

Cases Shaping the Understanding of Provisional Patent Rights

By Dennis J. Parad

The American Inventor Protection Act of 1999 gave patent applicants provisional patent rights upon publication of their patent applications. This was codified in 35 U.S.C. § 154(d) (1999). This meant that “patent pending” actually gave some provisional patent right protection. To receive reasonable royalties from infringers, a claimant must meet three criteria: 1) any reasonable royalties owed are only awarded after the patent is actually issued; 2) the claims that are infringed on are substantially identical or unchanged; and 3) the claimant must give actual notice to the infringer.

Federal courts are just beginning to interpret these requirements under the American Inventor Protection Act. Two recent U.S. District Court cases addressed issues of calculating a reasonable royalty and of substantially identical claims.

On August 4, 2008, the U.S. District Court for the Northern District of Ohio dealt with the issue of calculating reasonable royalties stemming from violation of the plaintiff’s provisional rights. *Parker-Hannifin Corp. v. Champion Labs.*, No. 1:06-CV-2616, 2008 WL 3166318 (N.D. Ohio Aug. 4, 2008). In *Parker-Hannifin*, defendant Champion admitted its oil filter infringed the plaintiff’s patent and that it owed a reasonable royalty to the patentee for pre-issuance sales based on the provisional rights afforded under 35 U.S.C. § 154(d). The statutory provision reads that “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...makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application.” 35 U.S.C. § 154(d)(1)(A)(i).

In assessing reasonable royalty damages, courts previously looked at 35 U.S.C. § 284 which states that the “the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” This meant that a “reasonable royalty” was set as the minimum damage awarded. Lost profits meant damage figures were higher than the reasonable royalty figure. However, damages for provisional rights violations are a different ball game. Here, reasonable royalty is set as a maximum without any requirement that the rate adjustment sufficiently compensates the patent holder.

In *Parker-Hannifin*, the court mentions the rationale of a current Federal Circuit decision where reasonable royalty was limited for the “provisional rights period” to the cost to defendant to implement its non-infringing alternative; however, it is “wrong as a matter of law” to cap reasonable royalties “at the cost of implementing the cheapest available acceptable,

noninfringing alternative.” The court calculated the royalty rate by applying the *Georgia Pacific* standard where the court creates a “hypothetical negotiation.” Curiously, the court lacked any analysis on how the “hypothetical negotiation” is different when defendant only violated the plaintiff’s provisional rights.

Another question that federal courts are trying to resolve is the issue of what constitutes substantially identical claims as the claims change from the patent application publication to the issued patent. The American Inventor Protection Act of 1999 states that provisional rights are not available “unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.” 35 U.S.C. § 154(d)(2) (1999). The “substantially identical” language is very similar to that found in 35 U.S.C. § 252, which deals with reissue patents; specifically, reissued patent claims that are “substantially” identical retain the same power as those found in the original patent.

Four days after *Parker-Hannifin*, another U.S. District Court, now in the District of Maryland, dealt with the “substantially identical” issue. *Pandora Jewelry, LLC v. Chamilia, LLC*, No. CCB-06-600, 2008 WL 3307156 (D.Md. Aug. 8, 2008). In *Pandora Jewelry*, Pandora sued Chamilia for infringing on a method of stringing decorative beads along a strand, such as a bracelet or necklace, where the beads do not bunch and are readily interchangeable in their locations along the strand. As in most cases, patent applicants amend claims in response to a patent examiner’s rejections or objections. Both parties and the court agreed that the meaning of “substantially identical” found in § 154(d) was the same as that found in § 252. The Court of Appeals for the Federal Circuit already interpreted the “substantially identical” for § 252. In *Pandora Jewelry*, the court followed the rationale found in a previous Federal Circuit case where “substantially identical” means “without substantive change.” To determine if there was substantive change, the court must determine whether the scope of a claim is the same and not just whether different words are used. However, the court notes that “it is difficult to conceive of many situations in which the scope of a rejected claim that became allowable when amended is not substantively changed by the amendment.”

The outcome of the case rested upon whether the amended claim in question was substantively changed. Pandora amended the claim to overcome a prior art rejection cited by the patent examiner. By amending the claim, Pandora “substantively altered the scope of the claim” and, therefore, lost any previous provisional right related to that claim. As a result, no provisional right existed from which Chamilia could violate.

Pandora Jewelry and *Parker-Hannifin* helped pave the way for a better understanding of the provisional rights statute. There are still many issues of the statute that the federal courts need to resolve. This is particularly true for the question of what constitutes “actual notice” in relation to

provisional patent rights. Litigation in the coming months ahead will further the ongoing interpretation of § 154(d).

Sources:

35 U.S.C. §§ 154(d), 252 (1999).

Parker-Hannifin Corp. v. Champion Labs., No. 1:06-CV-2616, 2008 WL 3166318 (N.D. Ohio Aug. 4, 2008).

Mars, Inc. v. Coin Acceptors, Inc., 527 F.3d 1359 (Fed. Cir. 2008).

Georgia Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

Laitram Corp. v. NEC Corp., 163 F.3d 1342 (Fed. Cir. 1998).

For further information:

Dennis Crouch, *Provisional Rights I: Calculating a Reasonable Royalty*, PATENTLY-O, Sept. 7, 2008, <http://www.patentlyo.com/patent/2008/09/provisional-rig.html>.

Dennis Crouch, *Provisional Rights II: Substantially Identical Claims*, PATENTLY-O, Sept. 8, 2008, <http://www.patentlyo.com/patent/2008/09/provisional-r-1.html>.