REVISED

SIGNIFICANT RECENT DEVELOPMENTS IN U.S. INTERFERENCE LAW AND PRACTICE

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I. Introduction

Many fairly signficant developments in U.S. interference law and practice in both substantive and procedural areas have indeed taken place recently. Only a few of the most significant ones can be treated here. In fact, only three areas have been singled out as most noteworthy. They pertain to

1) corrobration requirements regarding reduction to practice,

2) suppression or concealment based on mere filing delays and,

3) the issue of what other agreements in addition to interference settlements need be filed with the Patent and Trademark Office (PTO).

Three cases in particular represent significant departures or turning points in these areas. They are Berges v. Gottstein, Shindelar v. Holdeman and U.S. v. FMC.

Where my discussion appears applicable only or mostly to U.S. inventors and attorneys, I believe it may be of interest to our Japanese friends nonetheless because in interferences they can judge better whether their U.S. opponents have a better or poorer case than expected in light of past interference law and practice and, conversely, whether Japanese parties have a poorer or better case than they thought they had.

In this connection let me point out that Japanese inventors were in 1979 again in first place among foreigners in obtaining U.S. patents. Residents of Japan obtained more than 10%.[1]

II. Reduction to Practice and Corroboration

In interference practice proving prior reduction to practice of the invention is everything.[2] A party first to reduce to practice wins unless:

a) his opponent first conceived the invention and was diligent in the critical period;

b) he abandoned, suppressed or concealed his invention;

c) he derived the invention from his opponent;

d) he committed fraud on the PTO.

A few years ago Mr. W. Modance, then Chairman of the Board of Interferences told me - probably only half seriously - that the Board invariably grants a conception date on the flimsiest of evidence but never grants a reduction-to-practice date on the best of evidence. And in fact, decisions coming down from the Board of Interferences over many years have generally and consistently born this out. The latest examples of the Board's overly stringent standards appear to be Coffman et al. v. Ellis, 205 USPQ 773, and Bindra v. Kelly, 206 USPQ 570, where the Board found inadequacies in the proof of corroboration and utility and hence no reduction to practice.

It is therefore not too surprising that the Court of Customs and Patent Appeals (CCPA) has often reversed the Board in the past decade applying a "rule of reason" more and more liberally.

In developing and refining this "rule of reason" approach, the CCPA started out slowly with Anderson et al. v. Pieper et al, 169 USPQ 788 (1971), gained momentum with several decisions in the middle of the decade [e.g., Blicharz v. Hayes, 181 USPQ 712 (1974); Grasselli v. Dewing, 189 USPQ 637 (1976); Mikus v. Wachtel, 191 USPQ 571 (1976)], and reached a crescendo this year with Berges v. Gottstein et al., 205 USPQ 691 and Nelson v. Bowler et al., 206 USPQ 881.

According to Berges v. Gottstein, supra, the corrobration rule does not require witnessing the reduction to practice. In this case the CCPA held that "viewed as a whole, the evidence unquestionably corroborates Berges' assertion of an actual reduction to practice." The Board had found the inventor's own testimony of his laboratory preparation of a cephalosporin compound to be insufficiently corroborated, considering the evidence presented as corroboration as "bottomed on heresay." Even though an unwitnessed notebook was involved the Court concluded that

> "Together, the facts set forth . . . trace a highly organized procedure routinely practiced within SK&F for identifying, preserving and testing newly synthesized compounds developed by the cephalosporin research team." (Id. at 694)

The court also commented on the

> "the absence of contradiction and internal conflict in the present assemblage of evidence (which) inexorably strengthens the case made by appellant for independent corroboration of the inventor's testimony." (Id. at 694)

Finally, the Court stated that

> "Corroborative testimony does not necessarily have to be an actual witnessing of the reduction to practice by one who understands what is going on in order to be adequate. Sufficient circumstantial evidence of an independent nature can satisfy the corroboration rule." (Id. at 695)

It looks like the CCPA is now coming around to accepting the shop book rule of evidence which they previously steadfastly rejected. In spite of this kind of liberal application of the "rule of reason" and apparent acceptance of the shop-book rule, record keeping should be reviewed and tightened.

In Nelson v. Bowler, supra, a Board decision was reversed because the Board "erred in not recognizing that tests evidencing pharmacological activity may manifest a practical utility even though they may not establish a specific therapeutic use."

Another very noteworthy recent decision in the interference field is of course Standard Oil Co., v. Montedison, 206 USPQ 767 (DCD Del., 1980). This decision grew out of the interference on solid crystalline polypropylene which started in 1958 and which involves four companies, i.e., Du Pont, Phillips Petroleum, Standard Oil and Montedison. The Board of Patent Interferences' award of priority to Montedison was reversed and priority went to Phillips primarily because of fraud on the PTO committed by Montedison. But the Court noted that Phillips would have prevailed anyway because it proved convincingly an earlier reduction to practice. This case has been appealed. The decision does not break new ground or make new law but it is truly monumental nonetheless and a veritable primer on interference law.

III. Abandonment, Suppression or Concealment

Notwithstanding proof that the junior party had actually reduced the invention to practice prior to the senior party's earliest date, the CCPA last month affirmed the PTO Interference Board's holding that the junior party had suppressed or concealed the invention within the meaning of 35 USC 102(g)[3] and thus lost the right to a patent against the senior party. Shindelar v. Holdeman, 207 USPQ 112.

The suppression or concealment involved a two and one-half year delay between the junior party's reduction to practice and the junior party's filing date. The facts surrounding the two and one-half year delay which were held to constitute suppression or concealment include:

(a) At about the time of the actual reduction to practice, the inventor forwarded a patent disclosure to the patent attorney in the assignee's patent department responsible for preparing the junior party's application.

(b) On receipt of the patent disclosure that patent attorney docketed the patent disclosure.

(c) Generally the patent attorney took cases up for preparation in the order of receipt except where potential statutory bars required early filing.

(d) On one occasion after receipt of the invention disclosure, the patent attorney discussed the case with the inventor.

(e) One year after the patent attorney's receipt of the subject invention disclosure, a prior art patent search was conducted in the assignee's patent library and reported to the patent attorney within the month.

(f) About one and one-half years after the prior art search (two and one-half years after the invention disclosure), the junior party's application was filed.

(g) During the two and one-half years' interim, the patent attorney was involved in his prosecution docket and in several litigation matters which required a considerable amount of time away from his prosecution docket.

(h) During the two and one-half year delay, there were no patent or commercial activites known to the junior party or his patent attorney to spur them to proceed to prepare and to file the application.

(i) While there was intent to file the application, the application filing was delayed by the patent attorney's workload

The Court held that the two and one-half year delay was unreasonable and while the Court reiterated that each case stands on its own particular set of facts, it "ruled" that

> "...one month would be ample to draft the application. Another month could be ample for a draftsman to prepare the drawings. To be generous, perhaps another month could be allowed to have the application placed in final form, executed... and filed with the PTO. Thus a period of three months could possibly be excused... However, more than two years of the delay period remains unaccounted for." (Id. at 113)

The delay was unreasonable because the Court could find no excuses for the delay, stating:

> "The patent attorney's workload will not preclude a holding of an unreasonable delay. Nor will the showing of intent to file - someday - negative a holding of suppression." ...
>
> "Additionally, the showing of absence of spurring ... does not negative a holding of suppression nor excuse the delay." (Id. at 113)

This decision is most disquieting, to say the least. Who can fathom the implications of this case? There is first of all the unrealistic view that more than a three-month period (perhaps only two months in chemical cases!?!) between receipt of an invention disclosure and filing of an application constitutes unreasonable delay. Then there is the distortion of the first sentence of Section 102(g) from a requirement for positive action by an applicant to an "inference" resulting from an absence of action. But the greatest potential harm may result from this consideration: In an inference situation where the Senior Party has a conception date prior to that of the Junior Party and no actual reduction to practice date prior to that of the latter, the Senior Party can avoid the obligation of proving diligence, as explicitly required by the second sentence of 35 U.S.C. 102(g),[4] by choosing to rely on his prior filing date as the date of invention. Although, the Senior Party may prevail in the interference, the validity of the resulting patent would seem to be subject to attack for lack of diligence or other Section 102 grounds. Thus the patent system will have failed as an incentive to the "first-in-time" inventor as well as the "first-to-file" inventor.

IV. Interference Settlement Agreements

It is well established and clear from the literal reading of the relevant statutory provision, Section 135(c),[5] that interference settlement agreements per se have to be filed with the PTO. But what other kinds of agreements, what "collateral" agreements, have to be filed likewise is the "sixty-thousand-dollar" question.

Even though a license agreement does not contain any specific provision for the termination of an interference, it may nevertheless constitute an "agreement" within the purview of Section 135(c) as was held in Old Dominion Box Co. v. Continental Can Co., 155 USPQ 70 (SDNY 1967), affirmed on other grounds 157 USPQ 353 (2nd Cir. 1968). Supplemental agreements that alter the terms of the original agreement must be filed, particularly where the oral understanding to enter into a supplemental agreement was reached as a condition precedent to termination of the interference as per Moog Inc. v. Pegasus Laboratories Inc., 183 USPQ 225 (ED MI, 1974), affirmed 187 USPQ 279 (6th Cir. 1975). In these two cases, the patents were held unenforceable because of non-compliance with Section 135(c).

An agreement, such as a cross-license agreement, is within the ambit of Section 135(c) if it has the effect of removing the adversary character of an interference proceeding and it is immaterial whether the interference is terminated by a concession of priority or by a decision of the PTO Board of Patent Interferences. This is clear from Forbro Design Corp. v. Raytheon Co., 190 USPQ 70 (D MA 1975), affirmed on other grounds

190 USPQ 49 (1st Cir. 1976). Here the court indicated that only the claims involved in the interference are rendered unenforceable by reason of a failure to comply with Section 135(c), even though this Section speaks in terms of a "patent" being unenforceable.

In Omark Industries Inc. v. Carlton Co., 201 USPQ 825 (D Ore 1978) an interference was settled by the purchase of the interfering patent and the agreement to assign the patent was not filed with the PTO. However, what was filed was the assignment of the patent as such. The court held that

> "... plaintiff complied with the statute by filing a copy of the assignment with the Patent Office. In this case, the assignment disclosed everything that was relevant."
>
> "There is no merit to defendants' contention that plaintiff, in addition to the assignment, was required to file the agreement to make the assignment." (Id. at 828)

A claim that a license agreement between PPG, Research Corporation and Corning should have been filed with the PTO was rejected in PPG Industries Inc. v. Bausch and Lomb Inc. Section 135(c) was held not applicable because only agreements between parties to an interference must be filed and PPG which was a party to the agreement was not a party to the interference. The court stated:

> "The statute requires only the filing of agreements made in settlement of interferences or those which totally destroy the incentives of the parties to the interference to litigate in an adverse manner. The license agreement in question here did not terminate or otherwise decide the interference, and Research Corporation, the only party to the license agreement who was also a party to the interference retained the same strong incentives to litigate after the license agreement that it had before that agreement. Research Corporation's financial incentives to win the interference were greater after the license agreement than they had before it." (Id. at 919)

The most significant - and disturbing - recent development by far in this area is the civil suit brought by the Justice Department against FMC in the U.S. District Court in Philadelphia this past April, the court being asked to hold that Section 135(c) was violated and that the patent at bar is unenforceable. (U.S. v. FMC Corp., No. 80-1570, April 23, 1980). This case could be a real object lesson.

In this case an interference settlement agreement, concluded with Bayer A.G. relative to the pesticide carbofuran, was filed with the PTO. However, other agreements and understandings were reached between FMC and Bayer or Chemagro which were not filed, such as a trademark licensing agreement, a production and pricing agreement, a Canadian conflict settlement agreement and a cross-licensing agreement regarding patent rights in Mexico and Central and South America.

The existence of several concurrent agreements and understandings along with an amicable interference termination is not an unusual situation and the filing of only the U.S. interference settlement agreement with the PTO may also be rather normal procedure. Indeed, Sec. 135(c) in terms covers only such collateral agreements as are "referred to" in any agreement or understanding between interference parties.

In this context let it be mentioned that the PTO furnishes to various government agencies including the Department of Justice and the Federal Trade Commission lists of interferences in which settlement agreements have been filed and kept separate from the interference files. Section 135(c) does provide that if "any party filing the same so requests the (agreement) shall be kept separate from the file of the interference and made available only to Government agencies on written request, or to any person on a showing of good cause." The Board of Patent Interferences serves as the depository for agreements kept separate from the interference files. These agreements are not examined by the PTO and no general public notice of the filings is given by the PTO. It is understood that representatives from the above listed government agencies are periodically reviewing such agreements but that no such agreements have ever been shown to any person other than an agency representative.

V. Conclusion

Speaking of significant recent developments, it should also be mentioned that the nonprofit Committee for Economic Development has recently concluded that one of the changes that is necessary in patent practice to enhance the innovation climate is to eliminate patent interference proceedings and adopt a first-to-file system coupled with a provision to grant a prior inventor an *in personam* right to use the invention.[6] Harry Manbeck of General Electric testified to that effect in Congress in May on behalf of the CED.

In my view our first-to-invent principle has degenerated into a monstrous atavistic interference practice. As one who is handling or supervising almost 50 interferences (a three-fold increase from 3 years ago) I am painfully aware that something has gone awry in interference practice. If a switch to a first-to-file system was not possible on constitutional grounds, I submit the situation could be improved or righted by this approach: no interference between pending applications; the PTO invariably issues the senior party's patent even if the filing date difference is but a day; the junior party then has to provoke the interference, it he can, either in the PTO as now or, perhaps, only in courts resulting in a proceeding akin to that described in 35 USC 291 (civil action between two interfering patentees).

In this regard it may be of interest that the American Patent Law Association (APLA) has just formed a new Special Interference Committee to fundamentally study our interference system in general and to try to remedy some specific problem areas. The need for this is manifest. As Joe De Grandi from Washington, echoing many others, stated it so well in a recent letter to me:

> "The need for such a committee is even more evident today. Based on recent experiences in our office, the Board of Patent Interferences is apparently not following the rules or the MPEP in certain matters before them, thus making it difficult to advise clients regarding procedures to be followed in interferences." ...
>
> "I believe it imperative to ... create (such a committee) so that we have a forum through which we can communicate with the PTO and the Board."

Hopefully, positive results will be forthcoming from this APLA effort.

FOOTNOTES

1) In 1979, the Japanese led with 5,289, followed by

West Germany with 4,473,
United Kingdom with 1,904
France with 1,537 and
Canada with 987.

Total number of U.S. Patents issued; 52,102 (18,978 - 36.4% - to foreigners).

In the ten preceding years, in which the Japanese moved from third place to second to first, the breakdown was as follows:

1978

Total number of U.S. patents issued:	70,150	
To foreigners:	26,000	(37%)
To Japanese:	7,170	(10.2%)
To West Germans:	6,005	
To British:	2,876	
To French:	2,171	
To Swiss:	1,363	

1977

Total number:	69,371	
To foreigners:	24,785	(35.7%)
To Japanese:	6,448	(9.3%)
To West Germans:	5,654	
To British:	2,749	
To French:	2,179	
To Swiss:	1,397	

1976

Total number:	74,976	
To foreigners:	27,024	(36%)
To Japanese:	6,780	(9%)
To West Germans:	6,320	
To British:	3,098	
To French:	2,519	
To Swiss:	1,500	

1975

Total number:	76,426	
To foreigners:	26,271	(34.4%)
To Japanese:	6,574	(8.6%)
To West Germans:	6,171	
To British:	3,158	
To French:	2,436	
To Swiss:	1,473	

1974

Total number:	80,839	
To foreigner:	26,514	(32.7%)
To West Germans:	6,243	
To Japanese:	6,116	(7.6%)
To British:	3,273	
To French	2,626	
To Swiss:	1,484	

1973

Total number:	78,304	
To foreigners:	23,344	(29.8%)
To West Germans:	5,661	
To Japanese:	5,157	(6.6%)
To British:	2,931	
To French:	2,189	
To Canadians	1,447	

1972

Total number:	77,908	
To foreingers:	23,815	(30.6%)
To West Germans	5,797	
To Japanese:	5,301	(6.8%)
To British:	3,229	
To French:	2,269	
To Swiss:	1,326	

1971

Total number:	81,543	
To foreigners:	22,850	(28%)
To West Germans:	5,586	
To Japanese:	4,154	(5.1%)
To British	3,533	
To French:	2,251	
To Canadians:	1,413	

1970

Total number:	67,693	
To foreigners:	17,872	(26.4%)
To West Germans:	4,496	
To British:	3,063	
To Japanese:	2,720	(4%)
To French:	1,771	
To Canadians:	1,151	

2) 35 USC 102(g) provides the statutory underpinning for interference practice. Section 102(g) reads:

> "A person shall be entitled to a patent unless - .....
>
> (g) before the applicant's invention thereof the invention was made in this country by another who had not abandonded, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

3) See footnote 2.

4) See footnote 2.

5) 35 USC 135(c) provides in pertinent part:

> Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding.
>
> . . . . .
>
> Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved.
>
> . . . . .

Section 135(c) was passed in 1962 in order to reduce or eliminate incorporation of restrictive provisions in interference settlement agreements and help prevent the use of such agreements as a means of violating the antitrust laws. "Interference proceedings may be terminated in a manner hostile to the public interest by using patent interference settlement agreements as a means of restricting competition." Senate Report No. 2169, U.S. Code Cong. and Admin. News, 87th Cong., 2nd Sess., p. 3286 (1962).

6) In greater detail, the CED report states:

"When two or more applicants seek a patent for substantially the same invention, the U.S. patent system provides for interference, a procedure to determine who first made the invention. That party will be entitled to the patent to the exclusion of those who invented later. The interference starts out as a quasi-judicial proceeding in the Patent and Trademark Office (PTO) and occasionally reaches the federal courts as full-scale litigation.

Patent interferences are highly technical proceedings and are of questionable efficacy in determining the first inventor. Much time is spent providing what happened before the filing dates, trying to prove that the inventor was incorrectly named, did not really have the invention in hand, failed to discharge various obligations, and so on. In a significant majority of interferences, the patent is eventually awarded to the first to file. (According to a survey by a major corporation, although approximately 110,000 U.S. patent applications are filed each year, only 75 to 80 interference procedures produce a result different from the first-to-file system.)

The United States and Canada are unique among all the industrial countries of the world in utilizing the interference approach. European countries have always considered that a patent should go to the first party to file an application. The new European patent system, which all European Economic Community countries have now adopted, provides a personal defense to the individual who can show he was actually the first to invent and took steps toward use. (Participants in this system include the United Kingdom, France, West Germany, and Holland.)

Because the purpose of the patent system is to encourage disclosure to the public, the party who is first to file should be rewarded. Adoption of a first-to-file system would eliminate patent interference proceedings, simplify patent litigation, make patent validity more certain, and serve the interests of the inventor and the public in a more efficient manner. Most objections to the system could be answered by provision to grant a prior inventor a personal right to use the invention. Such a right would be contingent on not having abandoned the invention and should require proof of steps taken toward commercialization."

"Stimulating Technological Progress" - A Statement by the Research and Policy Committee of the Committee of Economic Development, January 1980, p. 53.