

Patents: Post-Grant Podcast — It Only Took 13 Years: The Federal Circuit's First Derivation Proceeding Decision

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Andy Zappia (00:04):

Greetings and welcome to Troutman Pepper Locke's *Post-Grant Podcast* series. My name is Andy Zappia and I'm joined by my colleague Ted Merkel. In this installment, we're going to take a look at derivation proceedings, which are the, as I like to call them, the "ugly stepchild" of the AIA. We have the first ever decision by the Federal Circuit in a derivation proceeding. We're going to talk about what these proceedings are, how they work, and what the Federal Circuit said in its first decision, touching on those issues. But before we get into what this proceeding is and how it works and what this particular case is related to, I thought it might be good just to give a little bit of background because when the AIA was passed, the Americas Invent Act, was passed, we moved from a first-to-invent to a first-to-file system.

That was a big change for the US patent system because under the old first-to-invent, you could be the owner of an invention even if you were later to file for it if you can show that you conceived and reduced it to practice first. There was a whole proceeding that existed when people fought about whether they were first-to-invent an invention. Those were called interferences, and they don't exist anymore, for the most part. I think there's just a couple still pending, because they only apply to patents that predate or are not subject to the America Invents Act, which came into effect in 2012. Just to give a little background, Ted, do you want to just talk about what this interference proceeding was, and the sorts of issues that you dealt with and interferences, because some of the concepts in interferences are still at play in this derivation proceeding, which was created by the AIA.

Ted Merkel (01:54):

Yeah. One of the similarities, Andy, is that with these interference proceedings and with the derivation proceedings, both of the parties, or you could have more than one, or more than two in the interferences, have to be claiming the same or substantially the same subject matter. That's one of the thresholds for having an interference. If a party could demonstrate that someone else is claiming the same or substantially the same subject matter and that their claims were otherwise patentable, you may be able to provoke an interference with another party. Typically, the way that the interference was set up is the party with the earlier filing date would be designated as the senior party, and the other party or parties with later filing dates would be junior parties. The interference proceeding itself was divided into two different phases. You'd have a motion phase where generally there was some jockeying for position.

If you were a junior party, you would try and get yourself ahead of the senior party and be declared the senior party at the end of the motion phase, or you could go scorched earth and try

and blow everything up so that no one gets a patent. But assuming that you get through that motion phase, then the board would consider the priority phase, which is where each party gets a chance to put on its priority case where you get into the issues of conception, any reduction to practice, and diligence between conception and reduction to practice. A number of these issues that used to be raised in interference proceedings are still applicable in derivation proceedings.

Andy Zappia (03:42):

I think we'll see that when we talk about the Federal Circuit decision because when you get to the priority phase, it's all about conception, diligence and reduction to practice. The same issues come up in derivation proceedings, but they have the added element which is communication to the other side. When the AIA was passed and we went to a first-to-file system, Congress recognized that you still have this issue of you might not have been the first-to-file an application, but maybe the person that was first-to-file actually got the invention from you. A lot of times this comes up in collaboration gone bad scenarios, and that's why they set up this derivation proceeding. Basically it is to challenge somebody saying, "you derived your patent from information I gave you, so really I should have the patent rights, not you" – to put it in the most basic form.

But if you look at the statutory language, if you want to do a derivation proceeding, you have to file a petition with the PTAB, which is the same board that hears IPRs and PGRs, and you have to set forth with particularity the basis for finding that the individual named in the earlier application, as the inventor or joint inventor, derived such invention from the individual named in the petitioner's application, and that the early application was filed without authorization of the petitioner. That's the basic standard. The timing is you have one year to file this, following the date in which the patent contained the claim or the early application was first published. Basically, there's a one-year time period to do this if you wanted to file a petition against the earlier filed application. That's similar to interference, right Ted? There was a one-year period of interference too, right?

Ted Merkel (05:28):

Yeah. You've got one year to copy the claims, basically to present the same or substantially the same subject matter that is claimed by the earlier filed application.

Andy Zappia (05:39):

I guess as a practical matter, say you notice some competitor or someone you used to collaborate with filed a patent application. It published and you say, "Hey, that's what I told them about. I think they got it from me." You could go and file an application as long as you do it within one year, then you have claims pending, and then you could file a petition for derivation.

Ted Merkel (06:01):

That's right. To the extent that the party who filed first, to the extent that their claims change during prosecution, you would want to monitor those claims and make sure you are tracking those changes, to the extent that you have written descriptive support for those changes in your

specification. You would want to track that so that you are still claiming substantially the same subject matter.

Andy Zappia (06:26):

If a petitioner were to prevail, then that claim subject matter would be awarded to the petitioner, meaning the party who filed the earlier application would not be able to be the inventor and owner of that application. It would be awarded to the petitioner.

Ted Merkel (06:40):

If they prevailed in the derivation proceeding.

Andy Zappia (06:42):

Yes, if they've prevailed in the derivation proceeding. But, it's really hard to prevail in these. The reason I said early on that it's kind of the "ugly stepchild", is that of all the proceedings that were created by the America Invents Act, IPR and PGR, et cetera, this is the one used most infrequently. Since this proceeding came into existence, only 27 derivation petitions have been filed with the PTAB, compared to tens of thousands of IPRs. Of those 27, 10 were terminated, meaning the petitioner dropped the petition, 15 had institution denied, which means the board looked at the petition and said, "well, you haven't met the standards, so we're not even going to start the proceeding. We're going to dismiss it." There are two pending right now, and there have only been two that have gone to final decision by the board. Of those two, only one has gone to the Federal Circuit.

It's very infrequently used. The reason for that is, and Ted I'm interested in your comments on this, is that the standard of proof and evidentiary burden is really high on the petitioner, number one. There are other options to try to achieve the same thing like an inventorship claim in district court after the patent issues, where you can get discovery and things like that. In general, of all the new proceedings created by the AIA, this is the one used the least. What are your thoughts, Ted? Why do you think people are so reluctant to use this proceeding?

Ted Merkel (08:15):

The concept of a derivation case is something that existed under the old interference practice as well. Yes, and the circumstances for derivation don't come up very often. You've got to be properly positioned, and you've got to be able to show with documentary evidence that was generally contemporaneously created at the time that you conceived the invention. Then hopefully you would also have individuals who could corroborate that you did what you said you did, in terms of your conception, and that you then communicated that to the other party. In this case, that would be the respondent in the derivation proceeding. All of those steps need to be corroborated to a certain extent so that you can demonstrate successfully that you conceived the complete invention and then communicated that to the respondent in your derivation proceeding. We did have one of these in the interference context before, and we ended up losing on the issue of the communication because we couldn't tie a communication to an executive, within a corporate entity, to the actual inventors. Lacking that communication to the

inventors for the respondent was the death nail in that interference case. I imagine the same, what happened here in these derivation proceedings.

Andy Zappia (09:53):

I think it's interesting, the Federal Circuit case, the petitioner failed for a different reason. It's interesting, but that's right. The standards are so tough. For conception, you have to show that you formed a complete and definite and permanent idea of the invention and how it could operate such the person already skilled could reduce it to practice without extensive experimentation. You really got to show a complete conception, you got to corroborate that, then you got to communicate it, show that you communicated it to the right person at the respondent and the derivation proceeding. Then you also have to match up what you communicated with the claim, both your pending claim and what the respondent is seeking to patent. You have to tie it all together and everything has to be corroborated. It's really hard. My assessment has always been it's really hard. I had a case where a client attempted a derivation proceeding. We actually dropped it and did an inventorship dispute, an inventorship complaint in district court, just because we didn't have all the information we needed and needed some discovery to meet all the elements and you're not going to get much discovery at the board.

Ted Merkel (10:59):

While you could get some limited discovery in the old interferences, we didn't with that interference that I mentioned before. We couldn't get any discovery to show that there was the communication from the executive to the inventors on the other side.

Andy Zappia (11:14):

That's right. With a petition to the board and derivation proceeding, you really have to have all your evidence in the petition trying to get discovery. That goes to this institution – I mentioned 10 of the 27 had institution denied. They didn't even get to the proceeding starting, the board just looked at the petition and said, "you haven't done what you need to do and you may have an evidentiary issue just putting up together in the petition to get past institution, starting the proceeding." Well, given all these hurdles and everything else, I think it's maybe time to talk about this one case that actually has made it to the Federal Circuit. We actually have the Federal Circuit's first decision on a derivation proceeding, even though this proceeding has been around for 13 years. Global Health is the name of the case. Ted, maybe you could just tell us a little bit about what was going on in that case. What were the parties fighting about?

Ted Merkel (12:03):

Sure. Much like you said before, these sorts of disputes end up arising where there's a collaboration gone bad, in some way, shape or form. These two individuals, the patent holder in this case, Selner, and the petitioner, Global Health, were both working on, essentially, how to develop a stable biocide that was in an aqueous phase, that is suspended in a petroleum jelly. You could use it as like an antibiotic ointment. They were both working on the same thing at about the same time. Ultimately, what this all came down to is there was correspondence back and forth between the individuals, and the PTAB ended up relying on two different emails on the same day. The later correspondence in the afternoon had been sent by the petitioner, and that

was deemed to be the communication of the complete conception by the petitioner. But earlier that same day, the respondent, Selner, had sent an email that was effectively a complete conception, three hours, four hours earlier that same day.

That's very rare when you would have a complete conception by two different parties on the same day. In the interference context, we might've seen them days apart or weeks apart, but having two parties corresponding with complete conception on the same day is pretty odd. The PTAB did discuss some facts about the correspondence and how some language was borrowed by the petitioner in some later communication. But ultimately, the PTAB found that that earlier communication by the respondent, Selner, was sufficient to defeat the derivation claim. The PTAB awarded the case to Selner, and the petitioner's petition for derivation was denied.

Andy Zappia (14:16):

The Federal Circuit affirmed, right?

Ted Merkel (14:18):

That's correct.

Andy Zappia (14:20):

It's a pretty short decision for the Federal Circuit. They didn't spend a lot of time detailing the derivation proceeding. They kind of just went through why the appellant's arguments that there was error were not sufficient.

Ted Merkel (14:31):

At the end of the day, the Fed Circuit just wanted to see the PTAB analyze – the petitioner has the burden to go forward first, and did the petitioner demonstrate a complete conception and sufficient communication, that would then shift the burden to the respondent? That was the case here. But respondent also had sufficient complete conception before the petitioner's complete conception. At the end of the day, that's why it was considered a harmless error because they reached the right decision.

Andy Zappia (15:09):

The Federal Circuit mentions a couple errors that thinks it the board made, but they say it didn't impact the ultimate decision. That's why they affirmed. But I guess – my read on the Global Health, is it just shows you how hard these proceedings are if you're the petitioner and trying to prevail, because you read the decision by the board and they find that the petitioner did show a complete conception, did show the communication. You're thinking, "oh, the petitioner's doing great here." Then they go to the respondent's evidence of prior conception. They say, "yeah, respondent did have a prior conception." Although, just barely, right? Really just by a few hours did they communicate a prior conception or corroborate or substantiate that prior conception, and then the petitioner loses, right?

Ted Merkel (15:53):

That's right.

Andy Zappia (15:54):

In other instances, your petitioner's going to lose on showing the complete conception or whether it's actually communicated. Does it match up to the claim properly? Was it communicated to the right person? So many areas where a petitioner can lose.

Ted Merkel (16:09):

Yeah, you had mentioned there was one other earlier PTAB decision on an earlier derivation proceeding, and that's what happened there. There was no demonstration of the complete conception. That's the first prong that any petitioner needs to satisfy, and that's where they fell short on that earlier decision.

Andy Zappia (16:29):

I think the message is if you're going to try to use this proceeding – and very few people have – you have to cross every T, dot every I. You have to make sure that you've got your full set of proofs sufficient in the petition, really, to get institution. You don't know if you're going to get discovery other than maybe a deposition of declarance the other side puts up. You have to make sure you have, really, all the evidence you need going in.

Ted Merkel (16:55):

To the extent you may have multiple, potential, complete conception dates, you might want to plead those in the alternative.

Andy Zappia (17:04):

Yep. The other thing I just want to mention briefly as part of these proceedings is you can make a motion or claim that you should be a joint inventor, right, Ted? There is a procedure for that, right?

Ted Merkel (17:14):

Yeah. That has not been tested in any derivation proceedings that I'm aware of.

Andy Zappia (17:19):

Theoretically, you could go in the alternative and say, “even if I haven't shown my derivation such that I should really be awarded this invention, I should at least be considered a joint inventor with the current respondent in the proceeding”, because presumably you supplied a portion of the invention, and you communicated it, and that came up in the respondent's claim. It's never been tested, but people do file motions for it. We talk about all the problems with this

proceeding, but I guess the good news is, there is another option – and I mentioned another case I had – is that if you're looking at this situation, we'll just take the collaboration gone bad scenario, and you think your collaborator stole your invention and ran to the Patent Office and filed for a patent on it, you can pursue a claim in district court for correction of inventorship.

Now you have to wait until the patent actually issues. You can't file a correction of inventorship on an application. But under section 256, 35 USC, section 256, you can file a claim for correction of inventorship. You can make a claim to add yourself as an inventor, or to replace you, the filer, with the current inventors. Nonjoinder and misjoinder, it's called, of inventors. One of the things that changed with the AIA is – used to be you had to show deceptive intent, but now you don't have to show that in connection with an inventorship claim. You can base it on the fact that they just basically took your invention early and there was some communication and that really you should be the inventor's application. The big advantage of district court is, say you think they did it, but you don't have all your evidence.

As long as you can put enough into state a claim, such that complaint in district court can survive a motion to dismiss, then you're going to get discovery. You could serve document requests, you can serve interrogatories, you can do depositions, you could do requests to admit. You can put your case together, and then you don't have to have all your proofs together to really support your claim until summary judgment. If you're in a high stakes dispute of a collaboration gone bad and you're not sure you have all the evidence you need, you can wait until a patent issues and then file a correction of inventorship case in district court. You can also add in there other common law claims for damages, et cetera. We've done that in other cases, where you say the inventorship should be corrected, but they engaged in tortious interference and unjust enrichment and fraud. All these other common law theories, you can pile those into the complaint to seek monetary remedies, in addition, to seeking correction of the inventorship on a particular patent that's in dispute. To me, I guess if I were to close, to give some advice to clients about this, is I think you really got to think about whether you have all the proof you're going to need to prevail in a petition. If you're not sure, wait 'til the patent issues and then bring an inventorship claim in district court. Do you have any different take on that, or where are you on this strategy point?

Ted Merkel (20:22):

No, I agree with you. The derivation proceeding, it's still litigation within the Patent Office, and while everything's largely done on paper, you're still going to have depositions when declarations are submitted. In terms of the overall cost, is it going to be less expensive than district court? Yes, but it's not going to be a drastic difference. To that extent, you're probably much better served by spending some extra money to ensure you get that discovery and bolster your positions in district court.

Andy Zappia (20:59):

Yeah. The risk of it is, if this is a competitor and they get a patent, they might try to sue you in the interim. You have to deal with that issue. But overall, I think the benefits outweigh the risks. The other benefit is that because you can layer in claims for monetary relief with your inventorship claim, that gives you settlement leverage, because not only are you trying to take the patent away from the defendant in the case, but you're also saying, "Hey, you owe us

money for stealing our invention” and come up with various theories of harm. Right? That's what's happened in other cases I've done with inventorship claims is use those monetary relief claims as a hammer to try to get to a settlement more quickly. Well, I don't know if we can say that we'll look forward to future Federal Circuit decisions on derivation petitions to learn more about them, because it could be another decade before we see another one. I don't know. But in any event, this one's fascinating. I think folks listening to this will probably not be surprised that so few of these proceedings have been filed.

Ted Merkel (22:01):

With only two other ones pending, I think we will have a long wait before we see another decision from the PTAB, and even longer before we see another decision from the Fed Circuit.

Andy Zappia (22:14):

Agreed. Absolutely. Well, thanks, Ted. Very interesting, and it's sort of a niche practice, but at least for the folks listening who used to love the days of interferences, this is just a little deja vu, I guess.

Ted Merkel (22:26):

Exactly.

Andy Zappia (22:27):

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