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Blueprint For Trouble

Supreme Court Decision Increases Risk of Patent Waivers By Selling Too Soon

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A recent Supreme Court decision means that inventors and their companies now run a greater risk of inadvertently waiving their patent rights when they market patentable technology to potential purchasers. Corporate counsel and corporate sales staffs beware.

In *Pfaff v. Wells Electronics Inc.*, 119 S. Ct. 304 (Nov. 10, 1998), the Court clarified the Patent Act provision that no one is entitled to patent an invention that has been "on sale" more than one year before the filing of a patent application. In an unanimous decision by Justice John Paul Stevens, the Court held that the preparation of detailed written drawings of an invention establishes that the invention, if offered for sale, is sufficiently developed to begin the tolling of the one-year bar set forth in 35 U.S.C. §102(b). The justices rejected the determination by the U.S. Court of Appeals for the Federal Circuit that the statutory period begins when the invention is "substantially complete." As a result, competitors invoking the on-sale bar to challenge patents no longer must show that the proposed invention was actually reduced to practice or even worked more than a year before the patent application was filed.

The *Pfaff* ruling will make it easier for competitors and alleged infringers to contest the validity of patents that were sought more than one year after the underlying idea was first marketed to a potential customer. The decision is expected to have a significant impact on how patentable ideas are marketed to potential purchasers.

The case arose over a computer chip socket. Inventor Wayne Pfaff had begun work on the concept in November 1980 when he was asked by Texas Instruments to develop a device for mounting and removing semiconductor chip carriers. Pfaff prepared engineering drawings, detailing the socket's design, dimensions, and materials. During the spring of 1981, he sent those drawings to a subcontractor to manufacture the socket. On April 8, 1981, Texas Instruments gave Pfaff a written purchase order, requesting 30,100 sockets at a total price of $91,155.

Pfaff did not make or test a prototype of the new device before offering to sell it, and Texas Instruments did not require proof that the invention would work before placing the purchase order. The subcontractor took several months to develop the customized tooling necessary to produce the device, and Pfaff did not actually test it until the summer of 1981. Pfaff waited until April 19, 1982—more than one year after receiving the purchase order but less than one year after he had a working invention—to file a patent application. The socket achieved substantial commercial success before the patent was issued in 1985.

In 1986, Pfaff brought an infringement claim against Wells Electronics, manufacturer of a competing socket. He initially failed to establish infringement, but sued again when Wells began to market a modified device. A federal district court held that the modified device infringed Pfaff's patent and rejected Wells' defense that the patent was invalid because Pfaff's socket was offered for sale more than one year before Pfaff applied for a patent. The court's decision was based in part on its finding that not a single component of the invention had been constructed at the time Pfaff offered to sell it to Texas Instruments.

The Federal Circuit, which has exclusive jurisdiction over patent infringement appeals, reversed, holding that 35 U.S.C. §102(b) does not require that an invention be "reduced to practice" or exist in physical form to trigger the on-sale bar. The court stated that "the appropriate question is whether the invention was substantially complete at the time of sale such that there was 'reason to expect that it would work for its intended purpose upon completion.' " The Federal Circuit noted that the invention was an uncomplicated mechanical invention and that Pfaff was confident that it would work when manufactured.

A CLEAR STANDARD

While the Supreme Court rejected the "substantially complete" standard, it affirmed the circuit's ruling that Pfaff's patent was invalid because his invention had been offered for sale more than a year before he filed his patent application.

The high court stressed the importance of providing inventors with a clear standard to identify the onset of the one-year period.

The Court concluded that the Federal Circuit's "substantially complete" standard did not provide the certainty that inventors needed to determine whether their marketing and development activities would start the statutory clock. The Court also expressed concern that the lack of a clear standard would allow inventors to extend their patent monopoly by delaying their patent application while commercially exploiting the product.

Even though his invention had not yet been constructed, the Court noted that Pfaff could have obtained a patent at the time he offered to sell the invention to Texas Instruments. It is well-established that an inventor can obtain a patent for an invention that has not yet been built or tested as long as the patent application describes the invention in sufficient detail to enable an ordinary artisan to make and use the invention. In Pfaff's case, the engineering drawings that were sent to the manufacturer more than one year before the patent application was filed were nearly identical to the drawings eventually filed with the application.

Justice Stevens' opinion outlines the two conditions necessary to start the one-year statutory period. First, the invention must be the subject of a commercial offer for sale. Second, the invention must be "ready for patenting." This condition can be established in at least two ways: (1) showing that the invention has actually been reduced to practice, or (2) showing that "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." A detailed written description that can form the basis for a subsequent patent application is enough. The Court implied that the inventor's subjective belief as to whether the invention will work is irrelevant to the analysis.

The written-description requirement reflects concerns expressed by some justices at oral argument that the one-year period could be started by the mere existence of a idea in an inventor's mind. Presumably this requirement will allay fears that a patent could be invalidated based on sketchy or conflicting evidence about the maturity of the invention. Patents will not be invalidated under *Pfaff* if the only evidence of the invention is the inventor's unwritten marketing pitches.

The Supreme Court's decision clarifies a long line of cases that culminated in the Federal Circuit's controversial 1987 decision, *UMC Electronics Co. v. United States*, 816 F.2d 647. Rejecting the requirement that an invention must actually be constructed or tested, the *UMC* court adopted a "totality of the circumstances" standard to determine whether an invention is sufficiently developed to trigger the one-year statutory period. In *Pfaff*, the Supreme Court expressly distanced itself from the "totality of the circumstances" standard.

In addition to clarifying the on-sale doctrine, the Court reaffirmed the "experimental use" exception, which allows an inventor to conduct extensive testing without losing his right to obtain a patent, even if such testing occurs in the public eye. This exception has several significant limitations, however, which make it difficult for an inventor to argue that an early sale was for experimental purposes.

The *Pfaff* decision also appears to require that the offer for sale be commercial in nature to trigger the statutory bar. The decision suggests that a noncommercial offer would not start the one-year period, but it is unclear whether the commercial nature identified by the Supreme Court refers to the type of purchaser, the quantity of goods sold, or both. The Federal Circuit previously has held that a single sale or offer is sufficient to subject an invention to the on-sale bar. Yet sales made to a wholly owned subsidiary of the corporation owning the patent rights generally do not implicate the statutory bar.

RE-EXAMINATION TIME

In light of the *Pfaff* decision, companies and inventors will have to reassess their marketing practices. As the Supreme Court clearly stated, an offer to sell an invention that exists only on paper can invalidate a later-issued patent if the sales offer was made more than one year before the patent application was filed. A company that provides a detailed marketing presentation suggesting that it could build or supply a proposed invention may inadvertently start the one-year period. The period might begin even if details of the invention exist in written form, but are not disclosed as part of the marketing effort. Moreover, imposing confidentiality obligations on the potential customers apparently will not exempt the offered sale from the statutory bar.

Companies can seek to control when a sales offer is made by entering into collaborative development projects with other companies, and by clearly stating in any discussions or written documents that no offer for sale is intended. Such transactions must be carefully structured, however, because the Federal Circuit has held that an offer can invalidate a patent even if the offer fails to meet formal contract law requirements. The appellate court also has noted that even the free distribution of a prototype can trigger the statutory bar if the distribution is intended to solicit sales.

Finally, companies that intend to rely on the "experimental use" exception must carefully control the testing of the invention to ensure that any commercialization is incidental. Specifically, inventors and their companies should maintain control over testing, keep progress records, conduct tests confidentially, limit testing to patentable features, and minimize the number of sales during the testing period. They also should memorialize testing arrangements in writing and defer any payments until after successful testing is completed. Any purchase agreements should be explicitly dependent on the successful outcome of the experimental testing.

In view of the high stakes involved in developing potentially patentable technology and the greater restrictions placed on the sale of that technology by *Pfaff*, inventors and corporations alike should consider how to preserve their patent rights before any kind of sales offers are made. Patents and other intellectual property rights are much too valuable to lose through a careless leap into the marketplace.

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