ABA Opinion allows a lawyer to engage in a “noisy withdrawal” – to disavow any of her work product used by the client to carry out the deception – but only where necessary to prevent the client’s use of the work product to perpetrate the fraud.

Accordingly, if the lawyer in question 7 is unable to persuade her client to correct a material understatement in sales, and reasonably believes that some disclosure to the other party is necessary to avoid assisting her client from using her services to carry out a fraud which will result in substantial financial injury to the other party, she may withdraw and may further disavow any work product the client is using to perpetrate the fraud. Thus, answer (e), depending on the circumstances, may be the right answer. And it should also be noted that Model Rules 1.16(a) and 1.2(d) may, in some circumstances, require the lawyer to withdraw and alert the other party, in that they provide, respectively, that “a lawyer . . . shall withdraw from the representation of a client if . . . the representation will result in violation of the rules of professional conduct or other law” and “[a] lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent.”

The same analysis applies whether the client’s understatement was intentional or innocent. As noted above, the client had no obligation to volunteer the sales figures in the first place, but having provided them to the other side, whether voluntarily or in response to the other party’s inquiry, the client has the legal obligation to correct the

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79 Id. at 1009-10.


81 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.16(a).

82 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2(d). Comment 10 to Model Rule 1.2 provides:

The lawyer is required to avoid assisting the client, for example, by drafting or delivering documents that the lawyer knows are fraudulent or by suggesting how the wrongdoing might be concealed. A lawyer may not continue assisting a client in conduct that the lawyer originally supposed was legally proper but then discovers is criminal or fraudulent. The lawyer must, therefore, withdraw from the representation of the client in the matter. See Rule 1.16(a). In some cases, withdrawal alone might be insufficient. It may be necessary for the lawyer to give notice of the fact of withdrawal and to disaffirm any opinion, document, affirmation or the like. See Rule 4.1.

MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2(d) cmt. 10.
misstatement, if the amount of past sales is a material fact on which the other party will rely.

It is important to emphasize that the analysis above is based on the Model Rules, and that the ethics rules adopted in some states may vary—significantly. For example, some states don’t authorize disclosures to avoid assisting, preventing, or rectifying financial crimes or frauds.\(^{83}\) Some distinguish between crimes and non-criminal fraud, requiring disclosure in the case of the former and only permitting disclosure in the latter case, or permitting disclosure in the case of a crime but not where non-criminal fraud is at issue.\(^{84}\) Further, in some states’ versions of Model Rule 1.6, disclosure requirements or authorizations turn on the substantiality of the financial loss.\(^{85}\) And the states also vary as to whether a lawyer’s disclosure authorization is limited to circumstances in which the client is using the lawyer’s services to perpetuate the fraud.\(^{86}\)

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

(a) True
(b) False

As in the scenario above, the lawyer should advise his client to reveal the misstatement to the licensor. And, the lawyer is permitted to withdraw from the representation.\(^{87}\) Furthermore, pursuant to Model Rule 1.6(b)(3), “[a] lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary . . . to . . . mitigate or rectify substantial injury to the financial interests . . . of another that . . . has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services . . ..”\(^{88}\) Thus, the answer to Question 8—under the Model Rules—is (a): true. As in the case where a lawyer learns of the client’s fraud before it is consummated, however, different states have different

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\(^{83}\) See COMPARISON OF STATE CONFIDENTIALITY RULES: ABA Model Rule 1.6(b)(2) and (3): Revealing Confidential Information in Cases of Financial Harm, available at http://www.americanbar.org/content/dam/aba/migrated/cpr/pic/1_6b2.authcheckdam.pdf.

\(^{84}\) Id.

\(^{85}\) Id.

\(^{86}\) Id.

\(^{87}\) See MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.16(b)(3) (a lawyer may withdraw if “the client has used the lawyer’s services to perpetrate a crime or fraud”).

\(^{88}\) MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6(b)(3).
rules and limitations on the lawyer’s ability to make such disclosures. Accordingly, the “better” (albeit more lawyerly) answer as a practical matter is “it depends.”

(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

According to ABA Informal Opinion 86-1518, the lawyer should correct the other attorney’s apparent drafting error, and need not consult with his client about the situation. Although the omission “relates to the representation,” and would appear, therefore, to be protected from disclosure by Model Rule 1.6, the ABA Opinion states that calling the error to the attention of the other lawyer is “impliedly authorized in order to carry out the representation” – and is, therefore, permissible.

What the lawyer may not do, according to the ABA Opinion, is advise the client to take advantage of the other lawyer’s mistake. To do so “might raise a serious question of the violation” of Model Rule 1.2(d), which provides that “[a] lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is . . . fraudulent . . .”. Thus, it has been argued that correcting the other lawyer’s error is “clearly the better practice.”

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89 See COMPARISON, supra note 83.


91 See id.

92 See id.

93 See id.

94 MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.2(d).

95 See Geronemus, supra note 12, at 14.
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

Probably false, in most jurisdictions. Model Rule 5.5 provides, in relevant part:

c) A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services on a temporary basis in this jurisdiction that:

1. are in or reasonably related to a pending or potential proceeding before a tribunal in this or another jurisdiction, if the lawyer, or a person the lawyer is assisting, is authorized by law or order to appear in such proceeding or reasonably expects to be so authorized;
2. are in or reasonably related to a pending or potential arbitration, mediation, or other alternative dispute resolution proceeding in this or another jurisdiction, if the services arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice and are not services for which the forum requires pro hac vice admission; or
3. are not within paragraphs (c)(2) or (c)(3) and arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice.96

Thus as long as the lawyer's work in the other jurisdiction (1) is temporary, and (2) is related 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(s), it is authorized.

Comment 6 to Model Rule 5.5 explains that "[s]ervices may be 'temporary' even though the lawyer provides services in [the other] jurisdiction 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."97 In contrast, with limited exceptions,98 "Rule [5.5] does not

96 MODEL RULES OF PROFESSIONAL CONDUCT Rule 5.5(c).
97 MODEL RULES OF PROFESSIONAL CONDUCT Rule 5.5 cmt. 6.
98 Model Rule 5.5(d) authorizes out-of-state lawyers to provide legal services that (1) are provided to the lawyer's employer or its organizational affiliates and are not services for which the forum requires pro hac vice admission; or
authorize a lawyer to establish an office or other systematic and continuous presence in [a] jurisdiction without being admitted to practice generally [there].”

Importantly, “[a] lawyer who practices law in [a] jurisdiction pursuant to paragraphs (c) or (d) or otherwise is subject to the disciplinary authority of [that] jurisdiction.” And an out-of-state lawyer who negotiates on behalf of a client in California – the only state that has not adopted professional conduct rules following the format of the Model Rules – may also risk fee forfeiture. In Birbrower, Montalbo, Condon & Frank, P.C. v. The Superior Court of Santa Clara County, a former client succeeded in defending a claim for fees brought by a New York firm whose members had negotiated in California on the former client's behalf. The court held that practicing law in California without a California license precluded the firm from recovering attorneys' fees incurred in the course of the work in California. However, Birbrower does not apply where the out-of-state lawyer’s client is not a California resident.

IV. CONCLUSION

As the foregoing discussion indicates, the ethics rules are, of course, relevant to negotiations. To an extent, the rules permit zealous representation by recognizing the realities of “competitive” negotiation. However, the key rules relating to negotiation practice are not uniform across jurisdictions. Also, they do not provide specific guidance for every situation, leaving much to the judgment of the practitioner.

(2) are services that the lawyer is authorized to provide by federal law or other law of this jurisdiction.

MODEL RULES OF PROFESSIONAL CONDUCT Rule 5.5(d).

99 MODEL RULES OF PROFESSIONAL CONDUCT Rule 5.5 cmt. 5.

100 MODEL RULES OF PROFESSIONAL CONDUCT Rule 5.5 cmt. 19.


103 See id. at 140.

104 See id. at 139.