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THE ON-SALE BAR: A UNIFORM AND CONSISTENT STANDARD

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I. Introduction

The current test for whether an inventor has triggered the on-sale bar to patentability incorporates general contract law principles. An offer for sale triggers the on-sale bar, thus eliminating the inventor's ability to patent her invention, if the offer for sale occurred prior to one year before the critical date of the patent application filing. The on-sale bar test requires a court to apply general contract principles to a patent dispute to determine if the inventor's actions constituted an offer for sale.

Application of general contract principles to this factual question is an effective and consistent method of law. Contract principles have been developed in common law, throughout state and federal courts, as well as in legislative action. Each of these legal areas have incorporated the Uniform Commercial Code (UCC) and the Restatement of Contracts. Courts are familiar with general contract law principles and apply them often in civil disputes. Application of this familiar area of law to patent controversies thus provides a consistent foundation for on-sale bar issues, while at the same time successfully supporting the policies of the United States patent system.

II. 35 U.S.C. § 102(b)

The United States patent system is a carefully crafted bargain between an inventor and the public that is meant to encourage the full and open disclosure of an advance in science in return for a monopoly over the

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invention for a limited period of time.[2] The policy supporting the system is to encourage disclosure of the invention such that the public may have full use of it after the period of the exclusive monopoly has terminated. The length of the period of exclusivity, when it begins, and when it ceases all present an intriguing legal issue that requires consistent and tenable standards.

Congress is prohibited by the Constitution from providing any inventor with a monopoly unlimited by a period of time.[3] 35 U.S.C. § 102(b) codifies the "on-sale bar" to patent eligibility. The statute provides in relevant part that, "A person shall be entitled to a patent unless… (b) the invention was… on sale in this country, more than one year prior to the date of the application for patent in the United States…."[4] In other words, an inventor loses his right to a patent if he has offered his invention for sale more than one year prior to filing his patent application for the invention. Therefore, the important issue to be determined in a patent controversy incorporating an on-sale bar issue is whether the inventor conducted activity that placed his invention "on sale."

An invention that is on sale is considered to be within the public domain and subject to public use. Thus, the policy that prohibits an inventor from removing existing knowledge from the public domain is a foundation of the on-sale bar.[5] In the on-sale bar, Congress has given an inventor one year, prior to filing his patent application, to engage in sales of his patent without penalty. Within this period an inventor can test the commercial demand for his invention, determine if the costs of licensing and marketing will return profit, and other business-related activities. The on-sale bar, by requiring a patent application to be filed within one year of being "on sale," ensures that the duration of the inventor's exclusive monopoly is limited to the statutory duration of twenty years.[6] The courts are required to apply the on-sale bar, and maintain the plan set forth by Congress, to a variety of fact situations surrounding new inventions.

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[2] Pfaff v. Wells Electronics, 525 U.S. 55, 63 (1998) ("the patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time").

[3] U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have the Power…[t]o promote the Progress of Science and useful Arts, by securing for *limited Times* to Authors and Inventors the exclusive Right to their respective Writings and Discoveries") (italics added).

[4] 35 U.S.C. 102(b) (2002).

[5] *Pfaff*, 525 U.S. at 64.

[6] 35 U.S.C. 154(a)(2) (2002) ("…such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States…").

III. Two-Part Test from *Pfaff*

Prior to 1998, the courts used a "totality of the circumstances" test to measure whether an inventor had violated the on-sale bar to patentability.[7] Under that test, no single finding or conclusion of law was an indispensable condition as to whether the on-sale bar had been triggered.[8] Rather, the court looked to the surrounding circumstances to determine whether a "definite offer for sale" had been made; the court did not, however, require an activity that rose to the level of a formal "offer" pursuant to contract law principles.[9]

The Supreme Court of the United States in *Pfaff v. Wells Electronics*, 525 U.S. 55 (1998), established a more consistent and tenable test to determine whether the on-sale bar to patentability had been triggered. The Supreme Court introduced a two-part test for determining when the on-sale bar precludes an inventor from exercising his right to a patent.[10] Under the *Pfaff* test, the on-sale clock begins to run when two conditions are established: (1) the invention "must be the subject of a commercial offer for sale"; and (2) "the invention must be ready for patenting."[11]

In *Pfaff*, the Court held that an invention met the first condition, that the invention was the subject of a commercial offer for sale.[12] The decision was rather straightforward because the inventor accepted a purchase order for the invention more than one year prior to filing his patent application.[13] The acceptance of a commercial purchase order clearly established that a commercial offer for sale had been made. Because it was clear for the Court to determine that a commercial offer for sale had been made, the Court did not clearly define the standards that are to be used to determine what activities constitute a "commercial offer for sale." The Court did, however, establish a straightforward rule of law for on-sale bar issues: a commercial offer for sale triggers the on-sale bar if it was made more than one year prior to the patent application filing date.

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[7] Lacks Indus. v. McKechnie Vehicle Components USA, Inc., 322 F.3d 1335, 1347 (Fed. Cir. 2003) (citing Envirotech Corp. v. Westech Eng'g Inc., 904 F.2d 1571, 1574 (Fed. Cir. 1990).

[8] *Id.*

[9] *Id.*

[10] *Pfaff*, 525 U.S. at 67.

[11] *Id.*; *see also* Linear Tech. Corp. v. Micrel, Inc., 275 F.3d 1040, 1047 (Fed. Cir. 2001) (setting forth the two-part test established in *Pfaff*).

[12] *Pfaff*, 525 U.S. at 67.

[13] *Id.*

IV. General Contract Law Principles

The United States Court of Appeals for the Federal Circuit applied the *Pfaff* on-sale test and defined the standards of a "commercial offer for sale" in *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041 (D.C. Cir. 2001). In *Group One*, the plaintiff owned patents on a process for curling and shredding ribbon and a machine for performing the process.[14] Group One filed an infringement action against Hallmark Cards, Inc., alleging patent infringement and theft of trade secrets.[15] Hallmark argued that the patents were invalid under 35 U.S.C. § 102(b) because the patents had been on sale more than one year prior to the patent application filing date.[16]

Prior to the critical date (exactly one year prior to the filing date of Group One's patent application), Group One and Hallmark communicated with each other about the products.[17] Group One expressed its willingness to provide the invention to Hallmark on a license/royalty basis, and the two parties also discussed the details of the invention.[18] The parties never reached specific terms of an agreement of sale. They did not set forth specific quantity or duration terms, or other contract elements or details that would have allowed Hallmark to enter into a binding agreement with Group One by mere acceptance. The Federal Circuit held that "the correspondence and other interactions between Group One and Hallmark prior to the critical date did not add up to a commercial offer to sell the invention."[19] The Federal Circuit concluded that "[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)."[20]

Although the Supreme Court in *Pfaff* did not elaborate on what was meant by "a commercial offer for sale," the Federal Circuit determined that the language used "strongly suggests that the offer must meet the level of an offer for sale in the contract sense, one that would be understood as such in the commercial community."[21] The Federal Circuit held that the importance of having a uniform, national rule for the on-sale bar mandates the use of contract principles as "generally understood."[22] Such general understanding

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14 Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1043 (Fed. Cir. 2001).

15 *Id.* at 1044.

16 *Id.*

17 *Id.*

18 *Id.*

19 *Id.* at 1048.

20 *Id.*

21 *Id.* at 1046.

22 *Id.* at 1047.

is to be derived from the UCC and the Restatement of Contracts.[23] Although neither source has the force of law, federal and state courts have incorporated the principles of these sources into contract law and case law.[24]

Group One thus provides that the UCC and the Restatement of Contracts together establish the federal common law of contract that now governs the 35 U.S.C. § 102(b) on-sale bar.[25] Such a national standard of general contract law furthers the policy of certainty of application of the on-sale bar.[26] "Courts are quite accustomed to and comfortable with determining whether a particular communication or series of communications amounts to an offer in the contract sense, and that type of determination is well established in law."[27]

V. Defining "offer"

Discussion of the use of general contract law requires an understanding of foundational contract law principles. The UCC and the Restatement of Contracts have been two sources cited by the courts in defining the "commercial offer for sale" standard of the on-sale bar.

The UCC does not define the term "offer." Therefore, courts have turned to common law to supply a definition.[28] The Restatement of Contracts defines an offer as "the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it."[29] A key aspect to the Restatement's definition is that the "manifestation of willingness to enter into a bargain" must justify the understanding that *assent* to the bargain by the other party *is all that is needed* to conclude the bargain. If a further manifestation of assent is required by the inviting party before the bargain is

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[23] *Id.* at 1047-48.

[24] *Id.*

[25] *See* Linear Tech. Corp. v. Micrel, Inc., 275 F.3d 1040, 1048 (Fed. Cir. 2001):

> Thus, the body of case law from which we must draw guidance under Group One is that of the state and federal courts interpreting their individual versions of the UCC. From this body of state law, we will search for the common denominator for assistance in crafting the federal common law of contract that now governs the on-sale bar.

[26] *Group One*, 254 F.3d at 1047.

[27] *Id.*

[28] *See Linear Tech.*, 275 F.3d at 1050 ("The UCC does not define "offer," so we will look to the common law to guide our inquiry").

[29] *Id.*, quoting RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981).

concluded, then the manifestation of willingness to enter into a bargain was not an "offer."[30]

Of key importance is the language the Supreme Court used in *Pfaff*: "[f]irst, the product must be the subject of a commercial *offer* for sale."[31] Therefore, an offer for sale need only be extended; it does not need to be accepted to implicate the on-sale bar.[32]

VI. Application of General Contract Law Principles

The application of general contract law principles has established a consistent federal common law in the application of the on-sale bar. The Federal Circuit is one of a number of federal courts that has adopted the *Group One* "generally adopted" contract law principle and has applied its reasoning to a number of different factual situations. This section examines the application of general contract law to contentious on-sale bar issues. The application of general contract law principles has established a foundation of patent law that maintains consistent guidance for inventors as far as what activities do and do not constitute triggers to the on-sale bar. It has also created a foundation of law that maintains the policies driving the United States patent system.

A. Advertisement and Promotion

Advertisements generally do not constitute an offer for sale. Rather, they represent an invitation to make an offer. Therefore, application of this general contract principle to the patent law establishes the ability of an inventor to engage in some degree of sales or marketing activity without risking the patentability of their invention. The bounds of these activities are clearly established by the general contract principles of advertising and promotion.

The United States District Court for the District of Delaware held in *Izumi Prod. Co. v. Koninklijke Philips Electronics* that catalogs featuring shaving razors, the subject of the patents at issue, did not constitute an offer for commercial sale.[33] The court acknowledged and adapted the general contract law principle that "advertisements, catalogs, and other promotional materials are generally considered invitations to solicit offers or enter into a bargain, not offers themselves."[34] Because the defendant failed to provide

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[30] *Id.*, quoting RESTATEMENT (SECOND) OF CONTRACTS § 26 (1981).

[31] *Pfaff*, 525 U.S. at 67.

[32] Izumi Prods. Co. v. Koninklijke Philips Elecs. N.V., 315 F. Supp. 2d 589, 605 (D. Del. 2004), citing Scaltech, Inc. v. Retec/Tetra, L.L.C., 269 F.3d 1321, 1328 (Fed. Cir. 2001).

[33] *Izumi*, 315 F. Supp. 2d at 606.

[34] *Id.*

proof of catalog sales, there was insufficient evidence to determine that the catalog advertisements constituted an offer for purposes of the on-sale bar.[35]

Likewise, the Federal Circuit held in *Linear Technology Corporation v. Micrel, Inc.* that preliminary data sheets describing the technological attributes of a product, promotional information distributed to customers, and newsletter articles describing a product, are not considered offers but are mere advertising.[36] The court reasoned that "contract law traditionally recognizes that mere advertising and promoting of a product may be nothing more than an invitation for offers, while responding to such an invitation may itself be an offer."[37]

Izumi and *Linear Technology* clearly emphasize the importance and usefulness of general contract principles when applied to patent controversies. In gauging whether a promotional activity triggers the on-sale bar, the court merely needs to apply the general law of contracts to the issue at bar: the court must determine whether the inventor's actions constitute mere advertising of the invention. If the inventor's actions were mere advertising of its invention, then the on-sale bar has not been triggered because a commercial offer for sale has not been made. Thus, an inventor has a clear rule to follow when engaging in marketing activities prior to filing a patent application for her invention. She does not trigger the on-sale bar by advertising her invention because an advertisement is not considered an "offer" by the general law of contracts.

B. Soliciting Information

A complex area of general contract law when applied to the on-sale bar is the activity surrounding the solicitation of information from customers. Businesses will often discuss future products with customers in an effort to assess the marketability of a future invention, establish the target pricing for a potential product, and to lay the groundwork for future sales. In determining whether a specific communication constitutes an offer, the ultimate question is whether a reasonable person could interpret the communication as a manifestation of willingness to enter into a bargain without a further manifestation of intent.[38]

In *Linear Technology*, the patent holder engaged customers via its sales force to ascertain the appropriate price for a new microchip that was soon to be released for sale.[39] The communication to the customers was a mere discussion concerning an invention.[40] The goal of the communication was to

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35 *Id.*

36 *Linear Tech.*, 275 F.3d at 1050-51.

37 *Id.* at 1051, quoting *Group One*, 254 F.3d at 1048.

38 *Id.* at 1050.

39 *Id.*

40 *Id.*

ascertain the marketing value of the new invention, not to extend an offer to the customer for the sale of the new invention.[41] The court correctly held that such a communication does not constitute an offer because "[n]o reasonable customer could interpret such a request for information, barren of any other terms, as an offer to which [the inventor] could be bound."[42]

In situations like *Linear Technology*, the court must engage in a fact-specific inquiry to determine the inventor's reasonable intent. The court must determine if the inventor intended to convey a manifestation of willingness to enter into a bargain.[43] Although such an examination lends itself to the subjective view of a court, generally accepted contract principles will assure a consistent outcome. From an objective standpoint, if the communication requests information from the recipient, and it does not list the invention along with quantity and other contract terms, then such a communication is not likely to constitute a commercial offer for sale. An inventor is therefore protected from an unfair application of the on-sale bar and may engage in traditional sales and marketing activities with his customers.

C. Offers to Buy

When a purchase order has been tendered between parties, a court must determine whether the purchase order should be construed as an "offer to sell" or as an "offer to buy." An offer to sell the invention tendered by the inventor will certainly trigger the on-sale bar to patentability (such an activity would constitute a commercial offer for sale.) However, if an inventor receives an offer to buy from a customer, the inventor has not triggered the on-sale bar by receiving the offer to buy but doing nothing more. On the other hand, a purchase order which is (1) tendered by a buyer, (2) in response to a communication of an offer to sell sent by the inventor, and (3) accepted by the inventor, then this transaction acts as a bar to patent eligibility pursuant to the on-sale bar. The differences between an offer to sell and an offer to buy may seem confusing at first glance, but in practice it has established a consistent and straightforward area of on-sale bar jurisprudence.

The inventor and patent holder in *Linear Technology* received an offer to buy the patented invention from a customer.[44] The inventor received the offer to buy and entered a record of the receipt into her purchase order

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[41] *Id.*

[42] *Id.*

[43] *Id.*, quoting Nickel v. Theresa Farmers Coop. Ass'n, 20 N.W.2d 117, 118-19 (Wis. 1945) ("[W]hether a communication naming a price is a quotation or an offer depends upon the intention of the owner as it is manifested by the facts and circumstances of each particular case").

[44] *Id.* at 1052.

system but did not confirm with the customer that the transaction had been completed.[45] The Federal Circuit held that the mere entry of purchase orders into a booking system by the inventor did not constitute a completed sale; therefore, the on-sale bar was not triggered because no manifestation of assent was communicated to the customer.[46] The court cited the general contract principles that (1) "to accept an offer, an offeree must make a manifestation of assent to the offeror," and (2) "an acceptance must objectively manifest the offeree's assent."[47] In *Linear Technology*, the inventor (offeree) entered purchase orders into its bookings system as a "will advise" order, and sent to the customer (offeror) a confirmation sheet.[48] However, the confirmation sheet clearly stated that the order was received, but not booked, because the product was not yet released.[49] The court held that even if the inventor privately intended to accept the orders after release of the product, the transaction did not form a contract and did not trigger the on-sale bar until the inventor communicated its acceptance of the orders.[50]

The court's holding in *Linear Technology*—that the entering of a purchase order does not by itself act as an acceptance to an offer to buy—is true to general contract law principles. Such a holding furthers the policy underlying the on-sale bar because the inventor is not penalized by commercial interest in his invention. An inventor is not adversely affected by receiving, but not accepting, offers to buy from customers. Thus, receiving communications from interested buyers is not putting an invention on sale for purposes of the on-sale bar.

D. Licensing

The term "license" is susceptible to a number of interpretations. In general contract law, it can encompass the lease of an interest in a product that transfers use and possession rights to the purchaser. Such a transaction is tantamount to a sale of the product. On the other hand, "license" can be a grant of rights under a patent that provides no interest in the invention itself,

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45 *Id.* at 1045.

46 *Id.* at 1052-53 (holding that the district court erred as a matter of law in holding that the entry of orders into the bookings system constituted a completed sale because the seller "could not validly accept without communicating its acceptance to the distributors, and mere entry into the booking system communicates nothing to the offeror").

47 *Id.*

48 *Id.* at 1053.

49 *Id.*

50 *Id.*

but provides for production rights, or the right to distribute the invention.[51] In the latter definition, a license does not trigger an offer for sale for purposes of the on-sale bar.

In *In re Kollar*, the Federal Circuit held that a licensing agreement that provided for sharing of information regarding a claimed process to create a manufacturing facility did not constitute a commercial offer for sale sufficient to trigger the on-sale bar.[52] The licensing agreement included royalty payments for disclosure of technical information of the claimed process, royalties for products sold under the claimed process, and a license "to design, engineer, construct, and operate a pilot plant and one or more commercial plants, to sell the resultant products, and to sublicense others."[53] The court held that the agreement was not an offer for sale because the agreement merely constituted a license to the buyer under any future patents relating to the process; it did not constitute an actual offer for sale of the claimed process.[54]

The court differentiated between the invention of a process and that of a tangible item. Whereas the offer for sale of a tangible item can be articulated in terms of a "commercial offer for sale," a process consists of a series of acts that must be performed, and it is thus not sold in the same manner.[55] The court described the difference as follows:

> "Know-how" describing what the process consists of and how the process should be carried out may be sold in the sense that the buyer acquires knowledge of the process and

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[51] *In re Kollar*, 286 F.3d 1326, 1331 (Fed. Cir. 2002) (footnote three copied verbatim below, with format changes)

> We use the term "license" here to refer to rights under a patent, not to describe a commercial transaction arranged as a "license" or a "lease" of a product or a device that may or may not have been patented. See *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1049 n.2 (Fed. Cir. 2001) (distinguishing between "rights in a patent" and the "sale of an interest that entitles the purchaser to possession and use" of an embodiment of an invention that is unrelated to any patent). In certain situations, a "license" in the latter sense of the word may be tantamount to a sale (e.g., a standard computer software license), whereupon the bar of § 102(b) would be triggered because "the product is… just as immediately transferred to the 'buyer' as if it were sold." 254 F.3d at 1053 (Lourie, J., concurring). However, as explained below, a "license" that merely grants rights under a patent cannot per se trigger the application of the on-sale bar.

[52] *In Re Kollar*, 286 F.3d at 1330.

[53] *Id.*

[54] *Id.*

[55] *Id.* at 1332.

> obtains the freedom to carry it out pursuant to the terms of the transaction. However, such a transaction is not a "sale" of the invention within the meaning of § 102(b) because the process has not been carried out or performed as a result of the transaction.[56]

Therefore, an inventor of a process would probably need to actually perform the process for consideration in order to trigger the on-sale bar.[57] In *In re Kollar*, the licensing agreement could not be interpreted to trigger the on-sale bar because it only licensed rights under the future invention; it was not a license of the invented process itself.[58]

Likewise, the Federal Circuit held in *Elan Corporation, PLC v. Andrx Pharmaceuticals, Inc.* that licensing offers from the inventor of a controlled-release drug compound did not render the inventor's patent invalid under the on-sale bar.[59] Before the critical date, the inventor sent letters to a number of companies offering to grant a license under the patent to become the inventor's partner in the clinical testing and marketing of the new drug.[60] The partner chosen by the inventor would be responsible for paying a licensing fee and royalties.[61] The court explained that the letter did not constitute an offer triggering the on-sale bar because it was not offering to sell the new drug.[62] Rather, the letters were invitations to enter into a licensed partnership.[63] The court stated, "The dollar amounts recited in the…letter…are clearly not price terms for the sale of tablets, but rather the amount that Elan was requesting to form and continue a partnership with Lederle."[64] Citing *Kollar*, the court explained that "[a]n offer to enter into a license under a patent for future sale of the invention covered by the patent when and if it has been developed…is not an offer to sell the patented invention that constitutes an on-sale bar."[65] However, had the licensing fee been used merely to disguise a sales price for the drugs, the letter would not have avoided triggering the on-sale bar.[66]

Kollar and *Elan Corporation* clearly represent the efforts the federal courts are undertaking to incorporate and consistently apply general contract law

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[56] *Id.*

[57] *Id.* at 1333.

[58] *Id.*

[59] Elan Corp., PLC v. Andrx Pharms., Inc., 366 F.3d 1336, 1341 (Fed. Cir. 2004).

[60] *Id.*

[61] *Id.* at 1338.

[62] *Id.* at 1341.

[63] *Id.*

[64] *Id.*

[65] *Id.*

[66] *Id.*

principles to on-sale bar issues. In both cases, the result was the same: pre-critical date activities did not trigger the on-sale bar because the activities did not rise to the level of a commercial offer for sale.

An example of a licensing arrangement that did constitute a trigger to the on-sale bar is found in *Minton v. National Association of Securities Dealers*.[67] In *Minton*, the inventor of a computerized securities trading system leased a prototype of his invention to a brokerage firm.[68] The inventor unsuccessfully argued that the lease of his invention did not trigger the on-sale bar because it was merely a license that transferred technical information about a claimed process.[69] The Federal Circuit disagreed and held that the lease invalidated the patent under the on-sale bar because the license (1) conveyed to the brokerage firm a fully operational computer program which implemented the claimed invention, and (2) the inventor included a warranty of workability in the lease.[70] Because the lease enabled the customer to practice the claimed invention, the lease was "an offer for sale within the meaning of the on-sale bar."[71] The transaction between the parties was not a license for a collateral use of the invention: the transaction did not constitute an agreement to allow the brokerage firm to market the software program or to manufacture copies of the software program for resale. Rather, the transaction reflected an actual offer, acceptance, and completed transaction of a lease that transferred possession and user rights from the inventor to the customer.

In summary, although the standard underlying the on-sale bar is guided by general contract principles, there are some unique boundaries applicable to patent actions. The definition of "offer" in licensing arrangements, and what types of licensing agreements trigger the on-sale bar and which do not, can be a contentious area that inventors need to acknowledge before engaging in pre-filing business activities. Nonetheless, as the preceding cases distinctly reflect, the use of general contract law principles in on-sale bar issues has established a consistent and tenable standard.

E. Experimentation

The current on-sale bar test incorporates the important experimental use doctrine of patent law. Under the modern *Pfaff* test, an inventor continues to be provided with the protection of the experimental use doctrine: the inventor may conduct public use activities of her invention, even with an outside user, and not trigger the on-sale bar if the use is experimental in nature. Even if, objectively speaking, the negotiation between the inventor

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[67] Minton v. Nat'l Ass'n of Sec. Dealers, 336 F.3d 1373 (Fed. Cir. 2003).

[68] *Id.* at 1375.

[69] *Id.* at 1377.

[70] *Id.* at 1378.

[71] *Id.*

and the outside user can be considered a genuine offer for sale in general contract principle terms, the negotiation will not trigger the on-sale bar if the transaction was experimental in nature. This effective treatment and consideration for the experimental use doctrine provides further foundation for the strength of the general contract principles test for the on-sale bar.

An inventor may conduct experiments with her invention, in public and with external users or customers, and not trigger the on-sale bar. The on-sale bar is not triggered "when the public use or sale of the patented device was primarily experimental."[72] However, an attempt to use a claimed invention for a profit, and not for the purpose of an experiment, for a longer period than one year before filing for a patent application, will trigger the on-sale bar and thus deprive the inventor of his right to a patent for his invention.[73] Therefore, when determining whether an inventor has triggered the on-sale bar to patentability, a court must apply general contract principles to a commercial factual scenario with full consideration of the patent law's experimental use doctrine.

The Federal Circuit applied the experimental use doctrine to a complex factual scenario in *Monon Corp. v. Stoughton Trailers, Inc.* The court determined that summary judgment for the defendant was improper because the plaintiff and patent holder raised a genuine issue of material fact as to whether its contract with an outside user of its invention constituted a sale that triggered the on-sale bar to patentability.[74] Monon, the patent holder and a manufacturer of cargo trailers, received a patent for a new design of trailer.[75] Monon sued Stoughton for patent infringement in making and using the patented trailer.[76] Stoughton argued that Monon's patent was invalid due to a sale that occurred more than one year prior to its filing the patent application for the new design of trailer.[77]

Prior to the critical date of its patent application, Monon entered into a contract with an outside user in which Monon delivered to the user a trailer encompassing the patent at issue.[78] In return for delivery, Monon received compensation equaling at least the cost of production of the patented

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72 Monon Corp. v. Stoughton Trailers, Inc., 239 F.3d 1253, 1258 (Fed. Cir. 2001) ("[E]vidence that the public use or sale of the patented device was primarily experimental may negate an assertion of invalidity").

73 *Id.*, quoting Elizabeth v. Am. Nicholson Pavement Co., 97 U.S. 126, 137 (1877) ("Any attempt to use [a claimed invention] for a profit, and not by way of experiment, for a longer period than two years [later reduced to one year] before the application, would deprive the inventor of his right to a patent").

74 *Monon*, 239 F.3d at 1254.

75 *Id.* at 1255.

76 *Id.* at 1254-55.

77 *Id.* at 1255.

78 *Id.* at 1258.

trailer.[79] According to Monon, the contract embodied an experimental relationship with the user in which the user would submit the trailer to real-world, actual use and thereafter provide Monon with data concerning the feasibility of the trailer's use and feedback concerning further changes that needed to be made to the invention before it was ready for manufacture and sale.[80] Monon had a prior existing relationship with the user and planned on selling it additional trailers encompassing the patent at issue if the invention did prove successful during the real-world trial.[81] Stoughton alleged that the contract between Monon and the user was not for experimental use but was actually a marketing plan in which the user would receive a sample of the invention, use and enjoy the sample, and then Monon would sell trailers in volume to the user and enjoy large profits as a result.[82]

The court applied the experimental use doctrine of the patent law to the contract and determined that a genuine issue of material fact remained as to whether the sale by Monon of the initial trailer was for experimental use or was actually a marketing ploy and a commercial offer for sale sufficient to trigger the on-sale bar.[83] The court acknowledged that Monon was only a trailer manufacturer, not a user of trailers, and therefore did not routinely operate its own products.[84] Therefore, in order to test its invention, Monon needed to recruit an external company to subject its invention to conditions of actual use.[85]

The element of control over the experimentation of the trailer by the user was an important issue in *Monon*. Conflicting testimony in the record detailed the degree of control Monon maintained over the experimental user's subjection of the trailer to actual use. Monon argued that it distanced itself from the use of the trailer to make sure it was actually used normally but maintained contact with the user to assess performance and possible design changes.[86] Stoughton argued that Monon never inspected the trailer and did not retain control during use, such that use of the trailer could not be deemed to be experimental in nature.[87]

The court acknowledged that the contract between Monon and the user, although for an exchange of money, was limited in duration and payment terms: the contract required the user to return the trailer to Monon for

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[79] *Id.*

[80] *Id.*

[81] *Id.*

[82] *Id.* at 1261.

[83] *Id.*

[84] *Id.* at 1258-59.

[85] *Id.*

[86] *Id.* at 1259-60.

[87] *Id.*

analysis upon completion of approximately one year of use and, upon return of the trailer, Monon would give the user a full credit of the purchase price.[88] The court concluded that Monon at least raised a genuine issue of material fact as to whether its contract with the user was a marketing ploy which triggered the on-sale bar or was for experimental use, thereby maintaining patentability of the invention.[89] On remand, if Monon was able to prove that the contract between itself and the user was for experimental uses, then the transaction did not trigger the on-sale bar.

The United States District Court for the District of North Dakota examined a similar factual situation in *Loegering Mfg., Inc. v. Grouser Prods., Inc.*[90] In *Loegering*, the inventor of a new design of track casings for over-the-tire skid steer loaders entered into a contract with an outside company for the manufacture of a set of the tracks prior to one year before the critical date.[91] The court held that the transaction did not trigger the on-sale bar because the tracks were made for experimental and durability purposes.[92] The court incorporated the rules of the experimental use doctrine in its application of general contract principles to the dispute: "use of a subsequently patented device for experimental purposes does not trigger the on-sale bar" and "further testing for durability purposes also does not trigger the on-sale bar."[93]

In summary, application of general contract principles and the experimental use doctrine to on-sale bar analysis provides consistent and effective protection for inventors. The policy behind the patent system is maintained because inventors continue to have the ability to experiment with their invention in public while incorporating an external user. A contract with an outside user for experimental purposes, even in exchange for some degree of compensation, will not constitute an offer for sale. The inventor retains his ability to patent his invention if the contract is proven to be for experimental purposes.

F. Industry Practice

A very interesting area of contract law that has recently been incorporated into the *Pfaff* on-sale bar test is industry practice. Industry practice is a unique area of contract law because the activities that have evolved in an industry are unique to the players in that industry alone, and

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[88] *Id.* at 1260-61.

[89] *Id.* at 1261.

[90] Loegering Mfg., Inc. v. Grouser Prods., Inc., 330 F.Supp.2d 1057 (D.N.D. S.E. Div. 2004).

[91] *Id.* at 1068.

[92] *Id.*

[93] *Id.*, quoting *Monon*, 239 F.3d at 1258, and quoting Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 551 (Fed. Cir. 1990).

they may not be applicable to all transactions in general. Conceivably, therefore, what may be considered nothing more than a promotional activity in one industry may actually rise to the level of a commercial offer for sale in another. Although such an issue has not yet been fully tried pursuant to the *Pfaff* on-sale bar test, some courts have incorporated industry practice into their analysis. Hypothetical issues aside, the incorporation of industry practice into the on-sale bar test further establishes the consistent use of generally accepted contract principles.

The Federal Circuit incorporated industry practice in its application of the on-sale bar in *Lacks Industries v. McKechnie Vehicle Components USA, Inc.*, 322 F.3d 1335 (Fed. Cir. 2003). In *Lacks*, an inventor patented a process of cladding automobile wheels with chrome only over the visible wheel face, thus reducing significantly the cost of cladding the entire wheel in chrome.[94] The inventor brought an action against wheel manufacturers alleging patent infringement.[95]

The trial court granted summary judgment for the defendant wheel manufacturers, holding, *inter alia*, that the inventor triggered the on-sale bar as a result of its commercial activities conducted prior to one year before the critical date of the patent application.[96] The sales activities initiated by the inventor included vigorously soliciting wheel manufacturers to whom the inventor could sell its chrome cladding process and vigorously soliciting equipment manufacturers to whom the inventor could license its cladding process.[97] The Special Master (who judged the issues on infringement and validity of the patents per agreement of the parties) based its holding significantly on an eleven-page "Wheel Meeting Agenda" which included (1) a description of the patented process, (2) the benefits of the process, (3) a plan to "validate assemblies following a plan jointly developed with [the] customer," and (4) approximate cost-savings likely to be achieved by using the patented process.[98] However, as the Federal Circuit held, the Special Master failed to apply the correct *Pfaff* test to determine whether the on-sale bar had been triggered. Rather than determining whether the inventor's marketing activities had risen to the level of a commercial offer for sale pursuant to generally accepted contract principles, the Special Master applied a lower standard which required something less than "a formal offer under contract law principles."[99] The Special Master held that although he agreed with the inventor that there was no evidence of "an offer to sell a particular cladded wheel for a specified vehicle at a specified price," the on-

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[94] *Lacks*, 322 F.3d at 1338.

[95] *Id.*

[96] *Id.*

[97] *Id.* at 1348.

[98] *Id.*

[99] *Id.*

sale bar test did not require that level of specificity.[100] Rather, he argued, the on-sale bar could be triggered by "commercial activity which does not rise to the level of a formal offer under contract law principles."[101]

The Federal Circuit remanded the case, holding that summary judgment on the on-sale bar issue was improper, in part because the Special Master applied an incorrect test. The court also ordered that the district court "may need to take additional evidence on the practice in the industry to determine if the activities by [the inventor] rise to an offer for sale under the UCC."[102] The court suggested the trial court apply industry practice based on the defendants' argument that "the factors that inform whether there was a contractual offer under the UCC include course of dealing and evidence of the practice in the industry" and that the inventor's activities "amounted to a contractual offer for sale because 'that is how business is done in the automotive industry.'"[103] Therefore, as part of its holding in *Lacks*, the Federal Circuit integrated the intriguing contract law element of industry practice into on-sale bar analysis.

Lacks thus encapsulates industry practice among the general contract principles to be assessed in an on-sale bar issue. It is now apparent that if a series of marketing activities in a particular industry is understood to embody an offer for sale, then those activities may be sufficient to trigger the on-sale bar. However, the *Lacks* case has not been fully decided, so it is yet to be seen if any industry has established a marketing activity that itself is sufficient to rise to the level of a "manifestation of willingness to enter into a bargain." As previously explained, in order to trigger the on-sale bar, the marketing activity presumably must justify the understanding that *assent* to the proposal by the other party *is all that is needed* to conclude the bargain. If a further manifestation of assent is required by the inviting party before the bargain is concluded, then the marketing activity could not be an "offer" pursuant to generally accepted contract principles. Incorporating industry practice into the on-sale bar is an interesting area that is surely to invite continued litigation in the marketplace and comment from the legal profession. Nonetheless, considering industry practice does further the Supreme Court's goal in formulating the *Pfaff* test by utilizing generally accepted contract principles in the determination of whether an inventor's activities have triggered the on-sale bar to patentability.

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[100] *Id.*

[101] *Id.*

[102] *Id.*

[103] *Id.*

VII. Summary of the Incorporation of Generally Accepted Contract Principles

Federal courts have established a consistent and tenable standard for the on-sale bar by incorporating general contract law principles in their analysis. The application of general contract law principles has defined the activities that constitute a commercial offer for sale and has established a foundation of patent law that maintains consistent guidance for inventors. Inventors have straightforward guidance as to what activities will be triggers to the on-sale bar and what activities will not. Furthermore, the consistent standard of applying generally accepted contract law principles to each particular factual scenario furthers the policies of the United States patent system: in particular, this test maintains clear boundaries defining the period of exclusivity that an inventor receives by patenting her invention. An inventor is protected by having clear guidance as to what activities she is allowed to do prior to one year before filing her patent application, and the public is protected because the period of exclusivity is not extended beyond the limitations defined by 35 U.S.C. § 102.

VIII. Criticism

In a recent law review article, R. Jason Fowler has criticized the *Pfaff* test and the modern on-sale bar analysis.[104] Specifically, Fowler has criticized the Federal Circuit's decision in *Lacks* and its incorporation of industry practice into on-sale bar analysis.[105] Fowler argues that (1) incorporating industry practice into on-sale bar analysis is error because it fails to "look for the common denominator of UCC jurisprudence and fails to look to the common law when a question of UCC interpretation arose" and (2) the standard of applying industry practice to the equation is "in contravention to the policies underlying the on-sale bar as expressed by the Supreme Court in *Pfaff*."[106] This section will examine, and refute, Fowler's argument.

First, Fowler argues that incorporating industry practice into on-sale bar analysis is not a correct application of the UCC.[107] Fowler cites the fact that there is a split among jurisdictions as to whether industry practice should be considered when determining the existence of a contract, as opposed to

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[104] R. Jason Fowler, Lacks v. McKechnie *and the Quest for On-sale Bar Certainty*, 38 GA. L. REV. 1369 (Summer 2004) ("this Note addresses the errant approach to the on-sale bar analysis taken by the majority in Lacks in deciding to consider course of dealing and evidence of industry practice when determining whether there exists a 'commercial offer for sale'").

[105] *Id.* at 1372.

[106] *Id.* at 1395.

[107] *Id.* at 1397-98.

using industry practice to determine the terms of an existing contract.[108] Fowler argues that the UCC should be interpreted in the federal common law of contract as it is defined and generally accepted by the state courts.[109] Fowler suggests that because at common law evidence of industry practice does not actually "create or take the place of a contract," then it is improper to use industry practice to determine if a commercial offer for sale has been made which has, or may have been, matured into a complete contract between two parties.[110] In this same argument, Fowler also maintains that the suggestion that marketing activities in an industry may rise to the level of a commercial offer for sale contravenes the basic principle that advertising and promotion is no more than a mere invitation for offers, not an offer itself.[111]

Fowler's argument is not convincing. Industry practice may be utilized with the same degree of certainty and correct application of generally accepted contract principles that other attributes have been used. The UCC applies industry practice in Section 1-205, and courts consistently apply this element in contract issues. Therefore, this factor is a part of the realm of 'generally accepted contract principles' applicable to on-sale bar analysis via the *Pfaff* test. It is thus natural to apply industry practice in determination of on-sale bar issues. Utilizing industry practice as the *Lacks* court suggested does not use industry practice to determine whether a contract has been entered into, rather it looks to a series of communications to determine if, in that industry, the activity rises to an offer for sale. A communication may rise to an offer for sale if it incorporates certain specific elements such as quantity, delivery terms, shipment schedule, dates, etc. Some of these elements may be defined by industry practice rather than defined individually in every offer for sale. Therefore, by using industry practice, a court would not be establishing that a contract was formed, strictly speaking, but rather what elements a communication (and, possibly, an offer) contained.

Furthermore, even if on remand the district court hearing the *Lacks* case utilizes industry practice, it will not likely hold that a commercial offer for sale triggering the on-sale bar had been made unless the communications justify the objective understanding that *assent* to the proposal by the alleged buyer *is all that is needed* to conclude the bargain. If a further manifestation of assent was required by the inventor before the bargain was concluded, then the marketing activity could not have been an "offer" pursuant to generally accepted contract principles. Therefore, industry practice is not utilized in

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[108] *Id.* at 1397.

[109] *Id.*

[110] *Id.*

[111] *Id.* at 1398.

contravention to the basic contract principle that a marketing effort or advertisement is a mere invitation to make an offer and not an offer in itself.

Fowler's second argument is that utilizing industry practice to determine if an activity has triggered the on-sale bar to patentability conflicts with the policies underlying the on-sale bar.[112] Fowler identifies the policies of the on-sale bar as (1) maintaining the public's right to knowledge already in the public domain and (2) protecting the inventor's control over the patentability of her invention.[113] In Fowler's view, the use of industry practice eliminates the certainty and uniformity sought by the Supreme Court in on-sale bar analysis.[114] Citing the inventor's ability to understand and control the timing of his first commercial marketing of his invention as a major policy interest, Fowler suggests that the variable nature of industry practice eliminates certainty and may create situations wherein an inventor unknowingly makes an "offer" because he was unfamiliar with the industry, or where an alleged patent infringer attempts to paint themselves as part of a lenient industry to obtain a desired industry practice setting.[115]

Fowler's second argument is also not convincing. Although industry practice is somewhat subjective because what may constitute a commercial offer for sale in one industry may differ in other industries, the goals of consistency and uniform application of the *Pfaff* test is nonetheless maintained by utilizing industry practice. Like promotional activities such as advertising or solicitation of marketing information from customers, industry practice is an objective standard that examines an inventor's activities to determine if they rise to the level of a commercial offer for sale. In advertising and solicitation of marketing information, some subjective determinations need to be made, such as whether an advertisement or promotional material was actually a specific, particularized offer that rose to the level wherein the recipient could enter into a bargain with the inventor by mere acceptance.

Likewise, application of industry practice to an on-sale bar issue requires the court to look at the specific activity of the inventor to determine if it constituted a commercial offer for sale. Although industry practice may break from general uniformity to some extent because one industry may be unique from another, the objective examination of the court still maintains the uniform national standard sought by the Supreme Court in its development of the *Pfaff* test. The inquiry using industry standards will likely only change the landscape to the extent that the court may determine that important elements that constitute a commercial offer exist due to unique industry practice. Such an inquiry will protect the public (and the

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112 *Id.*

113 *Id.*

114 *Id.* at 1399.

115 *Id.* at 1400-01.

alleged patent infringer) if the invention was in the public domain or, conversely, it will protect the inventor in his control over the invention because, if an offer was extended, it was the inventor's own action. It is a weak argument to suggest that we should not hold an inventor to the standards of the very industry in which he operates.

In summary, an inventor maintains complete control over the marketing activities of his invention. As previously explored, the on-sale bar allows an inventor to advertise his invention to assess the market for his invention, he may enter into contracts with external parties to experiment with the invention, and he may enter into pre-critical-date licensing agreements with manufacturers of his invention. He must be careful, however, not to extend an offer for sale of his invention. Enhanced with the inclusion of industry practice as an element, the *Pfaff* cases have established a consistent national standard. The current jurisprudence maintains a tenable standard to be applied to on-sale bar issues.

IX. Conclusion

Application of generally accepted contract principles to the factual question of on-sale bar analysis is an effective and consistent method of law. Federal courts are familiar with general contract law principles and apply them to contract disputes in a wide range of settings. Application of this familiar area of law to patent controversies thus provides a consistent foundation for on-sale bar issues, while at the same time successfully supporting the policies of the United States patent system. The modern on-sale bar test—that the on-sale bar is triggered by a commercial offer for sale—is a clear and consistent standard that protects access to public knowledge and protects every inventor's rights to his invention.