

# Proving Peeler Diligence is Unnecessarily Difficult -- and Unnecessarily Costly<sup>1</sup>

by

Charles L. Gholz<sup>2</sup>

and

Kenneth D. Wilcox<sup>3</sup>

## Introduction

“Classical” diligence is diligence from just prior to the other side’s “entry into the field” (whether that is its filing date or the date of its conception) until your client’s reduction to practice (whether actual or constructive).<sup>4</sup> The standards for classical diligence are quite high.<sup>5</sup> Basically, the inventor(s) or someone working on his, her, or their behalf either has to have been working on reducing the invention to practice (either actually or constructively) pretty much full time or the owner of the invention has to have one of a very small number of acceptable excuses for non-activity.<sup>6</sup>

“Peeler” diligence, so called after Peeler v. Miller, 535 F.2d 647, 190 USPQ 117 (CCPA 1976) (Rich, J.), is diligence from your client’s own actual reduction to practice to its own constructive reduction to practice. The standards for Peeler diligence are quite low. That is because, in terms of the statute, Peeler diligence is the absence of suppression or concealment.<sup>7</sup> It doesn’t take much substantively to convince the Federal Circuit that one had not suppressed or concealed an invention.<sup>8</sup>

However, it can take a great deal of money (from both or all parties) to decide a Peeler diligence issue. It is the thesis of this article that much of that expense is unnecessary, has no social utility (other than keeping members of the interference bar gainfully employed), and could be avoided by a simple (and long overdue) amendment to the rules.<sup>9</sup>

## Burden, Burden, Who's Got the Burden?

The fundamental problem is that either party may have the burden of persuasion, and the board must decide which party has that burden before it can decide whether or not that party has carried its burden. Furthermore, there is very little useful guidance (from either the courts or the board) to use in deciding which party has that burden.<sup>10</sup> As APJ Torczon explained in Kundu v. Rangunathan, 73 USPQ2d 1180 (PTOBPAI 2002) (non-precedential):

Although the ultimate burden of proof stays with the junior party, the burden of going forward on the question of suppression normally lies with the proponent of the issue. *Young v. Dworkin*, 489 F.2d 1277, 1279, 180 USPQ 388, 390 (CCPA 1974). If, however, there is an unreasonably long delay between reduction to practice and disclosure (to the public or the United States Patent and Trademark Office (USPTO)[,] suppression may be inferred. *Lutzker v. Plet*, 843 F.2d 1364, 1367, 6 USPQ2d 1370, 1372 (Fed. Cir. 1988).<sup>11</sup>

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Rather than focus on the length of delay, suppression must be determined from the reasonableness of the inventor's total conduct in working toward disclosure of the invention. *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1568, 39 USPQ2d 1895, 1902 (Fed. Cir. 1996). A variety of explanations are possible that can, with the right set of facts, excuse delay and overcome the appearance of spurring.<sup>[12]</sup> Generally, slow (even fitful), but inexorable progress toward disclosure can overcome the inference of suppression from long delay. *Fujikawa*, 93 F.3d at 1567, 39 USPQ2d at 1902. Significant steps toward perfecting the invention and preparing an application indicate that the invention was not suppressed. 93 F.3d at 1568, 39 USPQ2d at 1903. The work used to overcome the inference, however, must not be directed only to commercialization and should be reflected in the patent application. *Lutzker*, 843 F.2d at 1367, 6 USPQ2d at 1372. Work to prepare the involved application prior to the issuance of the allegedly spurring patent can overcome the inference of spurring. *Fujikawa*, 93 F.3d at 1568, 39

USPQ2d at 1902-03. A showing of intent to file eventually, however, will not negative a holding of suppression. *Shindelar v. Holdeman*, 628 F.2d [1337] at 1342, 207 USPQ [112] at 117.<sup>13</sup>

### The Proposed Rules -- and the Rules as Promulgated

The proposed rules before last (i.e., the rules that became effective on August 12, 2004), contained presumptions concerning the effect of the length of  $\Delta T$  between an alleged actual reduction to practice and the corresponding constructive reduction to practice. Specifically, they provide for rebuttable presumptions that, if  $\Delta T > 1$  year, suppression or concealment has occurred, but that, if  $\Delta T \leq 1$  year, suppression or concealment has not occurred.<sup>14</sup> The reason given for this new presumption was:

The presumption of abandonment after one year in proposed § 41.207(d) would be new. It is modeled after the one-year statutory bars (e.g., 35 U.S.C. 102(b), 102(d), and 135(b)) and other incentives for prompt filing (e.g., 35 U.S.C. 119(a) and 273(b)(1)). The presumption is intended to encourage prompt filing of patent applications and to help parties facing the issue by simplifying the analysis of an apparent abandonment, suppression, or concealment. An invention, though completed, is deemed abandoned, suppressed, or concealed if, within a reasonable time after completion, no steps are taken to make the invention publicly known. For example, failure to file a patent application, to describe the invention in a publicly disseminated document, or to use the invention publicly, has been held to constitute abandonment, suppression, or concealment. *Correge v. Murphy*, 705 F.2d 1326, 1330, 217 USPQ 753, 756 (Fed. Cir. 1983). The case law does not give definitive guidance on when abandonment, suppression, or concealment has occurred. This uncertainty makes it harder to determine what evidence to present in order to show an abandonment, suppression or concealment; and to determine in close cases whether abandonment, suppression, or concealment has occurred. Although this presumption is designed to encourage prompt filing, it does not exclude rebuttal proofs of continuing activity other than filing, such as those listed in the *Correge* decision.<sup>15</sup>

The American Bar Association and the American Intellectual Property Law

Association both opposed adoption of the proposed presumptions. The ABA wrote:

The ABA IPL Section does not agree with this proposal, and recommends the deletion of this section of the proposed rule. Alternatively, the ABA IPL Section recommends that the time limit for the presumption be extended to at least eighteen months. A longer time before the presumption applies is supported by legal precedent. See, e.g., *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1568-69 (Fed. Cir. 1996) (finding of no inference of suppression or concealment even though 2 years elapsed between actual reduction to practice and filing.)

Deletion of the presumption is supported since the question of abandonment, suppression and concealment is extremely fact specific and should be decided on a case-by-case basis. It is unfair, in some areas of technology, to place this added burden on a party. In the comments regarding the addition of this requirement, it states that the proposed rule is “modeled after the one-year statutory bars (e.g., 35 U.S.C. 102(b), 102(d), and 135(b)) and other incentives of prompt filing (e.g., 35 U.S.C. 119(a) and 273(b)(1)).” Page 66666. The ABA IPL Section suggests that, since it is being modeled after statutory provisions, should this presumption be added, it should be made by statute rather than rule. There is no legal precedent which presumes abandonment, suppression or concealment based upon a one year period between actual reduction-to-practice and the earliest constructive reduction-to-practice. Instead, legal precedent suggests a longer time period before abandonment, suppression and [sic; or] concealment is presumed.<sup>16</sup>

Similarly, the AIPLA wrote:

Proposed § 41.207(d) provides for a presumption that a party has abandoned, suppressed or concealed interfering subject matter if the accorded date of the party’s earliest constructive reduction to practice is more than one year after the party’s actual reduction to practice. Under current practice, a finding of abandonment, suppression and/or concealment is a legal conclusion based on underlying factual inquiries. The decision is made on a case-by-case basis[,] not simply presumed based upon such a short period of time. To the extent that this provision was intended to change the law so that the presumption

conforms to other “statutory” provisions of the law, this change should be made through statute, not rule, particularly since there is no case which presumes abandonment, suppression or concealment based upon a one year period between actual reduction-to-practice and earliest constructive reduction-to-practice. It is recommended that this provision be deleted in its entirety or at a very minimum extended to eighteen months.<sup>17</sup>

The rules as adopted did not contain the proposed presumptions. The commentary which accompanied the adoption of the new rules explained that those presumptions had not been adopted because they “would not have been likely to change the outcome in many interferences.”<sup>18</sup>

### Comments

Based on our own experience, we think that the absence of those presumptions has affected (and will continue to affect) the outcomes of a good many interferences. Moreover, we think it incontrovertible that the absence of those presumptions has made (and will continue to make) a huge difference (to the litigants’ costs) in those interferences which it does affect. The current “test” is an open invitation to the submission of declarations by expert witnesses concerning what was and was not reasonable in the specific industry in the relevant timeframe.<sup>19</sup> Those expert witnesses have to be cross-examined, their testimony has to be rebutted by the testimony of other expert witnesses, then those expert witnesses have to be cross-examined, then the original expert witnesses have to defend themselves, and then those expert witnesses have to be cross-examined again--and, of course, each step of the way has to be briefed, with citations to previous opinions involving vaguely analogous situations.<sup>20</sup> As explained in Kundu, “it is the responsibility of each party to precisely identify and clearly explain the evidence on which it relies [to show that a party has or has not suppressed or concealed

the invention].”<sup>21</sup>

Moreover, as APJ Torczon noted in Kundu, 37 CFR 1.608 did not require an applicant provoking an interference with a patent to show that it did not suppress or conceal the invention between the date of its alleged actual reduction to practice and its filing date, no matter how long that period, so the issue of whether the applicant did suppress or conceal the invention during that period could “only be fully joined during an interference.”<sup>22</sup>

Why? We think that there is no “social utility” (to use APJ Torczon’s phrase) in the current situation, but that there would be considerable “social utility” in the rule that we propose. If the rules provided the presumptions proposed here, many applicants would be dissuaded from trying to provoke an interference in the first place, and the APJs could refuse to declare many other interferences or terminate them quickly on the ground that, even presuming the applicant’s declarations submitted in support of its suggestion of interference to be true, the applicant has failed to make out a prima facie case that it could overcome the presumption.

We also strongly disagree with the ABA’s and the AIPLA’s suggestions that the changes should (or could only?) be made by statute. Changes to the patent statute take years, and Congress is poorly equipped to consider the underlying issues. Moreover, the imposition of presumptions is exactly the kind of procedural issue that is best left to an administrative agency. **[Ken: cite please.]**

In our opinion, a clear allocation of the burden of persuasion would be so outcome-determinative as to deter litigation on that point in many if not most cases. Moreover, to generalize, it is our opinion that totality-of-the-circumstances “tests” are

usually bad--and should be avoided whenever possible. Here, it would be possible. We urge the board to revise its rules again to put in the presumptions that were in the proposed rules published on November 26, 2003.<sup>23</sup>

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<sup>1</sup> Copyright 2007 by Charles L. Gholz.

<sup>2</sup> Partner in and head of the Interference Section of Oblon, Spivak, McClelland, Maier & Neustadt. My direct dial telephone number is 703/412-6485, and my email address is CGHOLZ@OBLON.COM.

<sup>3</sup> Senior Associate in the Litigation Section of Oblon, Spivak, McClelland, Maier & Neustadt. My direct dial telephone number is 703/412-3522, and my email address is KWILCOX@OBLON.COM.

<sup>4</sup> Grabowsky v. Gallaher, 39 App. D.C. 548, 1913 C.D. 415, 417 (1913).

<sup>5</sup> See, e.g., Ginter v. Benson, Pat. Interference No. 105,142, Decision on Priority December 28, 2005, Paper No. 319, p. 142 (no continuous classical diligence because of a four-day gap in activity).

<sup>6</sup> See Griffith v. Kanamaru, 816 F.2d 624, 2 USPQ2d 1361 (Fed. Cir. 1987), discussed in Gholz, A Critique of Recent Opinions of the Federal Circuit in Patent Interferences, 71 JPTOS 439 (1989), § II.A., “Excuses for Non-Activity During a Classical Diligence Period.”

<sup>7</sup> In Kundu v. Rangunathan, 73 USPQ2d 1180, 1186 n.11 (PTOBPAI 2002)(non-precedential), the board stated that “[t]he case law cited [by the parties] ... do[es] not appear to make any significant distinction between suppression and concealment.” We are also unaware of any case law which does.

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<sup>8</sup> See, e.g., Fujikawa v. Wattanasin, 93 F.3d 1559, 39 USPQ2d 1985 (Fed. Cir. 1996), discussed in Gholz, A Critique of Recent Opinions of the Federal Circuit in Patent Interferences, 79 JPTOS 271 (1997), § V, “Fitful Activity is Enough to Rebut an Inference of Suppression or Concealment.” See also, Flex-Rest, LLC. v. Steelcase, Inc., 455 F.3d 1351, 80 USPQ2d 1620 (Fed. Cir. 2006), discussed in Gholz, A Critique of Recent Opinions in Patent Interferences, 89 JPTOS 1 (2007), §V.A.1., “Taking Reasonable Time to Introduce a New Product or to File a Patent Application On It Does Not Constitute Intentional Suppression”; and National Presto Industries, Inc. v. Black & Decker (U.S.) Inc. (Fed. Cir. June 20, 1995) (non-precedential), discussed in Gholz, A Critique of Recent Opinions of the Federal Circuit in Patent Interferences, 78 JPTOS 550 (1996), § II. B., “Abandonment, Suppression, and Concealment are Questions of Fact.”

<sup>9</sup> Mr. Gholz first proposed this amendment in Gholz, Proposed Changes to the Interference Rules, 79 JPTOS 555, 557-58 (1997).

<sup>10</sup> In Kundu, the board held that:

Absent some compelling explanation, it is unreasonable to file an initial application thirty-five months after an actual reduction to practice and five months after the issuance of a patent to another for the subject matter of the actual reduction to practice. [73 USPQd at 1183.]

However, there is nothing in the opinion to indicate that the board meant to state as a general principle that the burden of persuasion shifts at thirty-five months -- or that it only shifts in the rare situation where the junior party’s filing date is after the senior party’s issue date.

<sup>11</sup> 73 USPQd at 1187.



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<sup>12</sup> In Kundu, there was evidence that the applicant had been provoked into finally filing its application by seeing the patentee's patent, and the board found this "spurring" of the applicant to be highly relevant. However, suppression or concealment can be found even in the absence of spurring. 73 USPQ2d at 1188.

<sup>13</sup> 73 USPQ2d at 1188.

<sup>14</sup> The proposed rule 41.207(d) read as follows:

(d) Abandonment, suppression, or concealment. A party is presumed to have abandoned, suppressed, or concealed the interfering subject matter if the accorded date of the party's earliest constructive reduction to practice is more than one year after the party's actual reduction to practice. A party subject to this presumption must show in its motion for priority that it did not abandon, suppress, or conceal its invention. [68 FR 66648, 66690 (Nov. 26, 2003).]

<sup>15</sup> 68 FR 66648, 66666 (Nov. 26, 2003) (underlining added).

<sup>16</sup> Letter from Robert W. Sacoff, Chair, ABA-IPL, to Dir. of USPTO (Feb. 16, 2004) at p. 18 (available at: [www.abanet.org/intelprop/notice\\_proposed\\_rulemaking.DOC](http://www.abanet.org/intelprop/notice_proposed_rulemaking.DOC))

<sup>17</sup> Letter from Michael K. Kirk, Executive Director, AIPLA, to Mr. Jon Dudas, Acting Under Secretary of Commerce for IP and USPTO (Jan. 26, 2004) at p. 17, (available at [http://www.aipla.org/Content/ContentGroups/Issues\\_and\\_Advocacy/Comments2/Patent\\_and\\_Trademark\\_Office/2004/BPAI\\_Rules.pdf](http://www.aipla.org/Content/ContentGroups/Issues_and_Advocacy/Comments2/Patent_and_Trademark_Office/2004/BPAI_Rules.pdf)).

<sup>18</sup> The entire short explanation read as follows:

The presumption has been deleted as unnecessary. Delays longer than 18 months will often result in a bar to patentability or heightened scrutiny (§ 41.207(a)(2)) anyway so the proposed rule would not have been likely to change the outcome in many interferences. [69 FR 49960, 49994 (Aug. 12, 2004).]

<sup>19</sup> As Kundu explains:

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In theory, the invention is complete and ready for patenting as soon as there is an actual reduction to practice. In the real world, however, nothing happens instantaneously. An inventor needs time to prepare any disclosure to the public or USPTO. Moreover, social utility may be enhanced by refinements in the disclosure, such as the identification of a best mode, which may require additional time. Thus, a suppression analysis is a pragmatic balancing of reasonable real-world delays and of the enhanced value of further perfecting of the invention against the social disutility of further delay in disclosure. [73 USPQd at 1187.]

<sup>20</sup> Presumably all this also imposes some costs on Their Honors.

<sup>21</sup> 73 USPQd at 1187.

<sup>22</sup> 73 USPQd at 1186.

<sup>23</sup> If the board doesn't like the shifting of the burden of persuasion to take place at one year, make it 18 months, as suggested by the ABA and the AIPLA. Or three months (which was the period that Mr. Gholz proposed in his article cited supra in note 9). The length of the burden-shifting period is not important. The fact of a definite point in time at which the shifting takes place is important.