

# PIPLA NEWS

*The official newsletter of the Pittsburgh Intellectual Property Law Association*

## **PRACTICE TIP: THE ETHICS OF NEGOTIATING AN IP LICENSE ON BEHALF OF AN UNDISCLOSED PRINCIPAL**

*Thomas Joseph, Price & Adams, P.C.*

When a client becomes aware of another party's intellectual property rights, an attorney will usually advise that client to enter into a license agreement with that party before engaging in potentially infringing activity. A major drawback in negotiating such license agreements is that the initiation of such negotiations may alert the intellectual property owner to the identity of the client and the client's desire to engage in potentially infringing activity.

In order to protect their clients in such situations, attorneys will often negotiate on behalf of an undisclosed principal. Case law indicates that an "undisclosed principal" is a fundamental type of principal in agency law, as follows:

[i]f the other party has no notice that the agent is acting for a principal, the one for whom he acts is an undisclosed principal.

*Delaware Valley Equipment Company, Inc. v. Granahan*, 409 F.Supp. 1001, 1014 (E.D. Pa. 1976)(citing Restatement (Second) Agency § 4(3)).

Due to the fact that an agent must conceal the identity of the principal, negotiating on behalf of an undisclosed principal may raise ethical concerns. However, at least one commentator has stated that it is "a common and ethical practice in the IP community."<sup>1</sup> A review of the relevant rules of professional conduct and associated case law indicates that the commentator's conclusion regarding the ethics of such practices is correct.

Rule 8.4(c) of the Pennsylvania Rules of Professional Conduct prohibits an attorney from engaging in conduct involving dishonesty, fraud, deceit, or misrepresentation. Rule 4.1 of the Pennsylvania Rules of Professional Conduct provides that an attorney may not make a false statement of material fact or law to a third party. A textual review of these rules would seem to prohibit the practice of negotiating on behalf of an undisclosed principal.

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However, case law indicates that negotiating on behalf of an undisclosed principal is ethical. It is settled law that the use of an employee-agent to negotiate on behalf of an undisclosed principal is not deceptive. *Hirsch v. Silberstein*, 424 Pa. 486, 489 (1967). The Hirsch Court held that an agent acting on behalf of an undisclosed principal has no legal duty to reveal the existence of the undisclosed principal. *Id.* In adopting the reasoning of an earlier Pennsylvania Supreme Court decision, the Hirsch Court stated:

this Court decided that the owner of a property may not defend an action for specific performance of an option agreement to purchase land on the ground that he had been defrauded in not having disclosed to him that the person to whom he had extended the option was in fact the

<sup>1</sup> "Ethics and Other Challenges of Pretext Investigations", Ken Taylor, President and CEO, Marksmen Inc., downloaded from [http://www.aipla.org/Content/ContentGroups/Speaker\\_Papers/Mid-Winter1/20073](http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Mid-Winter1/20073) on October 30, 2008 at p. 4.

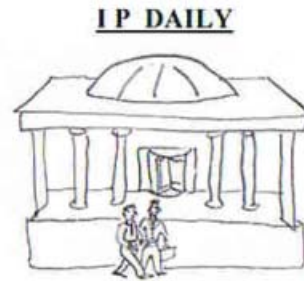
agent of an undisclosed principal. The Court reasoned that since the parties dealt at arm's length on a pure business basis and the only important question was the price of the land, which the Court determined was fair and adequate, the concealment by the agent of the existence and identity of his principal did not amount to deception such as would negate the transaction and the owner could not show damages.

Id. (citing *Standard Steel Car Company v. Stamm*, 207 Pa. 419 (1904)). Both cases indicate that such concealment does not amount to fraud or deceit. Accordingly, the Hirsch decision indicates that merely negotiating on behalf of an undisclosed principal would not violate Rule 8.4(c).

The holdings of Hirsch and *Standard Steel Car* are consistent with generally accepted conventions in negotiations that are described in Comment 2 to Rule 4.1 of the Pennsylvania Rules of Professional Conduct. As indicated above, Rule 4.1 provides that an attorney may not make a false statement of material fact or law to a third party. However, Comment 2 to Rule 4.1 provides:

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 are not taken as statements of material fact. Estimates of price or value placed on the subject of a transaction and a party's intentions as to an acceptable settlement of a claim are ordinarily in this category, and so is the existence of an undisclosed principal except where nondisclosure of the principal would constitute fraud.

Pa. R. Prof'l Conduct 4.1 comment 2. Accordingly, a pure textual interpretation of Rules 4.1 and 8.4(c) is not the correct interpretation in view of the above-cited case law and official comments.



"When I read *KSR*, I get the impression our courts don't understand \$103."

"Well, THAT's obvious!"

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### **Back to Basics**

*Amy Frizzell, Paralegal, Beck & Thomas, P.C.*

When I took my current position as a legal assistant with Beck & Thomas I felt a little lost but eager to test my abilities. Intellectual property was foreign to me. After a week of feeling overwhelmed, I realized that by focusing on the things within my control I was able to easily increase my knowledge and awareness of a field I was unable to control. Concentrating on details, accuracy and understanding the task at hand would be the basics to my success.

No matter the task I was given I had to take my time. Our jobs are all about details. Whether it's answering a client's questions or helping an attorney proofread a patent application, everybody has a detail they must get right. One wrong number or letter takes time and money to fix. Therefore, no one can afford to make mistakes. Double checking your work goes without saying. It may take more time to finish the task, but quality is always appreciated.

Education and knowledge are vital; especially in a field where everything is constantly growing. The expansion of your understanding behind rules and laws makes it easier to anticipate the next step in the prosecution process, foresee future actions that should be taken and eliminate future missteps. Anticipation will also allow you to work accurately and perform tasks consistently. Take advantage of the knowledge your attorneys possess. After all, every coworker should rely on each other, just as a team relies on every player to reach their goals.

No matter how much experience you have mistakes can happen. Personal improvement depends upon your willingness to admit your mistakes, taking responsibility for them and learning from them. In the prevention of mistakes, the best thing to do is ask questions. Asking questions will show that you may not know everything but you are willing to take the steps to find a solution in any situation.

It has been two years, and I have learned that you cannot control everything, but you can control getting back to the basics. Attention to detail, accuracy and the ability to understand the task at hand has given me success in a field that once overwhelmed me. But I'm still learning.

**U.S. DISTRICT COURT OVERRULES PTO  
INTERPRETATION OF PATENT TERM  
ADJUSTMENT STATUTE**

*Matt Johnson, Jones Day*

A U.S. District Court for the District of Columbia has ruled against the PTO's interpretation of 35 U.S.C. § 154(b) regarding adjustments of patent term based on Patent Office delays. Section 154(b) requires that days be added to the term of a patent beyond the 20 years from filing mandated by § 154(a)(2) for certain types of examination delay. Common delays that require patent term extensions include: failure of the Office to provide a first action within 14 months of filing; failure of the Office to respond to a reply from the applicant within 4 months; failure of the Office to issue a patent within 4 months of mailing a notice of allowance, and failure of the Office to issue a patent within three years of filing. Section 154 limits the number of days a patent term can be adjusted to only count periods of delay that do not overlap so as not to offer an applicant a patent term windfall.

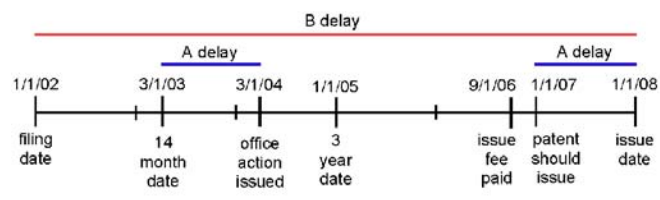
In this case, the applicant brought suit to challenge the Patent Office's interpretation of § 154 as related to the interaction between credit given for prosecution exceeding three years from the filing date and credit related to other Office delays. More specifically, the applicant argued that they should be given credit for both a delay of more than 14

months before receipt of a first Office action and a delay of more than three years in total prosecution time. The Patent Office cited its interpretation of § 154 and the associated rule at 37 CFR 1.703(f), which was published on June 21, 2004, at 69 Fed. Reg. 34238, which stated that:

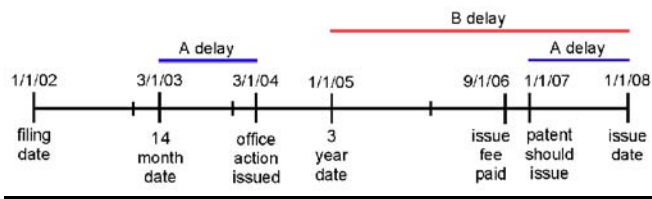
the Office has consistently taken the position that if an application is entitled to adjustment under the three-year pendency provision of 35 U.S.C. § 154(b)(1)(B), the entire period during which the application was pending before the Office, and not just the period beginning three years after the actual filing date of the application, is the relevant period under 35 U.S.C. § 154(b)(1)(B) in determining whether periods of delay overlap...(emphasis added)

Thus, under the PTO's interpretation, the applicant was not entitled to both the 14 month adjustment and the three year adjustment because the relevant period for the three year adjustment runs from filing to grant, which overlaps the period from filing-plus-14 months to the receipt of the first Office action.

The difference in interpretations can be seen below in a scenario proffered by the plaintiff where an application received a first Office action 26 months after filing and was delayed for one year after it should have issued. These delays are marked 'A' delays. The example application was pending for 6 years. The relevant time period for this delay is marked as the 'B' delay.



The USPTO's view: the patentee is entitled to three years of patent term adjustment.



Applicant's view: the patentee is entitled to four years of patent term adjustment.

It is clear that the second 'A' delay for delayed issuance from 1/1/07 to 1/1/08 is overlapped in both interpretations by the 'B' delay and should not be double counted. The issue facing the District Court was whether the first 'A' delay for failure to promptly issue a first Office action was overlapped by the 'B' delay. In siding with the applicant, the court stated:

The problem with the PTO's construction is that it considers the application delayed under § 154(b)(1)(B) during the period before it has been delayed. That construction cannot be squared with the language of § 154(b)(1)(B), which applies "if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years." (Emphasis added.) "B delay" begins when the PTO has failed to issue a patent within three years, not before.

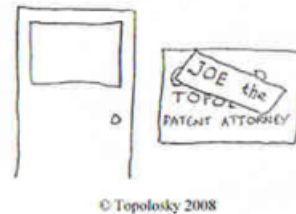
Because the 'B' delay does not begin until three years after filing, the 'B' delay does not overlap the first 'A' delay, and the applicant is entitled to four years of patent term adjustment.

This ruling may go against the Congressional intent in enacting § 154 in that it may in some cases, such as the above example, extend a patent term for longer than 17 years after issuance, which was the patent term rule prior to 1995. Under the PTO's interpretation, the patent term in the above example would be exactly 17 years. However, the PTO's interpretation violates the plain meaning of the text of the statute and was, therefore, overruled by the district court.

As a practical consideration, 37 C.F.R. 1.705(d) limits the time period for making objections to PTO patent term adjustment determinations to

two-months after the issue date. Therefore, it may be beneficial to flag and review all applications that have received a notice of allowance or have issued in the last two months to see if reconsideration should be requested based on this new ruling. It may also be desirable to adjust internal procedures for checking patent term adjustments following receipt of an issue notice to conform with this new ruling so that objections can be made if the PTO continues applying its erroneous interpretation of § 154.

### CARPÉ PER DIEM



### THE CUTTING EDGE

*In The Cutting Edge, we break down the best of the best pending patent applications to give you a preview of the next great invention that is coming soon to your neighborhood. For example...*

#### Godly Powers

(U.S. Patent Application Publication No. 2007/0035812)

Mr. Chris Roller has filed for patent protection on his newly discovered "godly powers." In his specification, available as U.S. Patent Application No. 11/161,345, Mr. Roller describes godly powers as using the supernatural, to defy laws of physics using an invisible force, and its end result can be a real product with real value and real reason for its creation. He continues his description, saying:

Godly Powers is the supernatural disguised in reality. It can either exist in nature, or you can achieve these powers directly via God or Chris Roller. With the personal powers, you can shape reality by using your mind, and as long as the result produces something real and there is a real excuse for the end result. You can fly and do many other things with these powers, but this

cannot get reported as in reality. Many things can be done with godly powers not in reality, like viewing the past. Many such phenomena are listed on [www.mytrumanshow.com](http://www.mytrumanshow.com).

Mr. Roller later describes his discovery of godly powers saying:

Godly powers is a newly discovered force which has existed in the unreal realm of this universe, but was recently discovered by Chris Roller via a lawsuit with David Copperfield who admitted he usurped Chris Roller's godly powers.

See Roller v. David Copperfield's Disappearing, Inc., U.S. Dist. Minn. Civ. No. 05-446.

The '345 application currently stands under Final rejection based on §§ 101, 102, and 112. A review of these rejections finds:

- In the § 101 rejection, the Office contends that the invention is non-statutory as trying to claim a naturally occurring phenomenon. Mr. Roller disagrees and argues that godly powers are a patentable process. Both parties have dug in their heels on this issue, which appears to be destined for a precedent setting appeal likely to be as highly anticipated as the recent *In re Bilski* en banc Federal Circuit decision.
- In the § 102 rejection, all of the pending claims are rejected as anticipated by Barlow (U.S. Patent No. 3,989,251), which is a magic board game where participants perform illusions in order to win. It appears that this rejection does not take Mr. Roller's invention seriously. Discussions with a high ranking Office official identified concerns with the treatment of this application due to the fear that Mr. Roller may turn to using his powers for evil rather than good should a favorable outcome not be reached.
- In the § 112 rejection, the Office contends that Mr. Roller's specification does not enable one skilled in the art to make or use the claimed invention. This may be a good issue for Mr. Roller on appeal based on the argument that he is the only one skilled in the art of using godly powers, and the specification as written enables him to practice the invention.

Prior to a formal response, Mr. Roller submitted a letter to the examiner further explaining the basis and importance of his godly powers and the necessity of the issuance of a patent. The tension in this standoff palpable as Mr. Roller concludes his letter stating, "This patent is a big deal! Please issue this thing." Developing...

*If you have a suggestion for an invention that should receive recognition in The Cutting Edge, please e-mail the patent publication number to [mwjohnson@jonesday.com](mailto:mwjohnson@jonesday.com).*

### **NOVEMBER MEETING REMINDER**

Just a reminder that the November PIPLA meeting will be a luncheon gathering at the Engineer's Society on November 19th.

### **FROM THE NEWSLETTER COMMITTEE**

We hope you've enjoyed this issue of the 2008/2009 PIPLA News, an informative and hopefully entertaining look at the goings on in IP law. We invite our entire readership to contribute to this endeavor with articles, announcements, and job postings of your own. If you have something you would like included in PIPLA News or have questions about how you can contribute, please contact Matt Johnson at 412-394-9524 or at [mwjohnson@jonesday.com](mailto:mwjohnson@jonesday.com).

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