The On-Sale Bar under the AIA

Thomas G. Field, Jr.

Professor Field considers whether pre-filing "private" offers for sale will constitute prior art under the new law.

Current 35 U.S.C. 102(b) provides, "A person shall be entitled to a patent unless… (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States." According to Pfaff v. Wells Electronics, Inc., 525 U.S. 55 (1998), "the invention" means something ready for patenting. *Id.* at 67. According to Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1048 (Fed. Cir. 2001), "on sale" means that an offer to sell rather than an offer to negotiate was made in accordance with the Restatement (Second) of Contracts §§ 24 and 26 (1981). Both cases take as given that the barring event occurred more than one year prior to the effective filing date.

Pfaff added the ready-for-patenting gloss despite the Solicitor General's contrary recommendation. 25 U.S. at 67 n.14. In that vein, one might think that an offer to sell should estop a party from denying the existence of a product suitable for patenting, at least in terms of utility. Circumstances in August Technology Corp. v. Camtek, Ltd., 2011 WL 3659357 (Fed. Cir.) (Camtek), however, counsel otherwise. As recounted there, "August Tech was approached by ICS to develop a wafer inspection machine that would meet their needs. In late 1996, with 'a concept of what the machine would be…'

ICS agreed to pay 15% of the purchase price on order, 20% on design review, 50% upon acceptance at August Tech's factory, and 15% after acceptance at the ICS's site." *Id.* at *9 (citations omitted). In such circumstances, nothing should warrant estopping the offeror from denying that an operable invention existed at the time of agreement.

Such cases control patents filed before Mar. 16, 2013, and will be relevant for roughly two decades. Later filed patents will, however, be governed by the on-sale bar set out in the America Invents Act (AIA) § 3(b).

New § 102(a)(1) says, "A person shall be entitled to a patent unless — (1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention." Notably, § 102(a)(1) is not limited to offers made in the United States.

The legislative report accompanying the AIA, states, "New section 102(b) preserves the grace period." H.R. Rep. No. 112–98, Pt. I, 112th Cong. 1st Sess. 73 (2011) (House Report). The substitute grace period does not, however, have the scope of current § 102(b). This will no doubt surprise attorneys who expected the United States to retain its grace period as well as to persist in its long-standing efforts to induce most other nations to adopt something similar.

Although complex, the new section basically provides, "A disclosure made 1 year or less before the effective filing date… shall not be prior art" if, for example, it is made by inventors, those in privity, or those "who obtained the subject matter directly of indirectly

from" them. Sec. 102(b)(1)(B). A transfer to third parties of goods susceptible of reverse engineering would surely be an exempted disclosure. But it would be difficult to regard the act of merely putting goods on sale as disclosure.

In assessing changes in § 102, first, consider *Pfaff's* holding that barring offers can be made only for inventions that are ready for patenting. Reinforced by the *Camtek* example, that requirement should survive.

Next, consider the significance of "otherwise available to the public." The House Report, at 43, says only, "the phrase 'available to the public' is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly accessible." Despite the Report's failure to mention "otherwise," courts might read the phrase to modify "on sale," and that may have been intended. If so, however, why does § 102(a)(1) reference only *public uses*? Why doesn't it say, for example, "on sale to the public" instead of merely "on sale"? Answers are far from clear. Given ambiguity in the statute, courts might turn to the report quoted above, but it seems no more enlightening.

Resolution of the issue will make a difference in many, if not most, cases concerning on-sale bars. To see how, compare the transactions in *Pfaff* and *Group One* with those in Linear Technology Corp. v. Micrel, Inc, 275 F.3d 1040 (Fed. Cir. 2002). In the latter case, the critical date and official release date were identical. *Id.* at 1043. "In the months and weeks leading up to [that]…, LTC engaged in extensive… activity designed to generate commercial interest…." *Id.* at 1044. Relying on *Group One* and the

Restatement (Second) of Contracts §§ 24 and 26, the court found no on-sale bar because such activities did not constitute offers to sell, and no offers to purchase were accepted prior to the critical date. *Id.* at 1052.

Had LTC accepted offers to purchase prior to the critical date, it seems clear that, as framed by both old and new law, the product would have been on sale "to the public." Such acceptance, putting no product susceptible of reverse engineering in the hands of purchasers, could not be an exempt "disclosure."

In view of ambiguity about whether only products subject to public offers become prior art, not to mention the lack of grace periods in most other countries, it is doubtful that any attorney would endorse making pre-filing "private" offers. When unadvised parties nevertheless make such offers on or after Mar. 16, 2013, of course, the argument will be advanced. Yet success seems very much up in the air.

Note: Regarding use of the Restatement in cases such as *Group One* and *Linear Technology, see* How Uniform Laws & Restatements Guide Federal Common Law. <link to http://www.ipfrontline.com/depts/article.aspx?id=11816&deptid=4>.)