Ethical Considerations in Intellectual Property Licensing

James F. Gottman

B

Critical Considerations in Intellectual Property Licensing

James P. Chapman

CURRICULUM VITAE

JAMES F. GOTTMAN

Office:
Killworth, Gottman, Hagan & Schaeff L.L.P.
One Dayton Centre, Suite 500
Dayton, OH 45402-2023
Tel.: 937/223-2050 Fax: 937/223-0724
E-mail: gottmanj@kghs.com

Home:
24 Grandon Road
Dayton, Ohio 45410
937/299-5883

Personal Data:

Born April 7, 1946 in Xenia, Ohio

Certifications:

Registered Patent Attorney, No. 27,262
Admitted Ohio State Bar (1974), C.C.P.A. (1976)
Southern District of Ohio (1974), Federal Circuit (1982)

Professional Activities:

American Bar Association; American Intellectual Property Association; Ohio State Bar Association (Secretary, PTC Section 1981-1982); Dayton Bar Association (Chairman, Professional Ethics Committee 1984-1986; Member, Professional Ethics Committee 1980-1986, 1989-present; Chairman, Committee on Unauthorized Practice of Law 1987-1988).

Education:

B.S.E.E. (with honors) 1969, University of Cincinnati, Cincinnati, Ohio; J.D. 1974, Georgetown University Law Center, Washington, D.C.

Professional Experience:

1/85 to Present	Partner - Killworth, Gottman, Hagan & Schaeff, L.L.P., Dayton, Ohio
1/80 to 1/85	Partner - Biebel, French & Nauman, Dayton, Ohio
8/74 to 1/80	Associate in above firm
6/69 to 7/74	Patent Examiner, Computers, U.S. Patent and Trademark Office, Washington, D.C.

Teaching Experience:

Lecturer, "Designing Around Valid U.S. Patents," Patent Resources Institute, Washington, D.C., 1995.

Lecturer, "Ethical Considerations in Licensing," Licensing Intellectual Property, University of Dayton Law School, Dayton, Ohio, 1999.

ETHICAL CONSIDERATIONS IN INTELLECTUAL PROPERTY LICENSING

James F. Gottman
Killworth, Gottman, Hagan & Schaeff, L.L.P.
One Dayton Centre
One South Main Street, Suite 500
Dayton, Ohio 45402-2023
(937) 223-2050

TABLE OF CONTENTS

James F. Gottman

Introduction i

I. Multi-State Transactions 1

1. Choice of Law 1

2. Unauthorized Practice of Law 4

II. Truthfulness and Avoidance of Misrepresentation 11

III. Conflicts Involving Current or Former Clients and Representation of Multiple Clients 18

1. Conflicts Involving Current Clients 18

2. Conflicts Involving Former Clients 21

3. Representation of Multiple Clients-Lawyer as Intermediary 24

IV. Lawyer as Witness 29

V. Contact with Adverse Party Represented by Counsel 32

VI. Appearance of Impropriety 35

INTRODUCTION

The following materials outline some of the areas of ethical concern which arise periodically in conjunction with license agreements, either during negotiation and preparation of the agreements, or afterwards as the parties attempt to comply with their respective contractual obligations. It will be appreciated, however, that these materials do not deal with the complete range of ethical issues that can arise in relation to license agreements. Excluding those problems that may be unique to the practice of criminal law, nearly every ethical problem imaginable can occur in the context of intellectual property licensing. The licensing attorney should be aware of the ethical rules and restrictions which apply to his practice in their entirety. The references in the following materials to rule numbers are to rules from the American Bar Association Model Rules of Professional Conduct (1999 edition), and the references in these materials to disciplinary rules ("DR") and ethical considerations ("EC") are to provisions from the American Bar Association Model Code of Professional Responsibility. It is understood, however, that the rules of each jurisdiction may vary from these models to a greater or lesser degree.

I. Multi-State Transactions

1. *Choice of Law*

Many licensing transactions, perhaps most licensing transactions, do not take place within a single jurisdiction. The licensor and licensee may well be incorporated and located in differing states, and the attorneys involved may maintain their offices and be licensed in still other states. The meetings involved in the negotiation process may take place in yet other locations. Assuming that legal ethical requirements differ to some material degree among the various states involved, which state's legal ethical requirements govern the activities of the attorneys during the negotiation process? Most states have ethical rules that generally follow the ABA Model Rules of Professional Conduct, although a number of states still adhere to ethical requirements patterned after a version of the ABA Model Code of Professional Responsibility. Although similar in many respects, significant differences do exist between these two models. As an example, DR7-105(A) prohibits use of threats of prosecution in connection with a civil matter, while the Model Rules contain no such absolute prohibition, explicit or implicit. See ABA Formal Opinion 92-363 (1992).

The answer to the question of which state's law applies is often far from clear regarding ethical issues. The ABA Model Code does not include a choice of laws provision. Apparently, the assumption is that, for example, the Ohio Code governs the actions of Ohio attorneys, wherever they may travel in their practice. Another explanation of the Code's failure to deal with this issue is that it harkens back to a time when multi-state transactions were extremely uncommon.

The American Bar Association Model Rules, however, do not ignore this issue. Rule 8.5 provides that conduct outside the courtroom is governed by the rules of the jurisdiction in which the lawyer principally practices (if he is admitted in several jurisdictions), unless the conduct clearly has its predominant effect in another jurisdiction in which the lawyer is also admitted to practice. In the latter case, the rules of the other jurisdiction apply. Note, however, that the rules of another jurisdiction in which the lawyer is not admitted to practice do not govern the lawyer's conduct outside the courtroom (unless he is admitted there for purposes of a specific law suit), even if the conduct of the lawyer has its predominant effect in such jurisdiction.

Rule 8.5 Disciplinary Authority; Choice of Law

(a) Disciplinary Authority. A lawyer admitted to practice in this jurisdiction is subject to the disciplinary authority of this jurisdiction, regardless of where the lawyer's conduct occurs. A lawyer may be subject to the disciplinary authority of both this jurisdiction and another jurisdiction where the lawyer is admitted for the same conduct.

(b) Choice of Law. In any exercise of the disciplinary authority of this jurisdiction, the rules of professional conduct to be applied shall be as follows:

(1) for conduct in connection with a proceeding in a court before which a lawyer has been admitted to practice (either generally or for purposes of that proceeding), the rules to be applied shall be the rules of the jurisdiction in which the court sits, unless the rules of the court provide otherwise; and

(2) for any other conduct,

(i) if the lawyer is licensed to practice only in this jurisdiction, the rules to be applied shall be the rules of this jurisdiction, and

(ii) if the lawyer is licensed to practice in this and another jurisdiction, the rules to be applied shall be the rules of the admitting jurisdiction in which the lawyer principally practices; provided, however, that if particular conduct clearly has its predominant effect in another jurisdiction in which the lawyer is licensed to practice, the rules of that jurisdiction shall be applied to that conduct.

Comment - Rule 8.5

Choice of Law

[1] A lawyer may be potentially subject to more than one set of rules of professional conduct which impose different obligations. The lawyer may be licensed to practiced in more than one jurisdiction with differing rules, or may be admitted to practice before a particular court with rules that differ from those of the jurisdiction or jurisdictions in which the lawyer is licensed to practice. In the past, decisions have not developed clear or consistent guidance as to which rules apply in such circumstances.

[2] Paragraph (b) seeks to resolve such potential conflicts. Its premise is that minimizing conflicts between rules, as well as uncertainty about which rules are applicable, is in the best interest of both clients and the profession (as well as the bodies having authority to regulate the profession). Accordingly, it takes the approach of (i) providing that any particular conduct of a lawyer shall be subject to only one set of rules of professional conduct, and (ii) making the determination of which set of rules applies to particular conduct as straightforward as possible, consistent with recognition of appropriate regulatory interests of relevant jurisdictions.

[3] Paragraph (b) provides that as to a lawyer's conduct relating to a proceeding in a court before which the lawyer is admitted to practice (either generally or pro hac vice), the lawyer shall be subject only to the rules of professional conduct of that court. As to all other conduct, paragraph (b) provides that a lawyer licensed to practice only in this jurisdiction shall be subject to the rules of professional conduct of this jurisdiction, and that a lawyer licensed in multiple jurisdictions shall be subject only to the rules of the jurisdiction where he or she (as an individual, not his or her firm) principally practices, but with one exception: if particular

conduct clearly has its predominant effect in another admitting jurisdiction, then only the rules of that jurisdiction shall apply. The intention is for the latter exception to be a narrow one. It would be appropriately applied, for example, to a situation in which a lawyer admitted in, and principally practicing in, State A, but also admitted in State B, handled an acquisition by a company whose headquarters and operations were in State B of another, similar such company. The exception would not appropriately be applied, on the other hand, if the lawyer handled an acquisition by a company whose headquarters and operations were in State A of a company whose headquarters and main operations were in State A, but which also had some operations in State B.

[4] If two admitting jurisdictions were to proceed against a lawyer for the same conduct, they should, applying this rule, identify the same governing ethics rules. They should take all appropriate steps to see that they do apply the same rule to the same conduct, and in all events should avoid proceeding against a lawyer on the basis of two inconsistent rules.

[5] The choice of law provision is not intended to apply to transnational practice. Choice of law in this context should be the subject of agreements between jurisdictions or of appropriate international law.

Cross reference tables, which may assist the lawyer in a comparison of Model Code and Mode Rules sections, may be reviewed by accessing Cornell University's web site, then accessing the Law School's homepage at that site.

2. ***Unauthorized Practice of Law***

Not only does a multi-state transaction raise issues regarding choice of law regarding ethical rules, but it may also raise issues regarding whether an attorney is participating, or assisting another in participating, in the unauthorized practice of law.

DR 3-101 Aiding Unauthorized Practice of Law.

(A) A lawyer shall not aid a non-lawyer in the unauthorized practice of law.

(B) A lawyer shall not practice law in a jurisdiction where to do so would be in violation of regulations of the profession in that jurisdiction.

The issue of unauthorized practice of law may arise in those instances in which the prospective licensor and the prospective licensee are headquartered in a state or in separate states in which the attorneys are not licensed to practice, and in which the licensing negotiations include meetings in a state in which the attorneys are not licensed to practice. Ethical Consideration EC 3-9 recognizes the difficulties encountered in this situation.

EC 3-9

Regulation of the practice of law is accomplished principally by the respective states.[1] Authority to engage in the practice of law conferred in any jurisdiction is not per se a grant of the right to practice elsewhere, and it is improper for a lawyer to engage in practice where he is not permitted by law or by court order to do so. However, the demands of business and the mobility of our society pose distinct problems in the regulation of the practice of law by the states.[2] In furtherance of the public interest, the legal profession should discourage regulation that unreasonably imposes territorial limitations upon the right of a lawyer to handle the legal affairs of his client or upon the opportunity of a client to obtain the services of a lawyer of his choice in all matters including the presentation of a contested matter in a tribunal before which the lawyer is not permanently admitted to practice.[3]

Footnotes to EC 3-9:

1 "That the States have broad power to regulate the practice of law is, of course, beyond question." *United Mine Workers v. Ill. State Bar Ass'n*, 389 U.S. 217, 222 (1967)."It is a matter of law, not of ethics, as to where an individual may practice law. Each state has its own rules." *ABA Opinion* 316 (1967).

2 "Much of clients' business crosses state lines. People are mobile, moving from state to state. Many metropolitan areas cross state lines. It is common today to have a single economic and social community involving more than one state. The business of a single client may involve legal problems in several states." *ABA Opinion* 316 (1967).

3 "[W]e reaffirmed the general principle that legal services to New Jersey residents with respect to New Jersey matters may ordinarily be furnished only by New Jersey counsel; but we pointed out that there may be multistate transactions where strict adherence to this thesis would not be in the public interest and that, under the circumstances, it would have been not only more costly to the client but also 'grossly impractical and inefficient' to have had the settlement negotiations conducted by separate lawyers from different states." *In re Estate of Waring*, 47 N.J. 367, 376, 221 A.2d 193, 197 (1966).

The Model Rules also prohibit the unauthorized practice of law by a lawyer. Rule 5.5 provides as follows:

Rule 5.5 Unauthorized Practice of Law

A lawyer shall not:

(a) practice law in a jurisdiction where doing so violates the regulation of the legal profession in that jurisdiction; or

(b) assist a person who is not a member of the bar in the performance of activity that constitutes the unauthorized practice of law.

Comment - Rule 5.5

[1] The definition of the practice of law is established by law and varies from one jurisdiction to another. Whatever the definition, limiting the practice of law to members of the bar protects the public against rendition of legal services by unqualified persons. Paragraph (b) does not prohibit a lawyer from employing the services of paraprofessionals and delegating functions to them, so long as the lawyer supervises the delegated work and retains responsibility for their work. See Rule 5.3. Likewise, it does not prohibit lawyers from providing professional

> advice and instruction to nonlawyers whose employment requires knowledge of law; for example, claims adjusters, employees of financial or commercial institutions, social workers, accountants and persons employed in government agencies. In addition, a lawyer may counsel nonlawyers who wish to proceed *pro se*.

Note that the practice of law is generally regulated by the states, as stated by EC3-9, above, and further that the definition of the activities that constitute the practice of law also is determined by the states. The footnotes to EC3-9 recognize that there is sometimes a need for legal representation in matters that impact a number of jurisdictions, and that it is not always practical for counsel to be retained in each and every jurisdiction. Nevertheless, some courts have found out-of-state attorneys to be impermissibly practicing law when those attorneys negotiated agreements within the state.

Most notable is the California Supreme Court case of *Birbrower v. ESQ Business Services, Inc.*, 17 Cal. 4th 119, 949 P.2d 1 (1998); *cert. denied*, 119 S. Ct. 291, 142 L.Ed. 2d 226 (1998). In the *Birbrower* case, ESQ, a California corporation with its principal place of business in California, retained the New York law firm of Birbrower, Montalbano, Candon & Frank. ESQ entered into a contingency fee agreement with the Birbrower firm under which the firm would investigate and prosecute any claims that ESQ might have against Tandem Computers arising out of a prior contract between ESQ and Tandem. The fee agreement stated that it was governed by the laws of California. The Birbrower attorneys, who were not licensed in California, traveled from New York to California on a number of occasions, and met with accountants for ESQ, with ESQ management, and with representatives for Tandem. The Birbrower attorneys also filed a

demand for arbitration against Tandem with the American Arbitration Association office in San Francisco and visited California to interview potential arbitrators, although arbitration was never actually instituted.

ESQ, represented by Birbrower attorneys, eventually settled with Tandem. The fee agreement between ESQ and the Birbrower firm was modified just prior to this settlement to a fixed fee agreement, giving the law firm fees in excess of $1 million. Subsequently, litigation developed between ESQ (asserting legal malpractice) and the Birbrower firm (asking for the payment of its fees under the second fee agreement). ESQ defended against the claim for attorney fees by arguing that the Birbrower firm had engaged in the unauthorized practice of law in California, and had failed to associate itself with California counsel, and that the fee agreement was therefore unenforceable. The trial court found in favor of ESQ as to the portion of the attorney fees for legal work performed by the Birbrower attorneys in California, but not as to the portion of the attorney fees for legal work performed in New York. The Court of Appeals concluded that the Birbrower firm was barred from recovering any fees whatsoever under the agreement, whether the legal work was performed in California or in New York.

The California Supreme Court, while acknowledging the interstate nature of modern law practice and the need to deal with this in a reasonable way, nevertheless concluded that unauthorized practice of law had occurred. The Supreme Court held that the fee agreement was invalid to the extent that it provided for payment for legal services that were performed in California by unlicensed attorneys, but that the Birbrower firm could recover for those "limited services" that the firm performed in New York where its attorneys were licensed. The Court reviewed the question of what activities constitute practicing law "in California" so as to require

a California license. The Court indicated that both the extent of the contact in the state of California with the California client and the nature of the unlicensed lawyers' activities in the state of California were to be taken into account in making this assessment.

The Court indicated that if an unlicensed attorney's contacts with the state of California are sufficiently "attenuated," there would not be a finding that unauthorized practice had occurred in California. However, the Court went on to state that physical presence in the state was not necessary for a violation. Advising a California client about California law in connection with a "California dispute" might be improper, the Court opined, even if accomplished only by telephone or fax. The Court cautioned, however, that "virtually" entering the state by fax, e-mail, telephone, etc. would not automatically constitute practicing in California. Thus, the Court in *Birbrower* did not draw a clear line between permitted and unpermitted activities for the unlicensed attorney. It seems clear, however, that physically entering the state of California, coupled with spending a not insubstantial amount of time there while performing legal services, such as negotiation, on behalf of a California based company, will be viewed in many circumstances as practicing law in California by California courts, requiring a California license.

Although the California Supreme Court did not explicitly limit the holding in *Birbrower* to those situations in which a non-California lawyer is representing a California client, other courts have suggested that the holding in *Birbrower* is so limited. The California client restriction to the rule handed down by the *Birbrower* court is discussed in *Estate of Condon v. McHenry*, 65 Cal. App. 4th 1138 (1st App. Dist. 1998). The court in *Condon* held that the client's residence or principal place of business was determinative as to whether the California

unauthorized practice of law statute was applicable. "The State of California has no interest in disciplining an out-of-state attorney practicing law on behalf of a client residing in the lawyer's home state." 65 Cal. App. 4th at 1146.

It is important to maintain an awareness of unauthorized practice of law issues when participating in a multi-state transaction. In view of *Birbrower*, this is especially true when the client has its principal place of business in a state in which the attorney is not licensed, particularly when a California client is represented.

Since *Birbrower*, at least one other state supreme court has addressed the issue of the type of activity which may constitute the practice of law within the jurisdiction by an unlicensed attorney. In *Fought & Company, Inc. v. Steele Engineering and Erection, Inc.*, 87 Haw. 37, 951 P.2d 487 (1998) the Supreme Court of Hawaii held that the activities of an Oregon attorney, in Oregon, consulting with his Oregon client and with Hawaii counsel with respect to a suit in Hawaii were not practicing law "within the jurisdiction." The court quoted *Birbrower* extensively. The fact that the court did not summarily dispose of the unauthorized practice of law issue, given such minimal contacts with the state of Hawaii by the Oregon attorney, but felt the need to discuss the issue at some length, is troubling. It is possible that the Supreme Court of Hawaii might find unauthorized practice in a factual setting where there are only slightly greater contacts between an unlicensed lawyer and the state of Hawaii.

II. Truthfulness and Avoidance of Misrepresentations

DR 1-102(A) of the Code provides:

(A) A lawyer shall not:

(1) Violate a Disciplinary Rule or, as a judicial candidate as defined in Canon 7 of the Code of Judicial Conduct, the provisions of the Code of Judicial Conduct applicable to judicial candidates.

(2) Circumvent a Disciplinary Rule through actions of another.

(3) Engage in illegal conduct involving moral turpitude.

(4) Engage in conduct involving dishonesty, fraud, deceit, or misrepresentation.

(5) Engage in conduct that is prejudicial to the administration of justice.

(6) Engage in any other conduct that adversely reflects on the lawyer's fitness to practice law.

Particularly note DR 1-102(A)(4), above. In *Columbus Bar Association v. King*, 84 Ohio St.3d 174 (1998), an attorney called his client's ex-landlord. The attorney did not identify himself as a lawyer and he did not state that he represented his client. Instead, the attorney lied and stated that he was a landlord who had received a rental application from the client. The ex-landlord then made derogatory statements about the client. These statements were the subject of a slander claim in a subsequent suit by the client against the ex-landlord.

Dissenting from the majority's stay of a suspension of the attorney's license, Chief Justice Moyer argued for a harsher punishment:

I respectfully dissent from the majority's decision to impose a one-year suspension on *King*, and a six-month suspension on Pope, with both sanctions stayed. The behavior of respondents King and Pope was of such a nature that an actual suspension is warranted in both cases.

The evidence clearly supports the finding of the Board of Commissioners on Grievances and Discipline of the Supreme Court that King and Pope were in violation of DR 1-102(A)(4) (engaging in conduct involving dishonesty, fraud, deceit, or misrepresentation). King and Pope conspired in a scheme to knowingly misrepresent Pope's identity in order to induce an adverse party into making a defamatory statement that could be the basis of additional claims by King's client. Pope deliberately misrepresented his identity to employees of University Area Rentals with the knowledge, acquiescence, and participation of King. The scheme involved clear and knowing misrepresentations, and therefore constitutes a violation of DR 1-102(A)(4).

In *Disciplinary Counsel v. Fowerbaugh* (1995), 74 Ohio St.3d 187, 190, 658 N.E.2d 237, 240, we said that "[w]hen an attorney engages in a course of conduct resulting in a finding that the attorney has violated DR 1-102(A)(4), the attorney will be actually suspended from the practice of law for an appropriate period of time."

I agree with the board's finding and with the majority's holding that King and Pope violated the Code of Professional Responsibility. However, a stronger sanction than a totally stayed suspension is warranted. A lawyer is expected to maintain a "degree of personal and professional integrity that meets the highest standard." *Cleveland Bar Assn. v. Stein* (1972), 29 Ohio St.2d 77, 81, 58 O.O.2d 151, 153, 278 N.E.2d 670, 673. King and Pope have failed to operate in accordance with that standard.
(84 Ohio St.3d 177)

The overt sort of misrepresentation found in *King* will seldom arise in a licensing context, especially as to the fact that the lawyer is acting as an attorney, and as to the facts of the identity of his client and his client's interest.

Nevertheless, an attorney in negotiating an agreement should not make a misstatement as to any "fact," under the Code, especially as to the identity and interest of his client.

DR 7-102 Representing a Client Within the Bounds of the Law.

(A) In his representation of a client, a lawyer shall not:

(1) File a suit, assert a position, conduct a defense, delay a trial, or take other action on behalf of his client when he knows or when it is obvious that such action would serve merely to harass or maliciously injury another.

(2) Knowingly advance a claim or defense that is unwarranted under existing law, except that he may advance such claim or defense if it can be supported by good faith argument for an extension, modification, or reversal of existing law.

(3) Conceal or knowingly fail to disclose that which he is required by law to reveal.

(4) Knowingly use perjured testimony or false evidence.

(5) Knowingly make a false statement of law or fact.

(6) Participate in the creation or preservation of evidence when he knows or it is obvious that the evidence is false.

(7) Counsel or assist his client in conduct that the lawyer knows to be illegal or fraudulent.

(8) Knowingly engage in other illegal conduct or conduct contrary to a Disciplinary Rule.

(B) A lawyer who receives information clearly establishing that:

(1) His client has, in the course of the representation, perpetrated a fraud upon a person or tribunal shall promptly call upon his client to rectify the same, and if his client refuses or is unable to do so, he shall reveal the fraud to the affected person or tribunal.

(2) A person other than his client has perpetrated a fraud upon a tribunal shall promptly reveal the fraud to the tribunal.

Similarly, the Rules provide that the attorney should not make a false statement of "material fact" to a third person, *i.e.*, a person not the attorney's client. Note Rule 4.1.

Rule 4.1 Truthfulness in Statements to Others

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.

Comment - Rule 4.1

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 failure to act.

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 in this category, and so is the existence of an undisclosed principal except where nondisclosure of the principal would constitute fraud.

In the Comment to Rule 4.1, there is a reference to a "category" of types of statements in negotiation that are not considered factual for purposes of the rule. This category, which is considered by convention not to be subject to the ethical requirement of truthfulness, is said to include price or value placed on the subject of a transaction, and also a party's intentions as to an acceptable settlement of a claim. It is clear from the Comment, therefore, that an attorney may posture during the give and take of negotiation as to his client's "bottom line" or "choke point," without ethical difficulty. This is probably true of many statements made during negotiations that any experienced negotiator would recognize as simply setting the tone for the discussions. As to other objective facts, and especially those facts which the other party and his attorney may not have the ability to verify independently, there must be scrupulous honesty, however. As an example, when negotiating a lump sum payment for a release for past infringement as a part of a patent license, the licensee and his attorney must be truthful in any disclosure of the level of past infringing activity. An estimate of past infringing sales should be delineated as an estimate, and it should be as accurate as reasonably possible.

"Material facts" include not only those facts that go to the subject matter of the licensed intellectual property, but also facts relating to the license agreement itself, as suggested by the following ABA Informal Ethics Opinion.

> Informal Opinion 86-1518 Notice to Opposing Counsel of Inadvertent Omission of Contract Provision (1986)
>
> Where the lawyer for A has received for signature from the lawyer for B the final transcription of a contract from which an

important provision previously agreed upon has been inadvertently omitted by the lawyer for B, the lawyer for A, unintentionally advantaged, should contact the lawyer for B to correct the error and need not consult A about the error.

A and B, with the assistance of their lawyers, have negotiated a commercial contract. After deliberation with counsel, A ultimately acquiesced in the final provision insisted upon by B, previously in dispute between the parties and without which B would have refused to come to overall agreement. However, A's lawyer discovered that the final draft of the contract typed in the office of B's lawyer did not contain the provision which had been in dispute. The Committee has been asked to give its opinion as to the ethical duty of A's lawyer in that circumstance.

The Committee considers this situation to involve merely a scrivener's error, not an intentional change in position by the other party. A meeting of the minds has already occurred. The Committee concludes that the error is appropriate for correction between the lawyers without client consultation. n1

n1 Assuming for purposes of discussion that the error is "information relating to [the] representation," under Rule 1.6 disclosure would be "impliedly authorized in order to carry out the representation." The Comment to Rule 1.6 points out that a lawyer has implied authority to make "a disclosure that facilitates a satisfactory conclusion" - - in this case completing the commercial contract already agreed upon and left to the lawyers to memorialize. We do not here reach the issue of the lawyer's duty if the client wishes to exploit the error.

A's lawyer does not have a duty to advise A of the error pursuant to any obligation of communication under Rule 1.4 of the ABA Model Rules of Professional Conduct (1983). "The guiding principle is that the lawyer should fulfill reasonable client expectations for information consistent with the duty to act in the client's best interests and the client's overall requirements as to the character of representation." Comment to Rule 1.4. In this circumstance, there is no "informed decision," in the language of Rule 1.4, that A needs to make; the decision on the contract has already been made by the client. Furthermore, the Comment to Rule 1.2 points out that the lawyer may decide the "technical"

means to be employed to carry out the objective of the representation, without consultation with the client.

The client does not have the right to take unfair advantage of the error. The client's right pursuant to Rule 1.2 to expect committed and dedicated representation is not unlimited. Indeed, for A's lawyer to suggest that A has an opportunity to capitalize on the clerical error, unrecognized by A and B's lawyer, might raise a serious question of the violation of the duty of A's lawyer under Rule 1.2(d) not to counsel the client to engage in, or assist the client in, conduct the lawyer knows is fraudulent. In addition, Rule 4.1(b) admonishes the lawyer not knowingly to fail to disclose a material fact to a third person when disclosure is necessary to avoid assisting a fraudulent act by a client, and Rule 8.4(c) prohibits the lawyer from engaging in conduct involving dishonesty, fraud, deceit or misrepresentation.

The result would be the same under the predecessor ABA Model Code of Professional Responsibility (1969, revised 1980). While EC 7-8 teaches that a lawyer should use the best efforts to ensure that the client's decisions are made after the client has been informed of relevant considerations, and EC 9-2 charges the lawyer with fully and promptly informing the client of material developments, the scrivener's error is neither a relevant consideration nor a material development and therefore does not establish an opportunity for a client's decision. n2 The duty of zealous representation in DR 7-101 is limited to lawful objectives. See DR 7-102. Rule 1.2 evolved from DR 7-102(A)(7), which prohibits a lawyer from counseling or assisting the client in conduct known to be fraudulent. See also DR 1-102(A)(4), the precursor of Rule 8.4(c), prohibiting the lawyer from engaging in conduct involving dishonesty, fraud, deceit, or misrepresentation.

n2 The delivery of the erroneous document is not a "material development" of which the client should be informed under EC 9-2 of the Model Code of Professional Responsibility, but the omission of the provision from the document is a "material fact" which under Rule 4.1(b) of the Model Rules of Professional Conduct must be disclosed to B's lawyer.

III. CONFLICTS INVOLVING CURRENT OR FORMER CLIENTS AND REPRESENTATION OF MULTIPLE CLIENTS

1. Conflicts Involving Current Clients

Generally, there need not be a substantial relationship between the work handled by a firm for a first client and a suit brought by a second client against the first client in order for a firm to be barred from representing the second client in the suit. See, for example, *Lemelson v. Apple Computer, Inc.*, 28 USPQ2d 1412 (D. Nev. 1993) in which a law firm actively handling tax assessment work for a patent infringement defendant was precluded from representing the patent owner in the suit, even though the law firm withdrew from representing the defendant in tax matters prior to the filing of the suit, after the defendant refused to consent to the dual representation.

Interests of Multiple Clients

EC 5-14

Maintaining the independence of professional judgment required of a lawyer precludes his acceptance or continuation of employment that will adversely affect his judgment on behalf of or dilute his loyalty to a client. This problem arises whenever a lawyer is asked to represent two or more clients who may have differing interests, whether such interests be conflicting, inconsistent, diverse, or otherwise discordant.

EC 5-15

If a lawyer is requested to undertake or to continue representation of multiple clients having potentially differing interests, he must weigh carefully the possibility that his judgment may be impaired or his loyalty divided if he accepts or continues the employment. He should resole all doubts against the propriety of the representation. A lawyer should never represent in litigation multiple clients with differing interest; and there are few situations in which he would be justified in representing in litigation multiple clients with potentially differing interests. If a lawyer accepted such employment and the interests did become actually

differing, he would have to withdraw from employment with likelihood of resulting hardship on the clients; and for this reason it is preferable that he refuse the employment initially. On the other hand, there are many instances in which a lawyer may properly serve multiple clients having potentially differing interests in matters not involving litigation. If the interests vary only slightly, it is generally likely that the lawyer will not be subjected to an adverse influence and that he can retain his independent judgment on behalf of each client; and if the interests become differing, withdrawal is less likely to have a disruptive effect upon the causes of his clients.

EC 5-16

In those instances in which a lawyer is justified in representing two or more clients having differing interests, it is nevertheless essential that each client be given the opportunity to evaluate his need for representation free of any potential conflict and to obtain other counsel if he so desires. Thus before a lawyer may represent multiple clients, he should explain fully to each client the implications of the common representation and should accept or continue employment only if the clients consent. If there are present other circumstances that might cause any of the multiple clients to question the undivided loyalty of the lawyer, he should also advise all of the clients of those circumstances.

EC 5-17

Typically recurring situations involving potentially differing interests are those in which a lawyer is asked to represent co-defendants in a criminal case, co-plaintiffs in a personal injury case, an insured and his insurer, and beneficiaries of the estate of a decedent. Whether a lawyer can fairly and adequately protect the interests of multiple clients in these and similar situations depends upon an analysis of each case. In certain circumstances, there may exist little chance of the judgment of the lawyer being adversely affected by the slight possibility that the interests will become actually differing; in other circumstances, the chance of adverse effect upon his judgment is not unlikely.

DR 5-105 Refusing to Accept or Continue Employment If the Interests of Another Client May Impair the Independent Professional Judgment of the Lawyer.

(A) A lawyer shall decline proffered employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would likely to involve him in representing differing interests, except to the extent permitted under DR 5-105(C).

(B) A lawyer shall not continue multiple employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by his representation of another client, or if it would be likely to involve him in representing differing interests, except to the extent permitted under DR 5-105(C).

(C) In the situations covered by DR 5-105(A) and (B), a lawyer may represent multiple clients if it is obvious that he can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of his independent professional judgment on behalf of each.

(D) If a lawyer is required to decline employment or to withdraw from employment under a Disciplinary Rule, no partner, or associate, or any other lawyer affiliated with him or his firm, may accept or continue such employment.

Rule 1.7 Conflict of Interest: General rule

(a) A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:

(1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and

(2) each client consents after consultation.

(b) A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:

(1) the lawyer reasonably believes the representation will not be adversely affected; and

(2) the client consents after consultation. When representation of multiple clients in a single matter is undertaken, the consultation shall include explanation of the implications of the common representation and the advantages and risks involved.

2. Conflicts Involving Former Clients

The Rules deal specifically with the issue of representation that is adverse to the interests of a former client.

Rule 1.9 Conflict of Interest: Former Client

(a) A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client consents after consultation.

(b) A lawyer shall not knowingly represent a person in the same or substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client,

(1) whose interests are materially adverse to that person; and

(2) about whom the lawyer has acquired information protected by Rule 1.6 and 1.9(c) that is material to the matter; unless the former client consents after consultation.

(c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:

(1) use information relating to the representation to the disadvantage of the former client except as Rule 1.6 or 3.3 would permit or require with respect to a client, or when the information has become generally known; or

(2) reveal information relating to the representation except as Rule 1.6 or 3.3 would permit or require with respect to a client.

The Code deals with this issue in the context of disclosure of information obtained from a former client.

EC 4-5

> A lawyer should not use information acquired in the course of the representation of a client to the disadvantage of the client and a lawyer should not use, except with the consent of his client after full disclosure, such information for his own purposes. Likewise, a lawyer should be diligent in his efforts to prevent the misuse of such information by his employees and associates. Care should be exercised by a lawyer to prevent the disclosure of the confidences and secrets of a one client to another, and no employment should be accepted that might require such disclosure.

EC 4-6

> The obligation of a lawyer to preserve the confidences and secrets of his client continues after the termination of his employment. Thus a lawyer should not attempt to sell a law practice as a going business because, among other reasons, to do so would involve the disclosure of confidences and secrets. A lawyer should also provide for the protection of the confidences and secrets of his client following the termination of the practice of the lawyer, whether termination is due to death, disability, or retirement. For example, a lawyer might provide for the personal papers of the client to be returned to him and for the papers of the lawyer to be delivered to another lawyer or to be destroyed. In determining the method of disposition, the instructions and wishes of the client should be a dominant consideration.

DR 4-101 Preservation of Confidences and Secrets of a Client.

(A) "Confidence" refers to information protected by the attorney-client privilege under applicable law, and "secret" refers to other information gained in the professional relationship that the client has requested be held inviolate or the disclosure of

which would be embarrassing or would be likely to be detrimental to the client.

(B) Except when permitted under DR 4-101(C), a lawyer shall not knowingly;

(1) Reveal a confidence or secret of his client.

(2) Use a confidence or secret of his client to the disadvantage of the client.

(3) Use a confidence or secret of his client for the advantage of himself or of a third person, unless the client consents after full disclosure.

(C) A lawyer may reveal:

(1) Confidences or secrets with the consent of the client or clients affected, but only after a full disclosure to them.

(2) Confidences or secrets when permitted under Disciplinary Rules or required by law or court order.

(3) The intention of his client to commit a crime and the information necessary to prevent the crime.

(4) Confidences or secrets necessary to establish or collect his fee or to defend himself or his employees or associates against an accusation of wrongful conduct.

(D) A lawyer shall exercise reasonable care to prevent his employees, associates, and others whose services are utilized by him from disclosing or using confidences or secrets of a client, except that a lawyer may reveal the information allowed by DR 4-101(C) through an employee.

In *Hyman Companies Inc. v. Brozost*, 964 F. Supp. 168, 42 USPQ2d 1694 (E.D. Pa. 1997), an attorney was precluded from representing a retailer in negotiating leases since the attorney had acquired information relating to the leases during his previous employment as general counsel for a competing retailer. The attorney was permitted to negotiate other leases on behalf of his client for those properties where he had not obtained information as a result of his former employment.

In *Hoffman-LaRoche Inc. v. Promega Corp.*, 33 USPQ2d 1641 (N.D. Cal. 1994), an attorney was not barred from representing a client in biotechnology litigation against a client of the attorney's former firm (the former firm had represented the client in two biotechnology matters), since the attorney personally had almost no exposure to the matters handled by his former firm. The court determined that the suit and the matters handled by the former firm were not "substantially related" based on the evidence of lack of actual knowledge, and did not make an assessment and comparison of the subject matter of the prior representation and the subject matter of the dispute. By doing so, the court avoided a presumption that arises that confidential information has been obtained by the attorney when there is a substantial relationship in subject matter.

3. Representation of Multiple Clients-Lawyer as Intermediary

It has not been uncommon for a single attorney in some instances to act on behalf of two clients who, as parties to an agreement or as parties having an interest in the same property, have potentially conflicting interests. Examples of this include: preparing incorporation documents where there are several shareholders, preparing partnership agreements, acting for seller and

purchaser in the sale of real or personal property, acting for lessor and lessee in the lease of real or personal property, and acting for lendor and borrower in a loan transaction. Rule 2.2 provides for an attorney to act as an intermediary and represent both clients. Obviously, this situation becomes problematic if a rift develops between the two clients. It may, however, be possible for the attorney to represent two parties, and thereby eliminate the added expense of a second attorney, if the interests of the parties are sufficiently aligned and the attorney is not needed to counsel either as to their individual rights with respect to the issue at hand.

In the context of licensing, the instances in which an attorney can appropriately act as an intermediary and represent both the licensor and the licensee in the preparation of a license agreement will be extremely limited. Unlike the sale of real estate, where the parties may have essentially agreed upon all significant terms before they approach the attorney, in most licensing situations before they talk to their attorney or attorneys the parties will have only a general notion, if that, of the terms that are to form the license agreement. In fact, it is very common for an attorney in a licensing situation to point out to his client numerous issues which the parties have not even thought to address in their pre-licensing discussions. These are issues, however, that must necessarily be decided prior to the preparation of any written license agreement. As a consequence, parties will often approach a single attorney, believing that the terms of their agreement are set, only to find that they are still far apart. The single attorney is not in a position to advise either party as to the unresolved issues.

Necessarily each of the parties in a licensing situation will benefit from receiving advice as to what license terms will be in his best interest. Nevertheless, the occasion may arise in which the attorney can represent both licensor and licensee in the license transaction. An

example of a licensing situation in which only one attorney may be needed to draft the agreement is where an entrepreneur has developed and patented an invention, which he then wishes to license on some basis to a corporation which he owns completely. Since for purposes of the licensing transaction the corporation is the entrepreneur's alter ego, there is no conflict between the parties to the license. The situation is different, however, if the entrepreneur does not have complete ownership of the corporation, since the rights of the other shareholders may come into play.

Rule 2.2(b) requires that the attorney consult with each client concerning the decisions to be made and the relevant considerations so that the client can make an informed decision. As a practical matter, however, this may entail suggesting to one client that the client take a position in the negotiation process that is adverse to another client. This may well make the joint representation untenable.

Rule 2.2 - Intermediary

(a) A lawyer may act as intermediary between clients if:

(1) the lawyer consults with each client concerning the implications of the common representation, including the advantages and risks involved, and the effect on the attorney-client privileges, and obtains each client's consent to the common representation;

(2) the lawyer reasonably believes that the matter can be resolved on terms compatible with the clients' best interests, that each client will be able to make adequately informed decisions in the matter and that there is little risk of material prejudice to the interests of any of the clients if the contemplated resolution is unsuccessful; and

(3) the lawyer reasonably believes that the common representation can be undertaken impartially and without improper effect on other responsibilities the lawyer has to any of the clients.

(b) While acting as intermediary, the lawyer shall consult with each client concerning the decisions to be made and the considerations relevant in making them, so that each client can made adequately informed decisions.

(c) A lawyer shall withdraw as intermediary if any of the clients so requests, or if any of the conditions stated in paragraph (a) is no longer satisfied. Upon withdrawal, the lawyer shall not continue to represent any of the clients in the matter that was the subject of the intermediation.

Comment - Rule 2.2

[1] A lawyer acts as intermediary under this Rule when the lawyer represents two or more parties with potentially conflicting interests. A key factor in defining the relationship is whether the parties share responsibility for the lawyer's fee, but the common representation may be inferred from other circumstances. Because confusion can arise as to the lawyer's role where each party is not separately represented, it is important that the lawyer make clear the relationship.

[2] The Rule does not apply to a lawyer acting as arbitrator or mediator between or among parties who are not clients of the lawyer, even where the lawyer has been appointed with the concurrence of the parties. In performing such a role the lawyer may be subject to applicable codes of ethics, such as the Code of Ethics for Arbitration in Commercial Disputes prepared by a joint Committee of the American Bar Association and the American Arbitration Association.

[3] A lawyer acts as intermediary in seeking to establish or adjust a relationship between clients on an amicable and mutually advantageous basis; for example, in helping to organize a business in which two or more clients are entrepreneurs, working out the financial reorganization of an enterprise in which two or more clients have an interest, arranging a property distribution in

settlement of an estate or mediating a dispute between clients. The lawyer seeks to resolve potentially conflicting interests by developing the parties' mutual interests. The alternative can be that each party may have to obtain separate representation, with the possibility in some situations of incurring additional costs, complication or even litigation. Given these and other relevant factors, all the clients may prefer that the lawyer act as intermediary.

[4] In considering whether to act as intermediary between clients, a lawyer should be mindful that if the intermediation fails the result can be additional cost, embarrassment and recrimination. In some situations the risk of failure is so great that intermediation is plainly impossible. For example, a lawyer cannot undertake common representation of clients between whom contentious litigation is imminent or who contemplate contentious negotiations. More generally, if the relationship between the parties has already assumed definite antagonism, the possibility that the clients' interests can be adjusted by intermediation ordinarily is not very good.

[5] The appropriateness of intermediation can depend on its form. Forms of intermediation range from informal arbitration, where each client's case is presented by the respective client and the lawyer decides the outcome, to mediation, to common representation where the clients' interests are substantially though not entirely compatible. One form may be appropriate in circumstances where another would not. Other relevant factors are whether the lawyer subsequently will represent both parties on a continuing basis and whether the situation involves creating a relationship between the parties or terminating one.

Confidentiality and Privilege

[6] A particularly important factor in determining the appropriateness of intermediation is the effect on client-lawyer confidentiality and the attorney-client privilege. In a common representation, the lawyer is still required both to keep each client adequately informed and to maintain confidentiality of information relating to the representation. See Rules 1.4 and 1.6. Complying with both requirements while acting as intermediary requires a delicate balance. If the balance cannot be maintained, the common representation is improper. With regard to the attorney-client

privilege, the prevailing rule is that as between commonly represented clients the privilege does not attach. Hence, it must be assumed that if litigation eventuates between the clients, the privilege will not protect any such communications, and the clients should be so advised.

[7] Since the lawyer is required to be impartial between commonly represented clients, intermediation is improper when that impartiality cannot be maintained. For example, a lawyer who has represented one of the clients for a long period and in a variety of matters might have difficulty being impartial between that client and one to whom the lawyer has only recently been introduced.

Consultation

[8] In acting as intermediary between clients, the lawyer is required to consult with the clients on the implications of doing so, and proceed only upon consent based on such a consultation. The consultation should make clear that the lawyer's role is not that of partisanship normally expected in other circumstances.

[9] Paragraph (b) is an application of the principle expressed in Rule 1.4. Where the lawyer is intermediary, the clients ordinarily must assume greater responsibility for decisions than when each client is independently represented.

Withdrawal

[10] Common representation does not diminish the rights of each client in the client-lawyer relationship. Each has the right to loyal and diligent representation, the right to discharge the lawyer as stated in Rule 1.16, and the protection of Rule 1.9 concerning obligations to a former client.

IV. Lawyer as Witness

Where an attorney has drafted a license agreement and participated actively in the negotiation of the terms of the agreement, there is a possibility that the attorney may become a witness in subsequent litigation, especially where the terms of the license agreement are in

dispute. If the attorney does become a witness, then he may well be disqualified from representing the client in the subsequent litigation. See, for example, *National Wrecking Co. v. Midwest Terminal Corp.*, 234 Ill.App. 3d 750, 601 N.E. 2d 999 (Ill. App. 1st Dist. 1992), (attorney who represented a corporation in contract negotiations was disqualified from representing the corporation in a suit arising out of an alleged breach of contract because the attorney was the only person who could testify on behalf of the corporation concerning the negotiations).

Rule 3.7 Lawyer as Witness

(a) A lawyer shall not act as advocate at a trial in which the lawyer is likely to be a necessary witness except where:

(1) the testimony relates to an uncontested issue;

(2) the testimony relates to the nature and value of legal services rendered in the case; or

(3) disqualification of the lawyer would work substantial hardship on the client.

(b) A lawyer may act as advocate in a trial in which another lawyer in the lawyer's firm is likely to be called as a witness unless precluded from doing so by Rule 1.7 or Rule 1.9.

The Code, however, does not include the provision of Rule 3.7(b), which permits other attorneys within the witness/attorney's firm to act as an advocate. In fact, the Code expressly excludes such attorneys from acting as an advocate.

DR 5-102 Withdrawal as Counsel When the Lawyer Becomes a Witness.

(a) If, after undertaking employment in contemplated or pending litigation, a lawyer learns or it is obvious that he or a lawyer in his firm ought to be called as a witness on behalf of his client, he shall withdraw from the conduct

of the trial and his firm, if any, shall not continue representation in the trial, except that he may continue the representation and he or a lawyer in his firm may testify in the circumstances enumerated in DR 5-101(B) (1) through (4).

(b) If, after undertaking employment in contemplated or pending litigation, a lawyer learns or it is obvious that he or a lawyer in his firm may be called as a witness other than on behalf of his client, he may continue the representation until it is apparent that his testimony is or may be prejudicial to his client.

EC 5-10 - Circumstances Under Which Attorney May Serve as Counsel and Witness

> Problems incident to the lawyer-witness relationship arise at different stages; they relate either to whether a lawyer should accept employment or should withdraw from employment. Regardless of when the problem arises, his decision is to be governed by the same basic considerations. It is not objectionable for a lawyer who is a potential witness to be an advocate if it is unlikely that he will be called as a witness because his testimony would be merely cumulative or if his testimony will relate only to an uncontested issue. In the exceptional situation where it will be manifestly unfair to the client for the lawyer to refuse employment or to withdraw when he will likely be a witness on a contested issue, he may serve as advocate even though he may be a witness. In making such decision, he should determine the personal or financial sacrifice of the client that may result from his refusal of employment or withdrawal therefrom, the materiality of his testimony, and the effectiveness of his representation in view of his personal involvement. In weighing these factors, it should be clear that refusal or withdrawal will impose an unreasonable hardship upon the client before the lawyer accepts or continues the employment. Where the question arises, doubts should be resolved in favor of the lawyer testifying and against his becoming or continuing as an advocate.

The Code excludes both the attorney who is testifying as a witness and the other attorneys in his firm from conducting the trial. Generally, the prohibitions provided by the Code and the Rules relate to the appearance of the attorney or others as advocates. This prohibition does not

preclude any and all further legal activity by the attorney in conjunction with the suit. As a consequence, the attorney may provide out of court assistance to trial counsel. *Culebras Enterprises Corp. v. Rivera - Rios*, 846 F.2d 94 (1st Cir. 1988); *Jones v. City of Chicago*, 610 F. Supp. 350, 363 (N.D. Ill., 1984); ABA Informal Op. 89-1529 (1989). Additionally, this prohibition generally does not preclude arguing an appeal. ABA Informal Opinion 1446 (1980).

Furthermore, participation in license negotiations does not automatically disqualify an attorney from representation at trial in a suit involving the license. A court will look at the level of the attorney's involvement in negotiations and drafting, and whether the attorney is the only witness capable of explaining the meaning of a disputed clause. *Paretti v. Cavalier Label Co.*, 772 F. Supp. 985, 986 (S.D. N.Y. 1989).

V. Contact With Adverse Party Represented by Counsel

No contact is permitted, not even to obtain information with respect to the subject matter in issue, with an adverse party represented by counsel where the attorney is aware of the representation.

DR 7-104

(A) During the course of his representation of a client a lawyer shall not:

(1) Communicate or cause another to communicate on the subject of the representation with a party he knows to be represented by a lawyer in that matter unless he has the prior consent of the lawyer representing such other party or is authorized by law to do so.

(2) Give advice to a person who is not represented by a lawyer, other than the advice to secure counsel, if the interests of such person are or have a reasonable possibility of being in conflict with the interests of his client.

Rule 4.2 Communication with Person Represented by Counsel

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

Comment - Rule 4.2

[1] This Rule does not prohibit communication with a represented person, or an employee or agent of such a person, concerning matters outside the representation. For example, the existence of a controversy between a government agency and a private party, or between two organizations, does not prohibit a lawyer for either from communicating with nonlawyer representatives of the other regarding a separate mater. Also, parties to a matter may communicate directly with each other and a lawyer having independent justification or legal authorization for communicating with a represented person is permitted to do so. Communications authorized by law include, for example, the right of party to a controversy with a government agency to speak with government officials about the matter.

[2] Communications authorized by law also include constitutionally permissible investigative activities of lawyers representing governmental entities, directly or through investigative agents, prior to the commencement of criminal or civil enforcement proceedings, when there is applicable judicial precedent that either has found the activity permissible under this Rule or has found this Rule inapplicable. However, the Rule imposes ethical restrictions that go beyond those imposed by constitutional provisions.

[3] This rules applies to communications with any person, whether or not a party to a formal adjudicative proceeding, contract or negotiation, who is represented by counsel concerning the matter to which the communication relates.

> [4] In the case of an organization, this Rule prohibits communications by a lawyer for another person or entity concerning the matter in representation with persons having a managerial responsibility on behalf of the organization, and with any other person whose act or omission in connection with that matter may be imputed to the organization for purposes of civil or criminal liability or whose statement may constitute an admission on the part of the organization. If an agent or employee of the organization is represented in the matter by his or her own counsel, the consent by that counsel to a communication will be sufficient for purposes of this Rule. Compare Rule 3.4(f).
>
> [5] The prohibition on communications with a represented person only applies, however, in circumstances where the lawyer knows that the person is in fact represented in the matter to be discussed. This means that the lawyer has actual knowledge of the fact of the representation; but such actual knowledge may be inferred from the circumstances. See Terminology. Such an inference may arise in circumstances where there is substantial reason to believe that the person with whom communication is sought is represented in the matter to be discussed. Thus, a lawyer cannot evade the requirement of obtaining the consent of counsel by closing eyes to the obvious.
>
> [6] In the event the person with whom the lawyer communicates is not known to be represented by counsel in the matter, the lawyer's communications are subject to Rule 4.3.

In *Insituform of North America Inc. v. Midwest Pipeliners Inc.*, 23 USPQ2d 1511 (S.D. Ohio 1991) the court found that it was a breach of DR 7-104(A)(1) for an attorney to talk to an adverse party's employees at a construction job site as a part of a pre-litigation investigation under FRCP 11, knowing that the employer was represented by counsel. Similarly, where both sides to a licensing negotiation are represented by counsel, neither attorney without permission may contact employees of the adverse party as a prelude to negotiations or during negotiations, even if the purpose of such contact is simply investigation of the facts surrounding the licensed intellectual property.

It is not uncommon, however, for the prospective licensor and the prospective licensee, especially sophisticated corporate clients, to determine at some point during the negotiation process that it might move matters along for there to be direct discussions between them. Often, management personnel, by-passing their lawyers, are able to hammer out workable business solutions to difficult licensing issues, provided they have a sufficient level of understanding of those issues. A difficulty can arise, of course, if any of the management personnel participating in the discussions also happen to be licensed attorneys, albeit non-practicing. Barring this complication, and assuming the needed level of sophistication on the part of management, businessman-to-businessman discussions can often break open a negotiation log jam.

VI. Appearance of Impropriety

It is unusual for an ethical breach to be found based solely on an "appearance of impropriety," as prohibited by Canon 9 of the Code. In *N.Y. Institute of Technology v. Biosound*, 658 F.Supp. 759, 2 USPQ2d 2041 (S.D. N.Y. 1987), the court held that an attorney who 1) represented a licensee and who consulted with a licensor's attorney during the prosecution of the licensed patents; and 2) assisted the attorney for the licensor (on behalf of the licensee) in a subsequent suit defending against a challenge to the licensed patents, was not precluded from representing the licensee against the licensor in a suit over the license agreement.

Canon 9
A LAWYER SHOULD
AVOID EVEN THE APPEARANCE
OF PROFESSIONAL IMPROPRIETY

EC 9-6 - Duty of Attorney, Generally

Every lawyer owes a solemn duty to uphold the integrity and honor of his profession; to encourage respect for the law and for the courts and the judges thereof; to observe the Code of Professional Responsibility; to act as a member of a learned profession, one dedicated to public service; to cooperate with his brother lawyers in supporting the organized bar through the devoting of his time, efforts, and financial support as his professional standing and ability reasonably permit; to conduct himself so as to reflect credit on the legal profession and to inspire the confidence, respect and trust of his clients and of the public; and to strive to avoid not only professional impropriety but also the appearance of impropriety.