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Choose Your Own Misadventure: Tap Dancing in the Ethics Minefield of an Intellectual Property Transaction

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BEWARE and WARNING!

This legal and professional intellectual property ethics article is different from other such articles and patterned and parodied after the beloved Choose Your Own Adventure® book series.¹ As you might recall, you and YOU ALONE are in charge of what happens in this article. There are dangers, choices, adventures, and consequences. YOU must

use all of your numerous talents and much of your enormous intelligence. The wrong decision could end in disaster—even death (ok, maybe not quite death; but at least disbarment). But, don't despair. At any time, YOU can go back and make another choice, alter the path of your story, and change its result. You will use the paragraph numbers in this article as you choose your own misadventures while wrestling with the ethical dilemmas posed throughout. Good luck!

This article is intended to assist attorneys and business people to understand the analysis of ethical situations by each group and assist both groups as they collaborate on transactions. This article uses the Model Rules of Professional Conduct² promulgated by the American Bar Association, which provides the starting point for state-specific inquiry into such matters.

Before setting the stage for our misadventures, please note that the events depicted in this article are fictitious. Any similarity to any person living or dead is merely coincidental.

The Story Begins—A Company Is Formed

This is the story about the many twists and turns along the journey of a startup company, StarTup, Inc., and its attempt to commercialize a new product and license its technology. It begins in a San Diego, California, garage in 2010, as two high school buddies, Tony Falcon and Dakota Hand, are tinkering around with a new idea. Falcon was an up-and-coming skateboarding star, and Dakota was a computer hardware wizard. Falcon and Dakota grew up surfing and skateboarding together and wanted to do something big together. Having watched the classic movie *Back To The Future* more times than either could count, Falcon and Dakota were determined to develop a hover board as shown in the movie. After all, it was *Back To The Future*

that inspired Falcon to start skateboarding in the first place.

While unable to achieve levitation, Falcon and Dakota devised a two-wheeled device in which a rider could control movement by shifting his or her body weight. Falcon used his skateboarding expertise for the ergonomics of the device, and Dakota used his hardware experience to develop the motion control and drive systems. With a little prodding and guidance, Falcon knew that Dakota would have a prototype built in no time. Falcon was right. Dakota loved the idea and had a prototype built in just two weeks. While Falcon loved the prototype, even he—a superstar skateboarder—had trouble keeping his balance on the board.

Dakota and Falcon could not wait to share the invention with their friend, Jean Yus, who was away at college on the East Coast studying engineering. Yus always had enjoyed the company of her two younger buddies—the skater and the computer nerd. When Yus got back from college after completing her spring semester, she could not wait to catch up with Dakota and Falcon to share stories. Most interestingly, Yus was excited to share her idea of gyroscopic motion control that she had been toying around with.

[001] The flash-of-genius moment occurred on May 15, 2010, in Dakota's garage. Yus had biked over to see Dakota and Falcon's new device, and she was awestruck. This primitive, two-wheeled device was the perfect platform for the gyroscopic motion control system she was developing. When Yus explained her system, Dakota immediately recognized that this system would solve the balance system with the board. While Falcon did not completely understand the mechanics and engineering details, he also realized how this could make the board be more balanced. Dakota and Yus worked for two straight days without any sleep to implement Yus' system into the existing prototype. When Falcon first tried the newly designed device, he could not believe how easy it was to balance and control the board.

[002] Falcon, Dakota, and Yus decided to form a company and start selling their newly designed roller board. They also decided to name their company "StarTup, Inc." and call the motorized roller board the "HuvRbored." The three of them worked day and night throughout the remainder of the summer in anticipation of revealing the HuvRbored that September at the Consumer Electronics Show in Las Vegas, affectionately known as "Geek Week" to nerds around the world.

The First Consumer Electronics Show in 2010

[003] Dakota, Falcon, and Yus had very little money to accomplish all of their goals in connection with launching the HuvRbored. They knew that they should consider protecting the intellectual property embodied in the HuvRbored, so they tracked down a local patent attorney, Patricia N. Tourney. Tourney worked with many startups in the San Diego area, so she was well aware of the limited resources that many startups had to work with. While Tourney tried to be patient with the startups, she found that she never really had enough time to explain everything to them. Her larger, sophisticated clients were so much easier to work with, but she still had a special place in her heart for startups.

[004] When she met with Dakota, Falcon, and Yus, she advised them of the dangers of disclosing their technology before having a patent application filed with the United States Patent & Trademark Office. She further explained that one of the major pitfalls was the so-called on-sale bar, which required that a patent application be filed within one year after any sale or offer to sell the invention. When she learned about the plans for attending the Consumer Electronics Show, she warned that any information publicly disclosed also would trigger this one year clock to start ticking. Would they have a booth or would they simply attend the event?

[005] Sick and tired of not getting paid by startups for their patent applications, Tourney now required all of the fees upfront. When Dakota, Falcon, and Yus could not come up with the upfront fee, Tourney reiterated her warning about public disclosures and the on-sale bar. She further warned them that any public disclosures prior to filing a patent application would potentially destroy the ability to seek patent protection in foreign countries. Dakota and Falcon said they were only worried about the United States anyway. While not guaranteeing anything, Tourney thought StarTup might be ok if they expressly stated that the HuvRbored was not yet available for sale and only disclosed high-level details about the technology without revealing any details. The StarTup team thanked Tourney for her time and said they understood her warning. Tourney was not entirely certain that everyone got her message, especially Dakota, who just acted like he already knew everything and that she was just wasting his time.

[006] Dakota, Falcon, and Yus worked very hard over the next few weeks to get the hover board ready for the Consumer Electronic Show (CES) in Las Vegas. The budget remained very, very tight, so only Dakota

and Falcon could make the trip out. Somewhat heeding Tourney's advice, they all agreed that they would include an explicit disclaimer on their booth that the HuvRbored was not for sale and that the booth was for showing how "cool" the board was. They also agreed that while the concept of the HuvRbored would be test-marketed at the booth, nobody would tell anyone any details about the three-way, computer-controlled gyroscopic balancing system that was the key to others being able to use the HuvRbored. Yus and Falcon were both worried because Dakota had a big mouth and was not good at keeping secrets, but they hoped for the best. They did not practice their spiel with each other, however, before setting up the booth; they simply assumed they knew how to do this.

[007] The HuvRbored turned out to be the hit of Geek Week. Within the first 15 minutes of the exhibit hall opening, there were at least 50 people crowded around the small, poorly designed booth trying to get a turn riding this awesome new device. One person who took very special note of the HuvRbored was an executive from Major Toy Company, Inc. (MTC), Richard N. Powerful. Powerful recently had joined MTC after spending 15 years in the advertising business. He had changed career lanes because he always had been a tinkerer and loved working with mechanical products. He loved taking apart everything he bought and he loved putting things back together (or almost back together, much to his wife's chagrin) almost as much. Powerful was excited to launch his first big hit product but was still new to the process. He stood back at the CES and watched the crowd continue to grow around the StarTup booth. He also watched the interaction between Dakota and Falcon and could see that Dakota was calling the shots. He was intrigued by the disclaimer that the HuvRbored was not yet for sale. Powerful knew that at the right price, he could probably convince this small startup to sell a few boards. He had enough experience with start-ups to know that they always needed cash.

[008] Once the crowd at the booth settled, Powerful approached Dakota and asked him some questions about the operation and features of the HuvRbored. Initially, Dakota only would provide high-level details and avoided any detail about how the HuvRbored achieved its surprising balance and control. Powerful then explained that he was a Senior Vice President of MTC and that he was very, very interested in the HuvRbored. Dakota indicated that he was very flattered and that he certainly was interested in exploring ways to collaborate with MTC. Powerful then left the booth and thought about the best way to develop a relationship with StarTup. Then he had an idea.

[009] Powerful returned to the booth and pointed out to Dakota that the open-wheeled design could lead to injuries, especially if pants legs got caught in the mechanism. Powerful suggested a wheel-enclosing fender that would prevent such problems. In addition, Powerful pointed out how an emergency stop mechanism also was missing. If a rider fell from the current design of the HuvRbored, the board would continue rolling and only stop once it ran into another object. This certainly was dangerous. Powerful suggested an auto stop feature and emergency lockout system. Powerful drew some sketches for both the wheel-enclosing fender and auto stop/lockout features. He took digital photos of the sketches and emailed them to himself before providing the sketches to Dakota. Powerful also had taken digital photographs of the HuvRbored while at the StarTup booth.

[0010] The following morning, September 10, 2010, Powerful returned to the StarTup booth and asked Dakota to speak with him in private. Powerful explained to Dakota that he remained very interested in further discussions with StarTup, but he first needed to try out the HuvRbored. Dakota repeated that the HuvRbored was not yet for sale. Never one to take "no" for an answer, Powerful pulled out an MTC purchase order and explained that he wanted to purchase 10 HuvRboreds at \$10,000 per board. He then removed a \$50,000 cashier's check payable to StarTup, with the remaining \$50,000 payable when the 10 HuvRboreds were delivered. Dakota was in shock, followed by absolute elation. StarTup was nearly out of cash, and this \$50,000 would go a long, long way to keep perfecting the prototypes and start fulfilling orders.

[0011] Dakota asked for some time to think about this offer, but Powerful explained that he needed to head back to the airport in a few minutes and that his offer only remained open until he left. Dakota did not want to let this extraordinary opportunity slip through his fingers, so he accepted the offer, signed an acknowledgment on the purchase order, and took the check. Powerful was enthused and departed with the offer. Dakota was likewise elated and could not wait to tell Falcon and Yus about the amazing deal that he had just struck.

[0012] However, when Dakota returned to the booth and saw an even larger crowd gathered to witness the HuvRbored and Falcon's amazing demonstrations, Dakota realized that he had just made a huge mistake; he had just agreed to sell 10 HuvRboreds to MTC in a pretty open-ended way. He had no idea what Powerful or MTC would do with them. Would MTC simply take apart one of the

boards, reverse engineer the components, and then develop a competing product? He called Powerful's mobile phone right away and was relieved to hear his voice. He explained that he had acted too fast and did it on his own. He needed to cancel the order. Powerful was very disappointed, but he wanted to keep the relationship alive with StarTup. He advised Dakota that he would be back shortly to reclaim the \$50,000 cashier's check and cancel the purchase order, which he did within 15 minutes.

[0013] Dakota breathed a sigh of relief and decided that there was no need to confess to Falcon or Yus since he had cancelled the deal. Period. His secret was safe. Powerful kept a copy of the signed purchase order and cashier's check, along with the digital photos of his sketches and the HuvRbored, in his office file. Something told him that these documents might be important later.

A Patent Application Is Filed before the 2011 Consumer Electronics Show

[0014] We now fast-forward a year. The interest and excitement in the HuvRbored continued to grow, and StarTup had finally started selling the HuvRbored in August 2011. They could not wait to make a triumphant return to the 2011 CES and unveil the ready-for-purchase HuvRbored. The CES was scheduled for the last week in September this year, two weeks later than the mid-September Show in 2010. Tourney had pestered StarTup periodically about filing a patent application, and they finally agreed that it would be good to have a patent application filed before this year's CES. Dakota, Falcon, and Yus completed an invention disclosure form provided by Tourney, and she began preparing a draft patent application. The process was somewhat rushed because of the tight deadline. Falcon and Yus insisted that Dakota be sure to explain in the disclosure form both the wheel-enclosing fender and auto stop/lockout features that Dakota had recommended adding to the HuvRbored after last year's CES. Somewhat reluctantly, Dakota added the disclosure of these features. "Dude, just roll with this," Dakota thought to himself. They came up with the original design, so why worry about his conversation with Powerful, Dakota reassured himself. Tourney then exchanged several drafts of the HuvRbored patent application with Dakota, Falcon, and Yus before it was finalized and filed with the United States Patent & Trademark Office on September 20, 2011. Everyone was relieved to

have the application filed before Dakota and Falcon made their return to the CES.

[0015] The day after filing the patent application, Tourney emailed Dakota, Falcon, and Yus a letter advising them that the patent application had been filed. The letter also advised them about their obligation under the US Patent Laws to disclose to the Patent Office any patents, publications, or other information that might be relevant to the patent ability of their invention. This part of the letter reminded Dakota about the "on-sale bar" discussion they had before last year's CES. While confident that none of his actions at the 2010 CES triggered any problems, Dakota decided to call Tourney and explore the potential impact, if any, stemming from his interactions with Powerful at the 2010 CES.

[0016] As Tourney spoke with Dakota, Tourney realized that the situation was growing more complicated with each additional detail of Dakota's interactions with Powerful at the 2010 CES. Sensing that the situation was far more problematic than he expected, Dakota instructs Tourney that Tourney cannot tell anyone, especially Falcon and Yus, about his interactions with Powerful at the 2010 CES. Dakota commented that he was glad Tourney had explained the "attorney-client privilege" and an attorney's obligations of confidentiality to her client. Dakota also was very glad that he had not mentioned anything about Powerful suggesting additional features for the HuvRbored, as that would have just made matters worse.

First Choice of Misadventure

[0017] For purposes of this choice, you are Patricia N. Tourney. Dakota has instructed you to not tell his co-founders of StarTup Inc., Tony Falcon and Jean Yus, about his offer to sell the HuvRbored more than one year before that patent application was filed. This offer likely has very serious consequences to the patent application. What do you do now?

[0018] If you tell the others about Dakota's offer to sell the HuvRbored, go to paragraphs 20 through 24.

[0019] If you do not tell the others about Dakota's offer to sell the HuvRbored, go to paragraphs 25 through 27.

[0020] You have decided that you absolutely must tell Falcon and Yus about Dakota's interactions with Powerful at the 2010 Consumer Electronics Show. As co-inventors on the patent application and co-founders of StarTup, your conscience tells you that they have a right to know this potentially

damaging information. However, you also recall your various ethical and professional obligations under the Model Rules of Professional Conduct and begin to think things through.

[0021] Model Rule of Professional Conduct 1.6, “Confidentiality of Information” is the starting point for your analysis. Model Rule 1.6 provides:

(a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b).

(b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:

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

(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;

(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;

(4) to secure legal advice about the lawyer’s compliance with these Rules;

(5) to 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;

(6) to comply with other law or a court order; or

(7) to detect and resolve conflicts of interest arising from the lawyer’s change of

employment or from changes in the composition or ownership of a firm, but only if the revealed information would not compromise the attorney-client privilege or otherwise prejudice the client.

(c) A lawyer shall make reasonable efforts to prevent the inadvertent or unauthorized disclosure of, or unauthorized access to, information relating to the representation of a client.³

[0022] As is apparent in the opening sentence of Model Rule 1.6, you must first decide who your “client” is for purposes of the confidentiality obligations. Interestingly, however, “the Model Rules of Professional Conduct do not define the identity of the client.”⁴ “The client-lawyer relationship is instead determined by ‘other’ law governing contractual and other relationships.”⁵ A useful template for determining whether a lawyer-client relationship exists can be found in Section 14 of the Restatement of the Law Governing Lawyers.⁶ “Putting aside court appointments, a client-lawyer relationship arises when a person manifests an intention to receive legal services from a lawyer, and the lawyer then agrees to provide the services or fails to negate consent where the prospective client has reasonably assumed that the relationship is underway. This formulation puts the burden on the lawyer to clarify the situation.”⁷ If there is uncertainty about whether a lawyer-client relationship exists, “courts generally give clients rather than lawyers the benefit of the doubt.”⁸

[0023] In very short order, you realize that this messy situation just continues to grow messier. While you might have thought you were representing only StarTup, Inc. and not the individual inventors such as Dakota, it is evident now that Dakota thinks otherwise. Knowing that the courts and disciplinary panels will give the client rather than lawyer the benefit of the doubt, it would be very risky to disregard Dakota’s express instructions to keep this information confidential and disclose it to Falcon and Yus. Instead, it would make better sense to explain to Dakota that while you understand that he would rather not disclose this potentially bad news to Falcon and Yus, it would be better for him in the long run to do so now. Disclosing the information now would enable the three of them to sort through options and map out the best course going forward. Not disclosing it now, and instead waiting to for Falcon and Yus to learn this information later, could create many problems for Dakota and harm his relationships with Falcon and Yus, as well as create many problems for StarTup.

[0024] If Dakota still refuses to give you permission to disclose this information to Falcon and Yus, it remains risky for you to disclose this information to Falcon and Yus. Instead, your best option likely would be withdrawing from representing StarTup altogether. This stems from the problems associated with not disclosing this information to Falcon and Yus, discussed in further detail below at paragraphs 25-27. In the future, situations such as this can be avoided by explaining, and confirming in writing to the co-inventors, that you represent the business entity and not the inventors on an individual level.

[0025] You have decided that you should not disclose this problematic information to Falcon and Yus. It is clear that Dakota regards you as his attorney despite your understanding that you were representing StarTup and not Dakota, Falcon, and Yus as individuals. However, not disclosing this information to Falcon and Dakota is problematic in view of your representation of StarTup, Inc. Here, the starting point for your analysis is Model Rule 1.13, which provides, in part:

(a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.

(b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization. Unless the lawyer reasonably believes that it is not necessary in the best interest of the organization to do so, the lawyer shall refer the matter to higher authority in the organization, including, if warranted by the circumstances to the highest authority that can act on behalf of the organization as determined by applicable law.⁹

[0026] At first blush, in view of Model Rule 1.13 you might start wrestling with whether information related to Dakota's offer to sell the HuvRbored more than one year before filing the patent application triggers one of the exceptions in subpart (b) of Model

Rule 1.13 such as a "violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization."¹⁰ However, Model Rule 1.4 governing client communication likely requires advising Falcon and Yus of this situation regardless of whether any of the exceptions in subpart (b) of Model Rule 1.13 apply. Model Rule 1.4 provides:

(a) A lawyer shall:

(1) promptly inform the client of any decision or circumstance with respect to which the client's informed consent, as defined in Rule 1.0(e), is required by these Rules;

(2) reasonably consult with the client about the means by which the client's objectives are to be accomplished;

(3) keep the client reasonably informed about the status of the matter;

(4) promptly comply with reasonable requests for information; and

(5) consult with the client about any relevant limitation on the lawyer's conduct when the lawyer knows that the client expects assistance not permitted by the Rules of Professional Conduct or other law.

(b) A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.¹¹

[0027] Here, your duty of communication to your client, StarTup, Inc., which includes Falcon and Yus, almost certainly would require you to advise them about a matter of great importance to the entity, specifically information impacting the validity of its potential patent rights. Moreover, obtaining "informed consent" from StarTup, Inc. related to patent matters certainly would require an understanding of the potential validity problems related to the pending patent application. Notably, "informed consent" denotes 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."¹² Model

Rule 1.4 accordingly would require you to disclose the circumstances surrounding Dakota's discussions with Powerful to enable StarTup, including Falcon and Yus, to formulate an appropriate strategy for approaching the licensing strategy and patent strategy going forward.

The Second CES and Deal with MTC

[0028] As expected, the HuvRbored was the main attraction at the 2011 CES. Crowds of people raced to the StarTup booth to see the improved HuvRbored. Dakota and Falcon could not take orders fast enough. Richard N. Powerful brought several other executives from MTC to observe the improved HuvRbored as well, including the President and CEO, Charles E. Oak. Powerful was surprised to see that the wheel-enclosing fender and auto stop/lockout features he had suggested were now included in the design.

[0029] One of the nagging problems with the HuvRbored was its battery. If the HuvRbored was used for more than 20 minutes continuously, its battery would overheat and sometimes cause the HuvRbored to catch fire. At the CES, both Dakota and Falcon were very careful to not use any individual HuvRbored for more than 10 minutes at a time. They were working furiously to find a solution but had not yet found one.

[0030] The CEO agreed with Powerful that MTC should obtain an exclusive license to the HuvRbored. Both CEO and Powerful knew that MTC could rapidly launch the HuvRbored and that it would be a smashing success in the marketplace. Shortly after the 2011 CES, Powerful called Dakota and suggested that MTC and StarTup meet to negotiate a license agreement. After speaking with Falcon and Yus, Dakota agreed to meet with Powerful and discuss an exclusive license agreement. Amazingly, shortly before the meeting, the Patent Office issued a Notice of Allowance for StarTup's patent application covering the HuvRbored, meaning that StarTup would be granted a patent covering the HuvRbored soon. The timing could not have been better for StarTup.

[0031] The following terms were negotiated preliminarily as part of an exclusive license agreement from StarTup to MTC for the HuvRbored technology. Tourney used a simple term sheet with StarTup so her clients could understand the business implications.

[0032] \$1 million upfront payment in form of MTC stock.

[0033] MTC pays 7 percent of the Net Selling Price for each "Licensed Product" sold; a "Licensed Product" was defined as any device covered by a "Licensed Patent."

[0034] StarTup must represent and warrant that it has no knowledge concerning the invalidity of any Licensed Patent.

[0035] StarTup represents and warrants that it has no knowledge about any safety concerns for the HuvRbored.

[0036] StarTup represents and warrants that it is the sole owner of the Licensed Patents.

[0037] MTC will not challenge the validity of the Licensed Patents.

[0038] To keep costs down, the StarTup team agreed that only Dakota and Tourney would fly to Chicago for the negotiations with MTC. Tourney had filed a continuation-in-part patent application two weeks earlier, and then paid the patent issue fee a few days before flying out to Chicago with Dakota. While at the airport, and after several drinks, Dakota asked Tourney whether it mattered that Powerful had suggested both the auto stop and lockout features that had been included in the HuvRbored design. Tourney's mouth dropped, and she was speechless for a moment. Both features suggested by Powerful had been included in all claims of StarTup's patent. Tourney explained to the semi-sober Dakota that Powerful likely should have been included as an inventor on StarTup's patent. Tourney further explained that as an inventor on the patent, Powerful would have an ownership interest in the patent. Further complicating matters, it was very possible that MTC now had an ownership interest in the patent because Powerful was an employee of MTC when he made the suggestions.

[0039] In standard Dakota fashion, he figured it was easiest to simply avoid this problem if at all possible. Dakota looked Tourney in the eyes and explained, "Dude, let's just roll with this."

[0040] First, Dakota told Tourney that she could not tell anyone about this, including Falcon and Yus. Tourney, feeling a sense of unwanted *déjà vu*, first reminded Dakota about the mess he created the first time around and that Dakota already knew that he could not prevent Tourney from sharing this information with Falcon and Yus because Tourney was acting solely as StarTup's counsel and not his individual counsel (which she wisely confirmed in an engagement letter and conflict waiver signed by Dakota, Falcon, and Yus). Dakota gulped, as he knew Falcon and Yus would be really upset with him this time. Instead, Dakota instructed Tourney that she could not say anything to MTC during the upcoming

meeting about both (1) Powerful's contribution to the design of the HuvRbored, and (2) the 2010 offer for sale discussions with MTC.

Second Choice of Misadventure

[0041] For purposes of this choice, you are again Patricia N. Tourney representing StarTup in the negotiations with MTC. You are concerned with the representation and warranty that StarTup is the sole owner of the Licensed Patents. Dakota has instructed you to not disclose any facts surrounding Powerful's contributions to the design of the HuvRbored, which were included in the claims.

[0042] What do you do now?

[0043] If you decide to disregard Dakota's instructions and advise MTC about Powerful's contributions to the HuvRbored design, go to paragraphs 45-48.

[0044] If you decide to follow Dakota's instruction and not advise MTC about Powerful's contributions to the HuvRbored design, go to paragraph 49.

[0045] Recalling that Dakota rarely seems to have good ideas, your immediate instinct is that you must

advise MTC about Powerful's contributions to the design of the HuvRbored. Looking back, if Dakota had told you about this situation earlier, you could have taken measures to separate out the subject matter contributed by Powerful from the claims of StarTup's patent. Even now, you could still file a reissue application patent application to try and sort out this mess. However, none of these options solve the immediate problem surrounding the currently issued patent that includes subject matter contributed by Powerful, an MTC employee, and the current representation and warranty under negotiation. You also recall the requirement of Model Rule 4.1, entitled "Truthfulness In Statements To Others," which provides:

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 1.6.¹³

Exhibit 1

| About Our Relationship | | | | |
|---|--------------------------|--------------------------|---|-----------------------|
| <i>Topics to consider reviewing with the lone wolf inventor or with a start-up.</i> | | | | |
| | YES | NO | QUESTION | Answer/Comment if YES |
| 1 | <input type="checkbox"/> | <input type="checkbox"/> | Have you ever hired (retained) a patent lawyer before? | |
| 2 | <input type="checkbox"/> | <input type="checkbox"/> | Have you ever applied for a patent before? | |
| 3 | <input type="checkbox"/> | <input type="checkbox"/> | When? Where? Outcome? | |
| 4 | <input type="checkbox"/> | <input type="checkbox"/> | Do you have a company of any kind? | |
| 5 | <input type="checkbox"/> | <input type="checkbox"/> | Are you applying as an individual? | |
| 6 | <input type="checkbox"/> | <input type="checkbox"/> | Are you applying for your company? | |
| 7 | <input type="checkbox"/> | <input type="checkbox"/> | Who are your partners? | |
| 8 | <input type="checkbox"/> | <input type="checkbox"/> | Do you have a formal agreement? | |
| 9 | <input type="checkbox"/> | <input type="checkbox"/> | Is this a partnership or a corporation? Just a handshake? | |
| 10 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know why the structure matters? | |
| 11 | <input type="checkbox"/> | <input type="checkbox"/> | May I take a few minutes to review what the legal language means for you and me? | |
| 12 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what behavior I expect from you? | |
| 13 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what behavior you can expect from me? | |
| 14 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what the attorney-client privilege is? | |
| 15 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know that I have ethical obligations? Do you have a high-level understanding of what they are? | |

[0046] You recall that while Model Rule 4.1 permits “puffery,” this line is rarely easy to draw and almost certainly does not apply here. Indeed, “the dividing line [between mere puffery and a false statement of material fact] is hard to draw, but it must approximate the point where a statement *will not mislead the opposing party*—the very point where ‘puffery’ would have little practical effect anyway.”¹⁴ Here, however, it is quite clear that representing and warranting that StarTup is the sole owner of the Patent would amount to a misstatement of material fact; MTC potentially has an ownership interest in the patent through the contributions of its employee, Powerful.

[0047] Before immediately jumping to the conclusion that you must correct this misunderstanding, you further recall that Model Rule 4.1 still invokes the obligation to protect client confidences under

Model Rule 1.6.¹⁵ Looking back to Model Rule 1.6, first discussed in paragraphs 21 and 22 of this article, you must focus on exceptions (b)(2) and (b)(3) to an attorney’s duty of confidentiality to a client. Those exceptions arise when 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; [or]

(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

Exhibit 2

| About the Patent Process | | | | |
|---|--------------------------|--------------------------|---|------------------------------|
| <i>A few topics to review with the lone wolf inventor or with a start-up.</i> | | | | |
| | YES | NO | QUESTION | Answer/Comment if YES |
| 1 | <input type="checkbox"/> | <input type="checkbox"/> | Can you tell me what a patent is? | |
| 2 | <input type="checkbox"/> | <input type="checkbox"/> | Is a patent good forever? | |
| 3 | <input type="checkbox"/> | <input type="checkbox"/> | How long does it take to get a patent? | |
| 4 | <input type="checkbox"/> | <input type="checkbox"/> | What’s the difference between an application and a granted patent? | |
| 5 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know an application is usually published? Do you know when? | |
| 6 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know who “grants” patent rights? | |
| 7 | <input type="checkbox"/> | <input type="checkbox"/> | How do you get international rights? | |
| 8 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know why a “prior art search” can be important? | |
| 9 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know how the USPTO figures out if this is really a new idea/solution? | |
| 10 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what patent infringement is? | |
| 11 | <input type="checkbox"/> | <input type="checkbox"/> | Whose responsibility is it to see if there is infringement? | |
| 12 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know when & how the international filing is done? | |
| 13 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what you can enforce (keep others from using?) | |
| 14 | <input type="checkbox"/> | <input type="checkbox"/> | Who is considered an inventor? | |
| 15 | <input type="checkbox"/> | <input type="checkbox"/> | What are the rights of an individual inventor? | |
| 16 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know what assignment is? | |
| 17 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know why it is important to “assign” rights to your company - if you have one? | |
| 18 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know when you can talk freely about your invention? | |
| 19 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know how important listing ALL the inventors is? | |
| 20 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know when you have to get permission (a license) to practice your invention? | |

crime or fraud in furtherance of which the client has used the lawyer's services;¹⁶

[0048] These exceptions to Model Rule 1.6 are quite narrow in application, especially with the requirement that triggering events are "reasonably certain to result in substantial financial injury to the financial interests or property of another."¹⁷ Here, the tension between Model Rules 1.6 and 4.1 becomes starkly apparent. Before attempting to wrestle further with these exceptions to Model Rule 1.6, you could seriously consider the option of a "noisy withdrawal" as suggested and generally permitted under the Model Rules.¹⁸ In circumstances such as those presented here involving

a client's potentially fraudulent activity, "the lawyer's escape from the dilemma will take the form of a 'noisy' withdrawal, which has the effect of 'blowing the whistle' on the client's wrongdoing, or at least 'waving a flag' of warning."¹⁹ Many times, threatening to withdraw from representing the client in such circumstances can be enough to bring the client back in line and prevent the problematic behavior.²⁰ You should have a frank discussion with Dakota and explain that you will withdraw unless he gives you permission to explain to MTC Powerful's contributions to the HuvRbored. If Dakota still refuses, making a "noisy withdrawal" appears to be your best option.

Exhibit 3

| Questions to ask the "Newbies" of Invention World—Freelancers, so to speak | | | | |
|---|--------------------------|--------------------------|---|----------------------|
| Remember that the language of the patent world and of license agreements is not the usual language of startups or of lone-wolf inventors. | | | | |
| It is advantageous to think about explaining the process and what each party should do using the language of talking to one's grandparents. | | | | |
| - Assuming none of them is a lawyer, a successful inventor, etc. | | | | |
| | YES | NO | QUESTION | Answer if YES |
| 1 | <input type="checkbox"/> | <input type="checkbox"/> | Do you have a name for your idea? | |
| 2 | <input type="checkbox"/> | <input type="checkbox"/> | Can you describe the idea that may be an invention? | |
| 3 | <input type="checkbox"/> | <input type="checkbox"/> | Does this solve a problem? | |
| 4 | <input type="checkbox"/> | <input type="checkbox"/> | Does this solve a problem in a different way than is used now? | |
| 5 | <input type="checkbox"/> | <input type="checkbox"/> | Does it save money or time or both? | |
| 6 | <input type="checkbox"/> | <input type="checkbox"/> | Do you have a sketch or picture or write-up of this? | |
| 7 | <input type="checkbox"/> | <input type="checkbox"/> | Have you developed a prototype? | |
| 8 | <input type="checkbox"/> | <input type="checkbox"/> | Have you done any work on this? | |
| 9 | <input type="checkbox"/> | <input type="checkbox"/> | When & where did you get this idea? | |
| 10 | <input type="checkbox"/> | <input type="checkbox"/> | Did you keep any notes about this? | |
| 11 | <input type="checkbox"/> | <input type="checkbox"/> | Have you offered this for sale? When? Where? | |
| 12 | <input type="checkbox"/> | <input type="checkbox"/> | Have you told anyone about this? Who? When? | |
| 13 | <input type="checkbox"/> | <input type="checkbox"/> | Have you written any emails about your idea? | |
| 14 | <input type="checkbox"/> | <input type="checkbox"/> | Have you tweeted anything about this idea? | |
| 15 | <input type="checkbox"/> | <input type="checkbox"/> | Have you posted anything on Facebook or another site about this idea? | |
| 16 | <input type="checkbox"/> | <input type="checkbox"/> | Have you entered any contests with this? | |
| 17 | <input type="checkbox"/> | <input type="checkbox"/> | Have you used this commercially? When? Where? | |
| 18 | <input type="checkbox"/> | <input type="checkbox"/> | Do you know of anything that looks or works like your idea? | |
| 19 | <input type="checkbox"/> | <input type="checkbox"/> | Have you looked in stores, catalogues, searched the Internet? | |
| 20 | <input type="checkbox"/> | <input type="checkbox"/> | Have you looked for articles or patents? | |
| 21 | <input type="checkbox"/> | <input type="checkbox"/> | Who is likely to be working on something similar? | |
| 22 | <input type="checkbox"/> | <input type="checkbox"/> | Can you write a short description of your idea (<150 words) | |
| 23 | <input type="checkbox"/> | <input type="checkbox"/> | Who may have helped you brainstorm this or work with you? | |
| 24 | <input type="checkbox"/> | <input type="checkbox"/> | Do you have contact information for the person identified above? | |

[0049] Working through the messy situation created by Dakota's instruction to not advise MTC about Powerful's contributions to the HuvRbored design, you have decided that flatly disregarding Dakota's instructions without more could be very problematic. However, you remain very aware that doing nothing in these circumstances makes it very likely that you would be in violation of Model Rule 4.1, "Truthfulness In Statements To Others," quoted and discussed above in paragraph 0045. As discussed in paragraph 0048, the best solution here is likely a "noisy withdrawal," or at least the threat to do so. As above, advising Dakota that you will withdraw unless he clarifies Powerful's contributions to the HuvRbored design hopefully should be enough to bring Dakota in line. If not, following through with the noisy withdrawal is likely the best way for you to extricate yourself for what would likely continue to a very problematic negotiation.

[0050] Congratulations, you have successfully danced through this minefield of ethical challenges. While not easy, you made well-informed decisions and hopefully found this exercise helpful. Although the full story has not yet ended, here are several observations. Many of the problems that led to the

ethical dilemmas stemmed from inadequate communication between the attorney and clients in the first instance. From the perspective of a seasoned business person, patent lawyers are bi-lingual at a minimum. They speak/write the language of patents all over the world. It usually is a favorite language. Conversational English—or their native language—is in second place.

[0051] New clients, particularly new inventors and wannabe inventors, speak the language of everyday conversation, in the conversations they have with family, neighbors, and friends. If they are scientists, they also speak the language of their scientific endeavors, but so should the patent attorney selected to represent them.

From a business point of view, it is the responsibility of the patent lawyer to make sure the new client—without any patent history or background—understands the instructions provided to them. If this is ignored, it usually leads to miscommunication and can also be the beginning of what leads to an ethical dilemma for the lawyer as we observed in this story. Included as Exhibits 1, 2, and 3 are some checklists that can be used to ensure better communication with clients on patent matters. Perhaps if Tourney had used these checklists, her road would have been less bumpy.

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2. Model Rules of Professional Conduct (2015). The following link provides information about how each jurisdiction has modified the ABA Model Rules of Professional Conduct. http://www.americanbar.org/groups/professional_responsibility/policy/rule_charts.html (last visited Feb. 24, 2016).
3. Model Rules of Professional Conduct Rule 1.6 (2015). See also Ann. Mod. Rules Prof. Cond. § 1.6 (2015).
4. Geoffrey C. Hazard, Jr. & W. William Hodes, *The Law of Lawyering* § 2.5 (3rd Ed. 2013 Suppl.); See also *Legal Ethics*, Law. Deskbk. Prof. Resp. § 1.2-1 (2015-2016 ed.).
5. *Id.*
6. *Id.*
7. *Id.*

8. *Id.*
9. Model Rules of Professional Conduct Rule 1.13 (2015). See also Ann. Mod. Rules Prof. Cond. § 1.13 (1015).
10. *Id.*
11. Model Rules of Professional Conduct Rule 1.4 (2015); See also Ann. Mod. Rules Prof. Cond. § 1.4. (1015).
12. Model Rules of Professional Conduct Rule 1.0(e) (2015); Hazard, *supra* n.4, at § 7.2; see also See also Ann. Mod. Rules Prof. Cond. § 1.0(e) (1015).
13. Model Rules of Professional Conduct Rule 4.1 (2015); See also Ann. Mod. Rules Prof. Cond. § 4.1 (2015).
14. Hazard, *supra* n.4, at § 37.3. See also Charles B. Craver, "Negotiation Ethics For Real World Interactions," 25 *Ohio St. J. on Disp. Resol.* 299 (2010).
15. Model Rules of Professional Conduct Rule 4.1 (2015); See also Ann. Mod. Rules Prof. Cond. § 4.1 (2015).
16. Model Rules of Professional Conduct Rule 1.6 (2015).
17. See Hazard, *supra* n.4, at § 9.23.
18. *Id.* at § 9.34; see also Thomas G. Bost, "Corporate Lawyers After The Big Quake: The Conceptual Fault Line in the Professional Duty of Confidentiality," 19 *Geo. J. Legal Ethics* 1089 (2006).
19. See Hazard, *supra* n.4, at § 9.34.
20. *Id.*

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