Outsourcing Manufacturing and the Pre-AIA On-Sale Bar

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United States patent law prior to the America Invents Act (AIA) implementation provides that an invention is unpatentable if it is on sale more than one year before a patent application is filed. The on-sale bar is triggered when an invention that is ready for patenting is the subject of a commercial offer for sale. While the on-sale grace period exists in § 102 of the AIA, the modified language and its impact on the on-sale doctrine is unclear for now. [1]

A recent Federal Circuit case (*Hamilton Beach Brands v. Sunbeam Products*; No. 2012-1581, Fed. Cir. Aug. 14, 2013) provides a cautionary lesson regarding the pre-AIA on-sale bar of 35 U.S.C. § 102(b). In this case, Hamilton Beach disclosed detailed specifications and sent a purchase order to a foreign supplier requesting that approximately 2000 slow cookers be built for Hamilton Beach internal use. The foreign supplier responded and indicated its readiness to perform upon release by Hamilton Beach. Hamilton Beach gave the release to start performance. A patent application was subsequently filed and issued covering the slow cooker technology. The slow cooker was marketed with great success to the public. Later, Sunbeam began offering a similar slow cooker prompting Hamilton Beach to bring suit for patent infringement.

The main issue in the case was whether Hamilton Beach violated the on-sale bar. At first glance, it does not appear that there was a commercial

[1] Under the AIA, §102(a) states that "[a] person shall be entitled to a patent unless (1) 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." 35 U.S.C. §102(a). Accordingly, the Federal Circuit will have to clarify whether the "or otherwise available to the public" amendment modifies the language that comes before it.

sale – the initial 2000 slow cookers were for Hamilton Beach internal use and were never offered for sale externally. However, the court concluded that the supplier's response indicating that it was ready to perform the purchase order was enough to constitute an offer for sale from the supplier to Hamilton Beach. Under this scenario, an offer for sale was triggered because Hamilton Beach only needed to accept in order to create a binding contract for sale. Unfortunately for Hamilton Beach, the "offer for sale" was more than one year before the patent application was filed rendering Hamilton Beach's patent invalid and unenforceable.

This decision highlights the care that must be taken when requesting that a supplier manufacture products before filing a patent application[2]. Under *Hamilton Beach*, there is no supplier exception to the on-sale bar. A commercial offer for sale within the scope of the on-sale bar may be made by a foreign supplier. Companies may run afoul of the on-sale bar if a supplier makes an offer directed to a U.S. customer with a place of business in the U.S. As this case demonstrates, requesting a supplier to build a product – even for internal use only - before applying for a patent may trigger the on-sale bar. Another important point is that the offer for sale does not require a completed contract, it only requires that offering party be bound by acceptance of the offer.

Whenever possible, the best way for companies to avoid the on-sale bar is to file a patent application before approaching suppliers to build a patentable item. At a minimum, when circumstances delay a patent filing companies should be vigilant in tracking bar activities and dates, to avoid rendering their patents unenforceable. Alternately, an inventor that builds prototypes internally will likely not trigger the on-sale bar. Note that had Hamilton Beach built the initial 2000 slow cookers internally, the on-sale bar would not have been implicated. The lesson learned is that companies that outsource manufacturing must take extra care to ensure that valuable patent rights are not inadvertently lost by triggering the on-sale bar.

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[2] Although an experimental use exception exists, the *Hamilton Beach* majority rejected the defense based on Hamilton Beach's actions and as the defense had not been raised.