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: Final rule.

SUMMARY: The United States Patent and Trademark Office (Office or USPTO) is revising the rules of practice to implement the provisions of the Leahy-Smith America Invents Act (AIA) that create a new derivation proceeding to be conducted before the Patent Trial and Appeal Board (Board). These provisions of the AIA 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 AIA.

DATES: *Effective Date:* The changes in this final rule take effect on March 16, 2013.

FOR FURTHER INFORMATION CONTACT: Michael P. Tierney, Lead Administrative Patent Judge; Sally G. Lane, Administrative Patent Judge; Sally C. Medley, Administrative Patent Judge; Richard Torczon, Administrative Patent Judge; and Joni Y. Chang, Administrative Patent Judge, Board of Patent Appeals and Interferences, (will be renamed as Patent Trial and Appeal Board on September 16, 2012), by telephone at (571) 272–9797.

SUPPLEMENTARY INFORMATION:

Executive Summary: Purpose: On September 16, 2011, the AIA was enacted into law (Pub. L. 112–29, 125 Stat. 284 (2011)). The purpose of the AIA and these regulations is to establish a more efficient and streamlined patent system. The preamble of this notice sets forth in detail the procedures by which the Board will conduct new administrative proceedings called derivation proceedings. 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 an 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 a derivation proceeding conducted by the Board. This final rule provides a set of rules relating to Board trial practice for derivation proceedings.

Summary of Major Provisions: Consistent with section 3 of the AIA, this final rule sets forth: (1) The requirements for a petition to institute a derivation proceeding; (2) the standards for showing of sufficient grounds to institute a derivation proceeding; (3) the standards for instituting a derivation proceeding; (4) the standards and procedures for conducting a derivation proceeding; and (5) the procedures for arbitration and settlement (subpart E of 37 CFR part 42).

Costs and Benefits: This rulemaking is *not* economically significant, but is significant, under Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

Background: To implement the changes set forth in sections 3, 6, 7, and 18 of the AIA that are related to administrative trials and judicial review of Board decisions, the Office published the following notices of proposed rulemaking: (1) *Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,* 77 FR 6879 (Feb. 9, 2012), to provide a consolidated set of rules relating to Board trial practice for *inter partes* review, post-grant review, derivation proceedings, and the transitional program for covered business method patents, and judicial review of Board decisions by adding new parts 42 and 90 including a new subpart A to title 37 of the Code of Federal Regulations (RIN 0651–AC70); (2) *Changes to Implement Inter Partes Review Proceedings,* 77 FR 7041 (Feb. 10, 2012), to provide rules specific to *inter partes* review by adding a new subpart B to 37 CFR part 42 (RIN 0651–AC71); (3) *Changes to Implement Post-Grant Review Proceedings,* 77 FR 7060 (Feb. 10, 2012), to provide rules specific to post-grant review by adding a new subpart C to 37 CFR part 42 (RIN 0651–AC72); (4) *Changes to Implement Transitional Program for Covered Business Method Patents,* 77 FR 7080 (Feb. 10, 2012), to provide rules specific to the transitional program for covered business method patents by adding a new subpart D to 37 CFR part 42 (RIN 0651–AC73); (5) *Transitional Program for Covered Business Method Patents—Definition of Technological Invention,* 77 FR 7095 (Feb. 10, 2012), to add a new rule that sets forth the definition of technological invention for determining whether a patent is for a technological invention solely for purposes of the transitional program for covered business method patents (RIN 0651–AC75); and (6) *Changes to Implement Derivation Proceedings,* 77 FR 7028 (Feb. 10, 2012), to provide rules specific to derivation proceedings by adding a new subpart E to 37 CFR part 42 (RIN 0651–AC74).

Additionally, the Office published a Patent Trial Practice Guide for the proposed rules in the **Federal Register** to provide the public an opportunity to comment. *Practice Guide for Proposed Trial Rules,* 77 FR 6868 (Feb. 9, 2012) (Request for Comments) (''Practice Guide'' or ''Office Patent Trial Practice Guide''). The Office also hosted a series of public educational roadshows, across the country, regarding the proposed rules for the implementation of AIA.

In response to the notices of proposed rulemaking and the Office Patent Trial Practice Guide notice, the Office received 251 submissions offering written comments from intellectual property organizations, businesses, law firms, patent practitioners, and individuals. The comments provided support for, opposition to, and diverse recommendations on the proposed rules. The Office appreciates the thoughtful comments, and has considered and analyzed the comments thoroughly. The Office's responses to the comments are provided in the Response to Comments section, *infra,* in the 83 separate responses based on the topics concerning derivation raised in the 251 comments received.

In light of the comments, the Office has made appropriate modifications to the proposed rules to provide clarity and to take into account the interests of the public, patent owners, patent challengers, and other interested parties, with the statutory requirements and considerations, such as the effect of the regulations on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the proceedings timely. The Office has decided to proceed with several separate final rules to implement the changes set forth in sections 3, 6, 7, and 18 of the AIA that are related to administrative trials and judicial review of Board decisions. This final rule adopts the proposed changes, with modifications, set forth in the *Changes to Implement Derivation Proceedings* (77 FR 7028).

Differences Between the Final Rule and the Proposed Rule

The major differences between the rules as adopted in this final rule and the proposed rules are as follows:

The final rule clarifies that the phrase ''same or substantially the same

invention'' means patentably indistinct (§ 42.401). The final rule also clarifies that the phrase ''the first publication'' means either a patent or an application publication under 35 U.S.C. 122(b), including a publication of an international application designating the United States as provided by 35 U.S.C. 374.

To follow closely the statutory language in 35 U.S.C. 135(a), as amended, the final rule clarifies that a petition for a derivation proceeding must be filed within the one-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the earlier application's claim to the allegedly derived invention (§ 42.403).

As to the content of the petition, the final rule clarifies the petition must show that the petitioner has at least one claim that is the same or substantially the same as the invention disclosed to the respondent (§ 42.405(a)(2)(ii)). The final rule also clarifies that the petition must demonstrate that the inventor from whom the claimed invention was allegedly derived did not authorize the filing of the earlier application claiming the derived invention (§ 42.405(b)(2)). Further, the final rule clarifies that the petition must show why the respondent's claimed invention is the same or substantially the same as the invention disclosed to the respondent (§ 42.405(b)(3)(i)).

As to mode of service, the final rule eliminates the requirement that the petitioner must contact the Board to discuss alternate modes of service when the petitioner cannot effect service of the petition and supporting evidence (§ 42.406(b)). Instead, the final rule clarifies that: (1) Upon agreement of the parties, service may be made electronically; (2) personal service is not required; and (3) service may be by EXPRESS MAIL® or by means at least as fast and reliable as EXPRESS MAIL® (§ 42.406(b)).

Discussion of Relevant Provisions of the AIA

Section 3(i) of the AIA 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 filing a petition and fee timely.

In particular, 35 U.S.C. 135(a), as amended, provides that an applicant for patent may file a petition to institute a derivation proceeding in the Office. As amended, 35 U.S.C. 135(a) provides 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. 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. As amended, 35 U.S.C. 135(a) further provides 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 institute a derivation proceeding is final and nonappealable. A derivation is unlikely to be instituted, 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).

As amended, 35 U.S.C. 135(b) provides that, once a derivation proceeding is instituted, the 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. As amended, 35 U.S.C. 135(b) also provides that the 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.

As amended, 35 U.S.C. 135(c) provides that the 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. That section further provides that the Board also may defer action on a petition for a derivation proceeding or stay the proceeding after it has been instituted until the termination of a proceeding under chapter 30, 31, or 32 involving the patent of the earlier applicant.

As amended, 35 U.S.C. 135(d) provides 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 patent constitutes cancellation of the claims, if no appeal or other review of the decision has been taken or had. As amended, 35 U.S.C. 135(d) provides that a notice of such claim cancellation must be endorsed on the patent.

Section 3(i) of the AIA further adds two new provisions, 35 U.S.C. 135(e) and (f). New paragraph (e) of 35 U.S.C. 135 provides 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. Moreover, 35 U.S.C. 135(e) provides that the Board must take action consistent with the agreement, unless the Board finds the agreement to be inconsistent with the evidence of record. Further, 35 U.S.C. 135(e) provides 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 allows the parties to a derivation proceeding to determine the contest, or any aspect thereof, by arbitration within a time specified by the Director, and provides 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. Further, 35 U.S.C. 135(f) provides 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 delegates the authority to the Board to resolve patentability issues that arise during derivation proceedings when there is good cause to do so.

Discussion of Specific Rules

This final rule provides new rules to implement the provisions of the AIA for instituting and conducting derivation proceedings before the Board. As amended, 35 U.S.C. 135(b) provides that the Director will prescribe regulations setting forth standards for the conduct of derivation proceedings. This final rule adds a new subpart E to 37 CFR part 42 to provide rules specific to derivation proceedings.

Additionally, the Office in a separate final rule has added part 42, including subpart A (RIN 0651–AC70), that includes a consolidated set of rules relating to Board trial practice. More specifically, subpart A of part 42 sets forth the policies, practices, and definitions common to all trial proceedings before the Board. The rules adopted in this final rule and discussion below reference the rules in subpart A of part 42. Furthermore, the Office in other separate final rules adds a new subpart B to 37 CFR part 42 to provide rules specific to *inter partes* review, a new subpart C to 37 CFR part 42 to provide rules specific to post-grant review, and a new subpart D to 37 CFR part 42 to provide rules specific to transitional program covered business method patents (RIN 0651–AC71 and RIN 0651–AC75).

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

Section 42.400: Section 42.400 sets forth policy considerations for derivation proceedings.

Section 42.400(a) provides that a derivation proceeding is a trial and subject to the rules set forth in subpart A.

Section 42.400(b) delegates to the Board the Director's authority to resolve patentability issues when there is good cause to 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: Section 42.401 sets forth definitions specific to derivation proceedings, in addition to definitions set forth in § 42.2 of this part.

Definitions:

Agreement or *understanding under 35 U.S.C. 135(e):* The definition reflects the terminology used in 35 U.S.C. 135(e) to describe a settlement between parties to a derivation proceeding.

Applicant: The definition makes it clear that reissue applicants are considered applicants, and not patentees, for purposes of a derivation proceeding.

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

The first publication: The definition makes it clear that the phrase means either a patent or an application publication under 35 U.S.C. 122(b), including a publication of an international application designating the United States as provided by 35 U.S.C. 374.

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

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

Same or substantially the same invention: The definition makes it clear that the phrase means patentably indistinct.

Section 42.402: Section 42.402 provides who may file a petition for a derivation proceeding.

Section 42.403: Section 42.403 provides that a petition for a derivation proceeding must be filed within the one-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the respondent's earlier application's claim to the invention. Such publication may be the publication by the USPTO of an application for patent or by the World Intellectual Property Organization (WIPO) of an international application designating the United States. As amended, 35 U.S.C. 135(a) provides 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 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: Section 42.404 provides 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: Section 42.405 identifies the content of a petition to institute a derivation proceeding. The rule is consistent with 35 U.S.C. 135(b), as amended, which authorizes 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.

Section 42.405(a) requires a petition to demonstrate that the petitioner has standing. To establish standing, a petitioner, at a minimum, must timely file a petition that shows that at least one claim of the petitioner's application is the same or substantially the same as the respondent's claimed invention and as the invention disclosed to the respondent by the inventor in the petitioner's application. This requirement ensures that a party has standing to file the petition and helps prevent spuriously instituted derivation proceedings. This 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 by participating in the patent system. Facially improper standing would be a basis for denying the petition without proceeding to the merits of the decision.

Section 42.405(b) requires 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 that the inventor named in the petitioner's application did not authorize the filing of the earliest application claiming the derived invention. The petitioner must further show why the claim is the same or substantially the same as 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(f), 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 rule provides an efficient means for identifying the legal and factual basis supporting a *prima facie* case of relief and provides the opponent with a minimum level of notice as to the basis for the allegations of derivation.

Section 42.405(c) provides 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: Section 42.406 provides requirements for the service of a petition in addition to the requirements set forth in § 42.6(e).

Section 42.406(a) requires that the petitioner serve the respondent at the correspondence address of record. A petitioner 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 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.

Section 42.407: Section 42.407(a) provides requirements for a complete petition. As amended, 35 U.S.C. 135(b) provides that the Director establish regulations concerning the standards for the conduct of derivation proceedings. Further, 35 U.S.C. 135(a), as amended, provides 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 the statute, the rule requires 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.

Section 42.407(b) provides petitioners a one-month time frame to correct defective petitions 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 will review the petitions for procedural compliance. Where a procedural defect is noted, *e.g.,* failure to state the claims being challenged, the Board will notify the petitioner that the petition was incomplete and identify any non-compliance issues.

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

Section 42.409: Section 42.409 makes 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: Section 42.410 provides for arbitration of derivation proceedings. Section 42.410(a) provides 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 rule is consistent with 35 U.S.C. 135(f) because it permits arbitration, but does not displace the Office from determining issues of patentability during the course of the proceeding. Section 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: Section 42.411 provides 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, such as requesting the Board to resolve an inventorship dispute within the same company. The rule is 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: Section 42.412 provides for public availability of Board records.

Response to Comments

The Office received 251 written submissions of comments from intellectual property organizations, businesses, law firms, patent practitioners, and individuals. The comments provided support for, opposition to, and diverse recommendations on the proposed rules. The Office appreciates the thoughtful comments, and has considered and analyzed the comments thoroughly. The Office's responses to the comments that are directed to the consolidated set of rules relating to Board trial practice and judicial review of Board decisions are provided in a separate final rule (RIN 0651–AC70). In addition, the Office's responses to comments that are directed to *inter partes* review proceedings (77 FR 7041), post-grant review proceedings (77 FR 7060), and transitional post-grant review proceedings for covered business method patents (77 FR 7080) are provided in another separate final rule (RIN 0651–AC71), and the Office's responses to the comments that are directed to the definitions of the terms ''covered business method patent'' and ''technological invention'' are provided in a third separate final rule (RIN 0651–AC75).

The Office's responses to comments that are directed to derivation proceedings (77 FR 7028) are provided as follows:

Procedure; pendency (§ 42.400)

Comment 1: One comment suggested that the use of the word ''proceeding'' in the proposed derivation rules is in conflict with how ''proceeding'' is defined in proposed § 42.2. As such, the suggestion is for § 42.400(b) to reference the ''trial'' and not the ''proceeding'' or to separately define the term ''derivation proceeding'' to exclude any preliminary proceeding.

Response: Section 42.2 defines ''proceeding'' as a trial or a preliminary proceeding. The term ''derivation proceeding'' includes a preliminary proceeding or a trial, and thus it is consistent with § 42.2. Redefining the term ''derivation proceeding'' to exclude a preliminary proceeding would result in an inconsistency with § 42.2. There may be, based on the specific facts of a given case, a need to resolve a patentability issue prior to determining whether to institute a derivation proceeding. Thus, to facilitate flexibility, the Office adopts proposed § 42.400(b) without any modifications.

Definitions (§ 42.401)

Comment 2: One comment suggested that the Office define ''substantially the same'' to mean ''not patentably distinct'' or ''mere obvious variants.'' Still another comment suggested that a claim is the ''same or substantially the same'' invention if: (i) the claim recites an invention that would be anticipated by or obvious over the allegedly derived invention; and (ii) the allegedly derived invention would be anticipated by or obvious over the invention defined by that claim. Lastly, one comment suggested providing more guidance as to whether ''substantially the same'' will be evaluated based on the ''two-way

obviousness'' test or some other standard.

Response: Section 42.401, as adopted in this final rule, provides that the ''same or substantially the same means patentably indistinct.'' The final rule makes clear that in determining whether a petitioner has at least one claim that is the same or substantially the same as a respondent's claimed invention (§ 42.405), the petitioner must show that the respondent's claim is anticipated by or obvious over the petitioner's claim.

Comment 3: One comment suggested that the definition of ''respondent'' should clarify that the term means ''the assignee of record or any subsequent legal or equitable owner of the earlier-filed application in a proceeding under 35 U.S.C. 135.'' The comment proposed that such a definition would also clarify that the deadline for filing a petition to institute a derivation proceeding is one year from the earliest publication of the respondent's claim.

Response: Section 42.401 defines ''respondent'' to mean a party other than the petitioner. Section 42.2 defines a ''party,'' such as in a derivation proceeding, as any applicant or assignee of the involved application. Moreover, § 42.8 requires a party involved in a proceeding to identify the real party-in-interest for the party. Lastly, the deadline for filing a petition to institute a derivation proceeding is one year from the first publication of the respondent's claim. Accordingly, the suggestion of setting forth a definition of the term ''respondent'' expressly in the rule is not adopted.

Comment 4: One comment noted that proposed § 42.405(c) requires a derivation showing to be supported by ''at least one affidavit addressing communication of the derived invention.'' The comment suggested that the term ''communication of the derived invention'' should be added to the definitions as ''knowledge of the claimed invention, or at least so much of the claimed invention as would have made it obvious to one of ordinary skill in the art, obtained directly or indirectly from a named inventor, and prior to the filing date, of the earlier-filed patent.''

Response: Section 42.405(b)(3)(i) requires a petitioner to show, for each of the respondent's claims, why the claimed invention is the same or substantially the same as (*i.e.,* patentably indistinct from) the invention disclosed to the respondent. This requirement means that the respondent's claimed invention need not be identical to the invention disclosed to the respondent. Moreover, § 42.405(b)(2) provides that the invention disclosed to the respondent must be disclosed prior to the filing of the ''earlier application.'' The Office agrees that the communication of the invention need not be direct.

Comment 5: One comment suggested that the rule should provide a definition for the phrase ''the first publication of a claim'' to clarify that merely presenting a new claim in an application after it has been published under 35 U.S.C. 122(b) does not constitute the first publication of that new claim. In particular, the comment suggested a definition that specifies that a claim presented in an application or issued in a patent which defines an invention that is patentably distinct from a claim that was earlier published in the corresponding application or patent is the date of the first publication of that patentably distinct claim.

Response: The Office agrees that the first publication of a claim is the publication date of the application published under 35 U.S.C. 122(b) that includes that claim, or the issue date of the patent that includes that claim. Section 42.401, as adopted in this final rule, provides that ''the first publication'' means either a patent or an application publication under 35 U.S.C. 122(b), including a publication of an international application designating the United States as provided by 35 U.S.C. 374. In the situation where an application is published under 35 U.S.C. 122(b) with an originally filed claim and subsequently issued as a patent with a new claim that is patentably distinct from the originally filed claim, the first publication of the new patentably distinct claim is the issue date of the patent. Notably, the first publication of the new patentably distinct claim is not the publication date of the originally filed claim and it is not the date that the new patentably distinct claim is presented in the published application. The Office believes that the examples in the preamble provide sufficient clarity, and additional guidance will be provided to the public as decisions are rendered.

Comment 6: One comment suggested that the definitions should be revised to make clear that a petitioner can seek a derivation proceeding against either a pending application or an issued patent.

Response: Section 42.405(b)(1) provides that a petitioner may request to institute a derivation proceeding against an application or a patent.

Comment 7: One comment suggested adding to the end of the definition for application ''where the application contains or contained at any time a claim that has an effective filing date on or after March 16, 2013, or contains a specific reference under 35 U.S.C. 120, 121, or 365(c) to any patent or application that contains or contained such a claim at any time.''

Response: The suggested language appears to come from section 3(n) of the AIA and would be required by law already.

Who may file a petition for a derivation proceeding (§ 42.402)

Comment 8: One comment suggested that a petition should be granted even when the true inventor has not filed a patent application because the true inventor may misunderstand that his or her invention is a mere modification of the prior art. The comment further suggested that the MPEP should mention that the petition for the derivation proceeding should be granted by filing the latter patent application at the time of filing the petition for the derivation proceeding, even when the true inventor has not filed his or her patent application.

Response: The true inventor must be named in the petitioner's application. Section 3(i) of the AIA amends 35 U.S.C. 135 to provide for derivation proceedings. The statute, among other things, specifies that the petition shall set forth with particularity the basis for finding that an inventor named in an earlier application derived the claimed invention from an inventor named in the petitioner's application. *See* 35 U.S.C. 135(a), as amended. Therefore, the Office will not grant a petition when the true inventor is not named in the petitioner's application.

Time for Filing (§ 42.403)

Comment 9: One comment suggested that the rule on timing for filing should track the literal language of the statute because the proposed rule defines a different period than does the statute (one that does not include the date of first publication).

Response: This comment has been adopted. Section 42.403, as adopted in this final rule, includes that a petition for a derivation proceeding ''must be filed within the one-year period beginning on the date of the first publication.''

Comment 10: Several comments suggested changes to the rules to define or specify what constitutes a ''first publication.'' For example, one comment suggested that public availability of a claim through the Office's PAIR system does not constitute first publication. Still, several comments suggested that ''first publication'' refers not only to U.S. application publication, but also PCT international application publication in English designating the United States, and where an application

has not published, the date of the first publication is the date of the issuance of the patent. Yet another comment suggested incorporating the preamble language from the proposed rules regarding ''first publication'' into the rule. Lastly, one comment suggested that the Office consider a petition process that would allow an applicant to petition for waiver of the rule in the interests of justice in certain exceptional circumstances, *i.e.,* when a deriver's claims are filed in a non-English language country and a subsequently filed PCT application has no translation.

Response: This comment has been adopted in part. Section 42.401, as adopted in this final rule, provides that ''the first publication'' means either a patent or an application publication under 35 U.S.C. 122(b), including a publication of an international application designating the United States as provided by 35 U.S.C. 374. Therefore, the first publication of a claim may be the publication by the USPTO of an application for patent, a U.S. patent, or a WIPO publication of an international application designating the United States. The public availability of a claim through the Office's PAIR system (*e.g.,* a new claim filed in a published application) does not constitute the first publication of a claim, as such publication is not an application publication under 35 U.S.C. 122(b). As to the comments regarding WIPO publication of an international application, 35 U.S.C. 374, as amended, deems a WIPO publication of an international application designating the United States as a publication under 35 U.S.C. 122(b) without any English language requirement. Therefore, the first publication of a claim may be a WIPO publication of an international application designating the United States that is published in a non-English language.

Comment 11: Several comments suggested that the rule make clear that the one-year period is calculated from publication of the respondent's claims, and not publication of the petitioner's claims. One comment suggested that the statute is ambiguous in defining the event that will trigger the one-year statutory bar for filing. Still another comment suggested that the proposed rule in combination with the supplementary information indicates that the window-opening date is the date of first publication by the deriver, but that that is contrary to the statutory language. Lastly, one comment suggested that the rule does not make clear which publication (the earlier or later-filed claim) is meant to trigger the one-year bar date.

Response: The rule is consistent with the language of 35 U.S.C. 135(a), as amended. The preamble of this final rule clarifies that the one-year period is calculated from publication of the respondent's claim. The statute's use of the phrase ''a claim'' is ambiguous. The Office recognizes that if the phrase is interpreted to 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. The Office believes that the Congress did not intend to prevent a true inventor from seeking a derivation proceeding in such situation. To resolve the ambiguity in the statute, the Office interprets the statute to mean that the trigger for the deadline is publication of the respondent's claim. This interpretation is reasonable, as the identified problems may be avoided if the trigger for the deadline is publication of the respondent's claim. Accordingly, the Office's interpretation is consistent with the statute and ensures that the first person to file the application is actually a true inventor.

Comment 12: One comment asked whether the time bar for filing a derivation includes the one-year anniversary date of the date of publication.

Response: The time period for filing a derivation petition includes the one-year anniversary date of the date of publication. For example, if the publication occurs on January 7, 2014, then the petition must be filed before January 8, 2015. If the one-year period expires on a Saturday, Sunday, or Federal holiday within the District of Columbia, the petition may be filed on the next succeeding business day. 35 U.S.C. 21(b). For example, if the publication occurs on July 3, 2014, then the petition must be filed before July 7, 2015 (July 3, 2015, being a Federal holiday; July 4, 2015, being a Saturday; and July 5, 2015, being a Sunday).

Comment 13: One comment suggested that the rules should make it clear whether potentially derived claims that are first presented and published in a continuing application will be deemed to relate back to an initial parent application that was published more than a year before the publication of the case in which the potentially derived claims are presented and published.

Response: Consistent with 35 U.S.C. 135(a), the one-year time period begins on the first publication date of a claim to an invention that is the same or substantially the same as the earlier application's claim to the invention, rather than the publication of a parent application (unless the publication of the parent application contains such a claim).

Comment 14: One comment requested clarification on how the Office intends to treat derivation petitions filed when a petitioner's claim is not otherwise in condition for allowance.

Response: A derivation petition filed in an application that is not otherwise in condition for allowance may be accorded a filing date under § 42.407 and considered timely filed if the petition complies with the statutory and rule requirements. Generally, once the petition has been accorded a filing date, the Office will hold the petition until the petitioner's claim is otherwise in condition for allowance.

Comment 15: One comment requested clarification on what proceedings are available when one application or patent has a post-AIA effective filing date and another party's application or patent has a pre-AIA effective filing date. The comment further requested that the proposed rules be amended by: (i) confirming that the earlier party could seek declaration of an interference, and the latter party could petition for derivation proceedings to be instituted; and (ii) indicating what action the Office would take when both types of proceedings are requested. The comment also recommended that when both types of proceedings are properly requested, the Office initiate the interference proceeding and handle the derivation issues as part of the interference.

Response: The Office appreciates the suggestion that in such situations the Office initiate the interference proceeding and handle the derivation issues as part of the interference. The Office will consider requests for interference proceedings and/or petitions to institute a derivation proceeding in light of the statutory provisions and the facts of the particular case. For instance, if both subject applications have issued as patents and neither is pending before the Office, the Office will not declare an interference, nor institute a derivation proceeding, between two patents. *See* 35 U.S.C. 291. In the situation where the application that has a post-AIA effective filing date is pending before the Office, the applicant of such application may file a petition for a derivation proceeding under 35 U.S.C. 135(a), as amended, if appropriate. *See* § 3(n)(1) of the AIA.

Comment 16: One comment explained that section 3(n) of the AIA is confusing with regard to the ''effective date'' stating ''patent or application'' when referring to the effective date in general,

and ''claim'' when referring to interfering patents. The comment further explained that continuation-in-part patent applications or patents may contain claims that fall on either side of the March 16, 2013 date, and then all claims would not be subject to the provisions of AIA. The comment seeks clarification from the Office.

Response: Under section 3(n)(1) of the AIA, the first-inventor-to-file provisions of the AIA apply to any application that previously contained, or currently contains, a claim that has an effective filing date on or after March 16, 2013. Therefore, the first-inventor-to-file provisions apply to all of the claims in a continuation-in-part application that satisfies that standard. Additional information is provided in a separate rulemaking and guidance notice concerning the first-inventor-to-file provisions. *See e.g., Changes to Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act* (Notice of proposed rulemaking) (RIN 0651–AC77). Additional guidance will also be provided to the public as decisions are rendered and as they become available.

Content of Petition (§ 42.405)

Comment 17: Several comments expressed concern over the language of proposed § 42.405(a)(2)(ii). One comment suggested deleting proposed § 42.405(a)(2)(ii) requiring the ''not patentably distinct'' showing, because the statutory term ''substantially the same'' encompasses the ''not patentably distinct'' term and paragraphs (a)(2)(i) and (a)(2)(ii) of proposed § 42.405 are therefore redundant. The comment further suggested deletion of proposed § 42.405(b)(3)(i) for the same reason. Another comment requested clarification as to whether a patent would be allowed if based on a novel and nonobvious improvement to what was disclosed.

Response: In light of these comments, the Office has modified the proposed rules. Section 42.405, as adopted in this final rule, uses the standard of ''same or substantially the same,'' and § 42.401, as adopted in this final rule, defines ''same or substantially the same'' to mean patentably indistinct. In particular, § 42.405(a)(2)(ii), as adopted in this final rule, requires the petitioner to show that it has a claim that is the same or substantially the same as the invention that was actually disclosed to the respondent. Section 42.405(b)(3)(i), as adopted in this final rule, requires a showing that each of the respondent's claims to the derived invention is the same or substantially the same as the invention that was disclosed to the respondent. Where a respondent's claim is directed to subject matter that is not the same or substantially the same as what was disclosed, there would be insufficient basis upon which to institute a proceeding.

Comment 18: A comment suggested that proposed § 42.405(b) should be revised to require *prima facie* evidence in the form of sworn testimony or other documentary evidence to demonstrate that: (i) Each allegedly derived claimed invention was derived from an inventor named in the petitioner's application; and (ii) the inventor or inventors from whom the allegedly derived claimed invention was derived did not authorize the filing of the earliest-filed application claiming such invention.

Response: The final rule clarifies that a showing must be made that the filing of the earliest filed application claiming the allegedly derived invention was not authorized by the petitioner. *See* § 42.405(b). Documentary evidence alone is not sufficient. As provided in § 42.205(c), at least one affidavit that addresses the communication of the allegedly derived invention and lack of authorization for the respondent to file the earliest-filed application must accompany the petition. Documentary evidence may be sufficient as corroborative evidence depending on the facts of the proceeding.

Comment 19: One comment suggested that the rules should require that the petition disclose the entirety of the petitioner's case and effectively serve as the petitioner's main ''trial brief.''

Response: Petitioners are encouraged to set forth their entire case and supporting evidence in their petitions, lest the petitioner risk a determination by the Board not to institute the derivation proceeding. *See* §§ 42.405 and 42.108(b). For instance, under § 42.405(c), a derivation showing is not sufficient unless it is supported by substantial evidence, including at least one affidavit addressing communication of the allegedly derived invention and lack of authorization that, if unrebutted, would support a determination of derivation. The showing of communication must be corroborated. Requiring such a showing prior to any institution of a proceeding is consistent with the Office's goal of avoiding institution of proceedings that lack merit and additional costs on both a respondent and a petitioner unnecessarily.

Comment 20: Several comments suggested that proposed § 42.405 requires too much detailed information and should only require identification of the basis of the contention and the evidence to support the contention. One comment suggested that the validity of a claim of derivation may be resolved in the derivation proceeding itself and need not be conclusively determined on the face of the petition. Another comment stated that the requirements for a sufficient showing to institute a proceeding seem onerous and that the more onerous burden should lie in proving derivation.

Response: The Office agrees that the ultimate question of whether an invention was derived from the petitioner is decided only after a derivation proceeding is instituted and completed. Further, the Office has taken into account the statutory requirements and the burden on the parties. As amended, 35 U.S.C. 135(a) requires that the petition be supported by substantial evidence and that the petition and evidence demonstrate that the standards for instituting a derivation proceeding are met. The rule is consistent with the statute and the Office's goal of avoiding institution of costly proceedings that lack merit.

Comment 21: Several comments suggested deleting the final sentence of proposed § 42.405(c), because corroboration should only be required after initiation of a derivation proceeding and an opportunity for discovery. One comment suggested expanded discovery for derivations, since the alleged deriver is likely to have information unavailable to the petitioner.

Response: The nature of derivation proceedings requires the Board to make credibility determinations based on the evidence presented. Requiring corroboration at the outset provides a greater likelihood that credible testimony is presented by the petitioner and is consistent with the Office's goal of avoiding institution of costly proceedings that lack merit. This is true even where testimony from someone other than the inventor is presented to support the allegation of derivation. Discovery prior to institution is not provided by the rules as it is the alleged inventor who conceived and communicated the conception of the invention to the alleged deriver and is in the best position to offer testimony or other evidence regarding the conception and communication. Further, it is well settled that an inventor's testimony must be corroborated.

Comment 22: Several comments suggested that requiring the petitioner to offer a proposed claim interpretation is burdensome as the petitioner already has reason to provide claim interpretation where necessary to set forth a sufficient showing, especially as to claim terms at issue.

Response: The Office believes that the petitioner's claim construction requirement is not unduly burdensome and that it will improve the efficiency of the proceeding. In particular, the petitioner's claim construction will help to provide sufficient notice to the respondent regarding what the petitioner believes to have been derived, and will assist the Board in analyzing whether a *prima facie* showing of derivation has been made. During a proceeding, a claim of an application or unexpired patent will be given its broadest reasonable construction in light of the specification of the patent in which it appears. This means that the words of the claim will be given their plain meaning unless the plain meaning is inconsistent with the specification. *In re Zletz,* 893 F.2d 319, 321 (Fed. Cir. 1989). In the absence of a special definition in the specification, a claim term is presumed to take on its ordinary and customary meaning, a meaning that the term would have to a person of ordinary skill in the art. *In re Am. Acad. of Sci. Tech Ctr.,* 367 F.3d 1359, 1364 (Fed. Cir. 2004). Therefore, petitioners are not required to define every claim term, but rather merely provide a statement that the claim terms are presumed to take on their ordinary and customary meaning, and point out any claim term that has a special meaning and the definition in the specification.

Comment 23: One comment suggested that § 42.405 should indicate that its requirements are in addition to those of proposed §§ 42.8 and 42.22 if that is the Office's intent.

Response: The Office notes that proposed § 42.405(b) expressly provides that ''[i]n addition to the requirements of §§ 42.8 and 42.22, the petition must: * * *'' Therefore, the Office assumes that the comment supports the proposed provision and adopts the language without any modification. As such, § 42.405, as adopted in this final rule, expressly provides that the petitioner also must comply with §§ 42.8 and 42.22. § 42.405(b).

Comment 24: One comment suggested that, because derivation requires a showing of earlier conception by the party alleging derivation, the rule should require the petition include at least one affidavit addressing conception, and corroboration of the conception.

Response: Derivation requires both earlier conception by the party alleging derivation as well as communication of the conception. Thus, by requiring demonstration of derivation, the rule necessarily requires a showing of earlier conception as well as corroboration of that earlier conception. § 42.405(c).

Comment 25: Several comments expressed concern about the lack of a ''count'' that defines the derived subject matter or a separate phase that allows for a time to define what is included as derived subject matter and time for dealing with other issues such as inventorship disputes where possible joint inventorship is an issue.

Response: Derivation proceedings are distinct from interferences such that a ''count'' may lead to confusion. In a derivation proceeding, a petitioner must make a showing as to each of the respondent's claims that it believes is derived subject matter. § 42.405(b)(3)(i). Specifically, the petitioner must demonstrate that the respondent acquired knowledge of the claimed invention from the petitioner. Hence, the ''acquired knowledge,'' which the petitioner must define as part of its proof, determines the scope of subject matter that would have been anticipated or obvious from the acquired knowledge. Other issues, such as inventorship issues, can be raised by authorized motion. § 42.20. The Board will set a schedule for the filing of any authorized motions. § 42.25.

Comment 26: Several comments asked for clarification as to a respondent's burden. One comment suggested that the Office should study the possibility of imposing a certain degree of burden of proof on the respondent as well as on the petitioner and should provide examples of what type of evidence is admissible. Another comment asked for examples of what would be sufficient rebuttal evidence under § 42.405(c).

Response: Under the AIA, the first party to file an application to an invention that is otherwise patentable is entitled to the patent. 35 U.S.C. 102. A petitioner seeking to change the status quo by petitioning for a derivation proceeding appropriately is charged with the burden of proof. 35 U.S.C. 135(a), as amended. The showing must be sufficient such that the petitioner would prevail if a respondent did not provide any rebuttal of the showing. A respondent may submit rebuttal evidence in an opposition under § 42.23. Sufficiency of rebuttal evidence will be considered and given appropriate weight on a case-by-case basis after institution of a proceeding.

Comment 27: Several comments suggested that the phrase ''invention disclosed to the respondent'' is undefined. One comment also suggested that standing should be based on the ''claimed invention'' rather than a vague concept of the invention.

Response: In view of the comments, § 42.405(b)(2), as adopted in this final rule, provides ''a claimed invention'' rather than ''an invention.'' The AIA requires that the Board in a derivation proceeding determine whether an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application. 35 U.S.C. 135(a). The AIA also requires that a petitioner provide substantial evidence supporting its allegations of derivation. In instituting a derivation proceeding, the Board is to determine whether a petition meets standards for institution. *Id.* Consistent with the statute, the rules provide that substantial evidence of derivation include a showing that the invention in question was disclosed to the earlier filer, *i.e.,* the respondent. *See* § 42.405. For instance, § 42.405(a)(2) requires that the petition must show that the petitioner's claim is the same or substantially the same as the invention disclosed to the respondent, and that the petitioner's claim is the same or substantially the same as the respondent's claimed invention.

Comment 28: Several comments expressed concern about the corroboration requirement. One comment suggested that the corroboration requirement for the showing of communication is an outdated requirement in a digital age where verification of the authenticity of an electronic communication can be proven by other means than submission of a statement of a purportedly corroborating witness. Another comment asked for examples of sufficient corroboration.

Response: The rule does not limit the form that corroboration must take. In the instance where an inventor has testified that a communication has occurred, it may be appropriate to corroborate the testimony with proof of an electronic communication. The Board expects to consider each situation on a case-by-case basis and to use a ''rule of reason'' in determining whether corroboration is sufficient. For example, communications with the respondent or with the Office, both of which are independent determination of authenticity.

Comment 29: One comment asked for clarification of whether one affidavit addressing communication will be enough to be considered ''substantial evidence'' of derivation, or whether something additional will be required, whether corroboration of communication also must be shown via an affidavit, and whether evidence of a written communication is required.

Response: Under § 42.405(c), 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. Whether a petition makes a sufficient showing of derivation will be decided on a case-by-case basis. The submission of one affidavit addressing the communication and the lack of authorization is a minimum requirement but is not a guarantee that a proceeding will be instituted. The Board will look at the substance and credibility of all of the evidence submitted in determining whether to institute a proceeding. The rules do not require that corroboration be in the form of an affidavit or written communication. The Board expects to apply a ''rule of reason'' when accessing sufficiency of corroboration.

Comment 30: Several comments suggested that a petitioner should not be required to have patentable subject matter in order for a proceeding to be instituted. One noted that various circumstances could make a claim unpatentable to the petitioner, yet patentable to others, such as intervening prior art. Thus, this requirement is contrary to the basic reason for derivations. One comment suggested that proposed § 42.408 should be revised to provide that the Office may act on a petition if either party has an allowable claim to the subject matter at issue or at either or both parties' request, and that a petitioner should be required to update the status of the claims after notice that the Office intends to consider the petition.

Response: Prior to instituting a proceeding that is both costly and time-consuming to the parties and the Office, a determination will be made to ensure that each party is claiming subject matter that is actually patentable but for the potential derivation issue. While ordinarily a derivation will not be instituted when none of petitioner's claims are in condition for allowance, the rule does not preclude institution in such a situation, and each situation will be evaluated on its particular facts. *See* 35 U.S.C. 135(a), as amended.

Comment 31: One comment suggested that proposed § 42.405(a)(2) should be deleted, since requiring a showing that petitioner has at least one claim that is the same or substantially the same as respondent's invention is contrary to the AIA and 35 U.S.C. 135, as amended. Specifically, neither the AIA nor 35 U.S.C. 135 impose any limitations as to the claims in the petitioner's application. In contrast, 35 U.S.C. 291(a) states that ''[t]he owner of a patent may have relief by civil action against the owner of another patent that claims the same invention.'' More specifically, the comment recommended that the Office should not impose a requirement for claiming the same invention in the situation in which Congress expressly did not do so.

Response: As amended, 35 U.S.C. 135(b) requires 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. Further, 35 U.S.C. 135(a), as amended, provides that a petition to institute a derivation proceeding may be filed only within the one-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the allegedly derived invention. Section 42.405(a)(2) applies the same standard as set forth in 35 U.S.C. 135(a): ''the same or substantially the same.'' A petitioner is not required to claim the same invention, since it may have a claim that is substantially the same as the respondent's claimed invention. As discussed in the preamble, § 42.405(a)(2) also ensures that the petitioner has taken steps to obtain patent protection for the same or substantially same invention, thus promoting the useful arts. Therefore, § 42.405(a)(2) is consistent with 35 U.S.C. 135, as amended.

Comment 32: One comment suggested that the Office should not require the petitioner to have at least one claim that is the same or substantially the same as the respondent's claimed invention because this requirement may unfairly deny a petitioner the remedy of cancellation or refusal of a respondent's claim.

Response: As amended, 35 U.S.C. 135(a) requires that a party must be an applicant for a patent as a prerequisite for filing a petition for a derivation proceeding. Under § 42.405(a)(2), a petitioner must show that it has a claim that is both: (1) the same or substantially the same as the respondent's claim; and (2) the same or substantially the same as the invention that was actually disclosed to the respondent. This rule is therefore consistent with the statutory requirement that a petitioner be an applicant for patent.

Comment 33: One comment stated that the proposed rules fail to address various complexities, such as whether the petitioner is required to amend its claims to match the respondent's claims in order to continue the proceeding in the situation where a respondent amends its claim to avoid derivation issues.

Response: Whenever the Board determines that a petition demonstrates that the standards for institution of a derivation proceeding (*e.g.,* the requirements set forth in § 42.405) are met, the Board may institute a derivation proceeding. Each situation will be evaluated on its particular facts. The requirements of §§ 42.405(a) and (b) must be met even where a respondent is an applicant and is in a position to amend the claims.

Comment 34: One comment requested clarification as to whether a lack of authorization must also be corroborated.

Response: Section 42.405(c) requires an affidavit addressing the lack of authorization. While the rule does not specifically require corroboration of the testimony regarding a lack of authorization, testimony is more credible when it is corroborated. Moreover, inventor testimony must be corroborated by independent evidence. The Board plans to use a ''rule of reason'' standard for evaluating whether corroboration of such testimony is sufficient.

Service of Petition (§ 42.406)

Comment 35: One comment suggested that the rule should allow for deferred service of supporting evidence due to trade secret material that may be included.

Response: The rules provide for the protection of confidential information such as trade secrets. In particular, § 42.55 allows a petitioner filing confidential information with a petition to file a concurrent motion to seal with a proposed protective order as to the confidential information. The petitioner may serve the confidential information under seal. The patent owner may only access the sealed confidential information prior to the institution of the trial by agreeing to the terms of the proposed protective order or obtaining relief from the Board. In addition, after denial of a petition to institute a trial or after final judgment in a trial, a party may file a motion to expunge confidential information from the record. § 42.56.

Comment 36: One comment requested clarification regarding the circumstances under which a petitioner will be deemed to have not been able to have effected actual service and suggests service through Express Mail or by means at least as fast and reliable, or by party agreement through facsimile or electronically. The comment also suggested that proposed § 42.406 be rewritten as follows: ''(a) The petition and supporting evidence must be served at the correspondence address of record for the earlier application or subject

patent. 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. Service must be made in accordance with § 42.6(e)(4) in a manner that provides for confirmation of delivery. (b) If the petitioner cannot confirm delivery 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.'' (Emphasis deleted.)

Response: The comment has been adopted. Section 42.406, as adopted in this final rule, expressly provides that, upon agreement of the parties, service may be made electronically, and service may be made by EXPRESS MAIL® or by means at least as fast and reliable as EXPRESS MAIL®. Further, § 42.406, as adopted in this final rule, does not include the requirement for contacting the Board when the petitioner cannot effect service.

Filing Date (§ 42.407)

Comment 37: Several comments suggested that a petitioner be allowed time to cure an incomplete petition. One comment suggested allowing the petitioner one month to complete an incomplete request if the petition was filed at least two months before the statutory deadline. Another comment suggested that the period for correction be changed to the later of one month from the notice of incomplete request or the expiration of the statutory deadline. Another comment further suggested that the proposed rule should be modified to provide that if a petition affords notice sufficient to identify the application with which a derivation proceeding is sought and sufficient to identify the petitioner's application, the petition be accorded a filing date which can be preserved by completing the remaining requirements within one month after notice of the defects and upon payment of a surcharge. One comment suggested a petitioner be given two months from the notice of an incomplete request to cure, even if the statutory deadline would not be met. One comment suggested that the language of proposed § 42.407 should be clarified to provide that a filing date will be accorded a petition for a derivation proceeding provided that all the elements of § 42.407 (and § 42.405) are present in the petition.

Response: The Office may not waive the one-year filing requirement for a derivation petition that is set in 35 U.S.C. 135(a), as amended. The Board generally will accord a filing date and accept minor deficiencies that do not impact the Board's ability to determine whether to institute a derivation proceeding or the respondent's ability to file an opposition. It is important to note that petitioners should make every effort to complete their petitions accurately. While the Board may accept minor omissions or mistakes, certain omissions or mistakes may nonetheless impact the Board's determination under § 42.405(c).

Comment 38: One comment suggested that the rule refers to an incomplete ''request'' in some places but refers to an incomplete ''petition'' in other places and that the word ''petition'' should be used throughout.

Response: This comment has been adopted. Specifically, § 42.407(b), as adopted in this final rule, uses the term incomplete petition rather than incomplete request.

Comment 39: One comment asked for clarification as to whether the Office will mail a Notice indicating that a petition meets the statutory requirements and how long it would take for such a notice to be mailed.

Response: The Board plans to process the petitions and accord the filing date as soon as practical. A notice will be provided to the petitioner as quickly as resources allow, indicating whether a filing date has been accorded.

Institution of Derivation Proceeding (§ 42.408)

Comment 40: One comment suggested that the rule include a provision for routine discovery to include cross-examination of inventors, since the inventors' oaths or declarations can be considered to be affidavit testimony.

Response: The Board does not anticipate allowing for the deposition of inventors as routine discovery unless an affidavit of an inventor is relied upon by a party. § 42.51(b)(1). When a party wishes to obtain the testimony of an inventor and the parties cannot agree amongst themselves to such discovery, the party requesting such discovery may seek the relief by authorized motion. §§ 42.20(a) and 42.51(b)(2).

Comment 41: One comment suggested that the rules should include an option that permits a petitioner to withdraw the petition or to withdraw from the derivation proceeding.

Response: A party may file a request for adverse judgment under § 42.73(b). It is expected that a request to terminate made by both parties would be granted, unless the request is contrary to the evidence of record. 35 U.S.C. 135(e). Under § 42.72, the Board may terminate a trial without rendering judgment where appropriate.

Comment 42: One comment asked whether there is a requirement that ''the suggestion could not have been made in the original petition,'' and if not, whether the Office foresees any ''legitimate'' excuses for a petitioner who is aware of patent or application to fail to include it in an original petition.

Response: Under § 42.408(b), a petitioner may suggest the addition of a patent or application to the derivation proceeding, but must explain why the suggestion could not have been made in the original petition.

Settlement Agreement (§ 42.409)

Comment 43: One comment stated that § 42.74(c), which applies to § 42.409, appears to give undue access to a settlement party's business confidential information. The comment further noted that the rule does not appear to provide an opportunity to notify the parties to the settlement agreement of the request to make available or contemplate a public redacted version of the settlement, and it does not address what is required of ''a showing of good cause.''

Response: As amended, 35 U.S.C. 135(e) requires a settlement agreement or understanding be treated as business confidential information and be kept separate from the file of the involved patents or applications. Section 42.74 is consistent with the statutory requirements. Whether good cause has been shown will depend upon the particular facts of the request. However, based on the experience of the Board, it is not expected that such requests will be frequent and that the grant of any such request would be a rare occurrence.

Public Availability of Board Records (§ 42.412)

Comment 44: One comment suggested merging § 42.412 with § 42.14, because it is unclear whether § 42.412 is intended to apply to derivation proceedings alone or to Board decisions and records in general.

Response: Both §§ 42.14 and 42.412 apply to derivation proceedings. Section 42.412 is specific to derivation proceedings and addresses situations particular to having an application involved in the proceeding. For example, the rule specifies that the record of a Board proceeding is available to the public, unless a patent application not otherwise available to the public is involved.

Comment 45: One comment stated that § 42.412(b)(1) does not give any consideration to the possibility that a motion or portions of the record may contain business confidential

information, and suggested the Office should consider adding a provision like § 42.74(c) (''Request to keep separate'') and, in addition, or alternatively, provide the disclosing party an opportunity to redact business confidential information prior to disclosure.

Response: The rules provide for the protection of confidential information such as trade secrets. In particular, § 42.55 allows a petitioner filing confidential information with a petition to file, concurrent with the filing of the petition, a motion to seal with a proposed protective order as to the confidential information. The petitioner may serve the confidential information under seal. In addition, after denial of a petition to institute a trial or after final judgment in a trial, a party may file a motion to expunge confidential information from the record. § 42.56.

Comment 46: One comment asked if the Office will provide public notice of a finding of derivation in the involved patent/patent application and in other patents/applications that are either (i) related by priority, or (ii) directed to the derived subject matter.

Response: A final decision will be entered in the file of any application or patent involved in the proceeding. Where the decision is adverse to any claims in an application, the Office will finally refuse those claims. Where the decision is adverse to the claims of a patent, the effected claims will be cancelled and notice of said cancellation shall be endorsed on copies of the patent distributed after such cancellation. 35 U.S.C. 135(d).

Correction of Inventorship

Comment 47: Several comments suggested that the rules should specify the relief that may be requested and granted in an instituted derivation proceeding. In particular, one of the comments recommended the following to be included in the rules: (1) Correcting the inventorship of the earlier-filed application by adding the name of an inventor of the later-filed application; (2) correcting the inventorship of the earlier-filed application by removing or changing a named inventor; and (3) permitting the petitioner to claim the benefit under 35 U.S.C. 120 to the earlier-filed application.

Response: The comments have been adopted to the extent that §§ 1.48 and 1.324 have been revised to provide for correction of inventorship in a contested case before the Board. In particular, § 1.48(i) provides that, in a contested case, a request for correction of inventorship in an application must be in the form of a motion under § 42.22, and the motion must also comply with the requirements of § 1.48(a). Similarly, § 1.324(d) provides that, in a contested case, a request for correction of inventorship in a patent must be in the form of a motion under § 42.22, and the motion must also comply with the requirements of § 1.324. As to claiming the benefit of an earlier-filed application, a party may file a motion to amend under § 42.22, but such a motion must also comply with the requirements of § 1.78.

Comment 48: One comment sought clarification on the procedure for correcting inventorship in a derivation proceeding, and on the circumstances where the Board will exercise its authority to correct the naming of the inventor in the application or patent at issue.

Response: The procedure for an applicant or patent owner to file a request for correction of inventorship is set forth in §§ 1.48(i), 1.324(d), and 42.22. Under 35 U.S.C. 135(b), as amended, the Board will determine in an instituted derivation proceeding whether an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application. When making this determination, if the Board finds the inventorship to be incorrect in an involved application or patent, the Board may correct the inventorship in such an application or patent depending on the facts of the particular case, such as whether there is an agreement of the parties as to the correct inventors of the claimed invention in dispute.

Comment 49: One comment suggested that the Office should accept the parties' determinations on the inventorship of the involved applications as conclusive unless it has reasons to believe that the parties' determinations are incorrect.

Response: The Office may accept the parties' determinations depending on the particular facts of each case, such as whether the records in the proceeding are consistent with the parties' determinations. *See also* 35 U.S.C. 135(e).

Comment 50: One comment suggested that, in the situation where the parties agree among themselves as to the inventorship of the involved claims, they must inform the Office of the correct inventorship of each surviving involved claim, not simply the correct inventorship of each surviving involved application or patent. The comment further suggested that if the Board determines the inventorship of the involved claims, its decision will recite the correct inventorship of each surviving involved claim, not simply the correct inventorship of each surviving involved application or patent.

Response: The Board may require such information or provide such information in its decision depending on the particular facts of each case, such as whether the agreement or determination is consistent with the evidence on record.

Comment 51: One comment suggested that, if the parties agree among themselves as to the inventorship of the involved claims, they should not be required to submit evidence supporting their determinations.

Response: The Board may require evidence of the correct inventorship of the involved claims depending on the particular facts of the case, such as whether the agreement is inconsistent with the evidence or record.

Comment 52: One comment suggested that the Office should provide that each party to a derivation proceeding may amend the inventorship named in its involved application or patent.

Response: The Office agrees that a party in a derivation proceeding may file a motion to correct the inventorship of its involved application or patent. §§ 1.48, 1.324, and 42.22. Any request to correct the inventorship of an application or patent accompanying such a motion must also comply with the appropriate requirements in part 1 of the CFR (*e.g.,* § 1.48).

Deferring Action on a Derivation Petition

Comment 53: One comment requested clarification on the statement in the preamble that a derivation is unlikely to be instituted if the petitioner's claim is not otherwise in condition for allowance, and suggested that the Office should allow an applicant to file a petition for derivation before the statutory deadline and then hold such a petition in abeyance until the petitioner's claim is otherwise in condition for allowance.

Response: At the time of filing a petition, the petitioner's application is not required to be otherwise in condition for allowance. The statement in the preamble is directed to when the Office will institute a derivation proceeding, as opposed to when an applicant is required to file the petition. The statement is consistent with 35 U.S.C. 135(a), as amended, that provides that whenever the Office determines that a petition demonstrates that the standards for instituting a derivation proceeding are met, the Office may institute a derivation proceeding. Thus, an applicant may file a derivation petition that complies with the statutory

and rule requirements in an application that is not otherwise in condition for allowance.

Comment 54: One comment recommended that, in normal situations, the Office should not defer action on petitions for derivation. The comment also suggested that the rules should set forth expressly the rare circumstances where the Board would defer action on a petition for derivation.

Response: As provided by 35 U.S.C. 135(c), as amended, the Board may defer action on a petition for derivation up to three months after a patent has been issued with a claim that is directed to the subject matter in dispute. Other circumstances may similarly warrant deferring action on the petition; the Board will consider the particular facts of each case in determining whether to defer action on a petition for derivation. The Office does not believe it is necessary to set forth expressly in the rules all of the circumstances where the Board will defer action on a petition for derivation to limit the Board's discretion and flexibility as provided in 35 U.S.C. 135(c), as amended. As discussed previously, a derivation is unlikely to be instituted if the petitioner's claim is not otherwise in condition for allowance.

Other Suggestions

Comment 55: One comment suggested that the Board has authority to enter a ''split decision.'' The comment provided the following example: the Board may determine that the inventors named in the first involved application are correct as to one or more claims in the first application and the inventors named in the second involved application are correct as to one or more claims in the second application.

Response: The Office agrees that the Board has the authority under the AIA to enter a split decision in appropriate situations. As amended, 35 U.S.C. 135(b) provides that the Board shall determine, in an instituted derivation proceeding, whether an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, filed the earlier application claiming that invention. Further, the statute provides that in appropriate circumstances, the Board may correct the naming of the inventor in any application or patent at issue. Thus, the statutory provisions do not preclude the Board from rendering a decision that determines the correct inventorship as to the claims in an involved application or patent.

Comment 56: One comment noted that if a party to a derivation proceeding wishes to establish unpatentability of its opponent's claims based on a ground other than derivation, it must file a petition to institute a review as authorized by the AIA.

Response: The Office agrees that if a party wishes to challenge a patent claim on a ground other than derivation, the party may file a petition to institute an *inter partes* review, post-grant review, or covered business method patent review, where appropriate.

Comment 57: One comment suggested that the rules should facilitate having the same Board panel handle various proceedings that involve the same matter.

Response: The AIA and rules provide that the Board may consolidate multiple proceedings involving the same patent before the Office. *See, e.g.,* 35 U.S.C. 315(d), as amended, and § 42.122. Therefore, the Board may take into account whether there are multiple proceedings involving the same patent or matter.

Comment 58: One comment suggested that the Office should consider italicizing or capitalizing defined terms in the rules to alert practitioners that the terms have been separately defined.

Response: The defined terms are italicized in §§ 42.2 and 42.401, and the terms are used in other rules consistent with the definitions. Therefore, the Office has not adopted the suggestion to italicize or capitalize defined terms throughout the rules.

Comment 59: One comment suggested that the issue of whether the petitioner's claim is entitled to the benefit of the filing date of any priority application should be decided in the derivation proceeding.

Response: In general, the Board will resolve any issue related to a priority claim during a derivation proceeding if it is necessary for the Board to determine whether an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, filed the earlier application claiming that invention. The examining corps, however, is not precluded from determining issues related to a priority claim when the application is under its jurisdiction before a derivation proceeding has been instituted involving the application, or after the derivation proceeding has been terminated.

Comment 60: One comment recommended that the rules should set forth the standard that ''the subject matter defined by the target claim would have been either anticipated by or obvious over the subject matter defined by the targeting claim.'' Another comment requested clarification on whether the Office intends to use what is known as an ''obviousness-type'' standard for conducting the derivation proceeding.

Response: The Office agrees with the comments that the rule should set forth the standard for instituting a derivation proceeding. Section 42.401, as adopted in this final rule, defines ''same or substantially the same invention'' as patentably indistinct. In addition, the rule provides that the petition must, for each of the respondent's claims to the derived invention, show why the claimed invention is the same or substantially the same as the invention disclosed to the respondent. § 42.405(b).

Comment 61: One comment suggested the rules should provide that any involved application containing claims with inventorship that was determined to be correct should be returned to the examining corps for further appropriate action.

Response: The procedure for returning an application to the examining corps after the termination of a derivation proceeding will be similar to the existing process for *ex parte* appeals and contested cases.

Comment 62: One comment recommended that a patent owner who wishes to request a derivation proceeding must file a reissue application within the time period allowed by statute.

Response: Consistent with 35 U.S.C. 135(a), as amended, § 42.403 provides that an applicant for patent may file a petition to institute a derivation proceeding in the Office. Further, as provided in § 42.401, the definition of ''applicant'' includes a reissue applicant. A patent owner, thus, may file a petition to institute a derivation proceeding in an application for reissue of its patent. Alternatively, a patent owner may also seek relief in other method, such as filing a civil action under 35 U.S.C. 291 or a petition for a derivation proceeding in a continuing application claiming the benefit of the filing date of the application that resulted in the patent.

Comment 63: One comment suggested that the Office should consider the following hypothetical situation: (1) True inventor A invents, and then discloses to B; (2) B (*e.g.,* a magazine reporter) publishes a description of A's invention, but does not file a patent application; (3) C reads B's publication, and files a patent application; (4) A then files a patent application, after C's filing date, but less than one year after A's disclosure to B. The comment further suggested that A should be permitted to

compel discovery from nonparty B and party C to establish the flow of information from A to B to C, thereby to show derivation.

Response: Based on the fact pattern in the comment, the publication by B of A's invention is prior art to Application C. Therefore, the claims in Application C would be subject to a rejection based on B's publication as anticipated or obvious. Since Application C is not allowable over the publication by B, discovery of B to establish the flow of information would not appear to be necessary.

Comment 64: One comment requested clarification on the situation where a deriver files an application subsequent to the true inventor. In particular, the comment asked whether the Office would reject the deriver's claim based on the true inventor's earlier-filed application.

Response: For the situation described in the comment, the publication of the true inventor's application will be prior art against the deriver's application. If the true inventor's application is not published, the Office may allow the true inventor's earlier-filed application in the appropriate situation, and then reject the claims of the deriver based on the patent of the true inventor's earlier-filed application.

Comment 65: One comment requested clarification on whether an applicant may overcome a rejection based on an earlier-filed application by filing an affidavit showing derivation without filing a petition to institute a derivation proceeding.

Response: Where a patent or patent application publication merely discloses, rather than claims, the subject matter used in making a rejection, it is appropriate to file an affidavit consistent with 35 U.S.C. 102(b), as amended by the AIA. *See* proposed § 1.130, *Changes to Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act* (Notice of proposed rulemaking) (RIN 0651–AC77).

Comment 66: One comment requested clarification on how the Office intends to treat information regarding derivation in the light of the fact that 35 U.S.C. 102, as amended by the AIA, does not include the provision set forth in 35 U.S.C. 102(f), in effect before the enactment of the AIA.

Response: The Office will apply the relevant statutory provisions (*e.g.,* 35 U.S.C. 101) and case law to determine whether the evidence regarding derivation is sufficient to demonstrate that the named inventor is not the true inventor, and make a rejection if appropriate.

Rulemaking Considerations

The rulemaking considerations for the series of final rules for implementing the administrative patent trials as required by the AIA have been considered together and are based upon the same assumptions, except where differences between the regulations and proceedings that they implement require additional or different information. Notably, this final rule is directed to specific procedures for derivation proceedings.

A. Administrative Procedure Act (APA)

This final rule revises the rules of practice concerning the procedure for requesting a derivation, and the trial process after institution of such a proceeding. The changes being adopted in this notice do not change the substantive criteria of patentability. These changes involve rules of agency practice, standards, and procedure and/or interpretive rules. *See Bachow Commc'ns Inc.* v. *F.C.C.,* 237 F.3d 683, 690 (D.C. 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) (rule that clarifies interpretation of a statute is interpretive); *JEM Broad. Co., Inc.* v. *F.C.C.,* 22 F.3d 320, 328 (D.C. Cir. 1994) (The rules are not legislative because they do not ''foreclose effective opportunity to make one's case on the merits''). Section 3(i) of the AIA requires the Director to prescribe regulations for implementing the new proceeding.

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). *See Cooper Techs. Co.* v. *Dudas,* 536 F.3d 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, published these proposed changes for comment as it sought the benefit of the public's views on the Office's proposed implementation of these provisions of the AIA. *See Changes to Implement Derivation Proceedings,* 77 FR 7028 (Feb. 10, 2012) (notice of proposed rulemaking).

The Office received one written submission of comments from the public regarding the Administrative Procedure Act. Each component of that comment directed to the APA is addressed below.

Comment 67: One comment suggested that almost all of the proposed regulations were legislative and not interpretive rules. That leads the USPTO to omit required steps in the rulemaking process.

Response: At the outset, it should be noted that the Office did not omit any steps in the rulemaking process. Even though not legally required, the Office published notices of proposed rulemaking in the **Federal Register**, solicited public comment, and fully considered and responded to comments received. Although the Office sought the benefit of public comment, these rules are procedural and/or interpretive. *Stevens* v. *Tamai,* 366 F3d. 1325, 1333–34 (Fed. Cir. 2004) (upholding the Office's rules governing the procedure in patent interferences). The final written decisions on patentability which conclude the proceedings will not be impacted by the regulations, adopted in this final rule, as the decisions will be based on statutory patentability requirements, *e.g.,* 35 U.S.C. 101 and 102.

Comment 68: One comment suggested that, even if the rules are merely procedural, reliance on *Cooper Technologies. Co.* v. *Dudas* was not appropriate and therefore notice and comment was required.

Response: These rules are consistent with the AIA requirements to prescribe regulations to set forth standards and procedures. The rules are procedural and/or interpretive. *Stevens* v. *Tamai,* 366 F.3d at 1333–34 (upholding the Office's rules governing the procedure in patent interferences). The Office nevertheless published notices of proposed rulemaking in the **Federal Register**, solicited public comment, and fully considered and responded to comments received. In the notices of proposed rulemaking and this final rule, the Office cites *Cooper Technologies. Co* v. *Dudas,* 536 F.3d 1330, 1336–37 (Fed. Cir. 2008), for the proposition that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rulemaking for ''interpretive rules, general statement of policy, or rules of agency organization, procedure or practice.'' The Office's reliance on *Cooper Technologies* is appropriate and remains an accurate statement of administrative law. In any event, the Office sought the benefit of public comment on the proposed rules and has

fully considered and responded to the comments received.

B. Final Regulatory Flexibility Act Analysis

The Office estimates that 50 petitions for seeking institution of a derivation (derivation petitions) will be filed in fiscal year 2013. In fiscal year 2014, it is estimated that 50 derivation petitions will be filed. In fiscal year 2015, it is estimated that 50 derivation petitions will be filed.

The Office expects the number of newly declared interferences to decrease as some parties file *inter partes* review petitions rather than file reissue applications of their own earlier filed patents. Parties filing such reissue applications may seek a review of another party's issued patent in an interference proceeding. The Office estimates that no more than 50 derivation petitions will be filed annually during FY 2013–2015.

The Office has reviewed the percentage of applications and patents for which an interference was declared in fiscal year 2010. 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 2010. 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 (50 multiplied by 0.1962, and then multiplied by two (one for the petitioner plus one for the alleged deriver since either the petitioner and alleged deriver may be owned by a small entity)) would be affected by derivation proceedings annually during fiscal years 2013–2015.

1. Description of the Reasons That Action by the Office Is Being Considered

The Office is revising the rules of practice to implement derivation provisions of the AIA, which take effect March 16, 2013. Pub. L. 112–29, § 3(n), 125 Stat. 284, 293 (2011). The AIA requires the Office to issue regulations to implement the new derivation proceedings.

2. Statement of the Objectives of, and Legal Basis for, the Final Rules

The final rule is part of a series of rules that implement the new administrative trials authorized by the AIA. Specifically, this final rule adopts regulations setting forth standards and procedures for conducting derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation.

3. Statement of Significant Issues Raised by the Public Comments in Response to the IRFA and the Office's Response to Such Issues

The Office published an IRFA analysis to consider the economic impact of the proposed rules on small entities. *See Changes to Implement Derivation Proceedings,* 77 FR 7028, 7032–36 (Feb. 10, 2012). The Office received one written submission of comments from the public concerning the Regulatory Flexibility Act. Each component of that submission directed to the Regulatory Flexibility Act is addressed below.

Comment 69: One comment argued that non-office costs and burden should include the burden on small entity patent owners, petitioners, and licensees, as well as settlement burdens, disruption of businesses, or effects on investment, business formation, or employment. The comment further argued that prophylactic application steps (*e.g.,* filing of reissue applications) were not considered and that the offsets for *inter partes* reexamination's elimination were not appropriate.

Response: As explained in the notice of proposed rulemaking, the Office notes that *inter partes* reexamination is the appropriate baseline for estimating economic impacts, because the use or outcome of the prior reexamination process and the new review trial are largely the same. *See* OMB Circular A4, (e)(3). The Office estimated that the same number of patents would be subject to *inter partes* review as would have been subject to *inter partes* reexamination. The comment did not argue that this estimate was unreasonable and did not provide an alternative estimate. Considering the similarities in the grounds of review and the number of patents subject to the proceedings, the Office anticipates that the existing *inter partes* reexamination process, if not eliminated for new filings, would have had similar impacts on the economy as the new review proceedings, and therefore the impacts noted in the comment would simply replace existing analogous impacts and effects in *inter partes* reexamination. The comment argues that no offset for the replaced process should be considered, although OMB guidance provides otherwise. *See* OMB Circular A4. Additionally, although the comment argues that the new proceedings may result in patent owners taking additional prophylactic measures that would have their own burdens for small businesses, any patent owner motivated by the regulations adopted in this final rule to take prophylactic application steps would similarly have been motivated to take those steps under the former *inter partes* reexamination regime. Thus, the burdens on small entity patent owners, petitioners, and licensees, as well as settlement burdens, disruption of businesses, or effects on investment, business formation, or employment that are caused by the final rules would have been similarly caused by the former *inter partes* reexamination proceedings as the same effects and impacts are caused by the two types of proceedings.

Additionally, the Office's estimates of the burden on small entities are likely overstated. As noted in the notice of proposed rulemaking, the Office anticipates that the current significant overlap between district court litigation and *inter partes* reexamination may be reduced by improvement in the coordination between the two processes. *See Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,* 77 FR at 6903. Similarly, it is anticipated that the public burden will be reduced because the longer duration of the *inter partes* reexamination process will be reduced owing to the anticipated shorter duration of the new procedure. *Id.*

Comment 70: One comment indicated that the underlying data for the 98.7 hours of judge time for an *inter partes* review proceeding was not provided.

Response: Based on the Office's experience involving similar proceedings, the Office estimates that, on average, an *inter partes* review proceeding will require 35 hours of judge time to make a decision on institution, 20 hours of judge time to prepare for and conduct hearings, 60 hours of judge time to prepare and issue a final decision, and 15 hours of judge time to prepare and issue miscellaneous interlocutory decisions. It is also estimated that 2.5% of proceedings will settle before a decision of whether to institute is made, and another 2.5% of proceedings will terminate by patent owners filing a default judgment motion after institution. The Office estimates that 10% of proceedings will not be instituted and another 20% of proceedings will settle after institution. In settled cases it is estimated that 50% of the anticipated motions will not be filed. It should be appreciated that cases that terminate prior to the need to render a decision on institution, that do request an oral hearing, or do not require a final decision because of an earlier termination, result in an average judge time per proceeding which is less than the time needed to perform all possible steps in a proceeding.

4. Description and Estimate of the Number of Affected Small Entities

A. *Size Standard and Description of Entities Affected.* The Small Business Administration's (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, 67112 (Nov 20, 2006), 1313 *Off. Gaz. Pat. Office* 60, 63 (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. Specifically, the Office's definition of 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 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).

B. *Overview of Estimates of Number of Entities Affected.* The rules will apply to any small entity that either files a petition for derivation proceeding, or owns a patent application or patent subject to such review. As discussed above (and incorporated here), the Office anticipates that 50 petitions for derivation proceedings will be filed in fiscal year 2013. In fiscal year 2014, it is estimated that 50 petitions for derivation proceedings will be filed. In fiscal year 2015, it is estimated that 50 petitions for derivation proceedings will be filed.

The Office has reviewed the percentage of applications and patents for which an interference was declared in fiscal year 2010. 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 2010. 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 a derivation proceeding annually during fiscal years 2013–2015.

The USPTO estimates that 2.5% of patent applicants or patent owners will file a request for adverse judgment prior to a decision to institute and that another 2.5% will file a request for adverse judgment or fail to participate after institution. Specifically, an estimated two patent applicants or patent owners will annually file a request for adverse judgment or fail to participate after institution in derivation. Based on the percentage of small entity-owned patent applications or patents that were the subject of an interference declared in FY 2010 (19.62%), it is estimated that one small entity will file such a request or fail to participate after institution in derivation proceedings annually.

The Office predicts that it will institute ten derivation proceedings annually based on petitions seeking derivation filed in fiscal years 2013–2015. 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, *available at 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 33.333%) will occur, the Office estimates that 13 requests for reconsideration (40 decisions not to institute times 33.333%) 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 five small entities (13 multiplied by 19.62% multiplied by two (for both parties)) will file a request for a reconsideration of a decision dismissing the petition for derivation annually during FY 2013–2015. Further, the Office estimates that it will issue six final written decisions for derivation proceedings. Applying the same 33.333% rate, the Office estimates two requests for reconsideration (six multiplied by 33.333%) will be filed annually based on the final written decisions. Therefore, the Office estimates an annual total of 15 (13 plus 2) requests for reconsideration.

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. This series of final rules adopts changes to permit parties to agree to certain changes from the default process between themselves without filing a motion with the Board. Based on the changes in the final rules, the estimate of the number of motions has been revised downward so that it is now anticipated that derivation proceedings will have an average of 20 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 trials that are settled, it is estimated that only 50% of the noted motions, oppositions, and replies would be filed. The Office envisions that most motions will be decided during an initial conference call or shortly thereafter.

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. It is anticipated that five requests for oral hearings will be filed annually during

FY 2013–2015 based on the number of requests for oral hearings in *inter partes* reexamination and the stated desirability for oral hearings during the legislative process. Based on the percentage of small entity-owned patent applications or patents that were the subject of an interference declared in FY 2010 (19.62%), it is estimated that two small entities (five multiplied by 19.62% multiplied by two) will file a request for oral hearing in derivation proceedings annually during fiscal years 2013–2015.

Parties to a derivation proceeding may file requests to treat a settlement as business confidential, and requests for adverse judgment. A written request to make a settlement agreement available may also be filed. Parties to derivation proceedings may also file arbitration agreements and awards. Given the short time period set for conducting trials, it is anticipated that the alternative dispute resolution options will be infrequently used. The Office estimates that two requests to treat a settlement as business confidential; two requests for adverse judgment, default adverse judgment, or settlement notices; and two arbitration agreements and awards, will be filed annually based on petitions filed during fiscal years 2013–2015. The Office also estimates that two requests to make a settlement available will be filed annually in petitions filed during fiscal years 2013–2015. 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 one small entity (two multiplied by 19.62% multiplied by two) will file a request to treat a settlement as business confidential, one small entity will file a request for adverse judgment, default adverse judgment notice, or settlement notice, and one small entity will file an arbitration agreement and award in the derivations instituted annually based on petitions filed during fiscal years 2013–2015.

Parties to a derivation proceeding may seek judicial review of the final decision of the Board. Historically, 33% of examiners' decisions in *inter partes* reexamination proceedings have been appealed to the Board. Based on this rate, it is estimated that four notices of appeal (six multiplied by 33% multiplied by two) will be filed annually based on petitions in the new derivation proceedings filed during fiscal years 2013–2015. Furthermore, 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 annually one small entity (four notices of appeal multiplied by 19.62%) will seek judicial review of final decisions of the Board in the derivation proceedings instituted during fiscal years 2013–2015.

5. Description of the Reporting, Recordkeeping, and Other Compliance Requirements of the Final 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% 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 include those set forth in §§ 42.5, 42.6, 42.8, 42.11, 42.13, 42.20, 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 the 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 a petition for post-grant or covered business method patent review will 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 conception and communication, which have similar complexity to the issues that can be raised in a post-grant review, *i.e.,* public use, sale and written description. Thus, the Office estimates that the cost of preparing a petition for derivation will also be $61,333.

If the Office decides not to institute a trial, the petitioner may file a request for reconsideration of the Office's decision. It is anticipated that a request for reconsideration will require 80 hours of professional time to prepare and file at a cost of $29,680.

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 include those set forth 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, 42.65, 42.121, 42.221, 42.123, and 42.223. The procedures for filing an opposition include those set forth 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, 42.65, 42.107, 42.120, 42.207, and 42.220. The procedures for filing a reply include those set forth 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 will have 20 motions, oppositions, and replies after institution. The Office envisions that most motions will be decided in a conference call or shortly thereafter.

After a trial has been instituted, but prior to a final written decision, the parties to a derivation proceeding may request an oral hearing. The procedure for filing requests for oral argument is set forth 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, and the mean billing rate for professional time of $371 per hour for attorneys in private firms (*see* page 8). 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 is $6,800, or 18.3 hours of professional time ($6,800 divided by $371), or $800 more than the reported third quartile cost for an *ex parte* oral hearing.

Parties to a review or derivation proceeding may file requests to treat a settlement as business confidential, requests 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 set forth in §§ 42.74(c) and 42.409. The procedures to file requests for adverse judgment are set forth in § 42.73(b). The procedures to file arbitration agreements and awards are set forth § 42.410. The procedures to file requests to make a settlement agreement available are set forth in § 42.74(c)(2). It is anticipated that requests to treat a settlement as business confidential will require two hours of professional time, or $742. It is anticipated that requests for adverse judgment will require one hour of professional time, or $371. It is anticipated that arbitration agreements and awards will require four hours of professional time, or $1,484. It is anticipated that a settlement agreement will require 100 hours of professional time, or $37,100 if the parties are not also in litigation over the patent and one hour, or $371 if the parties are in litigation. It is estimated that one of the two settlement agreements will be between parties that are not otherwise in litigation over the alleged derived subject matter, and the other settlement agreement will be between parties that are in litigation over alleged derived subject matter. It is anticipated that requests to make a settlement agreement available will require one hour of professional time, or $371. The requests to make a settlement agreement available will also require payment of a fee of $400 specified in § 42.15(d). The fee is the same as that currently set forth in § 41.20(a) for petitions to the Chief Administrative Patent Judge.

6. Description of Any Significant Alternatives to the Final 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 in the administrative trials 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, *available at 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 issues, and 10-page limit for other motions. The average contested case was terminated in 10.1 months in fiscal year 2009, 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, *available at http://www.uspto.gov/ip/boards/bpai/stats/perform/index.jsp.*

Comparing the average time period for terminating a contested case, during fiscal years 2009 through 2011, 10.0 to 12.0 months, with the average time period, for completing an *inter partes* reexamination during that same time period, 28.9 to 41.7 months, indicates that the average contested case 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. Section 42.24 would provide page limits for petitions, motions, oppositions, and replies. 35 U.S.C. 316(b), as amended, and 35 U.S.C. 326(b) provide considerations that are to be taken into account when prescribing regulations including the integrity of the patent system, the efficient administration of the Office, and the ability to complete the trials timely. The page limits set forth in these rules are consistent with these considerations.

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 a Herculean effort to uncover a hidden gem of logic that will ineluctably compel a favorable ruling. Nothing could be further 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, and reduce costs for the parties and 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 raise a subset of issues that are currently raised in contested cases 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 60 pages. Thus, the 60-page limit is considered sufficient in all but exceptional cases.

The final rule provides 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 will decide the motion prior to deciding whether to institute the trial.

Current Board practice provides a limit of 25 pages for other 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 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.

Section 42.24(b) provides page limits for oppositions filed in response to motions. Current practice for other contested cases provides an equal number of pages for an opposition as its corresponding motion. This is generally consistent with motions practice in Federal courts. The rule is consistent with the practice for other contested cases.

Section 42.24(c) provides page limits for replies. Current practice for other contested cases provide 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 rule is consistent with current contested case practice for procedural motions. The rule provides 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.* Accordingly, this alternative would have been inconsistent with objectives of the AIA that the Director, in prescribing rules for the *inter partes* review, post-grant review, and covered business method patent review, 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 the instituted proceedings timely.

Additional discovery increases trial costs and increases the expenditures of time by the parties and the Board. The Board's experience in contested cases, however, is that such showings are often lacking and authorization for additional discovery is expected to be limited. While an interests-of-justice standard will be employed in granting additional discovery in *inter partes* reviews and derivation proceedings, the post-grant and covered business method patent reviews will employ a good cause standard in granting additional discovery. Parties may, however, agree to additional discovery amongst themselves.

To promote effective discovery, the rule requires a showing that additional requested discovery would be productive in *inter partes* reviews and derivation proceedings. An interests-of-justice standard for additional discovery applies to *inter partes* reviews and derivation proceedings. This standard is consistent with the considerations identified in 35 U.S.C. 316(b) and 135(b), as amended, including the efficient administration of the Board and the Board's ability to complete trials timely. Further, the interests-of-justice standard is consistent with 35 U.S.C. 316(a)(5), as amended, which states that discovery other than depositions of

witnesses submitting affidavits and declarations be what is otherwise necessary in the interests-of-justice.

Good cause and interests-of-justice are closely related standards, but the interests-of-justice standard is slightly higher than good cause. While a good cause standard requires a party to show a specific factual reason to justify the needed discovery, under the interests-of-justice standard, the Board would look at all relevant factors. Specifically, to show good cause, a party would be required to make a particular and specific demonstration of fact. Under the interests-of-justice standard, the moving party would also be required to show that it was fully diligent in seeking discovery and that there is no undue prejudice to the non-moving party. The interests-of-justice standard covers considerable ground, and in using such a standard, the Board expects to consider whether the additional discovery is necessary in light of the totality of the relevant circumstances.

The Office sets forth 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 will 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 instances, 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. The Board may impose conditions in recognizing counsel *pro hac vice,* including a requirement that counsel acknowledge that counsel is bound by the Office's Code of Professional Responsibility. Proceedings before the Office can be technically complex. 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 Code of Professional Responsibility, 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 rule allows for this practice in the new proceedings authorized by the AIA.

The rules 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 rules delegate to the Board the authority to conduct counsel disqualification proceedings while the Board has jurisdiction over a proceeding. The rules 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 to parties, particularly where a small entity has selected its district court litigation team and subsequently a patent review is 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 will be considered, which will 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 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 objectives of the AIA that the Director, in prescribing rules for *inter partes* review, post-grant review, and covered business method patent review, 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 the instituted proceedings timely.

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, with the option, as adopted, it is expected that the entity size and sophistication will be considered in determining whether alternative filing methods would be authorized.

7. Identification, to the Extent Practicable, of All Relevant Federal Rules Which May Duplicate, Overlap, or Conflict With the Final Rules

The following rules also provide processes involving patent applications and patents:

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 institution, 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, September 16, 2012. *See* section 6(c)(3)(C) of the AIA.

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).

The Office estimates that the aggregate burden of the rules for implementing the new derivation procedure is approximately $2.1 million annually for fiscal years 2013–2015. The USPTO considered several factors in making this estimate.

Based on the petition and other filing requirements for instituting a derivation proceeding, the USPTO initially estimated the burden of the rules on the public to be $11,622,674.90 annually in fiscal years 2013–2015, which represents the sum of the estimated total annual (hour) respondent cost burden ($11,601,874.90) plus the estimated total annual non-hour respondent cost burden ($20,800.00) provided in Item (O)(II) of the Rulemaking Considerations section of the following final rule: *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). However, since the AIA also eliminates interference practice as to applications and patents that have an effective filing date on or after March 16, 2013 (with a few exceptions), the burden of the rules should be offset by the eliminations of those proceedings and their associated burdens.

The public burden due to a reduction in the number of interferences declared, from 64 to 51, is estimated at $9,484,400 annually based on the assumption that the current percentage of interferences decided in the preliminary phase (80%) will continue on the lower number of proceedings instituted and based on cost to the public. To calculate this public burden due to a reduction in the number of interferences declared ($9,484,400), the Office used the following information. The average public burden for a two-party interference decided in the preliminary phase reported in the *AIPLA Report of the Economic Survey 2011* is $644,000 (if decided in the preliminary phase) and $1,262,000 (if decided after the preliminary phase). It is estimated that had the AIA not been enacted, 52 interferences would have been decided in the preliminary phase, and 12 would have been decided after the preliminary phase, equating to a public burden of $48,632,000 ((52 multiplied by $644,000 equals $33,488,000), plus (12 multiplied by $1,262,000 equals $15,144,000) for a total of $48,632,000). It is estimated that 51 interferences will be instituted in fiscal years 2013–2015, at an average public burden of $767,600 (80% of $644,000 plus 20% of $1,262,000) per interference, or a total of $39,147,600 (51 multiplied by $767,600). Accordingly, it is estimated that burden to the public due to the reduction of interferences would be the total public burden for interferences of $48,632,000 minus total public burden for estimated interferences for fiscal years 2013–2015 of $39,147,600, or $9,484,400.

Therefore, the estimated aggregate burden of the rules for implementing the new derivation proceedings is $2,138,274.90 ($11,622,674.90 minus $9,484,400) in fiscal years 2013–2015.

The Office received one written submission of comments from the public regarding Executive Order 12866. Each component of that comment directed to Executive Order 12866 is addressed below.

Comment 71: One comment suggested that the proposed rules would have been classified more appropriately as significant under section 3(f)(4) of Executive Order 12866 because the proposed rules raise novel legal or policy issues arising out of legal mandates.

Response: As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant under Executive Order 12866, but not economically significant. The comment does not present what aspect(s) of the rule is believed to present novel legal or policy issues.

Comment 72: One comment suggested that the costs, including any prophylactic application steps resulting from the new proceedings, were not calculated appropriately when the Office offsets the new burdens with those removed by elimination of the ability to file new *inter partes* reexamination under Executive Order 12866. The comment suggested that when appropriately calculated, the cost would exceed the $100 million threshold for declaring the proposed rules significant under section 3(f)(1).

Response: As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant, but not economically significant, under Executive Order 12866, The baseline costs that the Office used to determine the increased burden of the proposed rules properly included the burden on the public to comply with *inter partes* reexamination because those burdens existed before the statutory change, and that process was eliminated and replaced by the process adopted by the AIA as implemented in this final rule. *See* OMB Circular A4, section (e)(3). *See also* response to Comment 69.

Comment 73: One comment argued the $80,000,000 burden estimate is so close to the $100,000,000 threshold, that the Office should assume that it is likely that the proposed rules would have a $100,000,000 impact, particularly in view of the difficulties in estimating burden. One comment suggested that the Office should have conducted a Regulatory Impact Analysis.

Response: While the comment was submitted in response to the notice of proposed rulemaking for derivation proceedings, it is directed to the aggregate burden for all administrative trials. As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant, but not economically significant under Executive Order 12866. The comment did not indicate what aspect of the estimate was likely to be wrong. Additionally, $80,000,000 is twenty percent below the $100,000,000 threshold, and the Office's estimate did not take into account the reduction in burden due to decreased litigation. Thus, the Office's estimate is likely an overstatement of the estimated basis.

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 on-line 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.

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). This rulemaking carries out a statute designed to lessen litigation. *See* H.R. Rep. No. 112–98, at 45–48.

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 set forth 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 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 rulemaking involves information collection requirements which are subject to review by OMB under the Paperwork Reduction Act. The collection of information involved in this final rule has been submitted to OMB under OMB control number 0651–0069 when the notice of proposed rulemaking was published. The Office published the title, description, and respondent description of the information collection, with an estimate of the annual reporting burdens, in the following notices of proposed rulemaking, *Changes to Implement Derivation Proceedings,* 77 FR 7028 (Feb. 10, 2012) (RIN 0651–AC74), and *Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,* 77 FR 6879 (Feb. 9, 2012) (RIN 0651–AC70).

The Office received two comments and made minor revisions to the requirements in the rule, as well as the burden estimates, as outlined below. Accordingly, the Office resubmitted the proposed revision to the information collection requirements under 0651–0069, and OMB approved on July 16, 2012. The information collection requirements under 0651–0069 are available at OMB's Information Collection Web site (*www.reginfo.gov/public/do/PRAMain*).

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.

The Office received two written submissions of comments regarding the Paperwork Reduction Act. Each component of those comments directed to the Paperwork Reduction Act is addressed below.

Comment 74: One comment suggested that *inter partes* reexamination is a very poor proxy for these proceedings because there have been very few completed proceedings relative to all filing of *inter partes* reexaminations from 2001 to 2011, and the comment claims that the completed proceedings are only the least complex of proceedings which the comment alleges result in a sampling bias.

Response: While only 305 *inter partes* reexamination proceedings have resulted in a certificate, the comment is not correct that only the least complex of proceedings have been completed. The number of filings of *inter partes* reexamination has increased considerably in the last three full years. *See Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,* 77 FR at 6893. For example, in the last three years 824 were filed, or 64.5% of the 1,278 requests filed from 2001 to 2011. Considering that the average time from filing to certificate for the 305 certificates was 36.2 months and the median pendency was 32.9 months, it would have been more appropriate for the comment to consider the 305 certificates that have issued compared with the filings from 2001 to 2008. During that time period there were 467 requests filed: 14 requests were subsequently denied a filing date, 53 requests were denied on the merits, 246 had concluded with a certificate by September 30, 2011, and 154 were still pending on September 30, 2011. Of the 154 that were still pending, only one was before the examiner after a non-final rejection, only three had an action closing prosecution as the last action, and only three had a right of appeal notice as the last action. Most of the 154 proceedings were subject to appeal proceedings or were in the publication process. Accordingly, *inter partes* reexamination is an appropriate proxy.

Comment 75: One comment suggested that for matters not concurrently in litigation, the Office's two-hour estimate for public burden of settlement under the Paperwork Reduction Act was unreasonably low by a factor of 30–100, and must include the costs to arrive at the settlement in addition to the cost of submitting the agreement to the Office. The comment asserted that this burden is fully cognizable under the Paperwork Reduction Act.

Response: This comment was adopted in part. For *inter partes* and post-grant review proceedings where the parties are not also in district court litigation regarding the patent, the burden estimate has been increased to 100 hours per settlement, as suggested as the highest estimate in the comment. Based partially on historical data for *inter partes* reexamination, it is estimated that 30% of reviewed patents will not be subject to concurrent litigation.

By statute, any petitioner seeking review of a covered business method must also be in litigation regarding the patent or have been charged with infringement. The comment only argued that for parties not in litigation, the cost of settlement was too low.

Therefore, this portion of the comment is not pertinent to this rulemaking and is not adopted.

Any petitioner seeking review of a covered business method under the transitional program, however, is also in concurrent litigation. Thus, the estimated burden for settlement in those proceedings has not been revised in view of the comment.

Comment 76: Two comments requested that the Office set forth the basis for the number of petitions for review.

Response: As discussed above in item B, the Office considered the actual number of *inter partes* reexamination requests filed during FY 2001–2011 and the anticipated number of requests in FY 2012, the number of such requests of patents classified in Class 705, the number of interferences, and the differences between reexamination and the new review. The Office estimated the number of reviews based on the historical data on the number of filings in the most analogous proceedings. *See Transitional Program for Covered Business Method Patents—Definition of Technological Invention,* 77 FR at 7097.

Comment 77: One comment suggested that a projection for at least three years of growth in future filings is necessary because the Paperwork Reduction Act clearance is for three years. The comment also seeks disclosure of USPTO's estimation models.

Response: The suggestion has been adopted. The Office estimates moderate aggregate growth for petitions seeking *inter partes* review and post-grant review, as set forth in item B above. Further, the Office estimates no growth for petitions seeking review under the transitional program for covered business method patents during the three-year period. Calculations for these numbers are provided in the supporting statement for this collection. In 2013, the number of eligible patents will include patents which are currently in litigation. In subsequent years, the number of eligible patents is expected to be reduced, because some proceedings will have been settled, while others will have been stayed pending a review. At the same time, as experience in the procedure becomes more widespread, the public would more likely seek a review. Because these two factors offset each other, the Office anticipates zero growth for petitions for the covered business method patent review.

Comment 78: Two comments noted that the distribution of claims for the review was not disclosed during the comment period. The comment asserts that failure to disclose underlying data in the notice of proposed rulemaking violates the Paperwork Reduction Act (and other requirements).

Response: The distribution of claims for which review will be requested was estimated based on the number of claims for which *inter partes* reexamination was requested in the first 60 requests filed during the second quarter of FY 2011, as that data was the most timely when the proposed rule notices were drafted. That data was publicly available when the notice of proposed rulemaking was published and remains available today. *See http://portal.uspto.gov/external/portal/pair.* A summary of that publicly available data is as follows: 40 of the 60 proceedings requested review of 20 or fewer claims; eight of the 60 requested review of between 21 and 30 claims; three of the 60 requested review of between 31 and 40 claims; six of the 60 requested review of between 41 and 50 claims; one of the 60 requested review of between 51 and 60 claims; one of the 60 requested review of between 61 and 70 claims; and one of the 60 requested review of between 91 and 100 claims. A second group of 20 proceedings filed after September 15, 2011, were reviewed to determine if the change to the statutory threshold resulted in a clear change in the number of claims for which review was requested. A summary of that data is as follows: 13 of 20 requested review of 20 or fewer claims; three of 20 requested review of between 21 and 30 claims; three of 20 requested review of between 31 and 40 claims; and one of 20 requested review of 53 claims.

Comment 79: One comment suggested that the estimate of the number of post-grant review proceedings should be doubled based on the analysis of the University of Houston of patent cases from 2005–2009. According to the comment, this analysis shows that for every 15 decisions involving printed prior art grounds, there were 13 decisions involving public use, ''on sale,'' or 35 U.S.C. 112.

Response: The suggestion is not adopted. While the Office agrees that many decisions involved public use, ''on sale,'' or 35 U.S.C. 112, the

comment and the analysis by the University of Houston did not consider which decisions did not include a prior art grounds, but did include a public use, ''on sale,'' or 35 U.S.C. 112 ground. Only the subset of decisions including the newly available grounds could be used appropriately in estimating an increased rate of post-grant review filings relative to *inter partes* review. The comment also did not address how the limited filing window relative to the filing of district court litigation for post-grant review would be addressed appropriately if the University of Houston study served as a basis for the estimates.

Comment 80: One comment suggested that the hourly rate for practitioners should be raised from $340 (the median hourly rate from the AIPLA economical survey referenced in the notice of proposed rulemaking) to $500. The comment asserts that using the median hourly rate from the AIPLA Economic Survey of $340 is analytically wrong and that, at a minimum, the higher mean rate of $371 from that survey should be used.

Response: The suggestion is adopted in part. The Office has adopted a mean hourly rate of $371 from the AIPLA Economic Survey, rather than the median hourly rate of $340 from that survey. The suggestion of a $500 hourly rate cannot be adopted because the comment did not provide any data to support the validity of the hourly rate suggested and the Office believes, based on its experience, that $371 is a better estimate of the average hourly rate.

Comment 81: The comments suggested that reliance on the AIPLA economic survey was inappropriate as the survey is flawed. The comment asserts that the survey is unreliable for estimating paperwork burden under the Information Quality Act.

Response: In providing estimates of burden hours, the USPTO sometimes referenced the AIPLA economic survey report, as a benchmark for the estimates. While the costs reported in the survey were considered, the Office, in estimating the cost of the collection, also considered the work required to prepare and file the submissions.

Under the USPTO's Information Quality Guidelines (IQG), the AIPLA economic survey report is not a ''dissemination'' of information. The Guidelines state that ''dissemination'' means an ''agency initiated or sponsored distribution of information to the public.'' USPTO's IQG, Section IV, A, 1. Subsection (a) further defines ''agency initiated distribution of information to the public'' to mean ''information that the agency distributes or releases which reflects, represents, or forms any part of the support of the policies of the agency.'' *Id.* at Section IV, A, 1, a. The USPTO did not distribute or release the AIPLA economic survey report.

Likewise, the AIPLA economic survey report does not qualify as an ''agency sponsored distribution of information'' under Subsection (b) of the Guidelines, which ''refers to situations where the agency has directed a third party to distribute or release information, or where the agency has the authority to review and approve the information before release.'' *Id.* at Section IV, A, 1, b. The USPTO did not commission the report, had no input into the structure of the report and does not rely exclusively upon the results of the report to arrive at estimates. No correction of the documents is required because the Office utilized the AIPLA economic survey report in formulating some burden estimations. No correction is required under the Information Quality Act.

Comment 82: One comment suggested that the regulations imposed a substantial paperwork burden without a valid OMB Control Number.

Response: OMB has approved OMB Control number 0651–0069 for this rulemaking.

Comment 83: One comment suggested that the USPTO's estimates systematically ignore burdens and costs associated with the attorney's client company.

Response: See response to Comment 69.

List of Subjects in 37 CFR Part 42

Administrative practice and procedure, Inventions and patents, Lawyers.

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 amends 37 CFR part 42 as follows:

PART 42—TRIAL PRACTICE BEFORE THE PATENT TRIAL AND APPEAL BOARD

■ 1. The authority citation for 37 CFR Part 42 is revised to read as follows:

Authority: 35 U.S.C. 2(b)(2), 6, 21, 23, 41, 135, 311–319, 321–329 and Leahy-Smith America Invents Act, Pub. L. 112–29, sections 3(i), 6, and 18, 125 Stat. 284, 289–90, 299–313, and 329–331 (2011).

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

Subpart E—Derivation

Sec.

General

Instituting Derivation Proceeding

After Institution of Derivation Proceeding

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 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.

First publication means either a patent or an application publication under 35 U.S.C. 122(b), including a publication of an international application designating the United States as provided by 35 U.S.C. 374.

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.

Same or substantially the same means patentably indistinct.

§ 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 the one-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the earlier application's claim to the 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) The same or substantially the same as 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 a claimed invention was derived from an inventor named in the petitioner's application, and that the inventor from whom the invention was derived did not authorize the filing of the earliest application claiming such invention; and

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

(i) Show why the claimed invention is the same or substantially the same as 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(f), 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 on the respondent at the correspondence address of record for the earlier application or subject patent. 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) Upon agreement of the parties, service may be made electronically. Service may be by EXPRESS MAIL® or by means at least as fast and reliable as EXPRESS MAIL®. Personal service is not required.

§ 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 §§ 42.404 and 42.405, and

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

(b) *Incomplete petition.* Where the petitioner files an incomplete petition, no filing date will be accorded, and the Office will dismiss the petition if the deficiency in the petition is not corrected within the earlier of either one month from notice of the incomplete petition, 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 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 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 chapter or an involved application is or becomes published under §§ 1.211 to 1.221 of this chapter.

Dated: September 4, 2012.

David J. Kappos,

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

[FR Doc. 2012–22204 Filed 9–10–12; 8:45 am]

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