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I would like to comment on H.R. 2795, the “Patent Act of 2005,” particularly on how it would abolish the on-sale bar. I suggested doing almost exactly that in a law journal article published this spring. Stanford law professor Mark Lemley suggested that it might be fruitful for me to write to you and share my views.

Although I concur with the general thrust of the bill, I have some mild concerns as well as a serious doubt. I conclude by suggesting an alternative that would address the issues I raise.

The Purpose of the On-Sale Bar

Imagine the following situation: An inventor builds a machine to make hoses, and uses it in his factory for years. He makes a fortune selling hoses. He hears that a competitor has begun to build a similar machine, so he finally decides to file with the patent office, intending to keep his monopoly. Thus he effectively tacks on several more years of monopoly profits to his patent term.

Another situation: The inventor creates high-priced, proprietary machines. Only a handful of them are sold every year, but again he makes a fortune. Each customer is required to sign a non-disclosure agreement. The machine is protected by trade secret. But he hears that a competitor is

working on building a similar machine, so he files with the patent office to preserve his monopoly. Again the patent term is effectively extended beyond the statutory 20 years, potentially indefinitely.

The on-sale bar was intended to prevent scenarios like these. The law says that an inventor is entitled to a 20-year patent monopoly, and no more. If an inventor chooses to keep his invention a trade secret, he is not given the privilege of suing competitors who rediscover his invention.

The Problems of the On-Sale Bar in Practice

The on-sale bar is written tersely in 35 U.S.C. § 102(b). Courts have interpreted the language in a series of inconsistent decisions, most recently in the Supreme Court decision *Pfaff v. Wells Elecs.* in November 1998. That decision said that an invention would be ineligible for patenting one year after the following conditions were met: it had become “ready for patenting” and had been subject to an offer for sale.

Both of these criteria were artificial. Neither was clear. The “ready for patenting” standard asked a court to decide, based on old e-mails, engineering drawings, etc. whether a patent *could have* been filed years ago, even though a working invention had yet to be designed or made. Clearly this is the kind of hypothetical dispute which lends itself to armies of bickering thousand-dollar-an-hour expert witnesses, not the kind of fact-finding that courts are good at.

The “offer for sale” standard, which sounds like something that a first-year law student could understand, in fact is a tool poorly suited to digging through the morass of everyday, never-before-litigated business practices. For instance, is a customer order in a database considered a sale? Several appellate decisions were issued on this humdrum matter. Many more came down to judge standard business practices, such as: When can two companies

work together to build an invention? Or what about prototype fabrication—if a multinational corporation can build prototypes in-house, isn't it fair to let an individual contract with an outside machinist for fabrication assistance?

Other aspects of the *Pfaff* on-sale bar were equally inexplicable and arbitrary, but as the bill would eliminate the on-sale bar, there is no need to flog this dead horse further. (They are set out in my article, a copy of which I have included.) I note only that the law before *Pfaff* was equally obtuse. The *UMC Microelectronics* totality-of-the-circumstances doctrine essentially had the judge sitting as a jury of one, making it impossible to give clear guidelines to inventors or to settle litigation early. The on-hand doctrine in use until the 1980s, which said that the on-sale bar is not triggered until the completed invention in on-hand, seemed fine as a matter of theory, but was too artificial to accomplish any practical purpose.

The Bill's Bar

The relevant text of the bill reads, “*A patent ... may not be obtained if ... the claimed invention was ... known more than one year before ... filing,*” where “*subject matter is known when it becomes reasonably and effectively accessible, either through its use or through its disclosure by other means, or when it has been made inherently known from subject matter that has become reasonably and effectively accessible.*”

How the Bill Would Be an Improvement

The bill would be a significant improvement over the *Pfaff* on-sale bar in several respects.

First, the number of “half-baked” patents polluting the patent libraries would be minimized. Under the *Pfaff* standard, inventors have no idea when their invention would be retrospectively deemed “ready for patenting.” So as a practical matter they must file patents even before the details are worked

out. (If the project was funded through a joint development agreement, Federal Circuit precedent may deem a “sale” to have already taken place.) It is often said that the patent system is a quid pro quo of giving patent monopolies in exchange for public disclosures of technical information. This system is undermined when inventors file premature, incomplete patent applications.

The expenses of patent litigation would be reduced, as well. By simply asking a fact-finder to determine whether the material was “reasonably and effectively accessible,” there would be less need for expert witnesses. Under the *Pfaff* standard, expert witnesses are needed to argue whether a set of documents adequately describes the invention to make it “ready for patenting.” This kind of unanswerable hypothetical inquiry is what patent law is famous for, akin to asking how many angels can dance on the head of a pin. Additionally, the expensive discovery for *Pfaff* “secret prior art” (the opposing parties’ e-mails, engineering documents, etc.) so disliked by corporate counsel would be eliminated. “Reasonably and effectively accessible” documents would presumably be cheaper to find.

Finally, the legal standard would be nailed down once and for all. The courts have bestowed on us three totally conflicting legal standards in the past twenty-odd years. In the absence of corrective legislation, a fourth would probably issue shortly, as the *Pfaff* standard has shown itself to be unworkable. It would be better if inventors no longer had to guess what rule they would be judged by ten years hence.

In the past, on-sale bar tests have fruited from the overworked imaginations of appellate judges and Supreme Court justices. Meticulous laws are instead made through extended debate and open comment in the legislature.

Mild Concerns Regarding the Bill

Please allow me to point out some areas where I think the proposed “reasonably and effectively accessible” test falls short.

I laud the drafters of the bill for using the language “reasonably and effectively” to try to avoid *In re Hall*-type endless litigation. *In re Hall* concerned a patent that was invalidated because a single copy of a Ph.D. dissertation, written in German, stored at the University of Freiburg, anticipated the American invention. Perhaps in a Platonic world, Johnny-come-lately inventors wouldn’t receive patents, but the practical result of decisions like *In re Hall* is that accused infringers spend millions of dollars in litigation, in part to scour the world, looking for prior art.

Unfortunately I’m not sure this language achieves the goal. It seems more likely that the prior art would still be dug up at great expense, and lawyers would argue to the jury that various obscure sources were in fact “reasonably and effectively accessible.” Another problem is that expert witnesses would be needed to answer the question of what is “reasonable and effectively” available.

It would also be helpful if the bill would address licensing. The Federal Circuit has generally held that licensing an invention does not trigger the on-sale bar. Would an invention available for licensing be deemed “reasonably and effectively accessible”? Would this be true if the invention were available to all comers who signed a non-disclosure agreement? The bill would support either answer, and by not providing a direct answer needless litigation will inevitably follow.

Another problem is that the test does not address “mental state,” or the issue of whether an invention can be “reasonably and effectively available” before it is recognized as being valuable. Lest you think this is an academic

issue, a number of dense, impenetrable, and unconvincing cases have been issued at the appellate level since *Pfaff* on precisely this issue. (My article discusses them in the section on reduction to practice.) If the bill were passed into law as written, the Federal Circuit would inevitably decide more of these cases, fracturing the factual inquiry into counter-intuitive hyper-legalistic rules that no inventor could understand. At the very least, the text should address whether the “reasonably and effectively available” standard should be judged from the perspective of the seller, who may not know what he is selling, or the buyer, who may not know what he is buying.

A Serious Concern with the Bill

The commercialization of process inventions seems to be left out of the proposed bill. If an inventor keeps his machine a secret, but uses the machine to make hoses that he sells on the open market, could he still patent the invention later? Under the “reasonably and effectively accessible” standard, it seems that he would. The machine could remain a trade secret indefinitely, used commercially, and patented whenever the inventor wished.

Please recall my first example of a hose manufacturer who keeps his invention secret. This fact pattern, from *Pennock v. Dialogue*, resulted in Justice Story creating the on-sale bar as a matter of common law back in 1829. If Congress desires to change the on-sale bar rule to allow inventors to extend their statutory monopoly, I hope it considers whether this would truly benefit the American economy.

Likewise, the bill would seem to allow secret sales indefinitely, my second example in the introduction to this letter. I am concerned that an inventor could sell his invention forever, as long as his customers were bound by non-disclosure agreements, then file for a patent whenever he feels the breath of competition on his neck. The effect would be to grant a patent monopoly

years in excess of the 20 years allowed by statute. Again, I would ask that Congress carefully consider whether simplifying the law is worth the deadweight losses of extending patent monopolies. Two centuries of American jurisprudence hold otherwise.

Constructive Criticism

An alternative solution would be to replace the on-sale bar with a “delivery or commercial use” test, as proposed in my paper and the accompanying model draft bill. It would bar a patent one year after an inventor delivers his invention outside his control, or the control of his agents. For example, when he delivers a prototype to a customer, or delivers a mass-produced unit, or uses his new machine in his factory, the clock to file a patent would start to run.

The insight behind my proposal is that an inventor cannot commercialize his invention without delivering the goods or using them commercially himself. There is no need to decide when an offer for sale was made, or when an invention was “ready for patenting.” The inventor cannot evade the test by keeping his invention disassembled, because the end user would need to put it together to use it.

There would be no expensive, worldwide discovery necessary. The factual inquiry would be limited to certain, unambiguous records of the inventor. For instance, when was the first unit shipped? These shipping records are readily available, and when missing can be reconstructed with simple investigation.

Unlike the *Pfaff* standard, no expert witnesses are necessary to describe the state of the art, spun in a way that favors the client and bamboozles the court. Furthermore, judges would not be called upon to split the hairs of when an advance customer order in a database may be deemed a “sale.”

The very most a fact-finder would be called to do is to decide whether the recipient of the invention was the inventor's agent (a machinist for hire, for example). Questions of possession and control are commonly decided by courts today.

Details and answers to possible objections are set out in my article as well.

Conclusion

Because the patent act is unlikely to be revised again for many years, and patent litigation is infamous for its expense and complexity, I hope Congress will carefully consider the litigation implications of even the less glamorous parts of the act, such as the on-sale bar. I hope my input has been helpful, and I would be glad to answer any questions you may have.

Sincerely,

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