

# **WOULD DERIVATION PROCEEDINGS BE THE SAME AS DERIVATION INTERFERENCES?<sup>1</sup>**

By

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## **Introduction<sup>3</sup>**

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 2009<sup>4</sup> would simply be derivation interferences by another name. However, a close reading of the relevant portions of the two 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. I solicit comments from readers—both comments disagreeing with my analysis and comments asserting that there are additional significant differences between the two proceedings.

## **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.<sup>5</sup> 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 will apparently not be the case when an applicant wins a derivation proceeding. In the first place, the title of proposed 35 USC 135(a) 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 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”]...shall determine the question of the right to patent...” (emphasis supplied); and that “the Patent Trial and Appeal Board...shall issue a final decision on the right to patent.” (Emphasis supplied.) So, if 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?

### **Will the PTAB Be Reviewing Settlement Agreements?**

Proposed 35 USC 135(b) in both versions of the bill is based on present 35 USC 135(c). However, it differs radically from the present statute in that it 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 the agreement” (emphasis supplied) “[u]nless the Patent Trial and Appeal Board finds the agreement to be inconsistent with the evidence of record”! So, the APJs are apparently going to have to compare the parties’ settlement agreement with “the 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.<sup>6</sup> 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 district court judge once termed “one of the muddiest concepts in the muddy metaphysics of the patent law.”)?<sup>7</sup>

### **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? This is the one place where the two versions of the bill differ. The Senate version contains the language currently found in 35 USC 135(c) permitting access either by “Government agencies [i.e., the Antitrust Division of the Department of Justice and the FTC] on written request” or “any person on a showing of good cause.” In contrast, the House version would only permit access by “Government agencies on written request.” However, practically speaking, this difference is probably insignificant, since the PTO never, ever finds that any person has shown good cause for access.<sup>8</sup>

The other issue is more important. Both versions of the bill 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 version’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 the Application for Which Was Never Published?**

Proposed new 35 USC 135(a) in both versions provides that “An applicant may request initiation of a derivation proceeding to determine the right of the 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....”<sup>9</sup> But suppose that the target patent matured from an application that was never published? Presumably to cover that situation, proposed 35 USC 135(a)(3) 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 applicant that filed the earlier application.”

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. Moreover, this three month window is, IMHO, ridiculously short. In many cases, the party that has allegedly been ripped off will not even become aware of the issuance of the target patent until more than three months after its issuance.

### **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 examiner handling the alleged deriver’s 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 avoid 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 interferences<sup>10</sup> and to present live testimony in situations where the APJs declined to receive live testimony<sup>11</sup> would continue to be available.

## **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.<sup>12</sup> 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.”

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<sup>3</sup> 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.

<sup>4</sup> The House version is H. R. 1260, and the Senate version is S. 515.

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<sup>5</sup> 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.

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

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

<sup>8</sup> 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?”

<sup>9</sup> 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)!

<sup>10</sup> 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).

<sup>11</sup> Contrary to popular belief, the APJs do occasionally hear live testimony. See ¶157.3.4. Live Testimony, of the BPAI’s standing order.

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<sup>12</sup> See Gholz, How Hard Is It, Really, to Prove Derivation?, 10 Intellectual Property

Today No. 12 at page 18 (2003).