

# Lawyer Insights

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## A Window Into PTAB Derivations

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The Patent Trial and Appeal Board recently held its first hearing in a derivation proceeding, in *Andersen Corp. v. GED Integrated Solutions Inc.* Since the derivation procedure created by the America Invents Act went into effect in 2013, the Andersen case is the first and, to date, the only derivation proceeding to be instituted by the PTAB. Now that oral argument is completed, it is expected that the PTAB will issue a final decision in the first few months of 2019. That decision may provide meaningful PTAB guidance for future derivation proceedings.

With the PTAB's first derivation decision imminent, we take this opportunity to look at derivation proceedings, and how they might be used strategically.

### When and Why Derivations Are Relevant

A derivation proceeding is a PTAB trial proceeding, like inter partes review, covered business method review and post-grant review. A derivation seeks to resolve an inventorship dispute between two patent applications, between a patent application and a granted patent, or between two granted patents, in which one party (the petitioner), asserts that the other (the respondent), derived the invention from the petitioner.

These disputes can arise in various circumstances, for example, when two or more individuals are working together on a project, and one decides to file a patent application. For example, if individuals A and B are working together, and A files a patent application, but B believes that A derived the invention from B, then B can file its own application and a derivation petition to ask the PTAB to adjudicate the inventorship dispute.

In the Andersen case, petitioner Andersen Corporation argued that Sammy Oquendo, an employee of one of its subsidiary companies, invented an improved spacer frame for an insulated glass window. According to Andersen, Oquendo spent two years working with one of Andersen's suppliers, respondent GED Integrated Solutions, trying to come up with ways to manufacture the improved spacer frame, but they never reached a complete product. GED later filed a patent application, leading Andersen to claim that GED's application seeks to patent Oquendo's invention, and was derived from Oquendo.

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If one company believes another has filed a patent application based on information disclosed pursuant to a business relationship, it may be able to use a derivation proceeding in the PTAB or in district court to recover patent rights that potentially may not be available using other legal remedies.

A confidentiality agreement may provide a remedy under contract law or a trade secrets statute, but it may not provide a mechanism for recovering the invention itself. Although monetary damages awarded by a court may compensate for the calculable harm caused by the breach of contract or misappropriation of trade secrets, other harms may not be accounted for, including the future ability to license the patent, defend market share or preserve exclusivity. Even if a court were to order an assignment of the patent, a cloud may remain over the patent if there is a question about inventorship.

A derivation proceeding may recover what was lost: the rights protected by the patent. A party can bring a derivation claim in a complaint filed in district court (under 35 U.S.C. § 291) or in a derivation petition filed in the PTAB (under 35 U.S.C. § 135).<sup>1</sup> Section 291 permits a court to provide unspecified “relief” for derivation, although the party seeking relief must have a granted patent and must file the derivation complaint within one year of the derived patent’s issuance. The court will review the issued patent under the “clear and convincing” evidentiary standard that is higher than the “preponderance of the evidence” standard applied by the PTAB. And, of course, bringing a lawsuit risks counterclaims, and more wide-ranging discovery, which could ultimately expand the proceeding beyond the derivation question. In contrast, as discussed below, a derivation proceeding before the PTAB allows the petitioner to assert the derivation claims, while likely keeping the proceeding contained, limiting discovery and avoiding some ancillary issues.

## How We Got Here

Derivation proceedings are part the AIA’s shift in the way the U.S. patent system views priority in awarding patents from rewarding the first inventor to rewarding the first inventor to file an application.

Before the AIA, the U.S. patent system was a “first-to-invent” system, awarding patent rights to the first inventor, even if he or she was not the first to file a patent application. This first-to-invent scheme provided, under pre-AIA 35 U.S.C. §§ 135 and 291, for interference proceedings in which the U.S. Patent and Trademark Office or district court would determine

Under the AIA who invented first, without necessarily considering whether one party derived the invention from the other. , the U.S. patent system became a “first-inventor-to-file” system, awarding a patent to the first inventor to file an application. In derivation proceedings, the USPTO or district court determines, under AIA 35 U.S.C. §§ 135 or 291, whether the first filer derived the invention from the second filer. Being the first inventor is no longer enough to secure the patent, if the first inventor is not also the first filer. Instead, the first inventor must show that the first filer is not the inventor but instead derived the invention from the first inventor.

While derivation proceedings before the PTAB are new, the law underlying derivation is not. Incorrect inventorship (including derivation) had long been a patent-invalidating defense to allegations of infringement before the AIA (e.g., under pre-AIA 35 U.S.C. § 102(f)), and the inventorship and derivation case law will be applied by the PTAB in the new derivation proceedings.<sup>2</sup>

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Derivation requires the petitioner to prove that its inventor conceived of the invention, and communicated the invention to the respondent before the respondent filed its application.<sup>3</sup> Conception of the invention in this context is the same as in other patent law contexts, i.e., the formation in the mind of the inventor of a definite and permanent idea of the complete and operative invention.<sup>4</sup> Conception must be corroborated, under a “rule of reason” standard, and must encompass all limitations of the invention.<sup>5</sup>

As with all AIA trial petitions, the default evidentiary burden is on the petitioner to prove its case by a preponderance of the evidence.<sup>6</sup> However, the respondent in the Andersen case has argued that derivation proceedings should be governed by the interference case law

that raised the evidentiary standard to “clear and convincing” evidence when the derivation petition challenges an issued patent (instead of a pending application), or when the petitioner’s application copies the respondent’s claims to initiate the derivation proceeding.<sup>7</sup>

## Derivation Procedure

Derivation proceedings are governed by 37 C.F.R. § 42.400–412, as well as the AIA trial rules of 37 C.F.R. § 42.1–80. Procedurally, derivation proceedings are similar to other PTAB trials, with some exceptions:

- To initiate a derivation proceeding, the petitioner must have filed an application including at least one claim to an invention that appears in the respondent’s issued patent or earlier application.<sup>8</sup> In some cases, a petitioner will copy the respondent’s application or patent, including the claims, to meet this requirement. Petitioners pursuing this approach should take care that their application actually discloses and claims their invention.
- The derivation petition must be filed within one year of the first publication of the allegedly derived claims, in an issued patent or a published application.<sup>9</sup> This includes related patents: The PTAB recently denied a derivation petition as untimely because the challenged claim was published in a parent application more than one year before the derivation petition filed against a divisional application, even though the claim had been canceled in the parent and refiled in the divisional.<sup>10</sup>
- The respondent does not have an opportunity to file a preliminary response before the PTAB’s institution decision, so the institution decision will only consider the submissions of the petitioner. However, the PTAB has allowed a respondent to move to dismiss a petition before the institution decision, when the petition’s timeliness was in question.<sup>11</sup>
- The PTAB will likely wait until the petitioner’s application is ready to be allowed before deciding whether to institute the derivation proceeding.<sup>12</sup> Many petitions will not be acted upon for years while the petitioner’s application winds its way through prosecution.
- The PTAB institutes the derivation proceeding if it finds “substantial evidence” of derivation of at least one claim, including a corroborated declaration that, if unrebutted, would support a determination of derivation.<sup>13</sup>
- There is no requirement in a derivation proceeding that the final written decision issue within 12 months of the institution decision, as there is in IPRs. However, in its first derivation proceeding,

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the PTAB set a schedule that approximated what would be expected in an IPR: a respondent's response to the petition due about three months after institution, a petitioner's reply due about three months later, and a hearing about two months after the reply.<sup>14</sup>

Given the core issues of conception and communication, derivation proceedings will focus more than IPRs on fact witness testimony, to show who did what, and when. Derivation petitions are accompanied by fact declarations from witnesses relying on documentary evidence to corroborate their testimony, and whose depositions are automatically authorized by rule.<sup>15</sup>

Compared to a district court case, however, the focus on discovery in a PTAB derivation proceeding is limited. While some discovery is authorized by rule, such as cross-examination of declarants and the production of cited evidence, a party seeking additional discovery must request permission from the PTAB, and make a showing that the requested discovery is in the interests of justice.<sup>16</sup> Because the PTAB must approve any additional discovery requests, and the other side can oppose, attempts to take discovery can be uncertain and time consuming.

Ultimately, the PTAB will issue a final written decision, determining whether the petitioner's inventor conceived the claimed invention and communicated it to the respondent. If the PTAB finds that the respondent derived the claimed invention from the petitioner, 35 U.S.C. § 135 authorizes the PTAB to correct the inventorship "in appropriate circumstances," or cancel the claims of the derived patent.<sup>17</sup> In the Andersen derivation proceeding, Andersen's petition requested that the PTAB cancel the claims of GED's patent.<sup>18</sup>

## Conclusion

Derivation proceedings under the AIA are new and untested, so we will all be learning as we go. The PTAB's imminent decision in the Andersen proceeding may provide helpful guidance. For companies involved in development agreements or other arrangements where technology is being exchanged or jointly developed, derivation proceedings may provide a mechanism to try to recover patent exclusivity that might not be possible using other legal remedies. And the limited scope can make the PTAB a quicker and cheaper alternative to a district court action.

## Notes

<sup>1</sup> A court can also order the USPTO to correct inventorship of a patent (under 35 U.S.C. § 256).

<sup>2</sup> *Andersen Corp. v. GED Integrated Solutions, Inc.*, DER2017-00007, Paper 32 at 8 (Mar 21, 2018). While the AIA removed § 102(f) as a condition for patentability, courts and observers have pointed to § 101 as a basis for an accused infringer to allege invalidity of a patent for improper inventorship. See, e.g., *Matal*, A Guide to the Legislative History of the America Invents Act: Part I of II, 21 Fed. Cir. B.J. 435, 451–52 (2011); *Board of Trustees of U. of Ill. v. Micron Tech., Inc.*, 2017 WL 1164483, \*2 n.1 (C.D. Ill. 2017).

<sup>3</sup> *Andersen*, DER2017-00007, Paper 32 at 9 (Mar. 21, 2018) (citing *Cooper v. Goldfarb*, 154 F.3d 1321, 1332 (Fed. Cir. 1998); *Price v. Symsek*, 998 F.2d 1187, 1190 (Fed. Cir. 1993); *Hedgewick v. Akers*, 497 F.2d 905, 908 (CCPA 1974)).

<sup>4</sup> *Andersen*, DER2017-00007, Paper 32 at 9–10 (Mar. 21, 2018) (citing *Kridl v. McCormick*, 105 F.3d 1446, 1449 (Fed. Cir. 1997); *Burroughs Wellcome Co. v. Barr Labs. Inc.*, 40 F.3d 1223, 1228 (Fed. Cir. 1994); *Coleman v. Dines*, 754 F.2d 353, 359 (Fed. Cir. 1985)).

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<sup>5</sup> Id.

<sup>6</sup> 37 C.F.R. § 42.1.

<sup>7</sup> Andersen, DER2017-00007, Paper 54 at n.16 (Oct. 12, 2018) (citing *Price v. Symsek*, 988 F.2d 1187, 1192–94 (Fed. Cir. 1993)); Id., Paper 56 at 66–67 (Nov. 14, 2018) (citing *Johns Hopkins University v. 454 Life Sciences Corp.*, 230 F.Supp.3d 357, 381 (D. Del. 2017)).

<sup>8</sup> 35 U.S.C. § 135(a)(1); 37 C.F.R. § 42.402.

<sup>9</sup> 35 U.S.C. § 135(a)(2); 37 C.F.R. § 42.403.

<sup>10</sup> *Andersen Corp. v. GED Integrated Solutions, Inc.*, DER2018-00008, Paper 16 (Jan. 22, 2019).

<sup>11</sup> Id.

<sup>12</sup> 77 Fed. Reg. 56068 at 56069.

<sup>13</sup> 37 C.F.R. § 42.405(c).

<sup>14</sup> Andersen, DER2017-00007, Paper 33 (Mar. 21, 2018).

<sup>15</sup> 37 C.F.R. § 42.51(b)(1)(ii).

<sup>16</sup> 37 C.F.R. § 42.51.

<sup>17</sup> 35 U.S.C. §§ 135(b), (d).

<sup>18</sup> Andersen, DER2017-00007, Paper 4 at 79 (Dec. 16, 2016).

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