

Would Derivation Proceedings Be The Same As Derivation Interferences?¹

INTRODUCTION³

It has been generally assumed that the “derivation proceedings” that would be created by both the House and Senate versions of the Patent Reform Act of 2009⁴ would simply be derivation interferences by another name. However, a close reading of the relevant portions of those bills reveals that there would be a few significant differences—some clearly intended and some probably not intended. In this article I will comment on what I see as the important differences between the two proceedings and between the two bills. I solicit comments from readers—both comments disagreeing with my analysis and comments asserting that there are additional significant differences between the two proceedings and/or between the two bills.

IS AN APPLICANT WINNER OF A DERIVATION PROCEEDING AUTOMATICALLY ENTITLED TO OBTAIN A PATENT?

An applicant winner of a derivation interference is clearly not automatically entitled to obtain a patent. Its application is returned to the examining corps for post-interference *ex parte* prosecution and the examiner to whom it is assigned is at perfect liberty to enter one or more new grounds of rejection, starting the whole process over.⁵ The theory is that the interference determined which party or parties is or are not entitled to a patent, not that either party is entitled to a patent.

However, that may not be the case when an applicant wins a derivation proceeding. The title

of proposed 35 USC 135(a) in the House bill is “Dispute Over Right to Patent” and its first sentence says that “An applicant may request initiation of a derivation proceeding to determine the right of the applicant to a patent...” (Emphasis supplied.) Moreover, that subsection goes on to say that, if certain preconditions are met, “the Director

decision of the Patent Trial and Appeal Board, if adverse to claims in an application for patent, shall constitute the final refusal by the Office on those claims” and that “The final decision of the Patent Trial and Appeal Board, if adverse to claims in a patent, shall, if no appeal or other review of the decision has been or can be taken

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shall institute a derivation proceeding for the purpose of determining which applicant [sic; this clearly should be “which party,” since one party may be a patentee] is entitled to a patent” (emphasis supplied); that “in any proceeding under this subsection, the Patent Trial and Appeal Board [hereinafter referred as “the PTAB”—except in quotations from the bills]...shall determine the question of the right to patent...” (emphasis supplied); and “...shall issue a final decision on the right to patent.” (Emphasis supplied.) So, if that bill passes and an applicant wins a derivation proceeding, that will apparently be the end of the matter. Since the PTAB has issued a “final decision on the right to patent” how could a mere examiner subsequently say otherwise?

However, the title of proposed 35 USC 135 in the Senate bill is “Derivation proceedings” and the title of proposed 35 USC 135(d) in that bill is “EFFECT OF FINAL DECISION.” That section says that “The final

or had, constitute cancellation of those claims, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation.” Since that section says nothing about the effect of a final decision by the PTAB

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3. Thanks and a tip of the hat to Paul Morgan who suggested several of the issues discussed herein and gave me helpful comments on my first draft.
4. The House version is H. R. 1260, and the Senate version is S. 515. The quotes in this article are from the “Managers’ Amendment” to S. 515 submitted by Senator Leahy on March 4, 2010. It is my understanding that the original S. 515 is no longer under consideration.
5. That is not to say that examiners do often enter new grounds of rejection in post-interference *ex parte* prosecution, what ever issue(s) was or were decided during the interference. In my experience, they do so infrequently. However, that possibility must always be borne in mind.

in favor of claims in an application for patent, apparently the present practice would remain, and such an applicant would simply be thrown back into the briar patch.

WILL THE PTAB BE REVIEWING SETTLEMENT AGREEMENTS?

Proposed 35 USC 135(b) in the House bill and proposed 35 USC 135(e) in the Senate bill are both based on present 35 USC 135(c). However, they both differ radically from the present statute.

The House bill says that “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 [in each claim of each party?]” and that the PTAB “shall take action consistent with

Apparently the Administrative Patent Judges (“APJs”) are going to have to compare the parties’ settlement agreement with “the evidence of record”- at least if there is any evidence of record.

But suppose the parties agree right off the bat before any evidence has been submitted. Does this mean that the parties will have to put in evidence on the derivation/inventorship issue?

And suppose the parties agree (either honestly or dishonestly) to “split the baby”- i.e., that one party is entitled to a patent on its claims X and Y and that the other party is entitled to a patent on its claims A and B.⁶ Will the parties have to persuade the (always suspicious) APJs that their decision is in accordance with the governing rules on inventorship (which a wise dis-

of Justice and the FTC] on written request” or “any person on a showing of good cause.” In contrast, the House bill would only permit access by “Government agencies on written request.” However, practically speaking, this difference is probably insignificant—since the Patent & Trademark Office (“PTO”) never, ever finds that any person has shown good cause for access.⁹

The other issue is more important. Both bills say that, “At the request of a party to the proceeding, the agreement or understanding shall be treated as business confidential information...” Presumably that relates to the Senate bill’s authorization of the PTO to grant access to such settlement agreement “to any person on a showing of good cause” since the fact that the agreement is to “be treated as business confidential information” suggests what type of “good cause” might be accepted for granting access to a prying third party. However, is that also intended to be a limitation on what the “government agencies” (and, remember, those government agencies are the Antitrust Division of the Department of Justice and the FTC) can do with the settlement agreements that they review?

What about derivation proceedings where the target is a patent for which the application was never published?

the agreement” (emphasis supplied) “[u]nless the Patent Trial and Appeal Board finds the agreement to be inconsistent with the evidence of record”!

The Senate bill says that “Parties to a proceeding instituted under subsection (a) [i.e., 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 [again, in each claim of each party?] and that, “Unless the Patent Trial and Appeal Board finds the agreement to be inconsistent with the evidence of record, if any, it shall take action consistent with the agreement.”

strict court judge once termed “one of the muddiest concepts in the muddy metaphysics of the patent law.”)⁷ And would the PTAB even have the authority to enter a judgment “splitting the baby”?⁸

IS IT GOING TO BE HARDER TO GET ACCESS TO SETTLEMENT AGREEMENTS?

There are two issues here.

First, who exactly even has the opportunity to try to obtain access to a settlement agreement? The Senate bill contains the language currently found in 35 USC 135(c) permitting access either by “Government agencies [i.e., the Antitrust Division of the Department

6. While I use that phrases “alleged deriver” and “alleged deriver” in this article, many derivation interferences involve reciprocal charges of derivation. That is, each party is both “an alleged deriver” and “an alleged deriver.”

7. *Mueller Brass Co. v. Reading Industries*, 352 F.Supp. 1357, 1372, 176 USPQ 361, 372 (E.D. Pa. 1972).

8. See Gholz, The Board Should Have 35 USC 256 Jurisdiction, 13 *Intellectual Property Today*, No. 6 at page 10 (2006).

9. See Gholz, The Law and Practice Under 35 USC 135(c), 80 *JPTOS* 675 (1998), Section III.R. “What Reasons Have Been Accepted or Not Accepted as Constituting ‘good cause’ Within the Meaning of 35 USC 135(c) for someone Other Than a ‘Government agenc[y]’ to Obtain Access to a 35 USC 135(c) Agreement ‘kept separate from the file of the interference’ Pursuant to the Written Request of the Party That Filed the Copy?”

WHAT ABOUT DERIVATION PROCEEDINGS WHERE THE TARGET IS A PATENT FOR WHICH THE APPLICATION WAS NEVER PUBLISHED?

Proposed new 35 USC 135(a) in the House bill provides that “An applicant may request initiation of a derivation proceeding to determine the right of the [i.e., that, or the first] applicant to a patent by filing a request which sets forth with particularity the [first applicant’s asserted] basis for finding that an earlier applicant derived the claimed invention from the [first] applicant...”¹⁰ But suppose that the target is a patent that matured from an application (the second application) that was never published? Is the later applicant/alleged derivee precluded from initiating a derivation proceeding?

Presumably to cover that situation, proposed 35 USC 135(a) (3) in the House bill provides that “The Board may defer action on a request to initiate a derivation proceeding until 3 months after the date on which the Director issues a patent to the [second] applicant that filed the earlier application.” Proposed 35 USC 135(c) in the Senate bill, in contrast, provides that “The Patent Trial and Appeal Board may defer action on a petition for a derivation proceeding until 3 months after the date on which the Director issues to the earlier [second] applicant a patent that includes [sic; claims?] the claimed invention that is the subject of the petition.”

The only remotely comparable “window” in the present law is that the targeting applicant must have its application on file within one year of the issuance of the targeted patent or the publication of the targeted application. Moreover, this three month window is, in

my humble opinion, ridiculously short. In many cases, the party that has allegedly been ripped off will not even be aware of either the issuance of the target patent until more than three months after its issuance or the publication of the target application until more than three months after its publication.

WHAT ABOUT DERIVATION PROCEEDINGS WHERE THE ALLEGED DERIVER FILED AFTER THE ALLEGED DERIVEE?

The language quoted in the previous section would permit derivation proceedings only where the alleged deriver filed his, her or their application before the alleged derivee. Presumably the thought was that, if the alleged derivee filed his, her, or their application before the alleged deriver, that application would be prior art against the alleged deriver. However, there might well be reasons why the alleged derivee would want to take advantage of the *inter partes* nature of a derivation proceeding to “take down” the alleged deriver’s claims rather than relying on the hope that the application will reject the claims in that application, relying on the alleged derivee’s case as prior art. That option is available in derivation interferences. Why shouldn’t it be available in derivation proceedings?

CAN THE PARTIES AMEND THEIR CLAIMS DURING A DERIVATION PROCEEDING OR MOVE FOR A JUDGMENT THAT THEIR OPPONENT’S CLAIMS ARE UNPATENTABLE ON ANY GROUND OTHER THAN DERIVATION?

During a derivation interference, both parties have the option of moving for authorization to amend their claims (in order to overcome their opponent’s arguments) and

the option of moving for a judgment that their opponent’s claims are unpatentable, not only on the basis of derivation, but on any other ground. The former can be very important to an alleged deriver that believes that he, she or they actually contributed something patentable, if not everything recited in its original claims. The latter can be very important to either party that wants to “take down” its opponent’s claims, whatever happens to its own claims. Moreover, it can be very valuable to either party to have more than one arrow in its quiver, since a judgment that a claim is unpatentable is a judgment that that claim is unpatentable regardless of the basis of that judgment. Why shouldn’t parties to derivation proceedings have the same options?

WILL 35 USC 146 ACTIONS CONTINUE TO BE AVAILABLE?

This is an easy one. Both bills would simply amend 35 USC 146 to make it apply to derivation proceedings rather than to interferences. Thus, the limited opportunity that 35 USC 146 offers to obtain discovery not available during the administrative phase of interferences¹¹ and to present live testimony (particularly in situations where the APJs declined to receive live testimony¹²) would continue to be available.

10. The fact that the draft refers to both parties as “applicant” makes the draft as difficult to follow as present-day 35 USC 135(b)(2)!

11. Concerning the assertion that interferences have only a “limited opportunity” during 35 USC 146 proceedings to obtain discovery not available during the administrative phase of interferences, see *Cell Genesys, Inc. v. Applied Research Systems ARS Holding N.V.*, 499 F. Supp. 2d 59, 85 USPQ2d 1733 (D. Mass. 2007).

12. Contrary to popular belief, the APJs do occasionally hear live testimony. See USPTO BPAI, Standing Order, (Jan. 3, 2006), 157.3.4. Live Testimony.

WHAT IF THE DIRECTOR REFUSES TO DECLARE A DERIVATION PROCEEDING?

If an examiner refuses to recommend the declaration of a derivation interference, there is at least an argument that his or her decision is appealable to the Board of Patent Appeals and Interferences (“BPAI”).¹³ However, proposed 35 USC 135(a) in the Senate bill specifically provides that, “The determination by the Director whether to institute a derivation proceeding shall be final and nonappealable.”¹⁴ Hence, the only avenue to obtain court review of a decision refusing to declare a derivation proceeding that occurs to me is the filing of a petition for mandamus—and we all know how unlikely such a petition is to succeed.¹⁵

CONCLUSION

Derivation interferences are rare—hopefully because derivation is rare, but, more realistically, because of how difficult it is to persuade the BPAI that derivation has occurred.¹⁶ Accordingly, it is likely that derivation proceedings will also be rare. However, derivation interferences can be a lot of fun (at least for the attorneys), since, as Paul Morgan (now retired, but formerly an in-house interference maven) wrote me, they are “typically the worst kind of interference to resolve, with directly opposing declaration versions of the facts, and have the worst need for better discovery than most interferences provide.” ■

13. See Gholz, “Board of Appeals Jurisdiction Over Appeals from Decisions by Primary Examiners Refusing to Institute Interferences on Modified or Phantom Counts,” 64 *JPOS* 651 (1982). A present-day “McKelvey Count” is the direct descendant of the modified and phantom counts discussed in that article.

14. Of course, no one expects Mr. Kappos or his successor to personally make such decisions. Those decisions will no doubt be delegated to the APJs—just as the similar decisions whether or not to declare an interference have been delegated to the APJs. That may make the remedy proposed in my 1982 article cited in footnote 13 unavailable. However, if a single APJ makes the initial decision not to declare a derivation proceeding, perhaps review of that decision could be sought from a panel of three APJs.

15. See Gholz, “Extraordinary Writ Jurisdiction of the CCPA in Patent and Trademark Cases,” 58 *JPOS* 356 (1976), 69 *FRD* 119 (1976) and Gholz, “CAFC Review of Interlocutory Decisions,” 67 *JPTOS* 417 (1985), 5 *Legal Notes & Viewpoints* (1985).

16. See Gholz, “How Hard Is It, Really, to Prove Derivation?,” 10 *Intellectual Property Today* No. 12 at page 18 (2003).