

# REPORT

## USPTO PUBLISHES FINAL RULES FOR DERIVATION PROCEEDINGS UNDER AMERICA INVENTS ACT

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The United States Patent & Trademark Office ("USPTO") has now published its final rules for implementing derivation proceedings under the America Invents Act ("AIA"). The rules will be effective beginning March 16, 2013.

As part of the transition to the "first-inventor-to-file" system established by the AIA, interference proceedings will eventually and gradually be eliminated. 35 U.S.C. §135, which formerly related to interference practice, has been amended to establish USPTO "derivation" proceedings. Amended §135 applies in situations in which a later-filing applicant ("petitioner") has a pending application and an earlier-filing applicant ("respondent") has a pending application or an issued patent. In a derivation proceeding, the petitioner attempts to prove that the inventor(s) of the respondent's application derived an invention from one or more inventor of the petitioner's patent application, and filed the earlier application "without authorization."

The USPTO expects that no more than 50 petitions to institute derivation proceedings will be filed annually, and that only 10 of those petitions will result in a derivation proceeding being instituted. Thus, the rules governing derivation proceedings are expected to be relevant only to a very few applications.

### I. Eligible Parties, Applications And Patents

Parties who have neither an issued patent nor a pending application related to the disputed invention cannot use derivation proceedings. However, a party need not have filed its application prior to becoming aware of an alleged deriver's patent or application (as long as the party files its application and petition within one year of first publication of an alleged deriver's claims, described below). To the contrary, the USPTO expressly recognizes that a petitioner "may copy an alleged deriver's application, [and] make any necessary changes to reflect accurately what the inventor invented."

Parties who (i) believe that a patentee has misappropriated their invention, but (ii) do not timely file an application in order to pursue a derivation proceeding, will have to rely on §101, new §102, the prior commercial use defense, or possibly an unenforceability defense based on inequitable conduct, to challenge a patent for incorrect inventorship.

Derivation proceedings under amended §135 and the final rules will be available with respect to any application or patent that contains or contained at any time a claim having an effective filing date on or after March 16, 2013, or that is a continuing application (under §§ 120,

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121, or 365(c)) of, or patent issued from, an application that contains or at any time contained such a claim. For any patent or application that contains or at any time contained a claim having an effective filing date before March 16, 2013, or that is a continuing application (§§ 120, 121, or 365(c)) or patent of an application that contains or contained at any time such a claim, interference practice (under pre-AIA 35 U.S.C. §§ 102(g), 135 and 291 and the previously existing interference rules) is still available.

Any application that meets both of the above criteria is eligible for both types of proceedings. One example of such an application is a regular non-provisional application that (i) is filed on or after March 16, 2013, (ii) claims the priority benefit of a foreign application filed before March 16, 2013, and (iii) includes a claim supported by the priority application and a claim not supported by the priority application. A second example is a CIP application that (i) is filed on or after March 16, 2013, (ii) claims the benefit of a U.S. application filed before March 16, 2013, and (iii) includes a claim supported by the parent application and a claim not supported by the parent application. Other examples include reissue applications and continuing applications based on applications described in the first and second examples, and patents issuing from any of these types of applications.

Neither the AIA nor the final rules explicitly state what proceedings would be available when one party's application meets the criteria for applicability of derivation proceedings and the other party's application does not. Presumably, in this case, the earlier party could seek declaration of an interference, and the later party could petition for derivation proceedings to be instituted. In theory, both types of proceedings could be instituted and proceed simultaneously. However, it is likely that, in

some such situations, the USPTO would simply proceed with the interference and address any derivation issues in it.<sup>1</sup>

## II. Requirements For Petition

A patent applicant ("later applicant"), including a reissue applicant, may file a petition to institute a derivation proceeding in the USPTO in an effort to have an earlier applicant's claims refused or canceled. Requirements for such a petition are as follows:

- The petition must be filed by the later applicant;
- The petition must be made under oath;
- The petition must provide sufficient information to identify the application or patent for which the petitioner seeks a derivation proceeding;
- A fee of \$400 must accompany the petition. The USPTO's current proposed fee schedule includes discounted fees for small entities (\$200) and micro-entities (\$100);
- The petition must establish that it has been filed within the one-year period beginning on the date of the first "publication" of a claim to an invention that is "the same or substantially the same as the earlier application's claim to the invention." The USPTO is interpreting "first publication" to mean the first publication by the alleged deriver. The final rules specify that "first publication" refers to any of (i) an application publication under 35 U.S.C. §122, (ii) an issued patent (i.e., under 35 U.S.C. §153), and (iii) a publication of an international application (i.e., a WIPO publication under PCT Article 21) that

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<sup>1</sup> In response to our firm's comments to the USPTO on this point, the USPTO stated that it will decide how to handle such situations on a case-by-case basis.

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designates the United States. Public availability of a claim amendment in the USPTO's public PAIR database does not constitute a "publication";

- The petition must demonstrate and be supported by substantial evidence (i) that an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application, and (ii) that the inventor from whom the invention was allegedly derived did not authorize the filing of the earlier application claiming such invention. The "substantial evidence" must include at least one affidavit addressing (i) direct or indirect communication of the derived invention from the petitioner to the respondent, and (ii) lack of authorization from the petitioner for the respondent to file the respondent's application. The showing of communication must be corroborated;
- The petition must show that the *petitioner* has at least one claim that is "the same or substantially the same as the respondent's claimed invention";<sup>2</sup>
- The petition must show that the *petitioner's* at least one claim is "the same or substantially the same as the invention disclosed to the respondent";<sup>3</sup>
- The petition must show, for each of the respondent's claims to the derived invention, why the *respondent's* claimed invention is "the same or substantially the same as the invention disclosed to the respondent";
- The petition must identify, for each of the respondent's claims to the derived

invention, how the respondent's claim is to be construed (including, for means-plus-function or step-plus-function claims, identification of the specific portions of the specification that describe the structure, material, or acts corresponding to each claimed function);

- The petition is limited to 60 pages; and
- The petition and supporting evidence must be served on the respondent at the correspondence address of record.

Further, the USPTO has indicated that "A derivation [proceeding] is unlikely to be declared even where the Director thinks the standard for instituting a derivation proceeding is met if the petitioner's claim is not otherwise in condition for allowance."<sup>4</sup> The USPTO commentary on the rules makes it clear that the petitioner's claim need not be "otherwise in condition for allowance" at the time of *filing* the petition.

No filing date will be given to an incomplete petition. An incomplete petition may be corrected only within the *earlier* of (i) one month from notice of the incomplete petition, or (ii) the expiration of the statutory deadline. However, the rules do not prohibit filing a separate, complete petition that is later than one month from the notice (provided that the separate petition is filed by the statutory deadline).

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<sup>4</sup> The phrase "*unlikely* to be declared" implies that there may be circumstances in which the USPTO *will* institute a derivation proceeding even if the petitioner's claim is *not* otherwise in condition for allowance. In our comments to the USPTO, we raised the issue of prior art dated after the respondent's filing date but before the petitioner's filing date. (Such prior art could leave the subject claims unpatentable to the petitioner but patentable to the respondent, even if the respondent had in fact derived its claimed invention from the petitioner.) In response, the USPTO stated that "each situation will be evaluated on its particular facts." From this response, we infer that the USPTO *might* institute a derivation proceeding in such a situation.

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<sup>2</sup> A "claim" cannot be the "same as" an "invention." It appears that the USPTO's intended meaning is a claim that is directed to the same or substantially the same invention as the respondent's claimed invention.

<sup>3</sup> See footnote 2.

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### III. Procedures After Petition Is Filed

#### A. USPTO Discretion In Instituting A Derivation Proceeding

If the Director determines that the petition "demonstrates that the standards for instituting a derivation proceeding are met," the Director "may" institute a derivation proceeding. Thus, the USPTO is not required to institute a derivation proceeding even if the above requirements are met by the petitioner, as long as the USPTO does not act arbitrarily or capriciously. If the petition is rejected, the petitioner may file a request for reconsideration. The Director's final determination of whether or not to initiate a derivation proceeding is final and non-appealable, but could be challenged as arbitrary and capricious by way of a *mandamus* proceeding in the U.S. District Court for the Eastern District of Virginia.

#### B. Deferral Of Action By The Board

The Board can defer action on a petition for a derivation proceeding "until the expiration of the 3-month period beginning on the date on which the Director issues a patent that includes the claimed invention that is the subject of the petition." This would allow time for the USPTO to avoid acting on petitions directed to claims that are not patentable, and thus that will not be in an issued patent. In addition, the deferral period would allow time for the respondent to amend its claims. The respondent apparently could avoid the derivation proceeding by amending its claims to be out of the scope of the petition.

It is not clear whether the petitioner could amend the petition to cover the respondent's amended claims in this case. (Rule 42.407(b) and the USPTO commentary refer only to correction of an "incomplete request," and do not explicitly allow for an amended petition based on a

respondent's amended claims.) However, even if an amended petition is not allowed, a new petition could be filed (provided that the other requirements, including the one-year requirement, are still met).

#### C. Additional Proceeding

After filing a petition, the petitioner may suggest that another patent or application be added to the proceeding. The suggestion must make the same showings as were made in the original petition, and must also explain why the suggestion could not have been made in the original petition. A possible example of why the suggestion could not have been made in the original petition is that the second patent or application was not published until after the original petition was filed.

#### D. No Preliminary Response By Respondent

The final rules provide for an optional Patent Owner Preliminary Response for post-grant review, *inter partes* review, and covered business method patent review proceedings (see our August 27, 2012 Special Report), but do not include a similar provision for derivation proceedings. Thus, it appears that a respondent will not have the opportunity to respond to a petition prior to a Board decision to institute a derivation proceeding.

#### E. Institution Of Trial

If a derivation proceeding is instituted by the Director, the proceeding will be conducted as a trial before the Patent Trial and Appeal Board ("the Board"). The Board's inquiry focuses on "whether an inventor in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, the earlier application claiming

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such invention was filed." However, Rule 42.400(b) also gives the Board authority to resolve patentability issues that arise during the proceeding when there is good cause to do so.

As an example, the USPTO commentary on the rules notes that an issue of claim indefiniteness under 35 U.S.C. §112 might need to be resolved before derivation can be substantively addressed on the merits. Although not specifically mentioned, the Board could also address §102 or §103 prior art issues and/or §101 patent eligibility issues. (However, we believe that the Board will generally avoid addressing such issues in derivation proceedings if possible.)

## **F. Conduct Of Trial**

Like *inter partes* review, post-grant review, and transitional post-grant review for business method patents, derivation proceedings will be conducted entirely before the Board in a trial format. This format is briefly summarized below, and is very similar to the interference practice in which we have substantial experience. A more detailed explanation of the trial process is included in our August 27, 2012 Special Report entitled "The USPTO Issues Final Rules Implementing *Inter Partes* Review And Post-Grant Review," which is available in the News & Events section of our website ([www.oliff.com](http://www.oliff.com)).

The time from institution of a trial to final decision will generally be twelve months or less. While six-month extensions are available for some cases, they will rarely be used.

### **1. Scheduling Order**

After institution of the trial, the Board will issue a Scheduling Order at the same time as the Notice instituting the trial. The Scheduling Order will set the various due dates related to the trial. The Board expects to initiate a conference call

within about one month after the date that the trial is instituted. During the conference call, the parties can stipulate to due dates different than those specified in the Scheduling Order, except for the date of the oral hearing. Two days prior to the conference call, the parties are expected to provide the Board with an accurate list of proposed motions (discussed below) to be filed during the trial.

### **2. Respondent's Response**

The Respondent's Response is filed as an opposition to the Petition. Unless the time period for response is changed by order of the Board, the Respondent's Response must be filed within three months after issuance of the Notice of the trial. The Respondent's Response should identify all of the involved claims that are believed to be patentable, explain the basis for that belief, and be filed with all supporting evidence upon which the respondent intends to rely (presented through affidavits or declarations). The Respondent's Response is limited to 60 pages.

### **3. Motion To Amend**

The filing of a motion to amend claims by a petitioner or respondent in a derivation proceeding will be authorized upon a showing of good cause. An example of good cause is where the amendment materially advances settlement between the parties or seeks to cancel claims. The Board expects, however, that a request to cancel all of a party's disputed claims will be treated as a request for adverse judgment.

### **4. Petitioner's Reply To The Respondent's Response**

The petitioner will be afforded an opportunity to file a Reply to the Respondent's Response at a time set in the Scheduling Order. The Reply may only respond to arguments raised

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in the Respondent's Response. According to the rules, if the Reply raises a new issue or belatedly presents evidence, the entire Reply will not be considered and may be returned. The Reply is limited to 15 pages.

## 5. Evidence

The Federal Rules of Evidence generally govern the trial. Throughout the trial, evidence will be included in exhibits to the Petition, Respondent's Response, etc. Evidence will take the form of documents and testimony (including affidavits and deposition transcripts). Expert opinion testimony that does not disclose the underlying facts or data will be given little to no weight by the Board. Further, an affidavit must accompany test data explaining, among other things, why the test data is being used, why the test was performed, how the data is used to determine a result, and how the test is regarded in the relevant art. Testimony regarding patent law or patent examination practice will not be admitted. All non-English language documents relied on by either party must be translated into English.

## 6. Motion Practice

Relief requested by any party during the trial must be requested in the form of a motion. Unless specified, a motion may not be entered without Board authorization. In each motion, the moving party has the burden of proof to establish that it is entitled to the requested relief. The Board may order briefing on any issue raised in a motion. Motions and oppositions thereto are limited to 15 pages. Replies to oppositions are limited to 5 pages.

In addition to motions to amend the claims, some examples of motions that may be filed include motions to exclude evidence, motions to seal, motions for joinder of related proceedings,

motions to file supplemental information, motions for judgment based on supplemental information, and motions to submit observations on post-reply cross examination.

The Board may require a party to file a notice stating the relief it requests in the filing of a motion. Such a notice must include sufficient detail of the precise relief requested. The failure to state sufficient basis for relief may result in a denial of the relief requested even without consideration of an opposition to the motion. Further, when a notice has been required by the Board, a party will be limited to filing motions consistent with the notice.

Each motion must be filed as a separate paper and must include: (1) a statement of the precise relief requested; and (2) a full statement of the reasons for the relief requested, including a detailed explanation of the significance of the evidence including material facts, governing law, rules, and precedent. The motion may also include (3) a separate statement of material facts in which each material fact shall preferably be set forth as a separately numbered sentence.

Every time a party files a motion, an opposing party may file an opposition to the motion within the time period set in the Scheduling Order, or otherwise set by the Board. The opposition must comply with the content requirements for motions, but need only identify material facts in dispute. Any material fact not identified as being disputed may be considered admitted. When a party files an opposition, the moving party may file a reply to the opposition. A reply may only respond to arguments raised in the corresponding opposition.

Motions may be decided on an interlocutory basis. That is, the Board may rule on a motion before issuing a final decision. The Board's decision on the motion prior to a final decision on

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the proceeding is not final for the purposes of judicial review. However, a party may request rehearing of the motion by the Board.

## 7. Discovery

Limited discovery is permitted at various times throughout the trial. Discovery will be used by the parties to develop the trial record. Beginning with the respondent, each party will be provided discovery periods that will be set in the Scheduling Order. Three types of discovery are contemplated by the rules: "mandatory" initial disclosures, routine discovery and additional discovery. However the parties may agree to more or less discovery between themselves at any time. All non-English language documents produced during discovery must be translated into English and accompanied by an affidavit attesting to the accuracy of the translation.

### a. Mandatory Initial Disclosures

The parties may agree to "mandatory" initial disclosures. The rules are unclear as to the timing of such an agreement—they state that the agreement must be reached and submitted to the Board no later than the filing date of a Patent Owner's Preliminary Response, or the expiration of the time period for filing such Response, but do not permit such a Response in connection with a derivation proceeding. We expect that the USPTO will resolve this issue by setting deadlines in the Scheduling Order for the agreement to be filed and for the agreed-upon disclosures to be completed.

If the parties fail to agree regarding mandatory initial disclosures, a party may seek mandatory initial disclosures by motion. The Trial Practice Guide published by the USPTO contemplates two types of mandatory initial disclosures: a first type based on the Federal Rules of Civil Procedure and a second, more

extensive type. The second type is prior-art centric, and thus seems less applicable to derivation proceedings. Accordingly, we do not discuss the second type in detail. The first type requires disclosure of:

(1) witnesses upon whom the party may rely: the name and, if known, the address and telephone number of each individual likely to have discoverable information—along with the subjects of that information—that the disclosing party may use to support its claims or defenses, unless the use would be solely for impeachment; and

(2) documents upon which the party may rely: a copy—or a description by category and location—of all documents, electronically stored information, and tangible things that the disclosing party has in its possession, custody, or control and may use to support its claims or defenses, unless the use would be solely for impeachment.

### b. Routine Discovery

In routine discovery, a party must serve on all opposing parties any exhibit that it cites in a paper or in testimony and that has not already been served. Furthermore, a party is entitled to conduct a deposition to cross examine the opposing party's affiants within a time period set by the Board.

Unless otherwise agreed by the parties or ordered by the Board, the party proffering a witness's testimony must make every effort to produce the witness for a deposition in the United States. That party must bear the costs (other than attorney fees) of the deposition, including witness travel expense, court reporter, transcript and translation costs.

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In general, each deposition may last up to about two days. For depositions to cross examine affiants, cross examination would generally be limited to seven hours, redirect examination limited to four hours, and any re-cross examination limited to two hours.

Also during routine discovery, a party must serve on the opposing party any non-privileged, relevant information that is inconsistent with a position advanced by the party and that is known to the inventors, persons involved in preparation or filing of documents in the proceeding, or corporate officers of a petitioner or respondent. This information need not be filed in the USPTO, but must be served concurrently with the filing of the documents or things advocating the position to which the inconsistent information is directed. No explanation of the information being served is required.

### **c. Additional Discovery**

In addition to routine discovery, a party may move for additional discovery, including seeking to compel testimony. The party moving for additional discovery must show that such additional discovery is in the interests of justice.

According to the USPTO commentary, the Board believes that parties are unlikely to meet the interests-of-justice standard, and authorization for additional discovery will be rare. However, additional discovery would likely be granted to permit a party to obtain production of documents and things referred to in direct testimony or during cross examination of an opposing party's witness or during authorized compelled testimony. Additional discovery is also likely to be granted when a party raises an issue "where the evidence on that issue is uniquely in the possession" of the party that raised the issue. Additional discovery may also be authorized in light of a motion to amend claims. If a party

seeks discovery of electronic documents, the Practice Guide includes a model order governing e-discovery, specifying the manner of producing such information and the manner of identifying emails by custodian and search terms.

## **8. Protective Orders**

A party may file a motion requesting that the Board issue an order protecting confidential information.<sup>5</sup> The protective order may forbid the disclosure of, or discovery relating to, the confidential information or may specify the circumstances for conducting discovery and depositions regarding the confidential subject matter. Confidential information is not available to the public during the pendency of a proceeding. A motion to expunge that information may be filed at the conclusion of the proceeding. Otherwise, the information will then be made publicly available.

## **9. Oral Hearing**

Either party is entitled to request an oral hearing before the Board on any issue raised in a paper. The request for the oral hearing must be filed as a separate paper and must specify the issues to be argued.

## **G. Final Decision Of The Board**

If the Board's final decision is adverse to any patent or application claim, then the claim is refused (if in an application) or canceled (if in a patent). However, "in appropriate circumstances," the Board may correct the inventorship in any application or patent at issue.

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<sup>5</sup> Procedures are also provided for maintaining confidentiality of information relied upon in a Petition pending entry of a protective order.



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The AIA and USPTO rules do not specify what circumstances would be "appropriate." Such circumstances would likely include an agreed-upon correction to facilitate settlement.

## H. Settlement And Arbitration

Parties to a derivation proceeding may terminate the proceeding by filing a written statement reflecting the agreement of the parties as to the correct inventors of the claimed invention in dispute. If requested by either party, the agreement or understanding will be treated as business confidential information, and made available only to Government agencies or "to any person on a showing of good cause."<sup>6</sup> The parties may also agree to have the contest determined by arbitration rather than by the Board.

## I. Appeal

Final judgments of the Board in derivation proceedings may be challenged in two ways. They may be challenged in a *de novo* civil action in the U.S. District Court for the Eastern District of Virginia or, in some circumstances, in another district court. Alternatively, they may be appealed directly to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C.

## IV. USPTO Cost Estimates

The USPTO estimates that the cost of preparing a petition for a derivation proceeding will be \$61,333. In cases in which the Board rejects a petition (which is expected to happen with approximately 80% of all such petitions filed), the USPTO's estimated cost for preparing and filing a request for reconsideration is \$29,680.

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<sup>6</sup> The rules do not define or give an example of "good cause," but according to the USPTO commentary on the rules, the USPTO expects that a successful showing of good cause "would be a rare occurrence."

The final rules do not include cost estimates for various aspects of a derivation proceeding such as discovery, hearings and settlement negotiations, but the USPTO has separately estimated that the total cost to each party will average about \$460,000.

## V. Analysis

### A. PCT Application As One-Year Trigger

As noted above, the publication of a PCT application that designates the United States acts as a trigger of the one-year period for filing a petition for a derivation proceeding. There is no requirement that the PCT application be published in English, or that it ever actually enter the U.S. national phase.

Many U.S. national phase applications are filed very close to the 30-month deadline (i.e., on or near a date one year after the PCT application publication). Because the deadline for filing a petition for a derivation proceeding and the deadline for filing the U.S. national phase application are very close (potentially on the same day), the petitioner likely would have to file its petition (not merely its corresponding claim) without knowing whether the respondent had actually filed a U.S. national phase application.<sup>7</sup>

In this situation, the petitioner would not know the respondent's U.S. application number at the time of filing the petition. Presumably, the petitioner would instead identify the respondent's PCT publication number, and later update the petition to reflect the respondent's U.S. application number.

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<sup>7</sup> This is very different from current interference practice, in which a party seeking to provoke an interference need only file its corresponding claim within the one-year period, and even then only if its effective filing date is after the publication date of the earlier application.

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## B. Claim Amendments

Several complexities, not addressed by the rules, exist among the conceivable scenarios of derivation proceedings. As one example, if a respondent amends its claims to avoid derivation issues, it is not clear whether the petitioner is required to amend its claims to match the respondent's amended claims. There are various other unanswered questions, such as: If a respondent amends its claims to be out of the scope of the petition, does the petitioner have an opportunity to amend its claims and petition to match before the respondent's application goes back to the Examining Corps for further action? If both the respondent and the petitioner amend their claims in the same way, do the applications remain with the Board, or return to the Examining Corps? It appears that these questions will be answered only by future case law, as the Board addresses each of them on a "case-by-case" basis.<sup>8</sup>

## C. Different Amendments Might Trigger Different One-Year Dates

If the respondent amends its claims, it appears that the publication date triggering the one-year period could differ depending on the specific amendments made. For example, (i) if the respondent amends its claims only by incorporating the subject matter of a previously-published dependent claim, then the one-year period would be triggered by that previous publication, but (ii) if the respondent amends its

claims to have a different scope than any previously published claim, then the one-year period would not start until the claims were published in the respondent's issued patent.

## D. Earlier-Filed Application

The rules define "petitioner" as "a patent applicant who petitions for a determination that another party named in an *earlier-filed* patent application allegedly derived a claimed invention..." (emphasis added). On its face, this definition does not make it clear whether, in the case of an application claiming benefit of the filing date of another application, "earlier-filed" refers to the actual filing date, or to the benefit date. A recent decision by the Court of Appeals for the Federal Circuit in an interference litigation (*Loughlin v. Ling*, 684 F.3d 1289 (Fed. Cir. 2012)) affirmed that the benefit date is treated as the filing date in the corresponding interference context. Thus, we believe that even if the alleged deriver's actual filing date is after the alleged victim's filing date, the alleged victim can properly be a "petitioner" as long as the alleged deriver's benefit date is earlier than the alleged victim's filing or benefit date.

## E. Same Or Substantially The Same

A petitioner must show why each challenged respondent's claim is directed to "the same or substantially the same [invention] as the invention" disclosed by the petitioner to the respondent. The final rules define "the same or substantially the same" as "patentably indistinct." In its commentary, the USPTO states that the rules "make clear" that to meet the "same or substantially the same" requirement, "the petitioner must show that the respondent's claim is anticipated by or obvious over the petitioner's claim."

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<sup>8</sup> We commented to the USPTO on this point as well, and again the USPTO responded that "each situation will be evaluated on its particular facts." The USPTO acknowledged that the respondent may be an applicant and be "in a position to amend its claims," but said nothing about what a petitioner can or cannot do with its claims in a derivation proceeding.

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For example, assume that a petitioner had disclosed to a respondent an invention including elements A, B and C, and the respondent had subsequently filed an application claiming an invention including elements A, B, C and D. Under the "patentably indistinct" standard, the petitioner could introduce prior art evidence showing that addition of D would have been an obvious modification, and therefore that the respondent's claimed invention is patentably indistinct from the invention disclosed to the respondent by the petitioner.

#### F. One-Way Test

The concept of derivation was previously addressed under 35 U.S.C. §102(f), which is eliminated under the AIA. As defined in §102(f) case law, derivation requires complete conception by another and communication of that conception to the alleged deriver. *Kilbey v. Thiele*, 199 USPQ 290, 294 (Bd. Pat. Inter. 1978). The issue in proving derivation traditionally has been "whether the communication enabled one of ordinary skill in the art to make the patented invention." (*Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1577 (Fed. Cir. 1997)). We anticipate that the USPTO will apply these same standards in derivation proceedings.

In interference practice, the "patentably indistinct" test is a two-way test. For example if the claimed invention of Party A is patentably distinct from the claimed invention of Party B, there is no interference-in-fact, even if Party B's claimed invention is *not* patentably distinct from that of Party A. Because a derivation proceeding focuses only on whether the respondent's claim should be canceled or refused, and does not consider the question of whether the petitioner is entitled to the claimed subject matter, it would seem logical that only a one-way test should be applied. This approach would be consistent with the §102(f) case law discussed above.

Additionally, a public comment requested more guidance as to whether a two-way test or one-way test would be applied. The USPTO did not directly respond to this request, but instead stated that "in determining whether a petitioner has at least one claim that is the same or substantially the same as a respondent's claimed invention..., the petitioner must show that the respondent's claim is anticipated by or obvious over the petitioner's claim." In context, this statement implies that only a one-way test will be applied.

The rules require both (i) a showing that the *petitioner's* "claim" is the same or substantially the same as (i.e., not patentably distinct from) the invention disclosed to the respondent, and (ii) a showing that the *respondent's* claimed invention is the same or substantially the same as the invention disclosed to the respondent. Thus, some may view the rules collectively as, in effect, requiring a two-way test. However, in our view it is more correct to view these requirements as two separate one-way tests, each comparing what is claimed to what was disclosed (with no claim vs. claim comparison).

#### G. Common Ownership

The Board may decline to institute a derivation proceeding if the involved applications (or the involved application and patent) are commonly owned. The USPTO commentary states that common ownership in a derivation proceeding is a concern "because it can lead to manipulation of the process, such as requesting the Board to resolve an inventorship dispute within the same company." However, the USPTO commentary indicates that "not all cases of overlapping ownership would be cause for concern. The cases of principal concern involve a real party-in-interest with the ability to control the conduct of more than one party."

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The commentary does not explain why the USPTO has a concern with a real party-in-interest controlling the conduct of more than one party, but it appears that, simply stated, the USPTO does not want to conduct any derivation proceeding merely to resolve an internal inventorship dispute, the outcome of which does not affect the rights of the real party-in-interest.

#### **H. Possible Proceedings Instead Of Or In Addition To Derivation Proceedings**

The AIA eliminates 35 U.S.C. §102(f), which prevented a patent from being obtained by a person who "did not himself invent the subject matter sought to be patented." Some commentators have questioned whether this will (i) make it possible for non-inventors to obtain patents, and/or (ii) prevent third parties (e.g., parties who do not have relevant patent applications to use in seeking a derivation proceeding) from invalidating patents on the basis of incorrect inventorship.

In response to such concerns, the USPTO has taken the position that at least 35 U.S.C. §101 ("Whoever invents or discovers...may obtain a patent..."), which is unchanged by the AIA, prevents non-inventors from obtaining patents. It thus appears that a derivation victim or a third party should be able to challenge the validity of a derived claim under 35 U.S.C. §101 in a district court proceeding or possibly in a post-grant review.

#### **VI. Recommendations**

1. In its rules governing derivation proceedings, the USPTO has applied many of its policies and rules pertaining to interference proceedings. Accordingly, in general, it will be helpful for parties seeking declaration of a derivation proceeding to apply many of the same

considerations and strategies that would have been used in seeking declaration of an interference proceeding.

2. A petitioner can directly copy a respondent's claim(s) (to the extent that the copied claims are supported by the petitioner's application), and/or can copy the respondent's application (modified as necessary to reflect what the petitioner invented). Thus, even if the petitioner had already filed an application prior to becoming aware of the respondent's application, the petitioner should consider filing a separate application, or a CIP of an existing application, if still within the statutory one-year period. This would allow the petitioner to better tailor its claim language and disclosure to support the petition.

3. If derivation is suspected, the potential victim should monitor all "publications" by the suspect party or parties, i.e., published U.S. patent applications, issued U.S. patents and published PCT applications designating the United States (regardless of whether they are published in English). For published PCT applications that include a derived claim, the petitioner must prepare and file its petition within one year of the PCT publication date, regardless of whether it can be confirmed that the respondent has filed a U.S. national phase application.

4. Derivation seems most likely in joint venture scenarios, or when one party discloses an invention to another party in an effort to obtain testing, marketing or funding assistance. In these situations, both parties should document disclosure events very carefully, in ways that can be corroborated. Neither the AIA nor the USPTO rules provide any discovery mechanism prior to institution of a trial, so the alleged deriver's materials will not be accessible to a petitioner to provide corroboration until after a trial has been instituted. Some possible forms of corroboration

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include (i) inventor notebooks witnessed, and preferably signed and dated, by others; (ii) notebooks or memos documenting non-inventor attendance at meetings in which inventions are disclosed and discussed, along with detailed minutes of such meetings, dated and signed by attendees; and (iii) paper or non-malleable electronic records of communications. A party receiving information should carefully document the information received, and be prepared to defend against future allegations of derivation.

5. Derivation may be harder to prove than co-inventorship, in some situations. Consider trying to prove co-inventorship, if derivation cannot be proved. This option would have the effect of allowing both parties to co-own, and thus have freedom to operate or license under, the resulting patent, while potentially excluding other parties.

6. Parties who have not filed a petition within the statutory deadline, or have had a petition for a derivation proceeding refused by the USPTO, should consider whether other procedures, such as post-grant review, are available.

7. In a patent vs. patent situation, a USPTO derivation proceeding under 35 U.S.C. §135 is not available, but a party may file a civil action under 35 U.S.C. §291. Alternatively, a patentee could file an application to reissue its patent, thereby becoming an "applicant" and being able to pursue a USPTO derivation proceeding under §135. A patentee in this

situation should consider the respective advantages of each type of proceeding before deciding which to pursue. For example, a §135 proceeding has the advantage of being conducted before the USPTO, which has experience and expertise in this area of the law, but a §291 proceeding should offer the advantage of pre-trial discovery to support a plaintiff's derivation assertion.

8. Derivation proceedings ultimately may be very difficult to obtain, and should not be viewed as a reliable way to stop patenting by others. The best approach under the first-inventor-to-file system is to file complete patent applications as early as possible, preferably before any disclosure to other parties.

\* \* \* \* \*

*Oloff & Berridge, PLC is a full-service Intellectual Property law firm based in historic Alexandria, Virginia. The firm specializes in patent, copyright, trademark, and antitrust law and litigation, and represents a large and diverse group of domestic and international clients, including businesses ranging from large multinational corporations to small privately owned companies, major universities, and individual entrepreneurs.*

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