

Federal Circuit Applies On-Sale Bar in Case Involving Software

By Robert Hulse

To receive a patent for an invention that is new, useful and nonobvious, an inventor must apply to the U.S. Patent and Trademark Office. The requirement that an invention be new, also known as the "novelty" requirement, ensures that an inventor cannot use the patent system to take for himself what already is in the public domain — embodied, for example, in existing publications, prior patents and common knowledge.

But an inventor also can violate the novelty requirement when he engages in certain activity that triggers a statutory bar. A statutory bar operates like a statute of limitations to force an inventor to apply for a patent within a given time period after the inventor engages in certain activity. Otherwise, the inventor forever forgoes any patent rights in the invention. Statutory bars thus serve the patent system by requiring inventors to be diligent when applying for patents.

panies to trigger the bar even where each company employed inventors and had an ownership interest in the invention. *Brasseler U.S.A. I L.P. v. Stryker Sales Corp.*, 182 F.3d 888 (1999).

In yet another case, the Federal Circuit applied the on-sale bar where a third party misappropriated the invention and passed it to an innocent buyer, which later put the invention on sale. *Evans Cooling Sys. Inc. v. General Motors Corp.*, 125 F.3d 1448 (1997).

The lesson of these cases is that courts are loath to create exceptions for the on-sale bar, as inventors always can prevent application of the bar simply by filing a patent application.

Although seemingly straightforward, the statute leaves the meaning of the phrase "on sale" somewhat vague and subject to judicial interpretation. Courts consistently have applied the bar when a product or machine is sold or offered for sale or when a process is performed for consideration. See, for example, *Special Devices; Brasseler; Evans.*

license the patent and underlying technology, rather than an offer to sell or lease the machine itself, the court found that no barring activity had taken place.

Licenses agreements can complicate application of *Pfaff's* two-pronged test, and no automatic rule exists for determining whether a license triggers the bar. In a recent decision, the Federal Circuit found that an agreement for the transfer of technology and know-how related to a process does not bar a later-filed patent on that process. *In re Kollar*, 286 F.3d 1326 (2002).

In *Kollar*, the inventor sought a patent for a process of preparing a chemical compound. Before the critical date, however, the inventor entered into a license with a third party to coordinate efforts to build a plant capable of implementing that process. The patent office, therefore, refused to grant a patent on the ground that the license barred the patent.

Reversing that decision, the Federal Circuit found that the agreement amounted only to a transfer of technical information about the invention and a license under any future patents. The court cited the established rule that merely granting a license under potential patents rights usually is not a sale, although a commercial transaction arranged as a license or lease of a product or device may be tantamount to a sale.

Subsequent case law affirms the general rule that a mere license of technology, know-how or patent rights alone will not trigger the on-sale bar. However, a license that includes the sale of an interest entitling the purchaser to possess and use a product (for example, a lease), even if couched in terms of a license, will trigger the bar. See, for example, *Minton v. NASDAQ Inc.*, 336 F.3d 1373 (2003).

The application of these rules to software, which blurs the line between the tangible and intangible, is more difficult. Software products typically are sold by way of a license, such as a click-wrap and shrinkwrap agreement, in contrast to more traditional sales of tangible objects.



Although the courts have clarified the law in recent years, the line between what activities trigger the on-sale bar and what activities are 'safe' remains blurred.

The on-sale bar requires that an inventor file a patent application within one year of placing the invention "on sale" within the United States. 35 U.S.C. Section 102(b). The on-sale bar precludes a patent on an invention if "the invention was ... on sale in this country, more than one year prior to the date of the application for patent in the United States."

Accordingly, any sales or offers for sale of an invention more than one year before the inventor files the patent application will bar the patent. Patent practi-

However, it has been less clear whether other types of commercial activity also rise to the level putting the invention "on sale." For many years, whether a particular activity triggered the on-sale bar was subject to the vagaries of a multifactor "totality of the circumstances" test. In 1998, however, the Supreme Court swept away this tangled test and replaced it with a new two-pronged test. *Pfaff v. Wells Elecs. Inc.*, 525 U.S. 55 (1998).

The *Pfaff* court held that the on-sale bar applies when two conditions are sat-

tioners commonly refer to a "critical date" — one year before a patent's filing date — as the date before which any sales can be used to invalidate the patent.

To trigger the on-sale bar, one must show that the device sold or offered for sale fully "anticipated" (or embodied all of the claimed features of) the invention or would have rendered the invention obvious to one of ordinary skill in the art.

The purpose of this requirement is to limit the period of time during which the inventor can exploit the invention commercially. Otherwise, an inventor theoretically could use an invention for several years and, then, once competitors develop the same technology, apply for a patent. The effect would be to allow the inventor to enjoy the exclusivity of the invention for the period in which competitors are catching up and, then, for an additional full patent term.

Under the "bargain theory" of the patent system, an inventor is granted a limited period of exclusivity to exploit an invention in exchange for placing the public in possession of the invention by filing a patent application. The on-sale bar thus prevents an inventor from circumventing the statutorily prescribed 20-year patent term by unduly delaying the filing of a patent application while at the same time enjoying the commercial benefits of exploiting the invention.

But the bar is not Draconian; it allows inventors a one-year grace period to refine the invention and determine whether the invention is of sufficient value to justify the time and expense required to pursue patent protection.

The activity of anyone, not just the patent owner or the inventor, can trigger the on-sale bar. It does not matter who puts the invention on sale; it only matters that the invention was put on sale before the critical date.

For example, the U.S. Circuit Court of Appeals for the Federal Circuit found an invention to be on sale when the patent owner entered into a requirements contract with a manufacturer to build an inventory of the later-patented product. *Special Devices Inc. v. OEA Inc.*, 270 F3d 1353 (2001). In another case, the court found a sale between two compa-

isied before the critical date. The first prong of the test looks to whether a product embodying the invention was the subject of a "commercial offer for sale." This implicates traditional contracts law.

The second prong examines whether the invention was "ready for patenting." The court explained that the second prong may be satisfied in at least two ways: by proof of actual reduction to practice before the critical date or by proof that, before the critical date, the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.

Despite the court's clarification, *Pfaff* left some ambiguity about the extent to which other commercial activity could constitute a "commercial offer for sale" under the first prong. For example, could advertising and promotional activity for the purpose of generating commercial demand put an invention "on sale" within the context of the bar? Could communications between sales representatives and potential customers to solicit information on pricing satisfy the test?

Responding to *Pfaff*, the Federal Circuit answered these questions in the negative. *Group One Ltd. v. Hallmark Cards Inc.*, 254 F3d 1041 (2001). There, the court laid to rest any notion that activity short of an actual commercial offer for sale, as understood under traditional contracts law, could trigger the bar.

Moreover, the court explained that national uniformity in the patent system dictates that the first prong be analyzed under the law of contracts as generally understood, rather than under a particular state's contract law. Accordingly, courts must look to the Uniform Commercial Code and the Restatement of Contracts for guidance as to what constitutes an offer for sale.

Clearly, therefore, mere promotional activity should not trigger the on-sale bar. In *Group One*, for example, the plaintiff patent owner engaged in communications with the defendant to generate interest in a machine for curling ribbon. The defendant argued that those communications, which occurred before the critical date, constituted an offer for sale and, thus, barred the patent.

In rejecting that argument, the court outlined the general rule that the sale of rights in the patent, as distinct from a sale of the invention itself, does not trigger the bar. Reasoning that the plaintiff's communications were an offer to

The Federal Circuit recently applied the on-sale bar to software agreements in *Minton*. There, the patentee had leased his computer program and telecommunications network to a brokerage firm before the critical date. The court held that this transaction was unlike the transaction in *Kollar*, which only conveyed know-how. Here, the transaction conveyed a fully operational computer program, which allowed the parties to exploit the invention commercially without further development.

Knowing how courts apply the on-sale bar will help to avoid unnecessary activity that will trigger the bar. For example, commercial activity to promote an invention can be couched in terms of advertising and product promotion, which traditionally are considered an invitation for offers instead of actual offers. Of course, responding to such an invitation may itself be an offer.

Further, when drafting agreements that involve an invention for which a patent application has not been filed, the drafter should avoid language that suggests an offer — such as "I offer" or "I promise" — and, instead, use language that suggests preliminary negotiations — such as "I quote" and "are you interested."

Apart from carefully choosing the language in an agreement, another way to avoid triggering the on-sale bar is to make express in the agreement that the product is not yet available for sale and that no sale or no offer for sale is being made. Of course, this language will not prevent the on-sale bar if the facts indicate otherwise.

Nevertheless, the risk of losing patent rights always remains until a patent application actually is filed. Although the courts have clarified the law of the on-sale bar in recent years, the line between what activities will trigger the bar and what activities are "safe" remains blurred.

Moreover, decisions on this issue have been, and likely will continue to be, fact-specific. As a result, any individual or company trying to determine whether particular activity will trigger the on-sale bar should consult with patent counsel before engaging in any practice that implicates the on-sale bar. The best advice for any prospective patentee is to file a patent application as early as possible.

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Robert Hulse is a patent attorney with Fenwick & West in San Francisco.