Outsourcing the manufacture of products may invalidate patents

Outsourcing the manufacture of products is the norm for many U.S. companies. However, a price quote from a company's supplier has the potential to invalidate a company's patents, if the supplier's quote is presented before a patent application is filed on the item being quoted.

The Court of Appeals for the Federal Circuit recently held that an offer by a company's supplier to provide devices that were later covered by a company patent placed the invention "on sale" and invalidated the patent. In *Hamilton Beach Brands, Inc. v. Sunbeam Products, Inc.*[1] Hamilton accused Sunbeam of infringing a patent on a slow cooking device with a removable cover that could be sealed and latched closed so the cooking device could be moved without any of the contents leaking out.

The Hamilton patent (U.S. Patent No. 7,947,928) was filed long before enactment of the America Invents Act[2] (AIA) which changed the United States from a "first to invent" to a "first inventor to file" patent system. Under the prior law, the applicable statute[3] provided in pertinent part that an inventor would be able to apply for a patent unless "the invention was ... on sale in this country more than one year prior to the date of the application for patent in the U.S."

After Hamilton sued Sunbeam for patent infringement, Sunbeam learned that Hamilton's foreign supplier had quoted a price to supply Hamilton with almost 2,000 slow cooker units more than a year before Hamilton's patent application was filed. The units quoted would have been covered by at least some of claims in the patent that was eventually issued. Sunbeam argued that Hamilton's patent was invalid because the invention was "on sale" based on the supplier's offer for sale more than one year before the patent application was filed.

Hamilton argued that although the quote from the supplier was more than a year

before the filing of the patent application, Hamilton had not authorized the supplier to make any of the units more than one year before its patent filing. Hamilton further argued that the offer from its supplier could not be an invalidating offer for sale because at the time of the offer, Hamilton was still working to perfect a sealing system that would assure that the contents of the slow cooker did not leak out when the unit was moved.

The Court of Appeals rejected Hamilton's arguments. Reviewing the question of whether there was an "on sale bar" as a matter of law, the court first noted that the law does not include a "supplier exception" to the on sale bar. The Court then looked to the controlling precedent of the U.S. Supreme Court on when an on sale bar to patentability arises. Under the holding in *Pfaff v. Wells*[4] the on sale bar applies when two conditions are satisfied before the critical date (i.e., one year before the patent application filing date under pre-AIA law). These two conditions are:

- The claimed invention must be the subject of a commercial offer for sale, and
- The invention must be ready for patenting.

The court noted that a completed sale is not required, only a sufficiently definite offer to make a sale that another party could accept in accordance with the principles of general contract law.

The court also noted that an invention is deemed "ready for patenting" when the invention has been:

- Reduced to practice (e.g., generally made and tested to the extent necessary to prove the invention's workability), or
- The invention is depicted in drawings or described in writings of sufficient nature to enable a person of ordinary skill in the art to practice the invention.

In this case Hamilton's foreign supplier had been provided with drawings and other information so the supplier would be able to fulfill Hamilton's order. The court found that the invention was "ready for patenting" and a commercial offer had been made.

The court also held that even though Hamilton was "fine tuning" the sealing system to be used on the commercial product, this did not change the fact that the product design was "ready for patenting" when the supplier made its offer. The court pointed out that Hamilton had produced CAD drawings of the product and had been showing the design to major customers for some time before the offer from its supplier. Further, the court found that Hamilton had at least some prototypes with a sealing system that would work as desired for the final commercial product at the time that the supplier made its offer. The court held that the offer for sale from the supplier did not qualify for an "experimental use" exception, because the design was "ready for patenting."

The court's decision mentions that the patented design enjoyed commercial success and increased Hamilton's sales by 30 percent. The Hamilton design was so successful that Sunbeam developed its own approach to achieve the same functionality. Unfortunately Hamilton's failure to file its patent application within 12 months of when it received its quote from its supplier invalidated its patent and doomed its patent infringement claim.

The Hamilton case was decided under the pre-AIA law. The AIA also includes an on sale bar. The on sale bar in the current Section 102(a)(1)[5] states in pertinent part:

> [A] person shall be entitled to a patent unless ... 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.

Under the new law if the claimed invention was "on sale" at any time before the patent application was filed, the offer for sale bars the patent. The one year grace period to file the patent application after the "offer for sale" is gone.

Some commentators point to the language of the new statute, and particularly the "otherwise available to the public" language, and contend that the words "on sale" actually mean "on sale to the public." Other commentators note that the new law does not say "on sale to the public," but instead uses the same words ("on sale") as the prior statute. As a result, no one can be sure if under the new law a "public" offer for sale (whatever that is) before the patent application is filed must be shown to render a patent invalid.

This is one of many areas in the new law where no one can be sure what the law means until courts interpret the meaning of the new provisions. It will likely be years before this issue is resolved. In the meantime patent applicants may want to file at least a provisional patent application covering their invention before they solicit an offer to build prototypes or production units from a supplier. ◆

By Ralph E. Jocke, Walker & Jocke Co., LPA.

Endnotes

1 *Hamilton Beach Brands, Inc. v. Sunbeam Products, Inc.* Case No. 2012-1581-CAFC (August 14, 2013).
2 The Leahy-Smith America Invents Act/P.L. 112-29 (2011).
3 35 U.S.C. §102(b).
4 *Pfaff v. Wells Electronics, Inc.*, 525 US 55 (1998).
5 535 U.S.C. §102(a)(1).