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DERIVATION LAW AND DERIVATION PROCEEDINGS

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I. Derivation Law

A. Derivation is not necessarily theft!

B. More commonly, derivation litigation results from:

1. a prior friendly relationship between two companies (e.g., vendor-vendee, joint venturers, distributor-distributee, etc., etc.) or
2. informal conversations between employees of two companies (e.g., at an IEEE meeting), coupled with
3. sloppy work by lawyers.

I. Derivation Law

C. Derivation usually means that one (or more than one) individual has gotten the idea (or, more commonly, a portion of the idea) from an individual (or more than one individual) from another company.

D. If the involved individuals all work for the same company, they are joint inventors—and many derivation litigations are resolved either by the parties' agreeing that, even though the involved individuals work for different companies, they were joint inventors or by the tribunal adjudicating the issue's deciding that, even though the involved individuals work for different companies, they were joint inventors.

I. Derivation Law

E. Resolution of derivation litigations in this manner raise complex issues of ownership that are beyond the scope of this talk. Suffice it to say that, unless the parties agree otherwise, such a resolution results in the ability of each company to exploit the invention independently (including licensing it to third parties independently) without accounting for any portion of its profits realized in doing so to the other.

F. To be a joint inventor, one must have contributed something significant to the invention as defined by at least one claim in the patent or application under consideration. How significant the contribution must be is often a very difficult question—and it is also a question beyond the scope of this talk.

II. How Derivation Litigation Can Be Avoided

A. As I said above, a prime cause of derivation litigation is sloppy lawyering. In many cases, expensive derivation litigation could have been avoided if the lawyers for the two companies had investigated the facts adequately before filing conflicting patent applications.

B. Of course, the litigation would be avoided only if the lawyers and/or the business people to whom they reported could then have agreed upon an amicable (and legal!) resolution of the incipient conflict!

III. How Derivation Litigation is Handled Now

A. Derivation can be a defense to a charge of patent infringement. If a patent does not list the proper inventor(s), the patent can be held invalid. Derivation is a species of the genus of improper inventorship.

B. If both involved parties filed patent applications, and if at least one of the involved parties charges that the other party derived the invention from it, the derivation issue can be resolved in an interference proceeding.

III. How Derivation Litigation is Handled Now

C. The interference proceeding may be in a district court if both involved parties have obtained patents.

D. Much more commonly, the interference proceeding is in the Board of Patent Appeals and Interferences (the "BPAI") in the Patent and Trademark Office (the "PTO"). In that case, at least one of the parties must have a patent application (including an application to reissue a patent).

IV. Derivation Interferences

A. The BPAI consists of a large number of administrative patent judges ("APJs"). A small subset of the APJs handle "contested cases," most of which are interferences.

B. The APJs are techies, and they have special training in patent law. The APJs who handle contested cases have additional special training in interference law. No juries! And no judges who majored in medieval English literature or political science!

C. Interferences are (relatively) fast. Most are decided (at the administrative level) in less than two years.

IV. Derivation Interferences

D. Interferences are (relatively) cheap. Most cost less than $2,000,000 in outside counsel fees.

E. Derivation interferences can also decide any other patentability issue that could be decided in patent infringement litigation.

F. Decisions of the BPAI in interferences are reviewable either by direct appeal to the Federal Circuit or by a civil action in a district court, with subsequent appeal to the Federal Circuit.

IV. Derivation Interferences

G. Most derivation interferences involve reciprocal charges of derivation. That is, each party asserts that the other party derived the invention from it.

H. Either party can initiate a derivation interference.

I. Derivation is frequently alleged and infrequently found. See generally Gholz, How Hard Is It, Really, to Prove Derivation?, 10 Intellectual Property Today No. 7 at page 10 (2004).

V. How Derivation Litigation Will Be Handled Under the AIA

A. Improper inventorship may no longer be a defense in infringement litigation. (This is controversial!)

B. The owner of a patent that has a later effective filing date can sue the owner of a patent that has an earlier effective filing date in a United States district court for a judgment of derivation. The owner of the patent that has an earlier effective filing date cannot initiate the proceeding.

V. How Derivation Litigation Will Be Handled Under the AIA

C. There is a very short time limit for patent-patent derivation proceedings: They must be filed "before the end of the 1-year period beginning on the date of the issuance of the first patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as the inventor or joint inventor."

D. Patent-patent derivation proceedings can involve any other issue between the two parties. Specifically, patent-patent derivation proceedings can also involve charges of patent infringement by either or both parties against the other party.

V. How Derivation Litigation Will Be Handled Under the AIA

E. There can also be derivation proceedings involving at least one application (including a reissue application) in the PTO before the APJs in the Patent Trial and Appeal Board (the "PTAB").

F. A derivation proceeding in the PTAB can only be initiated by an applicant having a later effective filing date against an application having an earlier effective filing date. (Query: How about a patent that matured from an application having an earlier effective filing date? See J. and K. below.)

V. How Derivation Litigation Will Be Handled Under the AIA

G. There is also a very short time limit for a PTAB derivation proceeding: The petition asking for such a proceeding "may be filed only within the 1-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…."

H. PTAB derivation proceedings will presumably be able to decide the issue of the effective filing date of each party, but they will apparently not be able to decide any patentability issue other than derivation. However, derivation proceedings may be merged with or run in parallel with other kinds of PTO contested patent proceedings.

V. How Derivation Litigation Will Be Handled Under the AIA

I. Judgments against the party having the earlier effective filing date in a patent-patent derivation proceeding in effect result in cancellation of that party's involved claims.

J. Judgments against an applicant having the earlier effective filing date in a PTAB derivation proceeding "constitute the final refusal by the Office on those claims." Similarly, judgments against a patent having the earlier effective filing date in a PTAB derivation proceeding, "if no appeal or other review of the decision has been or can be taken or had, constitute cancellation of those claims."

V. How Derivation Litigation Will Be Handled Under the AIA

K. However, judgments in PTAB derivation proceedings can also "correct the naming of the inventor in any application or patent at issue." Note that there is no similar provision relating to patent-patent derivation proceedings.

VI. The Regulations Are Going to Be Crucial!

A. The AIA provides that "The Director [of the Patent and Trademark Office] shall prescribe regulations setting forth standards for the conduct of derivation proceedings [before the PTAB]…." I believe that those regulations will be very similar to the regulations that currently control derivation proceedings. However, there are those who envision a very different procedure. What the Director decides to do is going to greatly affect the utility of the procedure.

VI. The Regulations Are Going to Be Crucial!

B. Probably the most controversial aspect of the forthcoming regulations is the scope of discovery. Attorneys who make their livings handling district court litigation want wide-open discovery, like in Federal district courts. Attorneys who make their livings handling interferences want managed discovery, like in interferences.