

**Examining Provisional Rights:
Some Observations Regarding Practice Under
35 U.S.C. § 154(d)**

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The Scenario: It's Tuesday. You sit down at your desk for a full day's work of claim drafting, opinion rendering, and license negotiations. The phone rings, and it is one of your clients, Acme Equipment.

Your client explains that there is a knock-off of one of Acme's products, a flywheel arrangement with removable grommet and vacuum gasket. Acme's competitor, General Industries, is selling a similar product that, while not being a direct copy, is very close. Your client wants to punish General Industries, and, if possible, make it stop. You remember that there is no issued patent, but only a pending patent application that covers this product. A quick status check shows that the application hasn't issued, but it has published.

You advise your client that Congress passed a law in 1999 that you think can help. In a nutshell, you explain, it provides the right to obtain a reasonable royalty from any person who: (i) makes, uses, sells, or offers for sale the claimed invention in the published patent application; and (ii) had actual notice of the published application.

You assure your client that you will take care of it. You think to yourself, "All I need to do is provide actual notice of the publication to General Industries, and that will do it."

You start to draft the notice to General Industries. What do you say? You send your law clerk to the library to review the legislative history. Your clerk finds a few scraps, but nothing all that helpful. Your clerk also advises you that, to date, there have been no reported cases interpreting the statute.

I. The Provisional Rights Statute, 35 U.S.C. § 154(d)

The Provisional Rights Statute was part of the American Inventors' Protection Act, which became law in 1999. The Act moved the U.S. patent laws toward harmonization with the rest of the world, namely Europe and Japan. As part of the harmonization, the U.S. agreed to publish U.S. patent applications 18 months after filing. One of the results of publication is that it informs the relevant industry of what others are seeking to patent. Of course, a downside for the patent applicant is that competition learns, at an earlier time, what direction the applicant is taking.

The section on provisional rights helps to balance the downside on publication. The section is found in 35 U.S.C. §154(d):

- (1) In addition to other rights provided by this section, a patent shall include the right to obtain a reasonable royalty from any person who, during the period beginning on the date of publication of the application . . .

- (A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application; . . . and
- (B) had actual notice of the published patent application . . .

(2) *Right based on substantially identical inventions.*-- The right under paragraph (1) to obtain a reasonable royalty shall not be available under this subsection unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application. . . .

This law became effective on November 29, 2000 and applies to all patent applications filed under 35 U.S.C. § 111 on or after November 29, 2000, and to all patent applications complying with § 371 that result from international applications filed on or after that date.

Thus far, the courts have not weighed in on interpretation of the provisional rights statute. The law only became effective on November 29, 2000, and applications that were published would only have started issuing quite recently. How this statute is interpreted and applied will be a matter of first impression.

The legislative history is not going to offer much guidance to interpretation of this statute. Although some form of this statute was pending as legislation in the Congress at least since 1997, the provisional rights statute was a small part of the overall American Inventors' Protection Act, which addressed many other provisions of Title 35. Thus, the legislative history of the provisional rights statute is intertwined with history focused on other provisions. With respect to the provisional rights portion of the American Inventors Protection Act, the legislative

history is thin, with more attention being paid by the Congress to other portions of the Act.

There is, however, one potentially significant observation regarding the provisional rights in the legislative history. In particular, in one of the conference reports of the House of Representatives, it was reported:

The requirement of actual notice is critical. The mere fact that the published application is included in a commercial database where it might be found is insufficient. The published applicant must give actual notice of the published application to the accused infringer and explain what acts are regarded as giving rise to provisional rights.

Conference Report on H.R. 1554, Intellectual Property and Communications Omnibus Reform Act of 1999, House of Representatives, November 9, 1999, Section 4504.

Congress has given one clear indication: Actual notice is critical. What it has not given is detailed definition of what constitutes actual notice. This will be left to the courts. The present authors suggest that unless one wishes to be responsible for the appellate case that sets the rules, then the practitioner would best provide a very detailed actual notice, and not rely on marking or minimal communication.

The legislative history also briefly addresses the requirement that the invention as claimed in the issued patent be substantially identical to the invention as claimed in the published application. In particular, the legislative history provides:

Another important limitation on the availability of provisional royalties is that the claims in the published application that are alleged to give rise to provisional rights must also appear in the patent in substantially identical form. To allow anything less than substantial identity would impose an unacceptable burden on the public. If provisional rights were available in the situation where the only valid claim infringed first appeared in substantially that form in the granted patent, the public would have no guidance as to the specific behavior to avoid between publication and grant. Every person or company that might be operating within the scope of the disclosure of the published application would have to conduct her own private examination to determine whether a published application contained patentable subject matter that she should avoid. The burden should be on the applicant to initially draft a schedule of claims that gives adequate notice to the public of what she is seeking to patent.

Id.

In another portion of the legislative history, the Congress provided guidance for what was meant by "substantially identical." Specifically:

The requirement for "substantial identity" in this section is based, by analogy, upon the decisional law for establishing intervening rights under the reissue statute. In Section 252 of Title 35, the term "identical" has, heretofore, been used without qualification, but the courts have interpreted that term to encompass claims that are "substantially identical." Slim Fold Mfg. Co., Inc. v. Kinkead Indus. Inc., 810 F.2d 1113, 1 USPQ2d 1563 (Fed. Cir. 1987). That standard has been adopted here for provisional rights and has now been explicitly codified in Section 252 of Title 35 by a conforming amendment. No change in the law of intervening rights is intended by that conforming amendment and it is intended that the same standard be applied in the context of provisional rights.

Signore, Philippe, "The New Provisional Rights Provision", Journal of the Patent and Trademark Office Society, October 2000, p. 90, *citing* House of Representatives Report 105-39 accompanying H.R. 400, March 20, 1997.

The legislative history, therefore, tells us that to evaluate whether an issued claim is "substantially identical" to the published claim, we should look to the case law interpreting intervening rights under reissue and reexamination situations. A problem with this approach is that the principles of interpretation of "substantially identical" in the context of intervening rights have never been very clear.

II. Provision of the Actual Notice

The statute requires that, in order for the patentee to collect a reasonable royalty, the accused infringer must have been given actual notice of the published patent application. A literal reading of the statute would suggest that all that is required is that the accused infringer be advised of the published application. The statute doesn't specifically mention that the accused infringer be provided with notice "of the infringement", for example as found in 35 U.S.C. § 287. Indeed, the statute doesn't even literally say that the accused infringer must be informed that the published claims of the application actually cover anything that the accused infringer is doing. Nevertheless, in spite of the literal language of the statute, the legislative history provides that there must be an explanation of "what acts are regarded as giving rise to provisional rights."

A. What would be an adequate notice?

A threshold question is to whom should a Notice be sent for it to be adequate to start accrual of damages. The statute does not provide direction. Presumably, the courts will interpret the requirement to be no different from notices of infringement under 35 U.S.C. § 287. We recommend that notice under 35 U.S.C. § 154(d) be sent to a corporate officer and to general counsel. It may be useful to send the notice by certified mail because years may pass before recovery is sought and proof of receipt of the notice (without certified mail) could be difficult.

Although the more interesting question is just how *little* information can be provided and still constitute an adequate notice, we first address the type of notice that, clearly, should satisfy the statute. A thorough notice that should, without much debate, satisfy the requirement of the statute would be something along the following:

Dear [blank]:

We represent Acme Equipment. Please direct all future inquiries regarding this matter to our firm and to my attention.

This letter is a Notice, pursuant to provisional rights statute 35 U.S.C. § 154(d), of our client's published U.S. patent application 2002/00000000-A1. We have enclosed a copy of that application for your review. The claims are directed to a flywheel arrangement having a removable grommet and a vacuum gasket.

We have become aware that General Industries is making, using and selling a flywheel arrangement having a removable

grommet and vacuum gasket that is covered by these published claims.

In particular, General Industries is making, using and selling, a Model X231/!#84 flywheel arrangement that is covered by our client's published claims. We have enclosed a claim chart that provides a detailed explanation of how your flywheel arrangement Model X231/!#84 is covered by these claims.

Pursuant to this Notice, Acme reserves the rights to pursue, after patent issuance, recovery of damages, such as a reasonable royalty, under the provisions of 35 U.S.C. § 154(d) for General Industries' acts of practicing the inventions of U.S. patent application 2002/0000000-A1 prior to issuance.

If you have any questions regarding this assertion of a provisional right to recovery or the bases for it, please contact us.

In summary, to be absolutely sure that the notice is adequate, while the statute doesn't provide guidance, one would probably include: a copy of the published application; a specific identification of the accused activity; an explanation of how the published claims read upon the accused activity, which can be in the form of a claim chart; and an explanation of what acts (making, using, . . . etc.) are asserted to give rise to the right of recovery.

B. Issues regarding adequate notice.

As mentioned above, a more interesting question is just how little can be said and still satisfy the notice requirement. There will undoubtedly be developed a body of case law regarding this very question. The authors speculate

that the decisions may in part be based on whether the Notice lacked detail because: (i) the detail was not available; or (ii) the detail was available, but the patent applicant simply chose to omit it, for perceived strategic reasons.

Consider the following scenarios:

- Acme does not know with certainty, at the time of notice, if Acme's published claim covers the General Industries' activities, for example, because there is a required processing step, or a specific ingredient, and discovery is needed in order to actually know.

A first question is whether the courts will ever provide damage recovery under the provisional rights statute when the situation occurs. The legislative history does not provide guidance. The authors believe the courts will allow recovery in such circumstances provided the courts believe the notice was reasonable under the circumstances. Also, the courts may, for example, treat method claims and product claims differently, following the directions in the law for notice under 35 U.S.C. § 287. In any event, the authors expect the courts will develop principles based upon issues relating to the reasonable behavior of the patent applicant and the reasonable behavior of the accused infringer, with respect to the content of the notice.

Nevertheless, the authors do recommend that in setting up the published claims to make the assertion under provisional rights, the patent applicant provide at least one claim, albeit a very narrow one, that does not require discovery in order to determine claim coverage.

- Acme wants to put General Industries on notice, but is afraid that if the notice comes across as too threatening, Acme can be sued for declaratory judgment.

It seems that this is a risk that must, to some extent, be accepted. Whether an action for declaratory judgment can be pursued is discussed in Section IV, below. The provisional rights statute does not mention whether declaratory judgment actions are available to a defendant in this situation. The defendant, in the discussed example being General Industries, could be faced with years of not knowing whether its flywheel arrangement will be concluded by a Court to be covered by Acme's published claims. While General Industries doesn't know, the damages are accumulating. General Industries is faced with the situation of either stopping altogether making flywheel arrangements; or changing its product so radically that it can be sure that it is no longer under the scope of the published claims. General Industries may be able to persuade a federal court that, under fairness, the court should provide General Industries with a judgment on whether its flywheel arrangement is validly covered by the published claims of Acme's, assuming the Court can get over the issue of ripeness.

It seems reasonable to conclude that if the notice is sufficient to start damages accruing, it is enough to give an apprehension of suit.

- Acme has all the information it needs to provide a detailed infringement statement, but does not want to explain how its claims should be interpreted.

As patent counsel for Acme, you know that there could well be issues developed during prosecution of the flywheel arrangement application. You may

learn about new prior art and you may have to engage in semantic gymnastics with an overly aggressive patent examiner. At the point in the process immediately after publication, you may not want to take a firm stand on exactly how the Acme claims should be interpreted. Just how little can be said to General Industries and still put them on notice, without actually explaining what the words of the claim mean? Will the courts consider it to be adequate to identify with specificity the General Industries flywheel arrangement product and make an identification of at least certain of the published claims believed to cover the General Industries product, without providing a detailed interpretation? Probably.

The legislative history says that the published applicant must "explain what acts are regarded as giving rise to provisional rights." This could mean that all that is necessary is to identify the General Industries product; identify the published application; and state what acts of making, using, etc. by General Industries are regarded as giving rise to the provisional rights of Acme. The legislative history does not indicate that a more thorough explanation is required.

Compare this situation to one in which an accused infringer of an issued patent is put on actual notice under 35 U.S.C. § 287. To put the infringer on notice, it is usually enough to identify the patent and the accused device, and then allege that the accused device is covered by one or more claims of the patent. A claim chart or further explanation for how the claims cover the device is usually not required.

- The General Industries product does not appear to be literally covered by the published claims. Can Acme rely on the doctrine of equivalents?

The provisional rights statute and legislative history do not address the doctrine of equivalents. The authors assume that there can be recovery even when coverage is under the doctrine of equivalents because the issue is whether there is coverage and not what the bases are for that coverage. This issue will no doubt lead to endless arguments and litigation, with unclear decisions by the courts, because the doctrine of equivalents is so ill-defined anyway and there is no file history for the published claims (at the time of notice) to be relied upon for proper application of the doctrine of equivalents.

If the doctrine of equivalents forms the basis of Acme's theory for claim coverage, does it need to provide that explanation to General Industries in order to satisfy the notice requirement? The authors believe that the courts will decide this issue by analogy to case decisions deciding whether notice was adequate (of infringement of an issued patent), to start damages under 35 U.S.C. § 287. In general, the courts have usually not required that the patentee explain to the accused infringer why the patentee's claims are believed to cover the accused device in order to put the accused on actual notice under § 287. Armstrong v. Motorola, Inc., 374 F.2d 764 (7th Cir. 1967), cert. denied, 389 U.S. 830 (1967) (comparing the requirements for actual notice to the requirements for constructive notice).

III. Preparing the claims for publication and notice.

The authors believe that in order to take maximum advantage of the provisional rights statute, it may be desirable to publish the application with a different set of claims than may have been preferred with previous prosecution practice. Because the published claim and the corresponding issued claim must pass the "substantially identical" test, it may be good practice to include some claims (especially independent ones) that are written narrowly and with specificity such that amendments during prosecution are unlikely.

- How can Acme have claims specifically to enhance coverage of General Industries and achieve compliance with the "substantially identical test?"

If the accused infringer's activities become known to the patent applicant between the filing of the application and the publication, narrow focused independent claims directed specifically to the accused infringer's activities could be added to the application for eventual publication, by following the provisions of 37 C.F.R. § 1.215(c). In general, what is required is amendment of the application in compliance with the PTO electronic filing system (EFS) requirements.

- If the PTO has not yet published the Acme Application, can publication be advanced?

Once the application includes a set of claims appropriate for providing notice, it may be desirable to advance publication to allow for an earlier notice to be sent to an accused infringer. One can file a request under 37 C.F.R. § 1.219 to publish an application earlier than 18 months from its earliest priority date. To

have the application published early, in theory all one needs to do is ask for it and pay the publication fee, presently \$300. In one of these authors experience, a request to publish early may not in fact be implemented by the PTO.

- Can Acme's claims be changed after publication?

If, after the claims publish, Acme reaches a conclusion that additional or different claims would be desirable to provide a most advantageous position with respect to provisional rights, amendments can be made and republication pursued under 37 C.F.R. § 1.221(a). Of course, alternatively, a continuing application could be filed, with a separate publication.

IV. How can the accused, General Industries, respond and should Acme be concerned with declaratory judgment actions?

As discussed briefly above, General Industries can be put in a position of not knowing, for a substantial period of time, whether a court will consider the Model X231/!#84 flywheel arrangement to be covered by the Acme published claims. General Industries will not know, for sure, whether a design-around will actually be far enough away from the claims to avoid having royalties accumulate. The only thing General Industries knows for sure is that if it stops, it will avoid having royalties accumulate. This result is likely to be unsatisfactory to General Industries.

A. Is there a right to a declaratory judgment action BEFORE the patent issues?

Does General Industries have the right to go into federal court and ask for a declaratory judgment that its product is not covered by the published claims before the patent issues? The statute doesn't say. Of course, before November 29, 2000, provisional rights were not in the statute. Under the law at that time, had General Industries been advised of *pending* claims that covered its product, the law is clear that General Industries would not have had the right to sue for declaratory judgment. The courts have made clear that until a patent issues, no case or controversy exists. GAF Building Materials Corp. v. Elk Corp of Dallas, 90 F.3d 479 (Fed. Cir. 1996). Under such precedent, in the past, there could be no act of patent infringement without an issued patent.

The provisional rights statute, however, allows royalties to start accumulating before a patent issues. Thus, the accused is put in a position of not really knowing whether a continued activity is likely to accrue damages, if claim interpretation is at issue. While the royalties under the provisional rights statute cannot actually be collected unless the patent issues and unless the claims issue in a form substantially identical to the published claims, there still is an accumulation of the potential royalties in the period before the patent issues.

It can be argued that this situation is different from the former scenario before provisional rights were available, because under the former scenario, the acts of the defendant were not accumulating damages in the time period before the

patent issued. The conclusion that no case or controversy existed made sense in the former situation; it may not make sense or be fair with the new provisional rights statute.

In addition, having General Industries be in a position of not knowing whether its flywheel arrangement really is covered seems contrary to the intent of Congress. After all, Congress did express concern that the public should have guidance as to the specific behavior to avoid between publication and grant. If General Industries has been threatened and wants to ask a federal court to declare that its Model X231 flywheel arrangement is not validly covered by Acme's claims, it seems that equity should provide that remedy.

The issue of patentability raises different concerns. We can expect that the courts will defer to the Patent and Trademark Office for the first review of patentability and, thus, would not take up a declaratory judgment action for an assertion of unenforceability due to prior art, prior to the issuance of the patent. Of course, while General Industries may not explicitly be asking the court to declare whether the published claims are patentable or not, the question may be unavoidably intertwined with any question of whether the published claims cover the General Industries product. This reluctance by courts to assess patentability could be used as a basis to avoid finding declaratory judgment jurisdiction until after patent issuance.

The public now has the right to track the prosecution of patent applications, after they have been published. In fact, General Industries would be able to obtain

the file history of the pending Acme publication, and to check its status on-line through the PAIR system. Suppose General Industries is tracking the prosecution, and observes that: (a) there was a Notice of Allowance; (b) the issue fee was paid; and (c) at least some of the allowed claims were unchanged from their appearance as published and for which a provisional rights notice was given. Would there be a right to a declaratory judgment by General Industries *now*, that is, before the patent issues but after the PTO has determined the patentability and the issue fee has been paid? Even if a court decides that a declaratory judgment action is not ripe at the time notice under § 154(d) is given, it does not mean that a court will decide that a declaratory judgment action is not ripe before the patent issues but an issue fee has been paid.

B. Is there a right to a declaratory judgment action as soon as the patent issues?

Jurisdiction for a declaratory judgment (d.j.) action is created if: (i) the d.j. plaintiff (General Industries) has a reasonable apprehension of being sued because of a threat or other action by the d.j. defendant (Acme); and (ii) the d.j. plaintiff is engaged or has prepared to be engaged in activity that could be viewed as patent infringement. Cordis Corp. v. Medtronic, Inc., 835 F.2d 859, 862 (Fed. Cir. 1987). The authors assume that the courts will conclude that the conditions for declaratory judgment actions are met once the patent issues, unless there has been an affirmative act by Acme to withdraw the effect of the notice. (The authors' working assumption is, also, that there is a right to recovery after patent issuance,

even if the covered activity has stopped before patent issuance because there is nothing specific in the statute or legislative history to the contrary.)

Upon issuance of the patent, the following justiciable issues are presented, with respect to damage recovery under the provisional rights statute:

1. Are the issued claims valid and enforceable?
2. Is any one of the issued claims substantially identical to the published claims about which notice was provided?
3. Is the accused activity, for which the provisional rights notice was provided, covered by one of the substantially identical claims?

The authors believe that a declaratory judgment action can be based on any one of these three issues.

C. Are there possible rights of recovery for the accused from the patent applicant?

These authors are curious about the situation in which: (i) Acme makes the allegation; (ii) General Industries changes its practice; and (iii) the patent never issues. Should General Industries have a cause of action back against Acme for the cost of making a change as a result of the notice in order to avoid accrual of damages? Should the issue turn on whether Acme knew, or should have known, the claim could not issue over the prior art in the form published and used for purposes of the notice? That is, will the courts curtail abuse of the notice provision by allowing recovery at least under situations of abuse? We believe there is a chance of this.

IV. Summary

The provisional rights statute can be a powerful tool to address the activities of competitors before issuance of your client's patent. Some factors to consider:

1. Drafting a number of claims of differing scopes, specificities, and theories of patentability for publication, will make it more likely that you will be able to ensnare copycats with some claims that don't substantially change by issuance.
2. Consider requesting early publication if you want to put the competition on notice early.
3. Consider republishing your application with new claims if you need to amend due to prior art or in response to the competition's reaction (design-around) of the originally published claims.
4. Before you send the notice for provisional rights, consider the possibility of having to defend an action for declaratory judgment. Will the possible royalties to be collected be enough to justify having to defend a d.j. action in a court of the competitor's choosing?
5. Be leery of a practice of providing notice when you have reason to believe the claims would not be allowable over the prior art.

These authors believe that the provisional rights statute offers endless opportunity for litigation argument and expense. On a more serious side, it will

also lead to early patent analysis, more often, and product re-designs which, in the long run, may be very beneficial and provide cost savings.