

## Changes to Implement Derivation Proceedings

DEPARTMENT OF COMMERCE  
Patent and Trademark Office  
37 CFR Part 42  
[Docket No. PTO-P-2011-0086]  
RIN 0651-AC74

### Changes To Implement Derivation Proceedings

AGENCY: United States Patent and Trademark Office, Commerce.

ACTION: Notice of proposed rulemaking.

SUMMARY: The United States Patent and Trademark Office (Office or USPTO) proposes new rules to implement the provisions of the Leahy-Smith America Invents Act that create a new derivation proceeding to be conducted before the Patent Trial and Appeal Board (Board). These provisions of the Leahy-Smith America Invents Act will take effect on March 16, 2013, eighteen months after the date of enactment, and apply to applications for patent, and any patent issuing thereon, that are subject to first-inventor-to-file provisions of the Leahy-Smith America Invents Act.

DATES: The Office solicits comments from the public on this proposed rulemaking. Written comments must be received on or before April 10, 2012 to ensure consideration.

ADDRESSES: Comments should be sent by electronic mail message over the Internet addressed to: [derivation@uspto.gov](mailto:derivation@uspto.gov). Comments may also be submitted by postal mail addressed to: Mail Stop Patent Board, Director of the United States Patent and Trademark Office, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of "Lead Judge Michael Tierney, Derivation Proposed Rules."

Comments may also be sent by electronic mail message over the Internet via the Federal eRulemaking Portal. See the Federal eRulemaking Portal Web site (<http://www.regulations.gov/>) for additional instructions on providing comments via the Federal eRulemaking Portal.

Although comments may be submitted by postal mail, the Office prefers to receive comments by electronic mail message over the Internet because sharing comments with the public is more easily accomplished. Electronic comments are preferred to be submitted in plain text, but also may be submitted in ADOBE® portable document format or MICROSOFT WORD® format. Comments not submitted electronically should be submitted on paper in a format that facilitates convenient digital scanning into ADOBE® portable document format.

The comments will be available for public inspection at the Board of Patent Appeals and Interferences, currently located in Madison East, Ninth Floor, 600 Dulany Street, Alexandria, Virginia. Comments also will be available for viewing via the Office's Internet Web site (<http://www.uspto.gov/>). Because comments will be made available for public inspection, information that the submitter does not desire to make public, such as an address or phone number, should not be included

in the comments.

FOR FURTHER INFORMATION CONTACT: Michael Tierney, Lead Administrative Patent Judge, Richard Torczon, Administrative Patent Judge, Sally Lane, Administrative Patent Judge, and Sally Medley, Administrative Patent Judge, Board of Patent Appeals and Interferences, by telephone at (571) 272-9797.

SUPPLEMENTARY INFORMATION: On September 16, 2011, the Leahy-Smith America Invents Act was enacted into law (Pub. L. 112-29, 125 Stat. 284 (2011)). The purpose of the Leahy-Smith America Invents Act and these proposed regulations is to establish a more efficient and streamlined patent system. The preamble of this notice sets forth in detail the

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procedures by which the Board will conduct a new administrative proceeding called a derivation proceeding. Derivation proceedings were created to ensure that the first person to file the application is actually a true inventor. This new proceeding will ensure that a person will not be able to obtain a patent for the invention that he did not actually invent. If a dispute arises as to which of two applicants is a true inventor (as opposed to who invented it first), it will be resolved through derivation proceeding by the Board. The USPTO is engaged in a transparent process to create the procedures for derivation proceedings. The proposed rules would provide a set of rules relating to Board trial practice for derivation proceedings.

Section 3(i) of the Leahy-Smith America Invents Act amends 35 U.S.C. 135 to provide for derivation proceedings and to eliminate the interference practice as to applications and patents having an effective filing date on or after March 16, 2013 (with a few exceptions). Derivation proceedings will be conducted in a manner similar to inter partes reviews and post-grant reviews. Unlike patent interferences, derivations will be conducted in a single phase without the use of a "count." An inventor seeking a derivation proceeding must file an application. 35 U.S.C. 135(a). An inventor, however, may copy an alleged deriver's application, make any necessary changes to reflect accurately what the inventor invented, and provoke a derivation proceeding by the timely filing of a petition and fee.

In particular, 35 U.S.C. 135(a), as amended, will provide that an applicant for patent may file a petition to institute a derivation proceeding in the Office. 35 U.S.C. 135(a), as amended, will provide that the petition must state with particularity the basis for finding that a named inventor in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, filed the earlier application. 35 U.S.C. 135(a), as amended, also will provide that the petition must be filed within one year of the first publication by the earlier applicant of a claim to the same or substantially the same invention, made under oath, and be supported by substantial evidence. 35 U.S.C. 135(a), as amended, will also provide that if the Director determines that the petition demonstrates that the standards for instituting a derivation proceeding are met, the Director may institute a derivation proceeding and that the determination of whether to initiate a derivation proceeding is final and nonappealable. A derivation is unlikely to be declared even where the Director thinks the standard for instituting a derivation proceeding is met if the petitioner's claim is not otherwise in

condition for allowance. Cf. *Brenner v. Manson*, 383 U.S. 519, 528 n.12 (1966); accord *Ewing v. Fowler Car Co.*, 244 U.S. 1, 7 (1917).

35 U.S.C. 135(b), as amended, will provide that, once a derivation proceeding is initiated, the Patent Trial and Appeal Board will determine whether a named inventor in the earlier application derived the claimed invention from a named inventor in the petitioner's application and, without authorization, filed the earlier application. 35 U.S.C. 135(b), as amended, will also provide that the Patent and Trial and Appeal Board may correct the naming of the inventor of any application or patent at issue in appropriate circumstances, and that the Director will prescribe regulations for the conduct of derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation.

35 U.S.C. 135(c), as amended, will provide that the Patent Trial and Appeal Board may defer action on a petition for derivation proceeding for up to three months after a patent is issued from the earlier application that includes a claim that is the subject of the petition. 35 U.S.C. 135(c), as amended, will further provide that the Patent Trial and Appeal Board also may defer action on a petition for a derivation proceeding or stay the proceeding after it has been initiated until the termination of a proceedings under chapter 30, 31, or 32 involving the patent of the earlier applicant.

35 U.S.C. 135(d), as amended, will provide that a decision that is adverse to claims in an application constitutes the final refusal of the claims by the Office, while a decision adverse to claims in a

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patent constitutes cancellation of the claims, if no appeal or other review of the decision has been taken or had. 35 U.S.C. 135(d), as amended, will provide that a notice of cancellation must be endorsed on copies of the patent distributed after the cancellation.

Section 3(i) of the Leahy-Smith America Invents Act further adds two new provisions, 35 U.S.C. 135(e) and (f). In particular, new paragraph (e) will provide that the 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. 35 U.S.C. 135(e) will provide that the Patent Trial and Appeal Board must take action consistent with the agreement, unless the Board finds the agreement to be inconsistent with the evidence of record. 35 U.S.C. 135(e) will further provide that the written settlement or understanding of the parties must be filed with the Director and, at the request of a party, will be treated as business confidential information, will be kept separate from the file of the involved patents or applications, and will be made available only to Government agencies on written request, or to any person on a showing of good cause.

New paragraph (f) of 35 U.S.C. 135 will allow the parties to a derivation proceeding to determine the contest, or any aspect thereof, by arbitration within a time specified by the Director, and will provide that the arbitration is governed by the provisions of title 9, to the extent that title is not inconsistent with 35 U.S.C. 135. 35 U.S.C. 135(f) will also provide that the parties must give notice of any arbitration award to the Director, that the award is not enforceable until such notice is given, and that the award, as between the parties to the arbitration, is dispositive of the issues to which it relates but does not preclude the Director from

determining the patentability of the claimed inventions involved in the proceeding. The Director will delegate to the Board authority to resolve patentability issues that arise during derivation proceedings when there is good cause to do so.

#### Discussion of Specific Rules

This notice proposes new rules to implement the provisions of the Leahy-Smith America Invents Act for instituting and conducting derivation proceedings before the Patent Trial and Appeal Board (Board). 35 U.S.C. 135(b), as amended, will provide that the Director will prescribe regulations setting forth standards for the conduct of derivation proceedings. This notice proposes to add a new subpart E to 37 CFR part 42 to provide rules specific to derivation proceedings.

Additionally, the Office in a separate rulemaking is proposing to add part 42, including subpart A, (RIN 0651-AC70) that would include a consolidated set of rules relating to Board trial practice. More specifically, the proposed subpart A of part 42 would set forth the policies, practices, and definitions common to all trial proceedings before the Board. The proposed rules in the instant notice and discussion below may reference the proposed rules in subpart A of part 42. Furthermore, the Office in separate rulemakings proposes to add a new subpart B to 37 CFR part 42 (RIN 0651-AC71) to provide rules specific to inter partes review, a new subpart C to 37 CFR part 42 (RIN 0651-AC72) to provide rules specific to post-grant review, and a new subpart D to 37 CFR part 42 (RIN 0651-AC73; RIN 0651-AC75) to provide rules specific to transitional program covered business method patents.

Title 37 of the Code of Federal Regulations, Chapter I, Part 42, Subpart E, entitled "Derivation" is proposed to be added as follows:

Section 42.400: Proposed § 42.400 would set forth policy considerations for derivation proceedings.

Proposed § 42.400(a) would provide that a derivation proceeding is a trial and subject to the rules set forth in subpart A.

Proposed § 42.400(b) would delegate to the Board the Director's authority to resolve patentability issues when there is good cause to

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do so. See the last sentence of 35 U.S.C. 135(f), as amended. For example, an issue of claim indefiniteness (35 U.S.C. 112) might need to be resolved before derivation can be substantively addressed on the merits. Resolution of such issues promotes procedural efficiency, and may even encourage party settlement, by providing clear guidance on the scope of the contested issues.

Section 42.401: Proposed § 42.401 would set forth definitions specific to derivation proceedings, in addition to definitions set forth in § 42.2 of this part.

Definitions proposed:

Agreement or understanding under 35 U.S.C. 135(e): The proposed definition would reflect the terminology used in 35 U.S.C. 135(e), as amended, to describe a settlement between parties to a derivation proceeding.

Applicant: The proposed definition would make it clear that reissue applicants are considered applicants, and not patentees, for purposes

of a derivation proceeding.

**Application:** The proposed definition would make it clear that a reissue application is an application, not a patent, for purposes of a derivation proceeding. Specifically, the proposed definition includes both an application for an original patent and an application for a reissued patent.

**Petitioner:** The proposed definition of petitioner incorporates the statutory requirement (35 U.S.C. 135(a), as amended) that the petitioner be an applicant.

**Respondent:** The proposed definition of respondent identifies the respondent as the party other than the petitioner.

**Section 42.402:** Proposed § 42.402 would provide who may file a petition for a derivation proceeding.

**Section 42.403:** Proposed § 42.403 would provide that a petition for a derivation proceeding must be filed within one year after the first publication of a claim to an invention that is the same or substantially the same as the respondent's earlier application's claim to the invention. Such publication may be the publication by the USPTO of an application for patent or patent or by the World Intellectual Property Organization of an international application designating the United States. 35 U.S.C. 135(a), as amended, will provide that a petition for instituting a derivation proceeding may only be filed within the one-year period of the first publication to a claim to an invention that is the same or substantially the same as the earlier application's claim to the invention. The proposed rule is consistent with 35 U.S.C. 135(a), as amended, because the earlier application's first publication of the allegedly derived invention triggers the one-year bar date. While the statute's use of the phrase "a claim" is ambiguous inasmuch as it could include the petitioner's claim as a trigger, such a broad construction could violate due process. For example, the petitioner could be barred by publication of its own claim before it had any knowledge of the respondent's application. Such problems may be avoided if the trigger for the deadline is publication of the respondent's claim.

**Section 42.404:** Proposed § 42.404 would provide that a fee must accompany the petition for a derivation proceeding and that no filing date will be accorded until payment is complete.

**Section 42.405:** Proposed § 42.405 would identify the content of a petition to institute a derivation proceeding. The proposed rule is consistent with 35 U.S.C. 135(b), as amended, which will allow the Director to prescribe regulations setting forth standards for the conduct of derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation.

Proposed § 42.405(a) would require a petition to demonstrate that the petitioner has standing. To establish standing, a petitioner,

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at a minimum, must timely file a petition that demonstrates that the named inventor on the earlier filed application derived the claimed invention and filed the earlier application without authorization from the petitioner. This proposed requirement attempts to ensure that a party has standing to file the petition and would help prevent

spuriously instituted derivation proceedings. This proposed rule also ensures that the petitioner has taken steps to obtain patent protection for the same or substantially same invention, thus promoting the useful arts. Facially improper standing would be a basis for denying the petition without proceeding to the merits of the decision.

Proposed § 42.405(b) would require that the petition identify the precise relief requested. The petition must provide sufficient information to identify the application or patent subject to a derivation proceeding. The petition must also demonstrate that the claimed invention in the subject application or patent was derived from an inventor named in the petitioner's application and, without authorization, the earliest application claiming such invention was filed. The petitioner must further show why the claim is not patentably distinct from the invention disclosed to the respondent. For each of the respondent's targeted claims, the petitioner must likewise identify how the claim to the allegedly derived invention is to be construed. Where the claim to be construed contains a means-plus-function or step-plus-function limitation as permitted under 35 U.S.C. 112, sixth paragraph, the construction of the claim must identify the specific portions of the specification that describe the structure, material, or acts corresponding to each claimed function. The proposed rule would provide an efficient means for identifying the legal and factual basis supporting a prima facie case of relief and would provide the opponent with a minimum level of notice as to the basis for the allegations of derivation.

Proposed § 42.405(c) would provide that a derivation showing is not sufficient unless it is supported by substantial evidence and at least one affidavit addressing communication and lack of authorization, consistent with 35 U.S.C. 135(a), as amended. The showing of communication must be corroborated.

Section 42.406: Proposed § 42.406 would provide requirements for the service of a petition in addition to the requirements set forth in § 42.6(e).

Proposed § 42.406(a) would require that the petitioner serve the respondent at the correspondence address of record. Petition may also attempt service at any other address known to the petitioner as likely to effect service. Once a patent has issued, communications between the Office and the patent owner often suffer. *Ray v. Lehman*, 55 F.3d 606 (Fed. Cir. 1995) (patentee's failure to maintain correspondence address contributed to failure to pay maintenance fee and therefore expiration of the patent). While the proposed rule requires service at the correspondence address of record, in many cases, the petitioner will already be in communication with the owner of the earlier application at a better service address than the official correspondence address.

Proposed § 42.406(b) would address the situation where delivery to an earlier application's correspondence address does not result in actual service. When the petitioner becomes aware of a service problem, it would be required to promptly advise the Board of the problem. The Board may authorize other forms of service, such as service by publication in the Official Gazette of the United States Patent and Trademark Office. Cf. 37 CFR 1.47(c) (notice by publication).

Section 42.407: Proposed § 42.407(a) would provide requirements for a complete petition. 35 U.S.C. 135(b), as amended, will provide that the Director establish regulations concerning the standards for the conduct of derivation proceedings. 35 U.S.C. 135(a), as amended, will provide that a derivation proceeding may be instituted where the

Director determines that a petition demonstrates that the standards for instituting a derivation proceeding are met. Consistent with statute,

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the proposed rule would require that a complete petition be filed along with the fee and that it be served at the correspondence address of record for the earlier application.

Proposed § 42.407(b) would provide petitioners a one month time frame to correct defective requests to institute a derivation proceeding, unless the statutory deadline in which to file a petition for derivation has expired. In determining whether to grant a filing date, the Board would review the requests for procedural compliance. Where a procedural defect is noted, e.g., failure to state the claims being challenged, the Board would notify the petitioner that the request was incomplete and identify any non-compliance issues.

Section 42.408: Proposed § 42.408 would provide that an administrative patent judge institutes and may reinstitute a derivation proceeding on behalf of the Director.

Section 42.409: Proposed § 42.409 would make it clear that an agreement or understanding filed under 35 U.S.C. 135(e) would be a settlement agreement for purposes of § 42.74.

Section 42.410: Proposed § 42.410 would provide for arbitration of derivation proceedings. Proposed § 42.410(a) will provide that parties to a derivation proceeding may determine such contest, or any aspect thereof, by arbitration, except that nothing shall preclude the Office from determining the patentability of the claimed inventions involved in the proceeding. The proposed rule is consistent with 35 U.S.C. 135(f) because it would permit arbitration but would not preclude the Office from independently determining issues of patentability during the course of the proceeding. Proposed § 42.410(b) provides that the Board will not set a time for, or otherwise modify the proceeding for, an arbitration unless the listed procedural requirements are met.

Section 42.411: Proposed § 42.411 would provide that an administrative patent judge may decline to institute or continue a derivation proceeding between an application and a patent or another application that are commonly owned. Common ownership in a derivation proceeding is a concern because it can lead to manipulation of the process. The proposed rule would be stated permissively because not all cases of overlapping ownership would be cause for concern. The cases of principal concern involve a real party in interest with the ability to control the conduct of more than one party.

Section 42.412: Proposed § 42.412 would provide for public availability of Board records.

#### Rulemaking Considerations

A. Administrative Procedure Act (APA): This notice proposes rules of practice concerning the procedure for requesting a derivation and the trial process after initiation of such a review. The changes being proposed in this notice do not change the substantive criteria of

patentability. These proposed changes involve rules of agency practice and procedure and/or interpretive rules. See *Bachow Commc'ns Inc. v. FCC*, 237 F.3d 683, 690 (DC Cir. 2001) (rules governing an application process are procedural under the Administrative Procedure Act); *Inova Alexandria Hosp. v. Shalala*, 244 F.3d 342, 350 (4th Cir. 2001) (rules for handling appeals were procedural where they did not change the substantive standard for reviewing claims); *Nat'l Org. of Veterans' Advocates v. Sec'y of Veterans Affairs*, 260 F.3d 1365, 1375 (Fed. Cir. 2001) (a rule that clarifies interpretation of a statute is interpretive).

Accordingly, prior notice and opportunity for public comment are not required pursuant to 5 U.S.C. 553(b) or (c) (or any other law), and thirty-day advance publication is not required pursuant to 5 U.S.C. 553(d) (or any other law). See *Cooper Techs. Co. v. Dudas*, 536 F.3d

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1330, 1336-37 (Fed. Cir. 2008) (stating that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rulemaking for "interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice") (quoting 5 U.S.C. 553(b)(A)). The Office, however, is publishing these changes and the Initial Regulatory Flexibility Act analysis, below, for comment as it seeks the benefit of the public's views on the Office's proposed implementation of these provisions of the Leahy-Smith America Invents Act.

B. Regulatory Flexibility Act: The Office estimates that no more than 50 petitions for derivation will be filed in fiscal year 2013. This will be the first fiscal year in which derivation petitions will be available.

The Office has reviewed the percentage of applications and patents for which an interference was declared in fiscal year 2011. Applications and patents known to be owned by a small entity represent 19.62% of applications and patents for which interference was declared in FY 2011. Based on the assumption that the same percentage of applications and patents owned by small entities will be involved in a derivation proceeding, 20 small entity owned applications or patents would be affected by derivation review of the 100 parties to the 50 derivation proceedings.

1. Description of the Reasons That Action by the Office Is Being Considered: On September 16, 2011, the Leahy-Smith America Invents Act was enacted into law (Pub. L. 112-29, 125 Stat. 284 (2011)). Section 3(i) of the Leahy-Smith America Invents Act amends 35 U.S.C. 135 to provide for derivation proceedings and eliminate the interference practice as to applications and patents that have an effective filing date on or after March 16, 2013 (with a few exceptions). 35 U.S.C. 135(b), as amended, will require that the Director prescribe regulations to set forth the standards for conducting derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation.

2. Succinct Statement of the Objectives of, and Legal Basis for, the Proposed Rules: The proposed rules seek to implement derivation proceedings as authorized by the Leahy-Smith America Invents Act.

3. Description and Estimate of the Number of Affected Small Entities: The Small Business Administration (SBA) small business size standards applicable to most analyses conducted to comply with the



Regulatory Flexibility Act are set forth in 13 CFR 121.201. These regulations generally define small businesses as those with fewer than a specified maximum number of employees or less than a specified level of annual receipts for the entity's industrial sector or North American Industry Classification System (NAICS) code. As provided by the Regulatory Flexibility Act, and after consultation with the Small Business Administration, the Office formally adopted an alternate size standard as the size standard for the purpose of conducting an analysis or making a certification under the Regulatory Flexibility Act for patent-related regulations. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR 67109 (Nov. 20, 2006), 1313 Off. Gaz. Pat. Office 60 (Dec. 12, 2006). This alternate small business size standard is SBA's previously established size standard that identifies the criteria entities must meet to be entitled to pay reduced patent fees. See 13 CFR 121.802. If patent applicants identify themselves on a patent application as qualifying for reduced patent fees, the Office captures this data in the Patent Application Location and Monitoring (PALM) database system, which tracks information on each patent application submitted to the Office.

Unlike the SBA small business size standards set forth in 13 CFR 121.201, the size standard for USPTO is not industry-specific. The Office's definition of a small business concern for Regulatory Flexibility Act purposes is a business or other concern that: (1) Meets the SBA's definition of a "business concern or concern" set forth in 13 CFR 121.105; and (2) meets the size standards set forth in 13 CFR

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121.802 for the purpose of paying reduced patent fees, namely an entity: (a) Whose number of employees, including affiliates, does not exceed 500 persons; and (b) which has not assigned, granted, conveyed, or licensed (and is under no obligation to do so) any rights in the invention to any person who made it and could not be classified as an independent inventor, or to any concern which would not qualify as a non-profit organization or a small business concern under this definition. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR at 67112 (Nov 20, 2006), 1313 Off. Gaz. Pat. Office at 63 (Dec. 12, 2006).

As discussed above, it is anticipated that 50 petitions for derivation will be filed in fiscal year 2013. The Office has reviewed the percentage of applications and patents for which an interference was declared in fiscal year 2011. Applications and patents known to be owned by a small entity represent 19.62% of applications and patents for which interference was declared in FY 2011. Based on the assumption that the same percentage of applications and patents owned by small entities will be involved in a derivation proceeding, 20 small entity owned applications or patents would be affected by derivation proceeding.

The Office predicts that it will institute 10 derivation proceedings based on petitions seeking derivation filed in fiscal year 2013. This estimate is based on the low number of interference proceedings declared as well as the limited number of eligible applications.

During fiscal year 2011, the Office issued 21 decisions following a request for reconsideration of a decision on appeal in inter partes

reexamination. The average time from original decision to decision on reconsideration was 4.4 months. Thus, the decisions on reconsideration were based on original decisions issued from July 2010 until June 2011. During this time period, the Office mailed 63 decisions on appeals in inter partes reexamination. See BPAI Statistics - Receipts and Dispositions by Technology Center, <http://www.uspto.gov/ip/boards/bpai/stats/receipts/index.jsp> (monthly data). Based on the assumption that the same rate of reconsideration (21 divided by 63 or 33.3%) will occur, the Office estimates that 2 requests for reconsideration will be filed. Based on the percentage of small entity owned patent applications or patents that were the subject of an interference declared in fiscal year 2010 (19.62%) it is estimated that 1 small entity will file a request for a reconsideration of a decision dismissing the petition for derivation in fiscal year 2013.

The Office reviewed motions, oppositions, and replies in a number of contested trial proceedings before the trial section of the Board. The review included determining whether the motion, opposition and reply were directed to patentability grounds and non-priority non-patentability grounds. Based on the review, it is anticipated that derivation proceedings will have an average of 23.4 motions, oppositions, and replies per trial after institution. Settlement is estimated to occur in 20% of instituted trials at various points of the trial. In the trials that are settled, it is estimated that only 50% of the noted motions, oppositions, and replies would be filed.

After a trial has been instituted but prior to a final written decision, parties to a derivation proceeding may request an oral hearing. It is anticipated that 5 requests for oral hearings will be filed. Based on the percentage of small entity owned patent applications or patents that were the subject of an interference declared in fiscal year 2010 (19.62%), it is estimated that 2 small entities will file a request for oral hearing derivation proceedings instituted in fiscal year 2013.

Parties to a review or derivation proceeding may file requests to treat a settlement as business confidential, request for adverse judgment, and arbitration agreements and awards. A written request to make a settlement agreement available may also be filed. Given the short time period set for conducting trials, it is anticipated that the alternative dispute resolution options will be infrequently used.

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The Office estimates that 2 requests to treat a settlement as business confidential, 2 written requests to make a settlement agreement available, 2 requests for adverse judgment, default adverse judgment, or settlement notices and 2 arbitration agreements and awards will be filed. Based on the percentage of small entity owned patent applications or patents that were the subject of an interference declared in fiscal year 2010 (19.62%), it is estimated that 1 small entity will file a request to treat a settlement as business confidential, 1 small entity will file a request for adverse judgment, default adverse judgment notice, or settlement notice, and 1 small entity will file an arbitration agreement and award in the derivation proceedings instituted in fiscal year 2013.

Parties to a derivation proceeding may seek judicial review of the final decision of the Board. The Office projects that no more than 5 derivation proceedings filed in fiscal year 2013 will be appealed. Based on the percentage of small entity owned patent applications or

patents that were the subject of an interference declared in fiscal year 2010 (19.62%), it is estimated that 2 small entities will seek judicial review of final decisions of the Board in the derivation proceedings instituted in fiscal year 2013.

4. Description of the Reporting, Recordkeeping, and Other Compliance Requirements of the Proposed Rule, Including an Estimate of the Classes of Small Entities Which Will Be Subject to the Requirement and the Type of Professional Skills Necessary for Preparation of the Report or Record: Based on the trends of declared contested cases in fiscal year 2011, it is anticipated that petitions for derivation will be filed across all technologies with approximately 16% being filed in electrical technologies, approximately 17% in mechanical technologies, and the remaining 67% in chemical technologies and design. A derivation petition is likely to be filed by an entity practicing in the same or similar field as the patent. Therefore, it is anticipated that 16% of the petitions for review will be filed in the electronic field, 17% in the mechanical field, and 67% in the chemical or design fields.

Preparation of the petition would require analyzing the patent claims, locating evidence supporting arguments of communication, and preparing the petition seeking review of the patent. The procedures for petitions to institute a derivation proceeding are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(4), 42.63, 42.65, and 42.402 through 42.406.

The skills necessary to prepare a petition seeking a derivation proceeding and to participate in a trial before the Patent Trial and Appeal Board would be similar to those needed to prepare a request for inter partes reexamination, and to represent a party in an inter partes reexamination before the Patent Trial and Appeal Board. The level of skill is typically possessed by a registered patent practitioner having devoted professional time to the particular practice area, typically under the supervision of a practitioner skilled in the particular practice area. Where authorized by the Board, a non-registered practitioner may be admitted pro hac vice, on a case-by-case basis based on the facts and circumstances of the trial and party, as well as the skill of the practitioner.

The cost of preparing a petition for inter partes review is anticipated to be same as the cost for preparing a request for inter partes reexamination. The American Intellectual Property Law Association's AIPLA Report of the Economic Survey 2011 reported that the average cost of preparing a request for inter partes reexamination was \$46,000. Based on the work required to file and prepare such request, the Office considers the reported cost as a reasonable estimate. Accordingly, the Office estimates that the cost of preparing a petition for inter partes review will be \$46,000.

The cost of preparing a petition for post-grant or covered business method patent review is estimated to be 33.333% higher than the cost of preparing a petition for inter partes review because the petition for post-grant or covered business method patent review may seek to institute a proceeding on additional grounds such as subject matter eligibility. Therefore, the Office estimates that the cost of preparing

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a petition for post-grant or covered business method patent review would be \$61,333. It is expected that petitions for derivation would have the same complexity and cost as a petition for post-grant review because derivation proceedings raise issues of communication, which

have similar complexity to the issues that can be raised in a post-grant review, i.e., public use and sale and written description. Thus, the Office estimates that the cost of preparing a petition for derivation would also be \$61,333.

Following institution of a trial, the parties may be authorized to file various motions, e.g., motions to amend and motions for additional discovery. Where a motion is authorized, an opposition may be authorized, and where an opposition is authorized, a reply may be authorized. The procedures for filing a motion are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, and 42.65. The procedures for filing an opposition are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, and 42.65. The procedures for filing a reply are proposed in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65. As discussed previously, the Office estimates that the average derivation proceeding is anticipated to have 23.4 motions, oppositions, and replies after institution.

The AIPLA Report of the Economic Survey 2011 reported that the average cost in contested cases before the trial section of the Board prior to the priority phase was \$322,000 per party. Because of the overlap of issues in patentability grounds, it is expected that the cost per motion will decline as more motions are filed in a proceeding. It is estimated that a motion, opposition, or reply in a derivation is estimated at \$34,000, which is estimated by dividing the total public cost for all motions in current contested cases divided by the estimated number of motions in derivations under 35 U.S.C. 135, as amended. Based on the work required to file and prepare such briefs, the Office considers the reported cost as a reasonable estimate.

After a trial has been instituted but prior to a final written decision, parties to a review or derivation proceeding may request an oral hearing. The procedure for filing requests for oral argument is proposed in § 42.70. The AIPLA Report of the Economic Survey 2011 reported that the third quartile cost of an ex parte appeal with an oral argument is \$12,000, while the third quartile cost of an ex parte appeal without an oral argument is \$6,000. In view of the reported costs, which the Office finds reasonable, and the increased complexity of an oral hearing with multiple parties, it is estimated that the cost per party for oral hearings would be \$6,800 or \$800 more than the reported third quartile cost for an ex parte oral hearing.

Parties to a derivation proceeding may file requests to treat a settlement as business confidential, request for adverse judgment, and arbitration agreements and awards. A written request to make a settlement agreement available may also be filed. The procedures to file requests that a settlement be treated as business confidential are proposed in §§ 42.74(c) and 42.409. The procedures to file requests for adverse judgment are proposed in § 42.73(b). The procedures to file arbitration agreements and awards are proposed in § 42.410. The procedures to file requests to make a settlement agreement available are proposed in § 42.74(c)(2). It is anticipated that requests to treat a settlement as business confidential will require 2 hours of professional time or \$680. It is anticipated that requests for adverse judgment will require 1 hour of professional time or \$340. It is anticipated that arbitration agreements and awards will require 4 hours of professional time or \$1,360. It is anticipated that requests to make a settlement agreement available will require 1 hour of professional time or \$340. The requests to make a settlement agreement available will also require payment of a fee of \$400 specified in proposed § 42.15(d). The fee proposed would be the same as currently set forth in § 41.20(a) for petitions to the Chief Administrative Patent Judge.

Parties to a review proceeding may seek judicial review of the judgment of the Board. The procedures to file notices of judicial

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review of a Board decision, including notices of appeal and notices of election provided for in 35 U.S.C. 141, 142, 145, and 146, are proposed in §§ 90.1 through 90.3. The submission of a copy of a notice of appeal or a notice of election is anticipated to require 6 minutes of professional time at a cost of \$34.

5. Description of Any Significant Alternatives to the Proposed Rules Which Accomplish the Stated Objectives of Applicable Statutes and Which Minimize Any Significant Economic Impact of the Rules on Small Entities:

Size of petitions and motions: The Office considered whether to apply a page limit and what an appropriate page limit would be. The Office does not currently have a page limit on inter partes reexamination requests. The inter partes reexamination requests from October 1, 2010 to June 30, 2011, averaged 246 pages. Based on the experience of processing inter partes reexamination requests, the Office finds that the very large size of the requests has created a burden on the Office that hinders the efficiency and timeliness of processing the requests, and creates a burden on patent owners. The quarterly reported average processing time from the filing of a request to the publication of a reexamination certificate ranged from 28.9 months to 41.7 months in fiscal year 2009, from 29.5 months to 37.6 months in fiscal year 2010, and from 31.9 to 38.0 months in fiscal year 2011. See Reexaminations - FY 2011, [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf).

By contrast, the Office has a page limit on the motions filed in contested cases, except where parties are specifically authorized to exceed the limitation. The typical contested case proceeding is subject to a standing order that sets a 50 page limit for motions and oppositions on priority, a 15 page limit for miscellaneous motions (§ 41.121(a)(3)) and oppositions (§ 41.122), and a 25 page limit for other motions (§ 41.121(a)(2)) and oppositions to other motions. In typical proceedings, replies are subject to a 15 page limit if directed to priority, 5 page limit for miscellaneous issue, and 10 page limit for other motions. The average contested case was terminated in 10.1 months in fiscal year 2009, in 12 months in fiscal year 2010, and 9 months in fiscal year 2011. The percentage of contested cases terminated within 2 years was 93.7% in fiscal year 2009, 88.0% in fiscal year 2010, and 94.0% in fiscal year 2011. See BPAI Statistics - Performance Measures, <http://www.uspto.gov/ip/boards/bpai/stats/perform/index.jsp>.

Comparing the average time period for terminating a contested case, 10.0 to 12.0 months, with the average time period, during fiscal years 2009 through 2011, for completing an inter partes reexamination, 28.9 to 41.7 months, indicates that the average interference takes from 24% (10.0/41.7) to 42% (12.0/28.9) of the time of the average inter partes reexamination. While several factors contribute to the reduction in time, limiting the size of the requests and motions is considered a significant factor. Proposed § 42.24 would provide page limits for petitions, motions, oppositions, and replies.

Federal courts routinely use page limits in managing motions practice as "[e]ffective writing is concise writing." *Spaziano v. Singletary*, 36 F.3d 1028, 1031 n.2 (11th Cir. 1994). Many district

courts restrict the number of pages that may be filed in a motion including, for example, the District of Delaware, the District of New Jersey, the Eastern District of Texas, the Northern, Central, and Southern Districts of California, and the Eastern District of Virginia.

Federal courts have found that page limits ease the burden on both the parties and the courts, and patent cases are no exception. *Eolas Techs., Inc. v. Adobe Sys., Inc.*, No. 6:09-CV-446, at 1 (E.D. Tex. Sept. 2, 2010) ("The Local Rules' page limits ease the burden of motion practice on both the Court and the parties."); *Blackboard, Inc. v. Desire2Learn, Inc.*, 521 F. Supp. 2d 575, 576 (E.D. Tex. 2007) (The parties "seem to share the misconception, popular in some circles, that motion practice exists to require federal judges to shovel through steaming mounds of pleonastic arguments in Herculean effort to uncover a hidden gem of logic that will ineluctably compel a favorable ruling.

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Nothing could be farther from the truth."); *Broadwater v. Heidtman Steel Prods., Inc.*, 182 F. Supp. 2d 705, 710 (S.D. Ill. 2002) ("Counsel are strongly advised, in the future, to not ask this Court for leave to file any memoranda (supporting or opposing dispositive motions) longer than 15 pages. The Court has handled complicated patent cases and employment discrimination cases in which the parties were able to limit their briefs supporting and opposing summary judgment to 10 or 15 pages." (Emphasis omitted)).

The Board's contested cases experience with page limits in motions practice is consistent with that of the federal courts. The Board's use of page limits has shown it to be beneficial without being unduly restrictive for the parties. Page limits have encouraged the parties to focus on dispositive issues, easing the burden of motions practice on the parties and on the Board.

The Board's contested cases experience with page limits is informed by its use of different approaches over the years. In the early 1990s, page limits were not routinely used for motions, and the practice suffered from lengthy and unacceptable delays. To reduce the burden on the parties and on the Board and thereby reduce the time to decision, the Board instituted page limits in the late 1990s for every motion. Page limit practice was found to be effective in reducing the burdens on the parties and improving decision times at the Board. In 2006, the Board revised the page limit practice and allowed unlimited findings of fact and generally limited the number of pages containing argument. Due to abuses of the system, the Board recently reverted back to page limits for the entire motion (both argument and findings of fact).

The Board's current page limits are consistent with the 25 page limits in the Northern, Central, and Southern Districts of California, and the Middle District of Florida and exceed the limits in the District of Delaware (20), the Northern District of Illinois (15), the District of Massachusetts (20), the Eastern District of Michigan (20), the Southern District of Florida (20), and the Southern District of Illinois (20).

In a typical proceeding before the Board, a party may be authorized to file a single motion for unpatentability based on prior art, a single motion for unpatentability based upon failure to comply with 35 U.S.C. 112, lack of written description, and/or enablement, and potentially another motion for lack of compliance with 35 U.S.C. 101, although a 35 U.S.C. 101 motion may be required to be combined with the 35 U.S.C. 112 motion. Each of these motions is currently limited to 25 pages in

length, unless good cause is shown that the page limits are unduly restrictive for a particular motion.

A petition requesting the institution of a trial proceeding would be similar to motions currently filed with the Board. Specifically, petitions to institute a trial seek a final written decision that the challenged claims are unpatentable, where derivation is a form of unpatentability. Accordingly, a petition to institute a trial based on prior art would, under current practice, be limited to 25 pages, and by consequence, a petition raising unpatentability based on prior art and unpatentability under 35 U.S.C. 101 and/or 112 would be limited to 50 pages.

Petitions to institute derivation proceedings, while distinct from interference practice, raise similar issues to those that may be raised in interferences in a motion for judgment on priority of invention. Currently, motions for judgment on priority of invention, including issues such as conception, corroboration, and diligence, are generally limited to 50 pages. Thus, the proposed 50 page limit is considered sufficient in all but exceptional cases.

The proposed rule would provide that petitions to institute a trial must comply with the stated page limits, but may be accompanied by a motion that seeks to waive the page limits. The petitioner must show in the motion how a waiver of the page limits is in the interests of justice. A copy of the desired non-page limited petition must accompany the motion. Generally, the Board would decide the motion prior to deciding whether to institute the trial.

Current Board practice provides a limit of 25 pages for other

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motions and 15 pages for miscellaneous motions. The Board's experience is that such page limits are sufficient for the parties filing them and do not unduly burden the opposing party or the Board. Petitions to institute a trial would generally replace the current practice of filing motions for unpatentability, as most motions for relief are expected to be similar to the current contested cases miscellaneous motion practice. Accordingly, the proposed 15 page limit is considered sufficient for most motions but may be adjusted where the limit is determined to be unduly restrictive for the relief requested.

Proposed § 42.24(b) would provide page limits for oppositions filed in response to motions. Current contested case practice provides an equal number of pages for an opposition as its corresponding motion. This is generally consistent with motions practice in federal courts. The proposed rule would continue the current practice.

Proposed § 42.24(c) would provide page limits for replies. Current contested case practice provides a 15 page limit for priority motion replies, a 5 page limit for miscellaneous (procedural) motion replies, and a 10 page limit for all other motions. The proposed rule is consistent with current contested case practice for procedural motions. The proposed rule would provide a 15 page limit for reply to petitions requesting a trial, which the Office believes is sufficient based on current practice. Current contested case practice has shown that such page limits do not unduly restrict the parties and, in fact, have provided sufficient flexibility to parties to not only reply to the motion but also help to focus on the issues. Thus, it is anticipated that default page limits would minimize the economic impact on small entities by focusing on the issues in the trials.

Discovery: The Office considered a procedure for discovery similar

to the one available during district court litigation. Discovery of that scope has been criticized sharply particularly when attorneys use discovery tools as tactical weapons, which hinder the "just, speedy, and inexpensive determination of every action and proceedings." See Introduction to An E-Discovery Model Order available at [http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.pdf](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf). Accordingly, this alternative would have been inconsistent with objective of the Leahy-Smith America Invents Act that the Director, in prescribing rules for the inter partes, post-grant and covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete timely the instituted proceedings. Prescribing the same standard for derivations allows for efficient proceedings using practices that are consistent as possible. It is envisioned that the public burden would be reduced by setting discover standards consistently across all trial proceedings at the Board.

Additional discovery increases trial costs and increases the expenditures of time by the parties and the Board. To promote effective discovery, the proposed rule would require a showing that the additional requested discovery is in the interests of justice, placing an affirmative burden upon a party seeking the discovery to show how the proposed discovery would be productive. The Board's experience in conducted contested cases, however, is that such showings are often lacking and authorization for additional discovery is expected to be rare.

The Office is proposing a default scheduling order to provide limited discovery as a matter of right and provide parties with the ability to seek additional discovery on a case-by-case basis. In weighing the need for additional discovery, should a request be made, the Board would consider the economic impact on the opposing party. This would tend to limit additional discovery where a party is a small entity.

Pro Hac Vice: The Office considered whether to allow counsel to appear pro hac vice. In certain cases, highly skilled, but non-registered attorneys have appeared satisfactorily before the Board in contested cases. The Board may recognize counsel pro hac vice during a proceeding upon a showing of good cause. Proceedings before the Office

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can be technically complex. Consequently, the grant of a motion to appear pro hac vice is a discretionary action taking into account the specifics of the proceedings. Similarly, the revocation of pro hac vice is a discretionary action taking into account various factors, including incompetence, unwillingness to abide by the Office's Rules of Professional Conduct, prior findings of misconduct before the Office in other proceedings, and incivility.

The Board's past practice has required the filing of a motion by a registered patent practitioner seeking pro hac vice representation based upon a showing of: (1) How qualified the unregistered practitioner is to represent the party in the proceeding when measured against a registered practitioner, and, (2) whether the party has a genuine need to have the particular unregistered practitioner represent it during the proceeding. This practice has proven effective in the limited number of contested cases where such requests have been granted. The proposed rule, if adopted, would allow for this practice



in the new proceedings authorized by the Leahy-Smith America Invents Act.

The proposed rules would provide a limited delegation to the Board under 35 U.S.C. 2(b)(2) and 32 to regulate the conduct of counsel in Board proceedings. The proposed rule would delegate to the Board the authority to conduct counsel disqualification proceedings while the Board has jurisdiction over a proceeding. The rule would also delegate to the Chief Administrative Patent Judge the authority to make final a decision to disqualify counsel in a proceeding before the Board for the purposes of judicial review. This delegation would not derogate from the Director the prerogative to make such decisions, nor would it prevent the Chief Administrative Patent Judge from further delegating authority to an administrative patent judge.

The Office considered broadly permitting practitioners not registered to practice by the Office to represent parties in trial as well as categorically prohibiting such practice. A prohibition on the practice would be inconsistent with the Board's experience, and more importantly, might result in increased costs particularly where a small entity has selected its district court litigation team for representation before the Board, and has a patent review filed after litigation efforts have commenced. Alternatively, broadly making the practice available would create burdens on the Office in administering the trials and in completing the trial within the established timeframe, particularly if the selected practitioner does not have the requisite skill. In weighing the desirability of admitting a practitioner *pro hac vice*, the economic impact on the party in interest would be considered which would tend to increase the likelihood that a small entity could be represented by a non-registered practitioner. Accordingly, the alternatives to eliminate *pro hac vice* practice or to permit it more broadly would have been inconsistent with the efficient administration of the Office and the integrity of the patent system.

**Default Electronic Filing:** The Office considered a paper filing system and a mandatory electronic filing system (without any exceptions) as alternatives to the proposed requirement that all papers are to be electronically filed, unless otherwise authorized.

Based on the Office's experience, a paper based filing system increases delay in processing papers, delay in public availability, and the chance that a paper may be misplaced or made available to an improper party if confidential. Accordingly, the alternative of a paper based filing system would have been inconsistent with the efficient administration of the Office.

An electronic filing system (without any exceptions) that is rigidly applied would result in unnecessary cost and burdens, particularly where a party lacks the ability to file electronically. By contrast, if the proposed option is adopted, it is expected that the entity size and sophistication would be considered in determining whether alternative filing methods would be authorized.

6. Identification, to the Extent Practicable, of All Relevant Federal Rules Which May Duplicate, Overlap, or Conflict With the Proposed Rules:

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37 CFR 1.99 provides for the submission of information after publication of a patent application during examination by third parties.

37 CFR 1.171-1.179 provide for applications to reissue a patent to

correct errors, including where a claim in a patent is overly broad.

37 CFR 1.291 provides for the protest against the issuance of a patent during examination.

37 CFR 1.321 provides for the disclaimer of a claim by a patentee.

37 CFR 1.501 and 1.502 provide for ex parte reexamination of patents. Under these rules, a person may submit to the Office prior art consisting of patents or printed publications that are pertinent to the patentability of any claim of a patent, and request reexamination of any claim in the patent on the basis of the cited prior art patents or printed publications. Consistent with 35 U.S.C. 302-307, ex parte reexamination rules provide a different threshold for initiation, require the proceeding to be conducted by an examiner with a right of appeal to the Patent Trial and Appeal Board, and allow for limited participation by third parties.

37 CFR 1.902-1.997 provide for inter partes reexamination of patents. Similar to ex parte reexamination, inter partes reexamination provides a procedure in which a third party may request reexamination of any claim in a patent on the basis of the cited prior art patents and printed publication. The inter partes reexamination practice will be eliminated, except for requests filed before the effective date of September 16, 2012. See § 6(c)(3)(C) of the Leahy-Smith America Invents Act.

Other countries have their own patent laws, and an entity desiring a patent in a particular country must make an application for patent in that country, in accordance with the applicable law. Although the potential for overlap exists internationally, this cannot be avoided except by treaty (such as the Paris Convention for the Protection of Industrial Property, or the Patent Cooperation Treaty (PCT)). Nevertheless, the Office believes that there are no other duplicative or overlapping foreign rules.

C. Executive Order 12866 (Regulatory Planning and Review): This rulemaking has been determined to be significant for purposes of Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

Based on the petition and other filing requirements for initiating a derivation review proceeding, the USPTO estimates the burden of the proposed rules on the public to be \$11,865,210 in fiscal year 2013, which represents the sum of the estimated total annual (hour) respondent cost burden (\$11,844,410) plus the estimated total annual non-hour respondent cost burden (\$20,800) provided in Part O, Section II, of this notice, *infra*.

D. Executive Order 13563 (Improving Regulation and Regulatory Review): The Office has complied with Executive Order 13563. Specifically, the Office has to the extent feasible and applicable: (1) Made a reasoned determination that the benefits justify the costs of the rule; (2) tailored the rule to impose the least burden on society consistent with obtaining the regulatory objectives; (3) selected a regulatory approach that maximizes net benefits; (4) specified performance objectives; (5) identified and assessed available alternatives; (6) involved the public in an open exchange of information and perspectives among experts in relevant disciplines, affected stakeholders in the private sector, and the public as a whole, and provided online access to the rulemaking docket; (7) attempted to promote coordination, simplification, and harmonization across government agencies and identified goals designed to promote innovation; (8) considered approaches that reduce burdens and maintain flexibility and freedom of choice for the public; and (9) ensured the

objectivity of scientific and technological information and processes.

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E. Executive Order 13132 (Federalism): This rulemaking does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment under Executive Order 13132 (Aug. 4, 1999).

F. Executive Order 13175 (Tribal Consultation): This rulemaking will not: (1) Have substantial direct effects on one or more Indian tribes; (2) impose substantial direct compliance costs on Indian tribal governments; or (3) preempt tribal law. Therefore, a tribal summary impact statement is not required under Executive Order 13175 (Nov. 6, 2000).

G. Executive Order 13211 (Energy Effects): This rulemaking is not a significant energy action under Executive Order 13211 because this rulemaking is not likely to have a significant adverse effect on the supply, distribution, or use of energy. Therefore, a Statement of Energy Effects is not required under Executive Order 13211 (May 18, 2001).

H. Executive Order 12988 (Civil Justice Reform): This rulemaking meets applicable standards to minimize litigation, eliminate ambiguity, and reduce burden as set forth in sections 3(a) and 3(b)(2) of Executive Order 12988 (Feb. 5, 1996).

I. Executive Order 13045 (Protection of Children): This rulemaking does not concern an environmental risk to health or safety that may disproportionately affect children under Executive Order 13045 (Apr. 21, 1997).

J. Executive Order 12630 (Taking of Private Property): This rulemaking will not effect a taking of private property or otherwise have taking implications under Executive Order 12630 (Mar. 15, 1988).

K. Congressional Review Act: Under the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801-808), prior to issuing any final rule, the United States Patent and Trademark Office will submit a report containing the final rule and other required information to the U.S. Senate, the U.S. House of Representatives, and the Comptroller General of the Government Accountability Office. The changes in this notice are not expected to result in an annual effect on the economy of 100 million dollars or more, a major increase in costs or prices, or significant adverse effects on competition, employment, investment, productivity, innovation, or the ability of United States-based enterprises to compete with foreign based enterprises in domestic and export markets. Therefore, this notice is not expected to result in a "major rule" as defined in 5 U.S.C. 804(2).

L. Unfunded Mandates Reform Act of 1995: The changes proposed in this notice do not involve a Federal intergovernmental mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, of 100 million dollars (as adjusted) or more in any

one year, or a Federal private sector mandate that will result in the expenditure by the private sector of 100 million dollars (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, no actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995. See 2 U.S.C. 1501-1571.

M. National Environmental Policy Act: This rulemaking will not have any effect on the quality of the environment and is thus categorically excluded from review under the National Environmental Policy Act of 1969. See 42 U.S.C. 4321-4370h.

N. National Technology Transfer and Advancement Act: The requirements of section 12(d) of the National Technology Transfer and

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Advancement Act of 1995 (15 U.S.C. 272 note) are not applicable because this rulemaking does not contain provisions which involve the use of technical standards.

O. Paperwork Reduction Act: The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549) requires that the USPTO consider the impact of paperwork and other information collection burdens imposed on the public. This proposed rulemaking involves information collection requirements which are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549). The collection of information involved in this notice has been submitted to OMB under OMB control number 0651-00xx. In the Notice "Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions," RIN 0651-AC70, the information collection for all of the new trials authorized by the Leahy-Smith America Invents Act were provided. This notice also provides the subset of burden created by the derivation provisions. The proposed collection will be available at the OMB's Information Collection Review Web site ([www.reginfo.gov/public/do/PRAMain](http://www.reginfo.gov/public/do/PRAMain)).

The USPTO is submitting the information collection to OMB for its review and approval because this notice of proposed rulemaking will add the following to a collection of information:

- (1) Petitions to institute a derivation proceeding (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(4), 42.63, 42.65, and 42.402 through 42.406);
- (2) Motions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, and 42.65);
- (3) Oppositions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, and 42.65); and
- (4) Replies (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65).

The proposed rules also permit filing requests for oral argument (§ 42.70), requests for rehearing (§ 42.71(c)), requests for adverse judgment (§ 42.73(b)), requests that a settlement be treated as business confidential (§ 42.74(b) and 42.409), and arbitration agreements and awards (§ 42.410) to a collection of information.

I. Abstract: The USPTO is required by 35 U.S.C. 131 and 151 to examine applications and, when appropriate, issue applications as

patents.

35 U.S.C. 135 in effect on March 16, 2013, will provide for petitions to institute a derivation proceeding at the USPTO for certain applications. The new rules for initiating and conducting these proceedings are proposed in this notice as a new subpart E of new part 42 of title 37 of the Code of Federal Regulations.

In estimating the number of hours necessary for preparing a petition to institute a derivation proceeding, the USPTO considered the estimated cost of preparing a request for inter partes reexamination (\$46,000), the median billing rate (\$340/hour), and the observation that the cost of inter partes reexamination has risen the fastest of all litigation costs since 2009 in the AIPLA Report of the Economic Survey 2011. It was estimated that a petition for an inter partes review and an inter partes reexamination request would cost the same to the preparing party (\$46,000). The cost of preparing a petition for post-grant or covered business method patent review is estimated to be 33.333% higher than that cost of preparing an inter partes review petition because the petition for post-grant or covered business method patent review may seek to institute a proceeding on additional grounds such as subject matter eligibility. It is expected that petitions for derivation will have the same complexity and cost as a petition for post-grant review because derivation proceedings raise issues of communication, which have similar complexity to the public use and sale and written description issues that can be raised in a post-grant review. Thus, the Office estimates that the cost of preparing a petition for derivation will be \$61,333.

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In estimating the number of hours necessary for preparing motions after instituting and participating in the review, the USPTO considered the AIPLA Report of the Economic Survey 2011 which reported the average cost of a party to a two-party interference to the end of the preliminary motion phase (\$322,000) and inclusive of all costs (\$631,000). The preliminary motion phase is a good proxy for patentability reviews since that is the period of current contested cases before the trial section of the Board where most patentability motions are currently filed.

The USPTO also reviewed recent contested cases before the trial section of the Board to collect data on the average number of motions for any matter including priority, the subset of those motions directed to non-priority issues, the subset of those motions directed to non-priority patentability issues, and the subset of those motions directed to patentability issues based on a patent or printed publication on the basis of 35 U.S.C. 102 or 103. The review of current contested cases before the trial section of the Board indicated that approximately 15% of motions were directed to prior art grounds, 18% of motions were directed to other patentability grounds, 27% were directed to miscellaneous issues, and 40% were directed to priority issues. It was estimated that the cost per motion to a party in current contested cases before the trial section of the Board declines because of overlap in subject matter, expert overlap, and familiarity with the technical subject matter. Given the overlap of subject matter, a proceeding with fewer motions will have a somewhat less than proportional decrease in costs since the overlapping costs will be spread over fewer motions.

Derivations will be more like current contested cases before the trial section of the Board inasmuch as they may have a period which

sets the stage for determining derivation and a derivation period. One half of derivations are anticipated to end in the preliminary motion period, while the other half are anticipated to proceed to decision on derivation. While it is recognized that fewer than half of all current contested cases before the trial section of the Board proceed to a priority decision, derivation contests are often more protracted than other current contested cases before the trial section of the Board. The costs associated with derivations through the preliminary motion period and through the derivation period should be comparable to the corresponding costs of current contested cases before the trial section of the Board.

The title, description, and respondent description of the information collection are shown below with an estimate of the annual reporting burdens. Included in this estimate is the time for reviewing instructions, gathering and maintaining the data needed, and completing and reviewing the collection of information. The principal impact of the proposed changes in this notice of proposed rulemaking is to implement the changes to Office practice necessitated by § 3(i) of the Leahy-Smith America Invents Act.

The public uses this information collection to request review and derivation proceedings and to ensure that the associated fees and documentation are submitted to the USPTO.

## II. Data

**Needs and Uses:** The information supplied to the USPTO by a petition to institute a derivation proceeding as well as the motions authorized following the institution is used by the USPTO to determine whether to initiate a derivation proceeding under 35 U.S.C. 135, as amended, and to prepare a final decision under 35 U.S.C. 135, as amended.

OMB Number: 0651-00xx.

Title: Patent Review and Derivation Proceedings.

Form Numbers: None.

Type of Review: New Collection.

Likely Respondents/Affected Public: Individuals or households, businesses or other for profit, not-for-profit institutions, farms, Federal Government, and state, local, or tribal governments.

Estimated Number of Respondents/Frequency of Collection: 100

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respondents and 288 responses per year.

**Estimated Time per Response:** The USPTO estimates that it will take the public from 0.1 to 180.4 hours to gather the necessary information, prepare the documents, and submit the information to the USPTO.

**Estimated Total Annual Respondent Burden Hours:** 34,836.5 hours per year.

**Estimated Total Annual (Hour) Respondent Cost Burden:** \$11,844,410 per year. The USPTO expects that the information in this collection will be prepared by attorneys. Using the professional rate of \$340 per hour for attorneys in private firms, the USPTO estimates that the respondent cost burden for this collection will be approximately \$11,844,410 per year (34,836.5 hours per year multiplied by \$340 per hour).

**Estimated Total Annual Non-hour Respondent Cost Burden:** \$20,800 per year. There are no capital start-up or maintenance costs associated with this information collection. However, this collection does have

annual (non-hour) costs in the form of filing fees. There are filing fees associated with petitions for derivation proceedings and for requests to treat a settlement as business confidential. The total fees for this collection are calculated in the accompanying table. The USPTO estimates that the total fees associated with this collection will be approximately \$20,800 per year.

Therefore, the total cost burden in fiscal year 2013 is estimated to be \$11,865,210 (the sum of the estimated total annual (hour) respondent cost burden (\$11,844,410) plus the estimated total annual non-hour respondent cost burden (\$20,800)).

Item	Estimated time for response (hours)	Estimated annual responses	Estimated annual burden hours
Petition for derivation	180.4	50	9,020
Request for Reconsideration	80	5	400
Motions, replies and oppositions in derivation proceeding	120	210	25,200
Request for oral hearing	20	10	200
Request to treat a settlement as business confidential	2	2	4
Request for adverse judgment, default adverse judgment or settlement	1	2	2
Arbitration agreement and award	4	2	8
Request to make a settlement agreement available	1	2	2
Notice of judicial review of a Board decision (e.g., notice of appeal under 35 U.S.C. 142)	0.1	5	.5
Totals		288	34,836.5

Item	Estimated annual responses	Fee amount	Estimated annual filing costs
Petition for derivation	50	\$400	\$20,000
Request for Reconsideration	5	0	0
Motions, replies and oppositions in derivation proceeding	210	0	0
Request for Oral Hearing	20	10	200

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Request to treat a settlement as business confidential	2	0	0
Request for adverse judgment, default adverse judgment	2	0	0

or settlement			
Arbitration agreement and awards	2	0	0
Request to make a settlement agreement available	2	400	800
Notice of judicial review of a Board decision (e.g., notice of appeal under 35 U.S.C. 142)	5	0	0
Totals	288		20,800

### III. Solicitation

The agency is soliciting comments to: (1) Evaluate whether the proposed information requirement is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (2) evaluate the accuracy of the agency's estimate of the burden; (3) enhance the quality, utility, and clarity of the information to be collected; and (4) minimize the burden of collecting the information on those who are to respond, including by using appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology.

Interested persons are requested to send comments regarding this information collection by April 10, 2012, to: (1) The Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10202, 725 17th Street NW., Washington, DC 20503, Attention: Nicholas A. Fraser, the Desk Officer for the United States Patent and Trademark Office, and via email at [nfraser@omb.eop.gov](mailto:nfraser@omb.eop.gov); and (2) The Board of Patent Appeals and Interferences by electronic mail message over the Internet addressed to [derivation@uspto.gov](mailto:derivation@uspto.gov), or by mail addressed to: Mail Stop Patent Board, Director of the United States Patent and Trademark Office, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of "Lead Judge Michael Tierney, Derivation Proposed Rules."

Notwithstanding any other provision of law, no person is required to respond to nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB control number.

#### List of Subjects in 37 CFR Part 42

Administrative practice and procedure, Inventions and patents, Lawyers.

#### Proposed Amendments to the Regulatory Text

For the reasons stated in the preamble, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office propose to amend 37 CFR part 42 as proposed to be added in the February 9, 2012, issue of the Federal Register as follows:

#### PART 42 - TRIAL PRACTICE BEFORE THE PATENT TRIAL AND APPEAL BOARD

1. The authority citation for 37 CFR part 42 continues to read as follows:

Authority: 35 U.S.C. (2) (b) (2), 6, 21, 23, 41, 135, 311, 312,



316, 321-326 and Leahy-Smith America Invents Act, Pub. L. 112-29, sections 6(c), 6(f) and 18, 125 Stat. 284, 304, 311, and 329 (2011).

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2. A new subpart E is added to read as follows:

Subpart E - Derivation

General

§

- 42.400 Procedure; pendency.
- 42.401 Definitions.
- 42.402 Who may file a petition for a derivation proceeding.
- 42.403 Time for filing.
- 42.404 Derivation fee.
- 42.405 Content of petition.
- 42.406 Service of petition.
- 42.407 Filing date.

Instituting Derivation Proceeding

- 42.408 Institution of derivation proceeding.

After Institution of Derivation Proceeding

- 42.409 Settlement agreements.
- 42.410 Arbitration.
- 42.411 Common interests in the invention.
- 42.412 Public availability of Board records.

Subpart E - Derivation

General

§ 42.400 Procedure; pendency

(a) A derivation proceeding is a trial subject to the procedures set forth in subpart A of this part.

(b) The Board may for good cause authorize or direct the parties to address patentability issues that arise in the course of the derivation proceeding.

§ 42.401 Definitions.

In addition to the definitions in § 42.2, the following additional definitions apply to proceedings under this subpart:

Agreement or understanding under 35 U.S.C. 135(e) means settlement for the purposes of § 42.74.

Applicant includes a reissue applicant.

Application includes both an application for an original patent and an application for a reissued patent.

Petitioner means a patent applicant who petitions for a determination that another party named in an earlier-filed patent application allegedly derived a claimed invention from an inventor named in the petitioner's application and filed the earlier application

without authorization.

Respondent means a party other than the petitioner.

§ 42.402 Who may file a petition for a derivation proceeding.

An applicant for patent may file a petition to institute a derivation proceeding in the Office.

§ 42.403 Time for filing.

A petition for a derivation proceeding must be filed within one year after the first publication of a claim to an invention that is the same or substantially the same as the earlier application's claim to

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the allegedly derived invention.

§ 42.404 Derivation fee.

(a) A derivation fee set forth in § 42.15(c) must accompany the petition.

(b) No filing date will be accorded to the petition until payment is complete.

§ 42.405 Content of petition.

(a) Grounds for standing. The petition must:

(1) Demonstrate compliance with §§ 42.402 and 42.403; and

(2) Show that the petitioner has at least one claim that is:

(i) The same or substantially the same as the respondent's claimed invention; and

(ii) Not patentably distinct from the invention disclosed to the respondent.

(b) In addition to the requirements of §§ 42.8 and 42.22, the petition must:

(1) Provide sufficient information to identify the application or patent for which the petitioner seeks a derivation proceeding;

(2) Demonstrate that an invention was derived from an inventor named in the petitioner's application and, without authorization, the earliest application claiming such invention was filed; and

(3) For each of the respondent's claims to the derived invention,

(i) Show why the claimed invention is not patentably distinct from the invention disclosed to the respondent, and

(ii) Identify how the claim is to be construed. Where the claim to be construed contains a means-plus-function or step-plus-function limitation as permitted under 35 U.S.C. 112, sixth paragraph, the construction of the claim must identify the specific portions of the specification that describe the structure, material, or acts corresponding to each claimed function.

(c) Sufficiency of showing. A derivation showing is not sufficient unless it is supported by substantial evidence, including at least one affidavit addressing communication of the derived invention and lack of authorization that, if unrebutted, would support a determination of derivation. The showing of communication must be corroborated.

§ 42.406 Service of petition.

In addition to the requirements of § 42.6, the petitioner must serve the petition and exhibits relied upon in the petition as follows:

(a) The petition and supporting evidence must be served at the correspondence address of record for the earlier application. The petitioner may additionally serve the petition and supporting evidence on the respondent at any other address known to the petitioner as likely to effect service.

(b) If the petitioner cannot effect service of the petition and supporting evidence at the correspondence address of record for the subject application or patent, the petitioner must immediately contact the Board to discuss alternate modes of service.

§ 42.407 Filing date.

(a) Complete petition. A petition to institute a derivation proceeding will not be accorded a filing date until the petition satisfies all of the following requirements:

(1) Complies with § 42.405,

(2) Service of the petition on the correspondence address of record as provided in § 42.406, and

(3) Is accompanied by the fee to institute required in § 42.15(c).

(b) Incomplete request. Where the petitioner files an incomplete request, no filing date will be accorded, and the Office will dismiss the request if the deficiency in the request is not corrected within

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the earlier of either one month from notice of the incomplete request, or the expiration of the statutory deadline in which to file a petition for derivation.

Instituting Derivation Proceeding

§ 42.408 Institution of derivation proceeding.

(a) An administrative patent judge institutes, and may as necessary reinstitute, the derivation proceeding on behalf of the Director.

(b) Additional derivation proceeding. The petitioner may suggest the addition of a patent or application to the derivation proceeding. The suggestion should make the showings required under § 42.405 of this part and explain why the suggestion could not have been made in the original petition.

After Institution of Derivation Proceeding

§ 42.409 Settlement agreements.

An agreement or understanding under 35 U.S.C. 135(e) is a settlement for the purposes of § 42.74.

§ 42.410 Arbitration.

(a) Parties may resort to binding arbitration to determine any issue. The Office is not a party to the arbitration. The Board is not bound by, and may independently determine, any question of patentability.

(b) The Board will not set a time for, or otherwise modify the proceeding for, an arbitration unless:

(1) It is to be conducted according to Title 9 of the United States Code;

(2) The parties notify the Board in writing of their intention to arbitrate;

(3) The agreement to arbitrate:

(i) Is in writing;

(ii) Specifies the issues to be arbitrated;

(iii) Names the arbitrator, or provides a date not more than 30 days after the execution of the agreement for the selection of the arbitrator;

(iv) Provides that the arbitrator's award shall be binding on the parties and that judgment thereon can be entered by the Board;

(v) Provides that a copy of the agreement is filed within 20 days after its execution; and

(vi) provides that the arbitration is completed within the time the Board sets.

(c) The parties are solely responsible for the selection of the arbitrator and the conduct of the arbitration.

(d) The Board may determine issues the arbitration does not resolve.

(e) The Board will not consider the arbitration award unless it:

(1) Is binding on the parties;

(2) Is in writing;

(3) States in a clear and definite manner each issue arbitrated and the disposition of each issue; and

(4) Is filed within 20 days of the date of the award.

(f) Once the award is filed, the parties to the award may not take actions inconsistent with the award. If the award is dispositive of the contested subject matter for a party, the Board may enter judgment as to that party.

§ 42.411 Common interests in the invention.

The Board may decline to institute, or if already instituted the Board may issue judgment in, a derivation proceeding between an

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application and a patent or another application that are commonly owned.

§ 42.412 Public availability of Board records

(a) Publication-(1) Generally. Any Board decision is available for public inspection without a party's permission if rendered in a file open to the public pursuant to § 1.11 of this chapter or in an application that has been published in accordance with §§ 1.211 to 1.221 of this chapter. The Office may independently publish any Board decision that is available for public inspection.

(2) Determination of special circumstances. Any Board decision not publishable under paragraph (a) (1) of this section may be published or made available for public inspection if the Director believes that special circumstances warrant publication and a party does not petition within two months after being notified of the intention to make the decision public, objecting in writing on the ground that the decision

discloses the objecting party's trade secret or other confidential information and stating with specificity that such information is not otherwise publicly available.

(b) Record of proceeding. (1) The record of a Board proceeding is available to the public, unless a patent application not otherwise available to the public is involved.

(2) Notwithstanding paragraph (b)(1) of this section, after a final Board decision in or judgment in a Board proceeding, the record of the Board proceeding will be made available to the public if any involved file is or becomes open to the public under § 1.11 of this title or an involved application is or becomes published under §§ 1.211 to 1.221 of this chapter.

January 31, 2012

DAVID J. KAPPOS  
Under Secretary of Commerce for Intellectual Property and  
Director of the United States Patent and Trademark Office