

Preserving Provisional Rights for Pre-Issuance Patent Damages

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A rarely invoked but potentially powerful damages remedy can arise for infringing acts *before* a patent issues. Generally, patent owners may collect damages only for infringement after patent issuance.¹ However, 35 U.S.C. § 154(d) provides that a patentee may, under certain circumstances, obtain a retroactive reasonable royalty from an infringer having actual notice of a published patent application. This remedy—called “provisional rights”—dates back to the 1999 congressional amendments to the Patent Act that, among other things, brought the US patent system more in line with patent application standards in the rest of the world.² Those amendments included the requirement that most patent applications be published 18 months after their filing. In exchange for this early publication, and in view of the risk of third parties gaining a competitive advantage from that information, Congress provided patentees with a reasonable royalty remedy against any third-party infringer who uses the claimed invention during the period beginning on the date of patent application publication and ending on the date the patent issues, provided that (1) the third party had “actual notice” of the published patent application, and (2) the invention as claimed in both the published patent application and the issued patent is “substantially identical.”³ This article discusses recent Federal Circuit interpretation of these two requirements, identifies some open issues under § 154(d), and offers guidance to practitioners on preserving this potentially valuable remedy.

“Actual Notice” Requirement

For provisional rights to arise, § 154(d) requires that the infringing party “had *actual notice* of the published patent application.”⁴ For several years after passage of the 1999 amendments, parties litigated the boundaries of what constitutes “actual notice,” including whether constructive notice is sufficient and whether there is a requirement of an affirmative act on the part of the patentee as there is for patent marking under 35 U.S.C. § 287. In 2016, the Federal Circuit clarified both issues when it ruled on the scope and meaning of § 154(d)'s “actual notice” requirement in *Rosebud LMS Inc. v. Adobe Systems Inc.* (*Rosebud III*).⁵

Background of Rosebud

Rosebud III was the third in a series of infringement lawsuits brought by the patentee Rosebud against Adobe. Rosebud's first lawsuit alleged infringement of US Patent No. 7,454,760 ('760 patent), and was both filed and dismissed in 2010 (*Rosebud I*).⁶ Rosebud's second lawsuit involved US Patent No. 8,046,699 ('699 patent), and was filed in 2012 and dismissed in February 2014 (*Rosebud II*).⁷ Rosebud's third and presently discussed lawsuit involved US Patent No. 8,578,280 ('280 patent), and was brought shortly before dismissal of *Rosebud II*, in February 2014. Important to this discussion, all three patents at issue in these cases were part of the same family of patent applications and shared the same specification.

Adobe moved for summary judgment that Rosebud was not entitled to, among other things, a reasonable royalty under § 154(d), because Adobe had no actual notice of the published patent application that issued as the '280 patent.

In opposing Adobe's motion for summary judgment, Rosebud sought to establish a genuine issue of material fact as to Adobe's actual knowledge of the publication of the application for the '280 patent. First, Rosebud argued that Adobe had actual knowledge of the grandparent to the '280 patent, i.e., the '760 patent.⁸ Second, Rosebud argued that Adobe "followed Rosebud and its product and sought to emulate some of its product's features."⁹ Third, Rosebud argued that it would have been standard practice in the industry for Adobe's outside counsel in *Rosebud II* to search for the '280 patent application, which was published before *Rosebud II* was filed and related to the patent asserted in that suit.¹⁰ It was undisputed that Rosebud did not affirmatively give Adobe notice of the published '280 patent application.¹¹

Judge Sue Robinson of the District of Delaware granted Adobe's motion for summary judgment, holding that Rosebud had not satisfied § 154(d)'s requirement of actual notice because Rosebud's evidence was, at best, evidence of constructive notice.¹² The district court also rejected the argument that Adobe, based on its litigation history with Rosebud, had an affirmative duty to search for Rosebud's published patent applications.¹³

The Federal Circuit's Decision

On appeal to the Federal Circuit, Rosebud argued that there was sufficient circumstantial evidence of Adobe's knowledge of the published patent application for the '280 patent that a reasonable jury could find in its favor.¹⁴ Adobe, in turn, argued, based on the legislative history of § 154(d), that knowledge of the published patent application is not sufficient and that there must be an affirmative act by the applicant to put the alleged infringing party on notice.¹⁵

In an issue of first impression, the Federal Circuit held that constructive notice of the published patent application is not sufficient and "actual knowledge" is required. In addition, the Federal Circuit rejected Adobe's proposed heightened standard, holding that while "actual notice" includes an applicant affirmatively acting to provide the infringer with notice of the published application, an affirmative act by the applicant is not required. The Federal Circuit reached this decision by construing the ordinary meaning

of “actual notice” to include “knowledge obtained without an affirmative act of notification.”¹⁶ In so holding, the court refused to import into § 154(d) the affirmative act requirement from the patent marking statute.¹⁷

On the merits, the Federal Circuit affirmed, agreeing with Adobe that Rosebud did not raise a genuine issue of material fact. First, the Federal Circuit rejected Rosebud’s argument that knowledge of the grandparent patent (the ’760 patent) necessarily rose to knowledge of the *claims* of the grandchild patent application, and not merely a shared specification. Because knowledge of related patents does not identify the *scope* of the claimed invention, the court held that such knowledge is “legally insufficient to establish actual notice of the published patent application.”¹⁸ Second, the Federal Circuit held that Rosebud’s evidence allegedly showing Adobe followed and emulated Rosebud’s products did no such thing—rather, the “evidence” consisted only of seven e-mails sent more than two years prior the ’280 patent application publication.¹⁹ Last, the Federal Circuit rejected Rosebud’s argument that Adobe’s *Rosebud II* outside counsel would have detected the ’280 patent application publication in evaluating claim construction arguments, observing that “*Rosebud II* never reached the claim construction stage.”²⁰

“Substantially Identical” Requirement

In addition to establishing infringement and proving that the infringer had actual notice, the patentee must show that the invention as claimed in the issued patent is “substantially identical” to the invention as claimed in the published patent application.²¹ The scope of this provision was the subject of the Federal Circuit’s nonprecedential opinion in *Innovention Toys, LLC v. MGA Entertainment, Inc.*²²

The patent at issue in *Innovention Toys* was directed to a “chess-like board game and methods for playing the game.”²³ The board game “generates laser beams for the players, who have various movable board pieces,” and the “players ‘alternate in moving pieces from square to square or rotating pieces in place.’”²⁴ The purpose of such movement or rotation is to reflect and change the direction of the laser beams (an ability of certain pieces that have mirrors), with an end goal to “direct his or her laser onto the opposing side’s ‘key piece.’”²⁵ The patent’s earliest priority date was February 2005.

Innovention exhibited a prototype of its embodiment, Deflexion, at a toy fair in New York City in early 2005. An MGA game developer who attended the fair, Ami Shapiro, began working on a competing board game titled “Laser Battle.” In December 2005, Shapiro bought two copies of Deflexion, which were marked “patent pending,” and sent one of them to another MGA engineer. Innovention’s patent application published in October 2006, and when Innovention learned of Laser Battle in late 2006, it sent MGA a notice letter with a copy of the published application.²⁶ Following certain amendments to the claims, the patent issued in September 2007, and Innovention brought suit.²⁷

The district court granted summary judgment of infringement, and a jury awarded to Innovention, among other things, provisional rights damages. MGA appealed the jury’s award.

On appeal to the Federal Circuit, the court held that issued claim 31 was a representative claim and was directed to a “game board, movable playing pieces having at least one mirrored surface, movable key playing pieces having no mirrored surfaces, and a laser source.”²⁸ Turning to the issue of provisional rights damages, and borrowing from case law developed under the patent reissue statute, the court explained that “in determining whether substantive changes have been made [to a published patent application’s claim], we must discern whether the *scope* of the claims are identical, not merely whether different words are used.”²⁹

In determining that the issued claims and the published patent application claims were of the same scope, the court rejected MGA’s arguments that (1) the published application claims did not require an element of “movability of key pieces,” and (2) claim amendments that changed the transitional phrase “consisting of” to “comprising” broadened the scope of some of the claims. Regarding MGA’s first argument, the Federal Circuit found that, contrary to MGA’s assertions, the published application’s claims *did* contain an element requiring movability of key pieces—the published application’s claim 31 required players taking turns “to move playing pieces.”³⁰ The court also rejected MGA’s second argument because “[a]t least some of the claims found to infringe here retain their original scope, and MGA has not contended that any of the infringing acts here infringed only the broadened claims.”³¹ On that basis, the Federal Circuit affirmed the jury award of provisional rights damages.

Open Questions under § 154(d)

Given the relative dearth of case law interpreting § 154(d), it is perhaps unsurprising that there are a number of unresolved questions surrounding provisional rights, including the following:

What Level of Knowledge Is Required for “Actual Notice”?

As noted above, the Federal Circuit in *Rosebud III* held that “actual notice” means “knowledge obtained without an affirmative act of notification,” but *Rosebud III* stops short of explaining what level of “knowledge” is required or how to prove it. For example, *Rosebud III* does not address whether the accused infringer merely needs to be in possession of the published patent application or instead must have some knowledge of how the claims of the published application relate to a specific product or activity. While the statute speaks of “actual notice of the published patent application,” some may argue that the statute would have no deterrent effect if an accused infringer has no knowledge of how the claims of the application might apply to a specific product or activity.³² On the other hand, requiring too high a level of knowledge may encourage a head-in-the-sand approach by infringers. For now, the exact level of knowledge required and how to prove it remain to be fleshed out in future court decisions.

When Do Provisional Rights Damages Begin?

Another question is whether the § 154(d) reasonable royalty runs from the date that the patent application is published or only from the date upon which the infringer obtains actual notice of the publication. The statute states that a patentee is entitled to damages for infringement “during the period beginning on the date of publication of the application” and “ending on the date the patent is issued,” apparently without regard to the date on which the infringer obtained actual notice.³³ Some may argue the requirement that the infringer have “actual notice” does not alter the statute’s language that a patentee

can receive damages dating back to the “date of publication.” Others, however, may argue that it would be unduly punitive and serve no deterrent effect to award a reasonable royalty before the infringer had actual notice of the claims. Again, it remains to be seen how courts will address this issue.

Do Republished Applications Give Rise to Provisional Rights?

The United States Patent and Trademark Office’s (USPTO’s) rules permit an applicant to seek republication of its patent application during prosecution.³⁴ The question arises whether a republished patent application can give rise to provisional rights, assuming its claims are substantially identical to those of the issued patent.

Section 154(d) does not specifically address republication of patent applications, and because there are no cases addressing this issue, a republished application’s ability to confer provisional rights is an open question. One commentator suggests that it “seems likely that [the courts] would interpret republished claims the same way as originally published claims, albeit with different effective dates of notice.”³⁵ To that end, it is notable that § 154(d) requires that US patent applications be published “under section 122(b).” Section 122(b) states that “each application for a patent shall be published, in accordance with procedures determined by the Director.”³⁶ Because the USPTO’s rules provide for republication of patent applications, there is an argument that provisional rights should apply to republished patent applications. On the other hand, § 122(b) refers to publication “promptly after the expiration of a period of 18 months from the earliest filing date for which a benefit is sought,” so some may argue that provisional rights do not apply to any republication of the application outside of that time window.

Practice Tips

The main takeaway from *Rosebud III* is that entitlement to provisional rights requires proof of actual knowledge of a published patent application, not merely circumstantial evidence. And although an affirmative act by the patentee is not necessary, practitioners would be well advised to put suspected infringers “on notice,” and preserve the ability to seek a reasonable royalty, by following these suggested steps:

- Deliver to officers of the accused infringer a letter enclosing a copy of the published patent application, using a courier that provides a signature receipt.
- If the published patent application is international designating the United States and is not in English, provide an English translation.³⁷
- Consider identifying in the letter the allegedly infringing acts and exemplary published claims that would be infringed. While this identification may not be required under *Rosebud III*, including it in the letter may head off an argument that the accused infringer had no “knowledge.”
- Retain a copy of the notice and confirmation of the mail delivery.

Additionally, based on *Innovention Toys*, practitioners should carefully consider the impact of any amendments during prosecution on any possible provisional rights remedy. While small amendments that merely “clarify” claim language may preserve provisional rights, amendments that arguably change the “scope” of the claim will jeopardize such rights. As discussed above, republishing a patent applica-

tion after claims have been amended may give rise to provisional rights, and so practitioners should consider requesting republication under such circumstances and repeating the suggested steps identified above.

Conclusion

Section 154(d) remains a viable tool for patentees to increase the damages they are entitled to for infringement, and practitioners would be well advised to preserve this remedy by promptly putting accused infringers on notice of published patent applications. n

Endnotes

1. 35 U.S.C. § 271.
2. American Inventors Protection Act of 1999, Pub. L. No. 106-113, app. I, tit. IV, 113 Stat. 1501, 1501A-552 to 591.
3. 35 U.S.C. § 154(d). Section 154(d)(3) places a statute of limitations on a patentee seeking a reasonable royalty. An infringement action must be brought no later than six years after the date the patent issues.
4. *Id.* § 154(d)(1)(B).
5. 812 F.3d 1070 (Fed. Cir. 2016).
6. *Id.* at 1072.
7. *Id.*
8. *Id.*
9. *Id.*
10. *Id.* at 1072–73.
11. *Id.* at 1073.
12. *Id.* at 1075.
13. *Id.* at 1073.
14. *Id.* at 1075.
15. *Id.* at 1074.
16. *Id.*

17. *See* 35 U.S.C. § 287(a).
18. *Rosebud III*, 812 F.3d at 1075.
19. *Id.*
20. *Id.* at 1076.
21. 35 U.S.C. § 154(d)(2).
22. 611 F. App'x 693 (Fed. Cir. 2015) (nonprecedential), *vacated on other grounds*, 136 S. Ct. 2483 (2016).
23. *Id.* at 695.
24. *Id.*
25. *Id.*
26. *Id.* at 696.
27. *Id.*
28. *Id.* at 695.
29. *Id.* at 699 (quoting *Laitram Corp. v. NEC Corp.*, 163 F.3d 1342, 1346 (Fed. Cir. 1998)).
30. *Innovention Toys*, 611 F. App'x at 699.
31. *Id.* at 700.
32. 35 U.S.C. § 154(d)(1)(B).
33. *Id.* § 154(d)(1).
34. U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE (MPEP) § 1130 (9th ed. Rev. 07.2015, Nov. 2015).
35. Kevin King et al., *Maximizing Patent Damages: Provisional Rights and Marking*, LAW360 (July 18, 2017), [https:// www.law360.com/articles/942436/maximizing-patent-damages-provisional-rights-and-marking](https://www.law360.com/articles/942436/maximizing-patent-damages-provisional-rights-and-marking).
36. 35 U.S.C. § 122(b)(1)(A).

37. *See id.* § 154(d)(1)(B).