



Common Ethics Issues in IP Transactions

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Key Issues for Attorneys in Transactional Matters

- What rules apply?
- Beware the instructions you give
- Out-of-state practice
- Duty of honesty
- Communication with represented party
- Conflicts of interest
- Duty to report misconduct

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What Rules Apply?

[Polling Question No. 1]

1. A lawyer is admitted to practice in New York state. What ethics rules govern her conduct today?

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Please Make Your Selection...

- A. New York's implementation of the Model Code of Professional Responsibility (the one with the Disciplinary Rules, like DR 1-102, and Ethical Considerations).
- B. New York's implementation of the Model Rules of Professional Conduct (the one with rule numbers like Rule 8.5).
- C. Both.
- D. The Federal Rules of Professional Conduct.

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What Rules Apply?

[Polling Answer No. 1]

1. A lawyer is admitted to practice in New York state. What ethics rules govern her conduct today?

Answer: B. New York's implementation of the Model Rules of Professional Conduct (the one with rule numbers like Rule 8.5).

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What Rules Apply – Cont.?

[Polling Question No. 2]

2. A lawyer is admitted to practice in Illinois. He accompanies his client to a meeting in New York. What ethics rules govern his conduct?

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Please Make Your Selection...

- A. The Illinois Rules of Professional Conduct.
- B. The New York Rules of Professional Conduct.
- C. Both.
- D. Another rule set that is not listed.

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What Rules Apply?

[Polling Answer No. 2]

- 2. A lawyer is admitted to practice in Illinois. He accompanies his client to a meeting in New York. What ethics rules govern his conduct?

Answer: C. Both [New York and Illinois rules].

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What Rules Apply – Cont.?

New York adopted a version of the ABA Model Rules of Professional Conduct in 2009.

Illinois adopted a version of the ABA Model Rules of Professional Conduct in 2010.

Now, all states follow some version of the Model Rules. (California adopted a version in 2018.)

Yes, all the ethics rules apply to in-house lawyers too...

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What Rules Apply – Cont.?

Rule 8.5 Disciplinary Authority and Choice of Law

- a) 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 not admitted in this jurisdiction is also subject to the disciplinary authority of this jurisdiction if the lawyer provides or offers to provide any legal services in this jurisdiction. 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.

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What Rules Apply – Cont.?

New York version of Rule 8.5 is missing a sentence from the Model Rule.

- a) A lawyer admitted to practice in this state is subject to the disciplinary authority of this state, regardless of where the lawyer's conduct occurs. ~~A lawyer not admitted in this state is also subject to the disciplinary authority of this state if the lawyer provides or offers to provide any legal services in this state.~~ A lawyer may be subject to the disciplinary authority of both this state and another jurisdiction where the lawyer is admitted for the same conduct.

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What Rules Apply – Cont.?

Practice tip

- Prospectively, it is safest to assume the most restrictive rule or version applies. (Retrospectively, of course, an attorney trying to avoid sanction will want to apply the least restrictive rule that arguably applies.)

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Beware the Instructions You Give

Rule 8.4 Misconduct

A lawyer or firm shall not:

- (a) violate or attempt to violate the Rules of Professional Conduct, knowingly assist or induce another to do so, or do so through the acts of another; ...
- (c) engage in conduct involving dishonesty, fraud, deceit or misrepresentation; ...

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Beware the Instructions You Give – Cont.

[Polling Question No. 3]

3. A lawyer for XYZ Co. filed a patent infringement case against his client's competitor, ABC Inc. XYZ noticed the infringing product recently but thinks ABC has sold it for some years. The lawyer asks his contact at XYZ to call ABC's customer service line and ask when sales of the product began.

Is this okay?

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Please Make Your Selection...

- A. No, the lawyer can't call a represented party to gather information and can't ask his client to do it.
- B. Yes, the lawyer is entitled to gather any information that ABC gives out to the public.
- C. Yes, but only if XYZ does not lie about its identity when calling.
- D. Oh no, I violated this rule last week!

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What Rules Apply?

[Polling Answer No. 3]

- 3. Is this [asking client to call adversary's customer service line] okay?

Answer: B. Yes, the lawyer is entitled to gather any information that ABC gives out to the public.

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Out-of-State Practice

Rule 5.5 Unauthorized Practice of Law

- a) A lawyer shall not practice law in a jurisdiction in violation of the regulation of the legal profession in that jurisdiction or assist another in doing so.
- b) A lawyer shall not aid a non-lawyer in the unauthorized practice of law.

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Out-of-State Practice – Cont.

Variation from many states

- Many/most states include subparagraphs (c) and (d) that permit out-of-state practice:
 - Conducted with a lawyer who is admitted in state
 - Under a pro hac vice admission
 - "Reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice"
 - On behalf of employer
 - When permitted under federal law

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Out-of-state practice – Cont.

Practice tips

- In-house lawyers and registered patent lawyers/agents have express coverage in Rule 5.5(d).
- Businesspeople who are lawyers should exercise caution.
 - Am I giving legal advice?
 - Do I expect privilege to attach?
 - Am I acting as a legal rather than a business advocate?
- Be mindful when negotiating in other states.
- Be mindful of choice-of-law provisions.

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Duty of Honesty

Rule 4.1 Truthfulness in Statements to Others

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

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Duty of Honesty – Cont.

Variation from many states

- New York omits "false statement of a material fact..."
- New York also omits paragraph (b):
- New York omits additional paragraph, usually (b), that provides:

(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 [confidentiality].

- New rules in California added this duty in 2018.

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Duty of Honesty – Cont.

Code of Federal Regulations

37 C.F.R. § 1.56 Duty to disclose information material to patentability.

(a) ...Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section.... However, no patent will be granted on an application in connection with which fraud on the Office was practiced or attempted or the duty of disclosure was violated through bad faith or intentional misconduct.

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Duty of Honesty – Cont.

Application, practice tips

- Again, watch for evolution, explanation
- Beware possible silence where duty to speak (duty rare vis-à-vis non-clients)
- Courts generally find puffery not actionable
- Issues associated with 37 C.F.R. § 1.56
 - All claims at risk
 - May have material impact on value of licensed/purchased assets
 - Copyright and trademark counterparts? *See Bose* (compare *Therasense*).

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Communications With A Represented Party

Rule 4.2 Communication with Person Represented by Counsel

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

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Represented Party – Cont.

ABA comment

Comment [3]: The Rule applies even though the represented person initiates or consents to the communication....

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Represented Party – Cont.

[Polling Question No. 4]

4. Boyfriend sues his former girlfriend. At his deposition, his lawyer leaves the room during a break. Boyfriend asks girlfriend's lawyer how she's doing. The lawyer says that he's concerned about the toll the case is taking on her and that he's sure she'd be better if boyfriend dropped the case.

What could happen to the lawyer? (Assume he has never been subject to sanction previously.)

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Please Make Your Selection...

- A. It depends whether the boyfriend acted based on the lawyer's comment.
- B. Nothing, regardless of whether he took any action.
- C. The lawyer could be formally admonished.
- D. The lawyer could be disbarred.

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What Rules Apply?

[Polling Answer No. 4]

- 4. What could happen to the lawyer?

Answer: C. The lawyer could be formally admonished.

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Represented Party – Cont.

Practice tips

- Beware of this rule in negotiations.
- Beware that "represented by counsel" includes in-house counsel (and watch for floaters).
- Note only the other side's lawyer can waive the obligation.
- Some investigations excluded, e.g. *Gidatex v. Campaniello Imports*.
- Some communications do not relate to the "subject of the representation" (but be careful).

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Conflicts of Interest

Q. Wait a minute. The conflicts rules apply to in-house lawyers also?

A. Yup, those too.

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Conflicts of Interest

Rule 1.7 Conflict Of Interest: Current Clients

(a) Except as provided in paragraph (b), a lawyer shall not represent a client if a reasonable lawyer would conclude either:

- 1) the representation will involve the lawyer in representing differing interests; or
- 2) there is a significant risk that the lawyer's professional judgment on behalf of a client will be adversely affected by the lawyer's own financial, business, property or other personal interests.

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Conflicts of Interest – Cont.

Rule 1.7 Conflict Of Interest: Current Clients [cont.]

(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:

- 1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
- 2) the representation is not prohibited by law;
- 3) 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
- 4) each affected client gives informed consent, confirmed in writing.

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Conflicts of Interest – Cont.

Rule 1.8 Conflict Of Interest: Current Clients: Specific Rules

(a) A lawyer shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to a client unless:

- 1) the transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing in a manner that can be reasonably understood by the client;
- 2) the client is informed in writing that the client may seek the advice of independent legal counsel on the transaction, and is given a reasonable opportunity to do so; and
- 3) the client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the lawyer's role in the transaction, including whether the lawyer is representing the client in the transaction.

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Conflicts of Interest – Cont.

Rule 1.8 Conflict...: Current Clients: Specific Rules [cont.]

(f) A lawyer shall not accept compensation for representing a client from one other than the client unless:

- 1) the client gives informed consent;
- 2) there is no interference with the lawyer's independence of professional judgment or with the client-lawyer relationship; and
- 3) information relating to representation of a client is protected as required by Rule 1.6 [confidentiality].

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Conflicts of Interest – Cont.

Rule 1.8 Conflict...: Current Clients: Specific Rules [cont.]

(g) A lawyer who represents two or more clients shall not participate in making an aggregate settlement of the claims of or against the clients, or in a criminal case an aggregated agreement as to guilty or nolo contendere pleas, unless each client gives informed consent, in a writing signed by the client. The lawyer's disclosure shall include the existence and nature of all the claims or pleas involved and of the participation of each person in the settlement.

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Conflicts of Interest – Cont.

Rule 1.8 Conflict...: Current Clients: Specific Rules [cont.]

(i) A lawyer shall not acquire a proprietary interest in the cause of action or subject matter of litigation the lawyer is conducting for a client, except that the lawyer may:

- 1) acquire a lien authorized by law to secure the lawyer's fee or expenses; and
- 2) contract with a client for a reasonable contingent fee in a civil case.

(j) A lawyer shall not have sexual relations with a client unless a consensual sexual relationship existed between them when the client-lawyer relationship commenced.

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Conflicts of Interest – Cont.

Rule 1.8 Conflict...: Current Clients: Specific Rules [cont.]

(j) While lawyers are associated in a firm, a prohibition in the foregoing paragraphs (a) through (i) that applies to any one of them shall apply to all of them.

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Conflicts of Interest – Cont.

Practice tips

- Beware potential conflicts between multiple clients in same industry, collaborators and affiliates, individual owner and entity. Beware serving different affiliate than employer.
- Beware stock ownership. *See Kaye v. Rosefelde* (N.J. Super. Ct. App. Div. 2013).
- Beware confidences acquired before hire (Rule 1.9).
- Conflicts imputed to entire law firm or in-house law department.

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Conflicts of Interest – Cont.

Practice tips – cont.

- Always get a waiver in a close call.
- Beware patent disclosure obligations under Rule 56.
- N.b. scope of waiver.
- Rule 1.7(b)(3) indicates litigation conflict is not waivable.

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Duty to Report Misconduct

Rule 8.3 Reporting Professional Misconduct

- a) A lawyer who knows that another lawyer has committed a violation of the Rules of Professional Conduct that raises a substantial question as to that lawyer's honesty, trustworthiness or fitness as a lawyer shall report such knowledge to a tribunal or other authority empowered to investigate or act upon such violation.

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Duty to Report Misconduct – Cont.

Practice tips

- Note: "...that raises a substantial question as to that lawyer's honesty, trustworthiness or fitness as a lawyer..."
- Also: a lawyer who "knows" shall report "such knowledge"
- Ask for explanation
- Get advice
- No equivalent rule in California (still)

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