

## Navigating Bar To Patentability In 3rd-Party Secret Sales

By **Daniel Tishman and Brian Livedalen** (September 21, 2021, 4:55 PM EDT)

The U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have long held that private or secret sales implicate the on-sale bar to patentability, but practitioners, and even some courts, have gotten tripped up over an exception that is limited to sales of unpatented products made by patented methods of manufacture.

While a patentee's sale of a product made by a patented method bars patentability even if the patented method is kept secret, this is not the case for a third-party sale of a product made by a patented method. Such a third-party sale is governed by the public use provision.

However, courts and practitioners alike have improperly extended this exception in a manner that could swallow the rule and exclude all third-party secret sales, including sales of patented products, which can act as a bar to patentability regardless of who made the sale and regardless of secrecy.

Practitioners should carefully consider which category of sales applies and be prepared to explain the difference — the implications of the subtle difference between secret sales of patented articles and secret sales of unpatented products of patented methods can be both case-dispositive and lost on judges less experienced with patent law. A proper explanation can avoid an unnecessary trip to the Federal Circuit.



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### Historical Background on the On-Sale Bar

The patent system grants inventors "the exclusive right to practice the invention for a period of years,"[1] a condition of which is that the invention not be on sale for a period of time before the inventor applies for the patent.[2] The on-sale bar has been included in every patent statute since 1836 to prevent inventors from monopolizing something that was in the public domain.[3]

Most recently, the Leahy-Smith America Invents Act, enacted in 2011, provides that "[a] person shall be entitled to a patent unless ... the claimed invention was ... in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention." [4]

Prior to the AIA, the Federal Circuit had held that even sales that took place in secret could invalidate a

patent.[5] And the Supreme Court, in *Helsinn Healthcare SA v. Teva Pharmaceuticals USA Inc.*, held in 2019 that the AIA did not change the law related to secret sales, reasoning that the addition of "or otherwise available to the public" in the AIA, which was not included in the prior version of Section 102, did not "upset [the] body of precedent" regarding the phrase "on sale." [6] *Helsinn*, however, did not resolve any distinction regarding third-party secret sales.

### **Subtle Distinction Highlighted by the Federal Circuit**

The Federal Circuit's 1985 *In re: Caveney* decision opened the door for some confusion regarding when third-party secret sales should be treated differently from inventor sales under Section 102. [7] In *Caveney*, the petitioner challenged an application based on a sale from one third party to another one year prior to the critical date, and the patent applicant argued that the sale was not invalidating because it was secret. [8]

The Federal Circuit, however, reiterated that "sales or offers by one person of a claimed invention will bar another party from obtaining a patent if the sale or offer to sell is made over a year before the latter's filing date." [9] The court, however, identified a narrow exception:

where a patented method is kept secret and remains secret after a sale of the unpatented product of the method. Such a sale prior to the critical date is a bar if engaged in by the patentee or patent applicant, but not if engaged in by another. [10]

This Federal Circuit ruling is significant in that it highlighted a distinction between sales by patentees seeking to monopolize their invention and third parties, confirming that patent protection is not available to inventors who sell the product of their invention prior to the on-sale bar date — even if the sale is of an unpatented product of a patented method and does not disclose the method.

The *Caveney* opinion, however, has resulted in some confusion for both courts and practitioners. In describing the narrow exception for sales of unpatented products of patented methods, the Federal Circuit included the following footnote:

The "on sale" provision of 35 U.S.C. § 102(b) is directed at precluding an inventor from commercializing his invention for over a year before he files his application. Sales or offers made by others and disclosing the claimed invention implicate the "public use" provision of 35 U.S.C. § 102(b). [11]

Although it is true that sales of unpatented products of patented methods implicate the public use provision rather than the on-sale provision, the footnote is susceptible to a much broader interpretation if read in isolation. As a result, even though the court deemed the third-party, and allegedly secret, sale of a patented product in *Caveney* to be invalidating, the footnote has injected confusion as to whether all third-party secret sales should be treated differently.

Subsequent Federal Circuit decisions have emphasized that the secret sales at issue were made by an inventor in a way that leaves an opening for confusion over application of the on-sale bar for third parties.

First, in 1998, the Federal Circuit explained in *Woodland Trust v. Flowertree Nursery Inc.* that "[a]n inventor's own prior commercial use, albeit kept secret, may constitute a public use or sale under § 102(b), barring him from obtaining a patent" but noted that "when an asserted prior use is not that of the applicant, § 102(b) is not a bar when that prior use or knowledge is not available to the public." [12]

Notably, the opinion refers to a prior use but does not address a third-party sale. The distinction is important, because the sale of a patented article by anyone implicates the on-sale bar even if it is secret, whereas use of a patented invention by a third party implicates the "in public use" language in Section 102, requiring that the use be public and thus not secret.

Second, the Federal Circuit in the 2010 *ResQNet.com Inc. v. Lansa Inc.* decision noted that an advertisement by the defendant could bar patenting as public use, "even if the sale was not authorized by the patentee."<sup>[13]</sup> In so holding, the court quoted the Caveney footnote stating that the on-sale provision relates to inventors, whereas sales by third parties "disclosing the claimed invention implicate the 'public use' provision."<sup>[14]</sup>

The *ResQNet.com* court did not address sales of patented articles by third parties but rather affirmed the ruling that the advertisement did not disclose the invention.<sup>[15]</sup> Moreover, the advertisement was alleged to invalidate a method claim and thus was not a sale of a patented article, thereby implicating the narrow exception noted in *Caveney*.

### **District Courts' Differing Views of Third-Party Secret Sales**

Recent district court decisions have also highlighted the resulting confusion regarding the application of the on-sale bar to third-party secret sales.

For example, in 2019, in *Schlumberger Technology Corp. v. BICO Drilling Tools Inc.*, U.S. District Judge Gray Miller of the U.S. District Court for the Southern District of Texas held that a third party's sale did not implicate the on-sale bar as a matter of law because the third party was not the patentee, despite the fact that the sale in question appears to have been the sale of an allegedly patented article (rather than an unpatented product of a patented method).<sup>[16]</sup>

There, the court relied on *Caveney* to hold that confidential sales do not implicate the on-sale bar.<sup>[17]</sup> This is significant because, in doing so, the court extended *Caveney*'s footnote beyond its original context:

[T]he Federal Circuit stated in a footnote [in *Caveney*] that sales "made by others and disclosing the claimed invention implicate the 'public use' provision," not the "on-sale" bar, noting that the on-sale provision "is directed at precluding an inventor from commercializing his [or her] invention for over a year before he [or she] files his [or her] application."<sup>[18]</sup>

Similarly, in 2008, the U.S. District Court for the Western District of Wisconsin, in *Taurus IP LLC v. DaimlerChrysler Corp.*, considered sales of a system more than a year before the application of the asserted patent.<sup>[19]</sup> The court rejected the defendants' argument that secret uses qualify under the public use bar and did not explicitly address secret sales under the on-sale bar.

Nonetheless, the court held that the defendants' "asserted prior use and sale is not that of the inventor ... but of a third party," such that they were not invalidating.<sup>[20]</sup> With this ruling, the court did not examine the difference between sales that disclose a patented method compared to sales of a patented article itself and seems to have blurred the lines between the on-sale and public use provisions.

This case, along with *Schlumberger*, illustrates how the subtle distinctions between sales and use, third parties and inventors, as well as patented articles and products of patented methods, can be lost on practitioners and courts.

Notably, other courts have concluded that the footnote in Caveney does not limit the applicability of the on-sale bar to secret sales. For example, in *FMC Technologies Inc. v. OneSubsea IP UK Ltd.*, U.S. District Judge Nancy Atlas of the Southern District of Texas held that a sale by a third party did implicate the on-sale bar.[21]

In dealing with the question of whether a third-party sale implicates the on-sale language in Section 102, Judge Atlas addressed Caveney, but, unlike Judge Miller, she found that Caveney held that "when a sale is 'made by a person other than the patentee or patent applicant, ... the policy against removing inventions from the public domain and the policy favoring early filing of patent applications justify application of the 'on sale' bar...."[22]

Judge Atlas noted that Caveney's footnote regarding third-party sales implicating the public use provision was "dicta [that] does not preclude application of the on-sale bar, in addition to the 'public use' provision." [23] Although Judge Atlas seems to have correctly interpreted Caveney's footnote, the stark contrast to the Schlumberger decision from the same district demonstrates the importance for practitioners to carefully explain the distinction between patented products and unpatented products of patented methods in the context of a third-party sale.

## Conclusion

Based on Federal Circuit precedent, it is clear that secret sales by third parties of patented articles implicate the on-sale bar. However, Caveney's statement — in a footnote — that "[s]ales or offers made by others and disclosing the claimed invention implicate the 'public use' provision of" Section 102, rather than the on-sale provision, has injected confusion where there should be none.

Due to this confusion that persists among litigants and district courts alike, practitioners should be wary of the potential pitfalls in proving an on-sale bar and be prepared to carefully explain why the limited Caveney exception does or does not apply, in order to effectively prove their argument and avoid appeals and further litigation.

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***Disclosure: Brian Livedalen represented FMC Technologies Inc. in the FMC Technologies Inc. v. OneSubsea IP UK Ltd. case discussed in this article.***

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[1] *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

[2] *Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, 139 S. Ct. 628, 632-33 (2019).

[3] *Id.*

[4] 35 U.S.C. § 102(a)(1) (2012 ed.).

[5] E.g., *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1357 (2001).

[6] 139 S. Ct. 628, 633-634 (2019).

[7] 761 F.2d 671 (Fed. Cir. 1985).

[8] *Id.* at 675.

[9] *Id.*

[10] *Id.* (citing *W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1550 (Fed. Cir. 1983) (holding that a third party's sale of product made by a secret process does not create a bar to another inventor patenting the process whereas such a sale by the patentee would act as a bar)).

[11] *Caveney*, 761 F.2d at 675, n.5.

[12] 148 F.3d 1368, 1371 (Fed. Cir. 1998).

[13] 594 F.3d 860, 866-67 (Fed. Cir. 2010).

[14] *Id.* at 866 (quoting *Caveney*, 761 F.2d at 675, n.5).

[15] *Id.* at 866-867.

[16] No. H-17-3211, 2019 WL 2450948, at \*6 (S.D. Tex. June 12, 2019).

[17] *Id.* at \*3.

[18] *Schlumberger*, 2019 WL 2450948, at \*6 (citing *Caveney*, 761 F.2d at 675 n.5).

[19] 534 F. Supp. 2d 849, 876 (W.D. Wis. 2008), *aff'd* on other grounds, 726 F.3d 1306 (Fed. Cir. 2013).

[20] *Id.*

[21] 2019 WL 4647274, \*5 (S.D. Tex. Sept. 24, 2019).

[22] *Id.* at \*3 (citing *Caveney*, 761 F.2d at 676).

[23] *Id.* at \*4.