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Houston, We've Got a [Provisional] Problem: An Analysis of 35 U.S.C. § 154(d)

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***HOUSTON, WE'VE GOT A [PROVISIONAL] PROBLEM: AN ANALYSIS OF
35 U.S.C. § 154(d)***

Brian L. Tremer

Abstract

This article considers the inherent problems in granting provisional patent rights and the resulting tension between patent applicants and the public domain. Patent law is designed to encourage innovation and incentivize creation. To this end, there must be a balance struck between the private rights granted to a creator and the rights removed from the public. Patents, once issued, allow individuals to seize a limited monopoly over their intellectual property as a constitutional right. These exclusive rights provide incentive to disclose new works to society and thus justify weakening the public's rights. 35 U.S.C. § 154(d) grants to a patent applicant "provisional rights" between an application's date of publication and issuance of the patent. Provisional rights therefore broaden the creator's monopoly at the expense of the public, but at a much different cost than traditional patent rights. This article analyzes the provisional rights granted under 35 U.S.C. § 154(d) and explores their costs, and in conclusion determines that the courts must provide clarity on the scope of these rights and Congress should carefully consider the resulting costs imposed on society.

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I. INTRODUCTION

Provisional Patent Rights granted by 35 U.S.C. § 154(d) over-extend exclusive rights in Intellectual Property creating a serious potential harm to society. Patent law and policy in the United States is based on balancing rights. It seeks to construct the proper balance between exclusive rights awarded for innovation and those rightfully in the public domain. A patent vests an exclusive right in its owner to prevent all others from making, using or selling a claimed invention.¹ The exclusive right thus creates a limited monopoly after the issuance of a patent.² United States Patent law, traditionally, viewed this limited monopoly as the appropriate compensation and incentive for patentees while striking a proper balance with the public interest. Currently however, Provisional Patent Rights shift this traditional balance heavily in favor of exclusion.

This article examines 35 U.S.C. § 154(d), its intention and policy, and its effects on the landscape of patent rights. Congress passed the American Inventor's Protection Act in 1999.³ The Act codified the new provisional patent rights in 35 U.S.C. § 154(d).⁴ The provision grants certain rights to patent applicants between the date of publication and the issuance of the patent.⁵

There is a dearth of legislative history, and currently little case law interpreting 35 U.S.C. § 154(d). Part II examines the language of the statute and its policy rationales. Traditionally, rights were only granted upon issuance of patents. Provisional rights extend this grant to mere applicants prior to issuance. These new premature rights tip the scale heavily in favor of the patentee over the public. An application carries with it much speculation prior to issuance, and the scope of the patent may change many times.

¹ 35 U.S.C. § 154(d).

² Id.

³ American Inventors Protection Act Pub. L. 106-113 (1999)

⁴ 35 U.S.C. § 154(d).

⁵ Id.

It is a concern that the assertion of these highly speculative rights will harm the public who potentially has no adequate recourse to determine the scope of the rights being asserted or potential liabilities. Part III discusses the effect of 35 U.S.C. § 154(d) on United States Patent law and policy. The Patent laws are based on balancing the right to exclude against the right to access. If there is no potential recourse for the public to determine liability then the inherent problems become evident.

This portion discusses the Declaratory Judgment Jurisprudence and its application to provisional rights. The Declaratory Judgment Act was enacted to give clarity to potential lawbreakers as to the legality of their actions. The Supreme Court of the United States has reviewed the standard for declaratory judgment standing in the patent context on several occasions. It is highly unclear whether a potential “infringer” would be able to bring a declaratory judgment action against a patent applicant while damages are accruing against them, but no rights are vested in the applicant until a patent actually issues. I conclude that declaratory judgment is not available to the public due to lack of standing and ripeness.

Without declaratory judgment it seems difficult to determine any potential wrongdoing and one may be forced out of the marketplace without any clarity. This undoubtedly creates a palpable tension between granting exclusive rights to an individual for a non-issued patent while inhibiting the free exploration of the public domain. Further, in this part an economic analysis based on theoretical models illustrates the inherent problems provisional rights have imposed on the public. The costs and benefits of the public and the patentee are considered. The analysis shows that the expansion of exclusive rights in Intellectual Property is not justified.

There must be a solution implemented to return the balance back to a state of equilibrium without unjustly harming the public access. Part IV discusses possible solutions to the inherent

problems in 35 U.S.C. § 154(d) in order of efficiency: 1) Elimination of the provisional patent rights; 2) Addition of a “competitive injury” element; 3) Adoption of provisions used by international counterparts. Elimination of the provisional patent rights in favor of sole use of the Patent Fast Track program will properly place the costs back on the applicant seeking to exclude others. The addition of a “competitive advantage” element may give the public a valid claim for any harm inflicted based on a applicant’s assertion of provisional rights. Lastly, international common-law jurisdictions have similar provisional rights in their Patent laws. Some of these provisions have mechanisms to alleviate the costs placed on the public. Each of these potential solutions have some advantages to solving the “provisional” problem, however eliminating the provisional rights in favor of the Fast Track Program, that is already in use, is the most efficient solution.

Part V concludes that provisional patent rights codified in 35 U.S.C. § 154(d) create serious harm to the public. The rights shift the balance heavily in favor of exclusion at the detriment of the public. Economic analysis shows that the costs imposed on the public are burdensome and are exacerbated by the unavailability of a recourse mechanism. Congress should eliminate provisional rights in favor of the Patent Fast Track program. Litigation regarding these rights is forthcoming. Courts must provide clarity to the statute and be wary not to craft any law in a fashion that further detriments the public.

II. WHAT ARE PROVISIONAL PATENT RIGHTS?

The American Inventors Protection Act was signed into law in 1999.⁶ It called for the publication of patent applications before issuance.⁷ Applications were traditionally published for inspection only after official issuance by the USPTO. Confidentiality was meant to preserve the interests of the applicant, in deciding whether to disclose the invention to public.⁸

The pre-issuance publication of patent applications was widely used in jurisdictions that were members of the Patent Cooperation Treaty, as well as, European and Japanese systems.⁹ The United States enacted the new pre-issuance publication rules in hopes to harmonize itself with the other systems.¹⁰ 35 U.S.C. § 122 declares that all patents filed under 35 U.S.C. § 111 on or after November 29, 2000 must be published after 18 months of their earliest priority date.¹¹ Also, all patent applications complying with § 371 resulting from international applications filed on or after November 29, 2000 must comply with 18-month publication requirement.¹²

Rights, before this progressive change, were only vested in a patentee upon issuance. However, now requiring applications to be published pre-issuance may have the effect of deterring inventors from filing applications in fear of public disclosure with no protection. To attempt to eliminate deterrence and maintain incentives for applicants, § 154(d) was enacted.¹³

⁶ America Inventors Protection Act Pub. L. 106-113 (1999)

⁷ 35 U.S.C. § 122

⁸ See Joseph M. Barich, *Pre-Issuance Publication Of Pending Patent Applications: Not So Secret Anymore*, 2011 U. Ill. J.L. Tech & Pol'y 415

⁹ Jeffrey A. Sadwoski and Trent K. English, *Extending Provisional Rights Beyond 35 U.S.C. 154(d)*, 87 J. Pat. & Trademark Off. Soc'y 361 (2005).

¹⁰ *Id.*

¹¹ Barich, *supra* note 11, at 416.

¹² *Id.*

¹³ Similar provisions are used in foreign countries. See Patents Act 1977, ch. 35, s. 69(1) (Can.): (2) A person is liable to pay reasonable compensation to a patentee and to all persons claiming under the patentee for any damage sustained by the patentee or by any of those persons by reason of any act on the part of that person, after the application for the patent became open to public inspection under section 10 and before the grant of the patent, that would have constituted an infringement of the patent if the patent had been granted on the day the application became open to public inspection under that section; See also Patents Act 1990, Section 57 (UK): (1) Where an application for a patent for an invention is published, then, subject to subsections (2) and (3) below, the applicant

Section 154(d) now grants “provisional rights” to applicant between the application’s date of publication and the date of issuance.

35 U.S.C. § 154(d) states in part a patent applicant is entitled to a “reasonable royalty” from anyone who, “makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application.”¹⁴ There are three requirements for a valid provisional rights claim: 1) there must be “actual notice” to the “infringer;” 2) that patent must

shall have, as from the publication and until the grant of the patent, the same right as he would have had, if the patent had been granted on the date of the publication of the application, to bring proceedings in the court or before the comptroller for damages in respect of any act which would have infringed the patent; and (subject to subsections (2) and (3) below) references in sections 60 to 62 and 66 to 68 above to a patent and the proprietor of a patent shall be respectively construed as including references to any such application and the applicant, and references to a patent being in force, being granted, being valid or existing shall be construed accordingly. (2) The applicant shall be entitled to bring proceedings by virtue of this section in respect of any act only--after the patent has been granted; and (b) if the act would, if the patent had been granted on the date of the publication of the application, have infringed not only the patent, but also the claims (as interpreted by the description and any drawings referred to in the description or claims) in the form in which they were contained in the application immediately before the preparations for its publication were completed by the Patent Office.(3) Section 62(2) and (3) above shall not apply to an infringement of the rights conferred by this section, but in considering the amount of any damages for such an infringement, the court or the comptroller shall consider whether or not it would have been reasonable to expect, from a consideration of the application as published under section 16 above, that a patent would be granted conferring on the proprietor of the patent protection from an act of the same description as that found to infringe those rights, and if the court or the comptroller finds that it would not have been reasonable, it or he shall reduce the damages to such an amount as it or he thinks just; See also Australia: (1) After a complete specification relating to an application for a standard patent has become open to public inspection and until a patent is granted on the application, the applicant has the same rights as he or she would have had if a patent for the invention had been granted on the day when the specification became open to public inspection. (3) Subsection (1) does not give the applicant a right to start proceedings in respect of the doing of an act unless: (a) a patent is granted on the application; and (b) the act would, if done after the grant of the patent, have constituted an infringement of a claim of the specification. (4) It is a defence to proceedings under subsection (1) in respect of an act done: (a) after the complete specification became open to public inspection; and (b) before the patent request was accepted if the defendant proves that a patent could not validly have been granted to the applicant in respect of the claims (as framed when the act was done) that are alleged to have been infringed by the doing of the act.

¹⁴ 35 U.S.C. § 154(d)(1): 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 for such patent under section 122(b), or in the case of an international application filed under the treaty defined in section 351(a) designating the United States under Article 21(2)(a) of such treaty, the date of publication of the application, and ending on the date the patent is issued; (A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application or imports such an invention into the United States; or (ii) if the invention as claimed in the published patent application is a process, uses, offers for sale, or sells in the United States or imports into the United States products made by that process as claimed in the published patent application; and

actually issue; and 3) the claims of the issued patent must be substantially identical to that of the published application.¹⁵

A. Actual Notice

35 U.S.C. § 154(d)(B) clearly indicates that actual notice is a requirement for any claim of provisional application rights. The definition actual notice was left out of the language of the Act. An interpretation of actual notice is left to a small piece of legislative history and a corollary definition of notice in the patent context.

The only mention of actual notice by Congress was a small one:

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.¹⁶

In this statement Congress made it clear that actual notice is critical to any claim for provisional rights. While not defining notice, it elaborated that notice must be “actual” in the sense that it cannot be constructive in nature, the applicant must personally provide it to the infringer. He must further identify the application in question and address what “acts are regarded as giving rise to provisional rights.” What is a proper explanation of the acts is unknown. One should probably include the application number, the specific claims being infringed upon, and what the infringer is doing that is potentially covered under those claims.

¹⁵ 35 U.S.C. 154(d)(1)(B)-(d)(1)(2) need *actual notice* of the published patent application and, in a case in which the right arising under this paragraph is based upon an international application designating the United States that is published in a language other than English, had a translation of the international application into the English language; (2) 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.

¹⁶ S.J. Res. 948 (1999).

To further guide a practitioner in giving notice, a corollary can be drawn in the patent law context to notice required for accrual of damages in patent infringement identified in 35. U.S.C. § 287(a):

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word “patent” or the abbreviation “pat.”, together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.¹⁷

When the product is not marked properly the patentee must provide the alleged infringer with actual notice before damages can be accrued. This is similar to the accrual of damages only after actual notice for provisional rights violations. What constitutes sufficient notice under § 287(a) has been a question of fact for the courts to decide on a case-by-case basis. The Court of Appeals for the Federal Circuit addressed the issue of actual notice in *SRI International v. Advanced Technology Laboratories*.¹⁸ There, SRI had several patents for various ultrasonic imaging technologies. SRI sent a letter to ATL with a copy of the patent, the reexamination certificate, a list of ATL products it believed infringed, and an offer for a non-exclusive license of the technology (note no cease and desist or similar language). The court found this letter to satisfy the actual notice requirement of § 287(a).¹⁹ The court noted that there is no definite language to satisfy the requirement and actual notice can take many forms, the cornerstone being

¹⁷ 35 U.S.C. § 287(a).

¹⁸ *SRI International, Inc. v. Advanced Technology Labs., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997).

¹⁹ *Id.* at 1469.

that notice is sufficient so long as patentee notifies the recipient with sufficient specificity that there is a possible infringement.²⁰ The court determined the standard for proper notice by stating, “The actual notice requirement of § 287(a) is satisfied when the recipient is informed of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise.”²¹ In *SRI*, the letter was more than adequate to give ATL actual notice of infringement, the presentation of the patent with the infringing activities was enough; the offering a license may have even been satisfactory by itself.²²

However, in *Massachusetts Institute of Technology v. Abacus Software*, the CAFC found insufficient notice.²³ MIT was the owner of several digital color imaging patents and accused Abacus of using the technology without a license from *MIT*. *MIT* attempted to put Abacus on notice in compliance with 287(a) with a letter reading:

I am writing to you because your company is commercially involved with digital color image editing. Electronics for Imaging, Inc., is the exclusive licensee of United States Patent No. 4,500,919 relating to technology developed by Massachusetts Institute of Technology...*We encourage you to review U.S. Patent No. 4,500,919 and consider its relevance to your products and the value of licensing this important technology. If you are interested, we are pleased to discuss a nonexclusive license arrangement.*

The CAFC, following the standard set in *SRI*, found that the language in the letter satisfied the first requirement by identifying the patent in question, but it did not comply with the second requirement by notifying Abacus about any infringement. *MIT* did not sufficiently reference infringement.²⁴

²⁰ *Id.*

²¹ *Id.*

²² See *Ralston Purina Co. v. Far-Mar-Co., Inc.*, 772 F.2d 1570, 1577, 227 USPQ 177, 181 (*Fed.Cir.1985*) (“The offering of a license is actual notice.”).

²³ *MIT v. Abacus Software, Inc.*, 2004 WL 5268125 at *4 (2004).

²⁴ *Id.*

SRI and *MIT* followed the same standard but had two different outcomes. The court found in both that the identification of patent was proper, that is the easy part. However, what is required for proper notification of infringement remains a blurry question of fact.²⁵ The *SRI* court found that the letter naming possible infringing products and offering a license was sufficient, but the *MIT* court found that the “encourage to review” language was not. The *MIT* court noted that case law required an affirmative notice of infringement.²⁶ However according to the more recent *SRI* decision there need not be any “direct charge of infringement.”²⁷

The patentee bears the burden of providing sufficient notice. How far the infringement language in the “notice letter” goes is decided by the patentee and is therefore responsible for the outcome.²⁸ A more general, or “informational” a letter the less likely there is adequate notice of infringement.²⁹ While, on the other hand, the more specific the letter in charging infringement, the more likely the notice is adequate. There must be an area between only “informational” notice and affirmative charges of infringement that satisfies 287(a).

B. Substantially Identical

In order for damages to be collected under 154(d) claim the patent must actually issue and the claims of the application must be “substantially identical” to that of the issued patent.³⁰

²⁵ Although written notice is certainly sufficient to satisfy the statutory requirement, the court does not read the statute's plain language to be so limited. *See, e.g., Arendi Holding Ltd. v. Microsoft Corp.*, Slip Copy, Civ. No. 09-119-JJF-LPS, 2010 WL 1050177 at *7 (D.Del. Mar.22, 2010) (holding that the term “actual notice” in § 154(d) did not require “that the patent applicant take an affirmative act to provide such notice to the alleged infringer (if the applicant can prove that the alleged infringer came to have actual notice through some other means).”

²⁶ *See Amsted Industrial v. Buckeye Steel Casting Co.*, 24 F.3d. 178, 181 (“[a]ctual notice requires the affirmative communication of a specific charge of infringement by a specific accused product or device.”)

²⁷ *SRI*, 127 F.3d 1462 at 1469 (“It is not controlling whether the patentee threatens suit, demands cessation of infringement, or offers a license under the patent.”)

²⁸ *See MIT v. Abacus Software, Inc.*, 2004 WL 5268125 at *4 (2004). (In choosing that content, patentees bear both the consequences of failing to provide adequate notice, as well as the rewards for having done so.)

²⁹ *See Amsted*, 24 F.3d at 181.

³⁰ *See Laitram Corp. v. NEC Corp.*, 163 F.3d 1342 (Fed. Cir. 1998) (Despite the absence of argument, Plaintiffs have provided both the published patent application and the issued patent for this Court's review, allowing the Court

Congressional history states the policy behind in creating such a requirement was to allow the public sufficient knowledge of what it can and cannot do. The record states:

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 would 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.³¹

Congressional record also defines what the language “substantially identical” was intended to be defined as. The record states:

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.”³² 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.³³ The provisional rights provision proposed in H.R. 400 was identical in substance to new 35 U.S.C. § 154(d). Consequently,

to decide the issue. The term “substantially identical” as used in the statute means that they are substantively the same; *See also Id.* at 1346-1347 (This a question of law...The court must determine whether “the scope of the claims are identical, not merely whether different words are used.”)(citing *Markman v. Westview Instruments, Inc.*, 52 F.3d 946, 970-71 (Fed.Cir.1995) (en banc)(emphasis in original).

³¹ S.J. Res. 1948, (November 17, 1999).

³² *Slimfold Mfg. Co., Inc. v. Kinkead Industries, Inc.*, 810 F.2d 1113 (Fed. Cir. 1987).

³³ H.R. Rep. 105-39 accompanying H.R. 400, the “21ST Century Patent System Improvement Act”, March 20, 1997.

the legislative history of H.R. 400 for that provision is relevant to interpreting 35 U.S.C. § 154(d).³⁴

Therefore to determine what is to be considered “substantially identical,” one must look to the case law interpreting intervening rights under reissue and reexamination situations, which itself is not very clear.³⁵

III. THE EFFECT OF 35 U.S.C. § 154(D) ON U.S. PATENT LAW AND POLICY – A DISCORDANT HARMONIZATION

The drafters of the United States Constitution recognized that granting a limited monopoly would “Promote the Progress of Science and Useful Arts.”³⁶ However, in using the phrase “securing for limited Times” acknowledges that the exclusive rights should not be all-powerful and should be weighed against rights removed from society.³⁷ The provisional rights shift the burden too far in favor the applicant. In patent law practice, the traditional remedy to balance the burdens is declaratory judgment. A potential infringer receives a cease and desist letter from a patentee. The infringer may then bring a declaratory judgment action to determine the scope of the patent and any potential infringement.³⁸ Below, I will discuss whether this recourse is available to the public when faced with a provisional rights claim ad its effect on society.

³⁴ Signore, Philippe, *The New Provisional Rights Provision*, 87 J. PAT. & TRADEMARK OFF. SOC’Y 742 (2000) (citing H.R. Rep. 105-39 accompanying H.R. 400, March 20, 1997.)

³⁵ See *Tennant Co c. Haka Minuteman, Inc.*, 878 F.2d 1413, 1417 (Fed. Cir. 1989) (Indeed, if the substance of the claims stays the same, they are “identical.” (finding that where claims amendments simply make the claim more definite, they are without substantive change); See also *Pandora Jewelry, LLC v. Chamilia, LLC*, 2008 WL 3307156 at *10 (D.Md. 2008). (“There is no per se rule that an amendment to a claim in order to overcome a PTO rejection based on prior art precludes finding valid provisional rights”);

³⁶ U.S. Const. art. I, § 8.

³⁷ *Id.*

³⁸ 28 U.S.C. § 2201

A. Declaratory Judgment in the United States

The Declaratory Judgment Act provides that “[i]n a case of actual controversy within its jurisdiction...any court of the United States...may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.”³⁹ The Supreme Court upheld the constitutionality of the act in *Aetna Life, Ins., Co v. Haworth* explaining the phrase “case of actual controversy” refers to the type of “Cases” and “Controversies that are justiciable under Article III.”⁴⁰ The two main components of justiciability under Article III are standing and ripeness. Standing refers to whether plaintiff is threatened with “imminent” injury in fact “’fairly traceable to the challenged action of the defendant.”⁴¹ Ripeness refers to whether there is sufficient “hardship to the parties in withholding court consideration” until there is enforcement action.⁴²

1. The Patent Law Standard

The Supreme Court in *Medimmune v. Genentech, Inc.* interpreting in the patent infringement context what is an actual controversy⁴³ affirmed the proper test that the dispute must be, “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] of specific relief through a decree of conclusive character, as distinguished from an opinion advising what the law would be upon a

³⁹ 28 U.S.C. § 2201(a).

⁴⁰ U.S. Const. art III: “The Judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made under their Authority;--to all Cases affecting Ambassadors, other public ministers, and Consuls;--to all Cases of admiralty and maritime jurisdiction;--to Controversies to which the United States shall be a party;--to Controversies between two or more States;--between a State and Citizens of another State;---between Citizens of different States;-- between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.,” *See also* *Medimmune v. Genentech, Inc.*, 127 S.Ct. 764 (2007)

⁴¹ *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560, 112 S. Ct. 2130, 119 L.Ed.2d 351 (1992).

⁴² *Abbot Laboratories v. Gardner*, 387 U.S. 136, 149, 87 S.Ct. 1507, 18 L.Ed.2d 681 (1967).

⁴³ *See Muskrat v. United States*, 219 U.S. 346 (1911) (explaining “case or controversy”).

hypothetical state of facts.⁴⁴ Further clarifying the Court stated that the proper question in each case is “whether the facts alleged, under all circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”⁴⁵

The Court of Appeals for the Federal Circuit, having exclusive jurisdiction over all district court appeals “arising under” patent law, previously held that the proper test for declaratory judgment in patent dispute required the plaintiff to show (1) conduct by the patentee that created a “reasonable apprehension” of suit on the part of declaratory judgment plaintiff and (2) present activity by the declaratory judgment plaintiff that could constitute infringement of “meaningful preparation” to conduct potentially infringing activity.⁴⁶ While *Medimmune* essentially overrules this test, the CAFC has found that “reasonable apprehension” while no longer the sole test, is not altogether lost and is relevant in satisfying the totality of circumstances standard set forth in *Medimmune*.⁴⁷ Furthermore the concepts of standing, and ripeness are also relevant in the inquiry.⁴⁸ Each situation must be individually looked at on a factual basis. There is no bright line rule for determining whether an action satisfies the case or controversy requirement. The CAFC notes, “[t]he difference between an abstract question and a “controversy” contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.”⁴⁹

⁴⁴ *Medimmune*, 127 S.Ct. at 771.

⁴⁵ *Id.*

⁴⁶ *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1336 (Fed. Cir. 2008).

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*

When looking at the facts of the situation what constitutes the existence of a controversy is unclear. The concepts of standing and ripeness are somewhat merged and looked at together under each particular situation. The CAFC noted that mere knowledge of an adversely held patent does not create standing stating, “the mere existence of a potentially adverse patent does not cause an injury nor create an imminent risk of an injury absent action by the patentee, “a potential competitor is legally free to market its product in the face of an adversely held patent.”⁵⁰ Further, a purely subjective apprehension of an infringement suit is insufficient to satisfy the actual controversy requirement rather it is the reality of the threat of injury that is relevant to the standing inquiry not the plaintiff’s subjective apprehensions.⁵¹ Because this subjective fear of suit is not enough for injury the court noted that what is usually sufficient to create an alleged injury sufficient for declaratory relief in the patent context is a “restraint on the free exploitation of non-infringing goods,” or an imminent threat of such restraint.”⁵² A patentee can cause such an injury in a variety of ways, for example, by creating a reasonable apprehension of suit, demanding the right to royalty payments, or creating a barrier to the regulatory approval of a product that is necessary for marketing.⁵³

2. Jurisprudence Applied to 35 U.S.C. § 154(d) - Society not [*med*]-*Immune* to Cost

In order to comply with the actual notice requirements of 287(a)⁵⁴ under *SRI* you must do three things including: identify the patent (here the application and claims), identify infringing

⁵⁰ *Id.* at 1338.

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ Which is being correlated to 154(d), as the only relevant statute and case law in patent context.

activities, and include an offer for abatement or license. However as noted in *MIT*, the notice must be more than “informational” otherwise it is insufficient, but if too specific may cause a “controversy.” Does sufficient notice then in reality create a controversy sufficient to pass muster under *Medimmune* and *Prasco*?

An applicant must inform the infringer of the activities in order to collect damages, under either 154(d) or 287(a). In doing so there is an innate accusation of infringement. While the *SRI* court noted that, “The criteria for actual notice under § 287(a) are not coextensive with the criteria for filing a declaratory judgment action. These statutory purposes are distinct, serve different policies, and are governed by different laws. The requirement of actual notice under § 287(a) is designed to assure that the recipient knew of the adverse patent during the period in which liability accrues, when constructive notice by marking is absent. Actual notice may be achieved without creating a case of actual controversy in terms of 28 U.S.C. § 2201. *MIT* went on to note, “Although more specific charges of infringement potentially raise the possibility of a declaratory judgment action, the Federal Circuit has held that a patentee may provide actual notice of infringement under § 287(a) without creating a case of actual controversy in terms of 28 U.S.C. § 2201, justifying a declaratory judgment action.”⁵⁵ While these excerpts display the court in both of cases discussed how there can adequate notice without creating a controversy, it was only intended to show that a “controversy” need not be created for notice to be adequate. Essentially, the court did not deny that a “controversy” might in fact exist under the circumstances because of said adequate notice.

Under 154(d) one cannot collect damages for violation of provisional rights unless the patent actually issues and is substantially identical. Also how does the court deal with the ripeness issue when the patent has not issued yet? Notice must be given before the patent issues

⁵⁵ *SRI Int'l*, 127 F.3d at 1470.

so the question is for the time frame before actual issuance and notice. When notice in any form is sent to a potential infringer, the infringer may actually have an imminent injury when looking at standing and ripeness combined, as is done *Prasco*, even before the issuance of the patent. Under the all of the circumstances test laid out in *Medimmune*, the infringer is left with a possible “restraint on the free alienation of goods” and has no way to know whether they are in fact infringing or not. As noted by the Supreme Court, “the declaratory judgment procedure is an alternative to pursuit of the arguably illegal activity.”⁵⁶ The dilemma posed by the coercion is putting the challenger to the choice between abandoning his rights or risking prosecution is “a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.”⁵⁷ After receiving the notice, the recipient has no idea whether what he is doing is infringing or not. The intent of Congress in enacting 35 U.S.C. 154(d) was to assist the public in understanding what can and cannot be done through publication. However, in a situation like this the only determination is through declaratory relief, which was created to protect people in such instances. While subjective fear of suit is not enough, if there is a “restraint of trade, or imminent risk thereof” then declaratory relief can be sought. Damages under 154(d) begin to accrue once the recipient is notified adequately of the application, this could quite easily construe an imminent risk of restraint of trade. They may be forced to stop activity or risk possible prosecution. And further, the patent may never issue or the claims may not be substantially identical thus they were forced to cease activity in a free market for no apparent reason. However, can a court deal with the issue of ripeness, considering the potential patentee

⁵⁶ *Medimmune*, 127 S.Ct. at 770.

⁵⁷ *Id.*; See *Arrowhead Industrial Water, Inc., v. Ecolochem, Inc.*, 846 F.2d 731 (describing the type of “sad and saddening scenario” that led to the enactment of the Declaratory Judgment Act in which the “patent owner attempts extrajudicial patent enforcement with the scare-the-customer-and-run tactics that infect the competitive environment of the business community with uncertainty and insecurity.)

technically does not even have rights until the patent issues? This leaves the “infringer” with no recourse and a potential alienation from the competitive market.

B. What’s all the Fuss About Expanding Exclusive Rights? – An Economic Analysis

Intellectual Property Law consists of striking some balance between rights of the public and rights of inventors. Patent law grants a monopoly onto a patent holder. This is the benefit that is received for disclosing innovation to the public. In disclosing the patent, society thus receives a benefit in return, through access to the new information.

Section 154(d) grants the right to obtain royalties pre-issuance of a patent.⁵⁸ In so doing, the applicant both gains benefits by royalties, but observes costs due to disclosure, while the public gains the benefit of the information, but incurs the cost of being liable for royalties. At the margin this seems equitable, however this balance would only fair when dealing with an issued patent and the social benefit on society.⁵⁹ When dealing with these extra royalties, there is an extra benefit conferred on the inventor, with an extra cost incurred by society. The patent has not yet issued, and the inventor is able to assert “rights” over the public domain. Without recourse, the information in the public domain is severely harmed; the cost has now become greater than zero. The patent laws did not intend to create a monopoly outside the rights of a granted patent, that is frustrating to the balancing.

⁵⁸ 35 U.S.C. § 154(d).

⁵⁹ William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471 (2003). ([T]he optimal level of intellectual property protection is determined by balancing at the margin the incentive effects of broader rights against the administrative and access costs arising from the public goods aspect of intellectual property.”)

Analysis using the net benefits approach yields the same results.⁶⁰ The benefits/costs of society must be weighed against the benefits/costs of the creator, taking into account marginal benefits and incremental effects. While it is true under this theory that there is not always loss in access with an expansion of right, under 154(d) there is. The provisional rights were enacted to incentivize the creator to disclose his information, by “protecting” the disclosure. This is useful especially in situations involving pharmaceuticals, where the technology is only relevant for a few years (much less than the 20 year patent term). The creator is able to take advantage of these provisional rights in essentially extending his monopoly rights, to this end, the provisional rights incentive creation. Society thus loses all the benefits it would have incurred had there been no provisional rights.

Furthermore, in a more practical sense, there is an unknown factor involved. An applicant files for a patent. Under 154(d) he has potential collection of royalties. The public views the public disclosure but has no idea what to make of it. The applicant sends a cease-and-desist letter to a public competitor, enforcing his provisional rights. The competitor needs a way to clarify his position. The patent has not yet issued, yet he is being potentially forced out of the marketplace, a marketplace that is full of not-yet patented public information, just like information only contained in a patent application, in which no rights have vested. The competitor may be forced not to compete for years.⁶¹ This is especially true in first-to-file systems. Picture a scenario, where two competitors make the same product. One of the

⁶⁰ Olufunmilayo B. Arewa, *The Freedom to Copy: Copyright, Creation, and Context*, 41 U.C. DAVIS L. REV. 477, 498-503 (2007).

The net benefit theory states: An increase in exclusive rights to intellectual property is justified only when the value of increased creative activity resulting from increased incentives is greater than the value of the benefits lost from reduced access.

An increase in access to intellectual property is justified only when the value of the benefits resulting from increased access is greater than the value of decreased creative activity resulting from decreased incentives.

⁶¹ The average patent issuance is 3-5 years.

competitors files for a patent knowing he can assert provisional rights over the competitor. Since the competitor will be uncertain of his liability, he may be forced to withdraw from the marketplace. In the end, the patent may never issue, but the competitor was stripped of all his beneficial public information for which he was allowed to profit.

An individual, placed in the shoes of this competitor, must have some outlet of recourse to balance the scales. One cannot sit and wait for several years for a patent that may or may not issue.⁶² Declaratory judgment has traditionally been the remedy for situations such as this, clarifying legal liability for an uncertain party. However, declaratory judgment is not likely a viable option, as discussed in the following section.

IV. PROPOSED SOLUTIONS

Without declaratory judgment, there is currently no viable recourse mechanism for public competitors requiring clarity. There must be another way to attempt to balance the costs incurred by society to the extended benefits granted in provisional rights.⁶³ I propose three possible solutions:

A. Eliminate Provisional Patent Rights

35 U.S.C. 154(d) is counterproductive to its purpose. The cost incurred by society under both a cost approach and a net benefit approach is greater than that of the benefit given to the

⁶² Under the new reexamination procedures, a party can submit prior art to contest the application, but again this is a tenuous assertion of a defense. Furthermore, the prior art may not even be looked at for several years, and the uncertainty of the patent will still remain. The damage to the public will already be done once the provisional rights are asserted.

⁶³ I note that the America Invents Act created a prior commercialized use defense. However, there is more than enough uncertainty involved with this defense. It is a very limited defense, it likely doesn't extend to provisional rights, only issued patents, and further, the public is still harmed by the presence of the provisional rights. 35 U.S.C. § 273.

inventor. The statute was enacted to encourage filing for patent, and incentivizing creation, yet it is inhibiting creation, by preventing the public from using free information. Furthermore it is creating an anti-competitive marketplace. If the legislators were to remove the provisional rights statute, the balance may be more even. Traditional patent law creates enough incentives, a 20-year monopoly over technology.

Congress should adopt the sole use of the Patent Fast Track Program.⁶⁴ The Fast Track Program, adopted into law in the America Invents Act, allows applicants to pay a sum of \$4800 to expedite the examination of the application. The expedited application is assured examination in twelve months or less. This places the burden on the applicant to incur the costs in seeking exclusion of rights. If an invention is worthwhile enough to assert provisional rights, the nominal fee of \$4800 is not an excessive cost. The public should not incur costs from an applicant's second bite at an apple by currently allowing them the option of choosing the fast track or the provisional rights.

B. Add a “Competitive Injury” Element

The provisional rights statute is very similar to the false marking statute in the America Invents Act.⁶⁵ False marking entails placing the words “patented” or “patent pending” on an

⁶⁴ Leahy-Smith America Invents Act, Pub. L. 112-129 (2011).

⁶⁵ 35 U.S.C. § 292(a): (a) Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words “patent,” “patentee,” or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee; or Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word “patent” or any word or number importing that the same is patented for the purpose of deceiving the public; or Whoever marks upon, or affixes to, or uses in advertising in connection with any article, the words “patent applied for,” “patent pending,” or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public-- Shall be fined not more than \$500 for every such offense. Only the United States may sue for the penalty authorized by this subsection.

item when is not. False marking statutes were created because the public is harmed by these actions. When a false mark is used the property is effectively removed from the public domain.⁶⁶ It causes a chilling effect in innovation by deterring potential research and development. This is contrary to the foundations of intellectual property, balancing benefits and costs.⁶⁷ To combat this imbalance, congress provided a claim against a false marker for someone who sustained a “competitive injury” from the false marking.

I propose that 154(d) at language that allows a competitor, who was put on actual notice of an application, to bring a claim for competitive injury if the patent never issues. This will balance everything. There are four possible scenarios after competitor is put on actual notice of provisional rights enforcement:

Patent Denied Issuance:

- 1) The competitor ceases all activity due to fear or suit of suit. The patent is never issued for various reasons. The competitor having been forced out of the marketplace may now bring a claim against the patent applicant based on “competitive injury” sustained from costs incurred due to the assertion of provisional rights. This evenly balances the public’s rights against the extension of provisional rights given to the patent applicant.

The applicant will incur his own cost in deciding if the patent will issue.

(b) A person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury.

(c) The marking of a product, in a manner described in subsection (a), with matter relating to a patent that covered that product but has expired is not a violation of this section.

⁶⁶ Richard A. Crudo, *A Patently Public Concern: Using Public Nuisance Law to Fix the False Marking Statute*, 80 Geo. Wash. L. Rev. 568 (2012).

⁶⁷ A company's false marking of a product line sends a signal to its competitors, both actual and potential, that that line is subject to intellectual-property protection. Such false signals constitute an impediment to competition, even when they are directed at experienced, business-savvy, and knowledgeable rivals.

2.) The competitor continues all activity and ignores any notice served regarding provisional rights. The patent is never issued for various reasons. Since the competitor did not cease operations, and was not withdrawn from the marketplace, there can be no proof of competitive injury, and thus no valid claim, the status quo remains.⁶⁸

Patent Granted:

3.) The competitor ceases all activity in fear of suit after receiving actual notice from patent applicant asserting provisional rights. The patent is granted after examination. The public competitor, who would have been potentially liable for royalties, incurred no costs because his withdrawal saved the amount in reasonable royalties that would have been owed in a provisional rights claim. The saving of the royalties balances the benefits of enforcing the royalties by the applicant.

4.) The competitor continues activity and ignores notice. The patent is granted after examination. Competitor is now liable for royalties under § 154(d) if all the elements are met. Applicant gains benefit from given to him by statute.

Adding a competitive injury element, while maybe not perfect, cures most of the cost incurred by society because of the uncertainty involved. The competitor can withdraw from claimed infringing activity, but has a balanced action against the applicant who's patent never issues.

⁶⁸ *Fisher Price, Inc. v. Kids II, Inc.*, 2011 WL 6409665 at *1 (W.D.N.Y. 2011) (court stating that after notice of the marked item continued presence in the marketplace barred any showing of competitive injury).

C. Adopt Provisions Used by International Counterparts

Australia and the UK have statutory limitations, or defenses in their provisional rights statutes. The UK allows for royalties to be lessened if it was unreasonable to think the application would be granted at the time of the infringing activity.⁶⁹ This helps to mitigate the issue with substantially identical uncertainty.

Australia has a defense to provisional rights that allows the infringer to escape damages if the infringer can show that the application was invalid at the time of the action.⁷⁰ This is likely an easy thing to prove since most applications go through extensive examination.

Both of these provisions are viable options to help solve the problems created by provisional rights. However, they are an “imperfect” partial solution to the problem. These provisions alleviate some of the costs incurred by the public, but only in the form of a defense, or some proof post issuance of the patent. 35 U.S.C. § 154(d) imposes costs on the public long before the patent issues. A solution to this problem must address the issue at the time of the harm inflicted.

V. CONCLUSION

As it stands, the provisional rights statute is detrimental to the public, and frustrates the intent of Intellectual Property law.

The language of 35 U.S.C. § 154(d) is highly ambiguous. Currently, to be successful in asserting provisional rights, an applicant must provide actual notice to an infringer, the patent

⁶⁹ Patents Act 1977, ch. 35, s. 69(1) (UK).

⁷⁰ Patents Act 1990, Section 57 (Aust.)

must actually issue, and the scope of the patent must be substantially identical to that of the application. There is little to no legislative history indicating a uniform interpretation of the provisional rights requirements. Furthermore, there is little to no case law interpreting these issues. Each requirement is highly speculative in nature. Proving “actual notice” is highly fact sensitive and had no definitive meaning. Issuance of a patent may take several years, and leave both the applicant and the public in uncertainty. The phrase “Substantially identical” can be construed in multiple ways.

The spirit of Intellectual Property is based on the proper balancing between right to exclude and right to access. The Constitution acknowledged this in its Invention Clause.⁷¹ In current patent practice, the availability of declaratory judgment is the mechanism to remove any speculation from the public. The public avoids excess cost with a concrete decision as to its liability. Declaratory judgment, however, is likely unavailable to the public when facing provisional rights accusations. Because no rights vest until the actual issuance of a patent, there is a difficult question of standing and ripeness.

The inherent problems are evident once declaratory judgment is no longer available. Under an economic analysis using the Average Cost theory, the marginal cost becomes more than zero due to an increased benefit in the applicant. Similarly, using a net-benefit economic model there is no justification in increasing exclusive rights because the costs incurred on society far outweigh the costs for incentive.

The public is left with much uncertainty:

A “patent pending” notice gives one no knowledge whatsoever. It is not even a guarantee that an application has been filed. Filing an application is no guarantee any patent will issue and a very substantial percentage of applications never result

⁷¹ U.S. Const. art. I § 8

in patents. What the scope of claims in patents that do issue will be is something totally unforeseeable.”⁷²

Congress should adopt one of the three solutions presented in this article. Congress’s first option should be to abolish the provisional rights. Congress has implicitly discovered the answer to its own problem when it enacted the Patent Fast Track program. Forcing patent applicants to rely solely on the Fast Track Program instills the burden on the applicant. The individual seeking to exclude access can seek to expedite the application if the innovation is worth the price of admission. If the innovation were not worth anything then granting provisional rights would do nothing but place excessive costs on the public, having to incur far and above what the Fast Track costs. The cost for Fast Track to an applicant is a few thousand dollars. A cease and desist letter based on provisional rights has the potential to impose millions of dollars in costs on the public who need to hire counsel, researchers, lose good will, etc... This is the most efficient solution as the others are only “imperfect” and still impose too high a cost on society.

⁷² *State Industries, Inc. v. A.O. Smith Corp.*, 751 F.2d. 1226, 1235 (Fed. Cir. 1999).