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FABLESS SEMICONDUCTOR COMPANIES, THE PATENT ON SALE BAR, AND THE NEW AMERICA INVENTS ACT

Have Fabless Companies Been Shortchanged, or Is Change Coming?

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I. Introduction

Should semiconductor companies that limit their in-house activities to designing products, and that outsource the manufacturing of those products, be treated differently under our patent laws than companies that design and manufacture under the same roof? The question itself may lead two reasonable people to two reasonable answers. However, in *Special Devices, Inc. v. OEA, Inc.*,[1] the Federal Circuit[2] made it clear that under current law, the answer is "yes." A company that outsources the manufacturing of its products has one year from the "sale" of its manufactured products from the manufacturer to the company to apply for a patent that covers its products; otherwise it will be barred from ever receiving a patent on its invention.[3] In contrast, a company that manufactures its products in-house does not need to worry about starting its one-year patent clock until it sells its products to its end-users. This article will analyze this current application of the "on sale bar," which stems from the Federal Circuit's decision, and will

[1] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353 (Fed.Cir. 2001).
[2] "The Federal Circuit applies its own law with respect to issues of substantive patent law and certain procedural issues pertaining to patent law, but applies the law of the regional circuits on non-patent issues." Invitrogen Corp. v. Biocrest Mfg., L.P., 424 F.3d 1374, 1378-79 (Fed. Cir. 2005).
[3] *Special Devices*, 270 F.3d at 1356-57.

discuss what the future might hold under the newly-passed America Invents Act—Congress's first substantial change to United States patent law since the Patent Act of 1952.

II. Background

There are two types of semiconductor companies: those that are capable of both designing and fabricating (or manufacturing) chips, and those that can only design them.[4] The latter are called "fabless" semiconductor companies, because they lack a fabrication (or manufacturing) facility.[5]

Fabless semiconductor companies are a creation of the semiconductor industry itself. For the last forty years, the industry has been characterized by rapid product innovation, and has become very competitive because of rapid growth and high demand.[6] Cutting-edge technology is essential to success.[7] This innovative drive has resulted in ever-increasing product complexity.[8] Complex products, in turn, require advanced manufacturing process technologies, and each new process technology generation becomes more complex than the last.[9] The cost of building a fabrication facility that can successfully output the ever-increasingly complex products is in excess of $1 billion.[10] Further, because of the rapid innovation in the industry, the fabrication facilities need to be continually updated to keep up with new processes manufacturers need to retool with expensive new capital equipment for each process generation, and the technicians who work in the facilities need continuous training on these updates.[11]

[4] Mehdi Ansari, LG Electronics, Inc. v. Bizcom Electronics, Inc.*: Solving the Foundry Problem in the Semiconductor Industry*, 22 BERKELEY TECH. L.J. 137, 138 (2007).
[5] *Id.*
[6] *Id.* at 137-38.
[7] *Id.* at 138.
[8] John G. Rauch, *The Realities of Our Times: The Semiconductor Chip Protection Act of 1984 and the Evolution of the Semiconductor Industry*, 75 J. PAT. & TRADEMARK OFF. SOC'Y 93, 102 (1993).
[9] *Id.* at 99, 115.
[10] Ansari, *supra* note 4, at 138.
[11] Clair Brown & Ben Campbell, *Technical Change, Wages, and Employment in Semiconductor Manufacturing*, 54 INDUS. & LAB. REL. REV. 450, 463 (2001); Rauch, *supra* note 8, at 97.

Separate from these costs, the rise of the venture capital industry has led to the emergence of startup companies founded to commercialize new technologies.[12] Though less well-funded than the established players in the industry, the innovation from these startups has challenged the in-house research and development model that has dominated American industry since the turn of the century.[13]

The emergence of a manufacturing equipment industry—specialized equipment vendors that have replaced large, integrated companies' internal development of manufacturing equipment—has resulted in improved access to manufacturing technology.[14] Also, semiconductor design software, which allows product design activities to largely take place without the need for feedback from actual prototype chips, has been developed.[15] Finally, state-of-the-art fabrication-only facilities have been established throughout the world, primarily in Taiwan.[16]

All of these forces—high costs, increases in the number of smaller startup companies, better access to manufacturing technology, the ability to use design software, and the emergence of state-of-the-art fabrication-only facilities—have prompted many companies to follow a more cost-effective fabless business model: a model that focuses solely on designing and developing new technologies, and then contracting with companies that have fabrication facilities to produce the designs.[17] These ever-increasing fabless players in the semiconductor industry require patent protection for their designs just like any other company. Therefore, the application of our patent laws to them is of utmost importance.

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[12] John E. Dubiansky, *An Analysis for the Valuation of Venture Capital-Funded Startup Firm Patents*, 12 B.U. J. SCI. & TECH. L. 170, 171 (2006).
[13] *Id.*
[14] Brown& Campbell, *supra* note 11, at 451.
[15] *Id.*
[16] *Id.*
[17] *Id.* at 452; Ansari, *supra* note 4, at 138-39.

III. The On Sale Bar Generally and the Policy Behind it

35 U.S.C. § 102(b) codifies the patent on sale bar, and provides that "a person shall be entitled to a patent unless – (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or *on sale in this country, more than one year prior to the date of the application for patent in the United States*."[18] Congress first established the on sale bar in the Patent Act of 1836, which provided an absolute bar to a patent if the inventor gave permission for his invention to be on sale before his patent application was filed.[19] Three years later, Congress prescribed a grace period that allowed an invention to be on sale for up to two years before the filing of the patent application.[20] Finally, in 1939, the grace period was reduced to one year, which is where it stands today.[21]

Through the years, the courts have struggled with what stage a product must be in in its development cycle for a sale of that product to trigger the on sale bar.[22] At one time, courts applied the "on hand" rule, which required the invention to be manufactured and on hand for delivery before the on sale bar could be triggered.[23] The thinking was that an invention could not be sold unless it was available to be delivered to a customer.[24] But this standard allowed inventors to easily avoid the application of the on sale bar by controlling the production and delivery times of their inventions.[25]

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[18] 35 U.S.C. § 102(b) (2010).
[19] Patent Act of 1836, ch. 357, § 6, 5 Stat. 117, 119 (1836).
[20] Patent Act of 1839, ch. 88, § 7, 5 Stat. 353, 354 (1839).
[21] Patent Act of 1939, ch. 450, § 1, 53 Stat. 1212 (1939).
[22] Mark Levy, *An Analysis of the On Sale Bar and its Impact on the Structure and Negotiation of Development Agreements*, 30 U. DAYTON L. REV. 181, 183 (2004).
[23] *BarmagBarmerMaschinenfabrik AG v. Murata Mach., Ltd.*, 731 F.2d 831, 836 (Fed. Cir. 1984).
[24] Levy, *supra* note 22, at 184.
[25] *Id.*

In its quest to find a stricter standard, the Second Circuit, in *Timely Products Corp. v. Arron*, adopted a "reduction to practice" standard.[26] It provided a three-pronged test for the application of the on sale bar: 1) the complete invention claimed must have been embodied in or obvious in view of the thing offered for sale; 2) the invention must have been tested sufficiently to verify that it is operable and commercially marketable; and 3) the sale must be primarily for profit rather than for experimental purposes.[27] However, this standard was also criticized because inventors could manipulate the second prong of the test (for example, by selling incomplete prototypes), and could avoid starting their one-year clock while at the same time profiting from their inventions.[28]

In response, the Federal Circuit came up with another test for the on sale bar in *UMC Electronics Company v. United States*.[29] This "totality of the circumstances" test provided that in determining whether a triggering sale has taken place, "[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, must be considered and weighed against the policies underlying section 102(b)."[30] Just like the tests before it, the "totality of the circumstances" test was criticized; this time as being vague and unable to give inventors a solid idea of whether their sale would trigger the on sale bar.[31]

Finally, the Supreme Court took up the challenge of providing clarity to the on sale bar in *Pfaff v. Wells Electronics, Inc.*, which provides the test for the on sale bar as it stands today.[32] In *Pfaff*, more than one year prior to filing a patent application, Pfaff accepted an order for 30,100

[26]Timely Prods. Corp. v. Arron, 523 F.2d 288, 301-02 (2d Cir. 1975).
[27]*Id.* at 302.
[28] Levy, *supra* note 22, at 185.
[29]UMC Elecs. Co. v. United States, 816 F.2d 647 (Fed. Cir. 1987).
[30]*Id.* at 656.
[31] Levy, *supra* note 22, at 185.
[32]Pfaff v. Wells Elecs., Inc., 525 U.S. 55 (1998).

units of his invention.[33] At the time, he had not yet produced a physical prototype of his invention, but he had prepared detailed engineering drawings that thoroughly described it.[34] It was based on these drawings that the buyer had placed its order.[35] The question presented to the Supreme Court was whether Pfaff's actions constituted a sale under the on sale bar.[36]

The Supreme Court answered in the affirmative.[37] In finding that Pfaff's actions constituted a sale, the Court also articulated a new test for the on sale bar.[38] According to the Court, the on sale bar applies when two conditions are satisfied more than one year before the filing of the patent application: 1) the product that embodies the invention must be the subject of a commercial offer for sale; and 2) the invention must be ready for patenting.[39] The second condition can be satisfied by either proof of reduction to practice (i.e. an actual embodiment of the invention), or proof of drawings or other descriptions of the invention that are sufficiently specific to enable a person skilled in the art to practice the invention.[40]Because Pfaff's invention was ready for patenting, as evidenced by his engineering drawings, and because his invention was evidently the subject of a commercial offer for sale, his actions satisfied both conditions of the on sale bar test.[41]Since the Supreme Court's decision in *Pfaff*, the Federal Circuit has made it clear that whether a commercial offer for sale has occurred is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood, including the Uniform Commercial Code ("UCC").[42]

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[33]*Id.* at 58.
[34]*Id.*
[35]*Id.*
[36]*Id.* at 57.
[37]*Id.* at 68-69.
[38]*Id.* at 67.
[39]*Id.*
[40]*Id.* at 67-68.
[41]*Id.* at 68.
[42]Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1047 (Fed. Cir. 2001).

In analyzing the impact of the on sale bar to any specific set of facts, it is important to note the policy reasons that courts have discussed as informing the development of the on sale bar. The four primary policies are: 1) not wanting to remove inventions from the public that the public has come to believe are freely available to all as a consequence of prolonged sales activity; 2) favoring prompt and widespread disclosure of new inventions to the public by way of filing publicly-accessible patent applications; 3) not wanting inventors to commercially exploit the exclusivity afforded by the patent system beyond the statutorily prescribed period; and 4) favoring giving an inventor a reasonable amount of time following sales activity to determine whether filing for a patent is a worthwhile investment.[43] This article will reference these policy reasons in the sections that follow when analyzing the application of the on sale bar to fabless companies.

IV. The On Sale Bar as Applied to Fabless Companies

Despite the widespread growth in the number of fabless semiconductor companies over the last few decades, the first Federal Circuit decision dealing with the application of the on sale bar to a situation uniquely experienced by fabless companies did not come until *Special Devices, Inc. v. OEA, Inc.* in 2001.[44] Because a fabless company, by definition, hasa separate entity manufacture its products, there exists a point in time where the manufacturer "sells" (or agrees to "sell") the finished products to the fabless company so that the fabless company can then in turn sell its products to its customers. It was this intermediate manufacturer-to-fabless company sale that was at issue in *Special Devices*.[45]

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[43] Levy, *supra* note 22, at 183.
[44] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353 (Fed.Cir. 2001).
[45] *Special Devices*, 270 F.3d at 1354.

OEA was the fabless patent owner.[46]Its patented invention was an "all-glass header" relating to automobile air bags.[47]OEA lacked the capacity to mass-produce the headers, so it began negotiating with Coors Ceramics, Co. to be its supplier in April 1991.[48] At that time, OEA sent Coors a proposal requesting that Coors produce at least half of OEA's commercial needs for the patented invention.[49] In May 1991, Coors accepted OEA's proposal, and in June of that same year, OEA ordered 20,000 units of the headers for delivery in July.[50] Also in July, OEA and Coors agreed on a requirements contract whereby Coors would supply OEA with millions of headers annually.[51]

The problem for OEA was that its patent was not filed until August 27, 1992, more than one year after the "sales" activities between it and Coors.[52] If the Federal Circuit decided that OEA's glass headers had been sufficiently on sale to trigger the on sale bar under section 102(b), then OEA's patent never should have issued in the first place, and would be invalid. OEA seemingly recognized this, and argued that the Federal Circuit should create a supplier exception to the on sale bar, whereby the "sales" activities between a fabless company and its manufacturer would not constitute a sale under section 102(b).[53]

The Federal Circuit was not persuaded by OEA's suggestion, and did not create a supplier exception to the on sale bar.[54] In finding that the activities between OEA and Coors constituted a sale under the on sale bar, the Federal Circuit reiterated its own precedent that defined a sale to be an offer or agreement "to reach a contract . . . to give and pass rights of property for

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[46]*Id.*
[47]*Id.*
[48]*Id.*
[49]*Id.*
[50]*Id.*
[51]*Id.*
[52]*Id.*
[53]*Id.*
[54]*Id.*

consideration which the buyer pays or promises to pay the seller for the thing bought or sold."[55] Applying this test to the activities that took place between OEA and Coors, the court found that each of OEA's April 1991 proposal, OEA's June 1991 order, and the July 1991 requirements contract constituted an offer to sell OEA's patented invention for purposes of section 102(b).[56] The "offer" prong of the *Pfaff* test was therefore satisfied.

OEA never challenged the "ready for patenting" prong of the *Pfaff* test.[57] However, given that OEA was able to provide Coors with the drawings and descriptions required for Coors to actually produce the all-glass headers in mass quantities, OEA's invention was clearly ready for patenting at the time of its discussions with Coors.[58] As such, the court found that both prongs of the *Pfaff*test were satisfied, and that therefore OEA's patent was invalid under section 102(b).[59]

The court also explicitly rejected OEA's proposed "supplier" exception to the on sale bar.[60] The court based its conclusion on three things: the text of section 102(b), precedent, and what the court called the "primary policy" of the on sale bar.[61] Looking first at the text of section 102(b), the court recognized that the text "makes no room for a supplier exception."[62] As previously stated, section 102(b) provides that a "person shall be entitled to 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 United States."[63] Because Congress phrased the on sale bar in the passive voice, the court

[55]*Id.* at 1355(internal quotation marks omitted).
[56]*Id.*
[57]*Id.*
[58]Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 67-68 (1998). (an invention is ready for patenting when the inventor has prepared drawings or other descriptions of the invention that are sufficiently specific to enable a person skilled in the art to practice the invention).
[59]*Special Devices*, 270 F.3d at 1355.
[60]*Id.*
[61]*Id.* at 1355-57.
[62]*Id.* at 1355.
[63]35 U.S.C. § 102(b) (2010).

reasoned that Congress indicated that it does not matter who places the invention on sale, "it only matters that someone—inventor, supplier or other third party—placed it on sale."[64]

Next, the court pointed to its own precedent as supporting its decision not to create a "supplier" exception to the on sale bar.[65] In *Zacharin v. United States*, for example, the court had stated that "it is of no consequence that the sale was made by a third party, not by the inventor . . . ."[66] Further, in *Evans Cooling Sys., Inc. v. Gen. Motors Corp.*, the court had made it clear that even if a thief stole the claimed invention and passed it on to an innocent buyer, the innocent buyer's subsequent offer to sell still triggered the plain language of the on sale bar.[67] Finally, the court analogized to the situation in *Evans*, and observed that like in that case, the patentee in *Special Devices* was in control to protect its interests; the circumstances provided "no obstacle to a timely patent application filing."[68]

OEA had argued that some Federal Circuit precedent supported its position, however the Federal Circuit distinguished away from all of it. First, OEA cited *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corporation*, which reiterated that an offer to sell under section 102(b) must take place between two separate entities.[69] The court quickly dismissed OEA's argument, stating that even in *Brasseler* it found that the buyer and the seller were sufficiently distinct entities, where the buyer and the seller each employed the invention's various inventors, the buyer had spearheaded the development of the invention, and the seller had agreed to manufacture the invention exclusively for the buyer.[70] Here, OEA had even less overlap with Coors than did the

[64] *Special Devices*, 270 F.3d at 1355.
[65] *Id.* at 1355-57.
[66] *Id.* at 1355; Zacharin v. United States, 213 F.3d 1366, 1371 (Fed. Cir. 2000).
[67] *Special Devices*, 270 F.3d at 1355; Evans Cooling Sys., Inc. v. Gen. Motors Corp., 125 F.3d 1448, 1453-54 (Fed. Cir. 1997).
[68] *Special Devices*, 270 F.3d at 1355.
[69] *Id.* at 1356.
[70] *Id.*

buyer and seller in *Brasseler*.[71] Therefore, the court found that the "separate entity" aspect of *Brasseler* was of no help to OEA.[72]

OEA had also seized on language in *Brasseler* that suggested that "an individual inventor tak[ing] a design to a fabricator and pay[ing] the fabricator for its services in fabricating a few sample products," would not trigger the on sale bar.[73] The court countered that this language also did nothing to help OEA's case because OEA initially ordered 20,000 units of its invention from Coors, and later agreed to a supply agreement for millions of units each year.[74] Such numbers were "far more than the few sample products mentioned in the *Brasseler* hypothetical."[75]

Finally, the court also dismissed OEA's discussion of *Zacharin v. United States* and *M & R Marking Sys., Inc. v. Top Stamp, Inc.*. In dismissing the former, where the court had found that a developmental contract with the government constituted a "commercial" sale for purposes of the on sale bar, the court stated that OEA had already conceded that its activities with Coors were commercial, and that nothing else in *Zacharin* supported a "supplier" exception to the on sale bar.[76] In contrast to the other cases that OEA cited, *M & R Marking* was actually on-point, and held that a sale from a manufacturer to an inventor did not implicate the on sale bar.[77] However, because *M & R Marking* was a district court case, which the Federal Circuit has "no obligation" to follow, and "more significantly" because the district court used the pre-*Pfaff* "totality of the circumstances" test in its analysis, the court refused to follow it.[78] Because neither the statutory

[71] *Id.* at 1354, 1356.
[72] *Id.* at 1356.
[73] *Id.* (citing Brasseler U.S.A. I, L.P. v. Stryker Sales Corp., 182 F.3d 888, 891 (Fed. Cir. 1999)).
[74] *Special Devices*, 270 F.3d at 1356.
[75] *Id.*
[76] *Id.* at 1357 (citing Zacharin v. United States, 213 F.3d 1366, 1370 (Fed. Cir. 2000).
[77] *Id.* (citing M & R Marking Sys., Inc. v. Top Stamp, Inc., 926 F.Supp. 466, 470-71 (D.N.J. 1996)).
[78] *Id.*

text, nor Federal Circuit precedent, supported the creation of a "supplier" exception to the on sale bar, the court stated that "Congress, not this court, must create it."[79]

Lastly, the court observed that its present holding comported with the policy of encouraging an inventor to enter the patent system promptly (according to it, the "primary policy" of the on sale bar).[80] Even secret commercial activity, therefore, implicates the on sale bar.[81] As such, the court found that there was no reason to treat OEA's commercial stockpiling of an invention, even if in secret, any differently.[82]

With that, the Federal Circuit made it clear in *Special Devices* that a manufacturer's sale to a fabless company of products that it manufactured for the fabless company constitutes a sale under the on sale bar of section 102(b). The fabless company must, if it has not done so already and if it seeks patent protection for its products, apply for a patent on its products within one year of any such sale.

V. Does the *Special Devices* Holding Make Sense?

Many have predictably criticized the *Special Devices* decision.[83] However, let's first analyze the reasons that the Federal Circuit's decision was the right one. Then we can look at the criticisms of the decision.

Looking first at the text of section 102(b),[84] the court was correct in noting that the reference to the invention being "on sale" is in the passive voice, and therefore "indicate[s] that it does not

[79] *Id.*
[80] *Id.* (citing Woodland Trust v. Flowertree Nursery, Inc., 148 F.3d 1368, 1370 (Fed. Cir. 1998); *In re* Caveney, 761 F.2d 671, 676 (Fed Cir. 1985)).
[81] *Id.* (citing *Woodland Trust*, 148 F.3d at 1370).
[82] *Id.*
[83] *See* Jeffrey R. Kuester & N. Andrew Crain, *Beware of Back Door On-Sale Activities*, 14 INTELL. PROP. & TECH. L.J. 1 (2002); Leah C. Fletcher, *Equal Treatment Under Patent Law: A Proposed Exception to the On-Sale Bar*, 13 TEX. INTELL. PROP. L.J. 209 (2005); William C. Cray, *"Lost in the Foundry:" Transactions Between a Patent Owner and a Manufacturer of the Product Incorporating the Patented Invention Made For the Patent Owner For Resale by the Patent Owner Constitutes "On-Sale" Events Under 35 U.S.C. § 102(B)*, 27 NEW MATTER 21 (SPRING 2002).

matter who places the invention on sale [to trigger the on sale bar]; it only matters that someone—inventor, supplier or other third party—placed it on sale."[85] Such a reading of the statute can be considered clear, which under the "plain meaning rule" of statutory construction means that the "judicial inquiry [into the meaning of the statute] is complete."[86]

Even more, the term "on sale" had been defined time and time again by previous Federal Circuit decisions to be "a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood."[87] The definition for a "sale" that the *Special Devices* court used was "a contract . . . to give and pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold."[88] In this established definition of a sale, there is no distinction between sales by an "inventor, supplier or other third party"; it only matters that a sale has occurred. When a term of art—here, a "sale"—has acquired an accepted meaning in the area of law addressed by a statute, a court must give consideration to that meaning.[89]

Yet another canon of statutory construction supports the Federal Circuit's decision in *Special Devices*, and it is that "where Congress includes particular language in one section of a statute but omits it in another . . . , it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion."[90] In section 102(b), Congress specified that

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[84] Section 102(b) provides: "A person shall be entitled to a patent unless—(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States." 35 U.S.C. § 102(b) (2010).
[85] *Special Devices*, 270 F.3d at 1355.
[86] Connecticut Nat'l Bank v. Germain, 503 U.S. 249, 253-54 (1992) ("[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there. When the words of a statute are unambiguous, then, this first canon [of construction] is also the last: 'judicial inquiry is complete.'").
[87] Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1047 (Fed. Cir. 2001).

[88] *Special Devices*, 270 F.3d at 1355 (citing *Zacharin*, 213 F.3d at 1370).
[89] *See, e.g.*, Sullivan v. Stroop, 496 U.S. 478, 483 (1990).
[90] Keene Corp. v. United States, 508 U.S. 200, 208 (1993) (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)).

for a "use" to bar the grant of a patent, it must be "public."[91] However, in that same sentence, Congress decided not to specify that a "sale" must be public (or be made to the public) in order to have the same barring effect.[92] Therefore, under this rule of construction, an interpretation that a private or secret sale between a manufacturer and a fabless company triggers the on sale bar of section 102(b) is correct. Taken together with the statutory arguments presented above, the *Special Devices* decision has a solid statutory foundation upon which to stand.

In addition to statutory support, the Federal Circuit had plenty of precedential support for its decision in *Special Devices*. In *In re Caveney*, for example, the Federal Circuit had stated 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."[93] A year later, the Federal Circuit reaffirmed this rule, and at the same time refused to create a proposed exception to the on sale bar, when it saw "no reason to consider making an exception to the general rule that a third-party sale of a device embodying the claimed invention prior to the critical date invalidates the patent under § 102(b)."[94] These statements make it clear that it does not matter if the sale is by the inventor or a third party—both will trigger the on sale bar.

The Federal Circuit again refused to create an exception to the on sale bar in *Evans Cooling Systems, Inc. v. General Motors Corp.* when it made it clear that even if a thief steals an invention, and subsequently puts it on sale, that sale triggers the on sale bar for the inventor.[95] According to the court, an exception for such circumstances had "no basis in the language of [section 102(b)]."[96] The same reluctance on the part of the Federal Circuit to create another

[91] 35 U.S.C. § 102(b) (2010).
[92] *Id.*
[93] *In re* Caveney, 761 F.2d 671, 675 (Fed Cir. 1985).
[94] J.A. LaPorte, Inc. v. Norfolk Dredging Co., 787 F.2d 1577, 1583 (Fed. Cir. 1986).
[95] Evans Cooling Sys., Inc. v. Gen. Motors Corp., 125 F.3d 1448, 1454 (Fed. Cir. 1997).
[96] *Id.*

exception to the on sale bar was evidenced in *Brasseler, U.S.A. I, L.P. v. Stryer Sales Corp.*, this time for a sale that took place between joint developers of an invention.[97] In refusing to create the exception, the court also rejected the argument that, because the sale at issue was not in the public, it did not trigger the on sale bar.[98] "Public", for the purposes of section 102(b) was "not limited to the ultimate users of the product," according to the court.[99] Therefore, the sale between the joint developers constituted a sale under section 102(b).[100]

Lastly, as a final precedential pillar on which the *Special Devices* decision may rest, the court had its decision in *Woodland Trust v. Flowertree Nursery, Inc.*, where it reiterated that "an 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."[101]

Collectively, the Federal Circuit's precedent at the time of its *Special Devices* decision clearly articulated three propositions related to triggering the on sale bar: 1) it does not matter who, whether the inventor or a third party, places the invention on sale; 2) the court disfavors creating exceptions to the on sale bar; and 3) even secret activity will trigger the on sale bar. All three of these propositions support the court's holding in *Special Devices* and its refusal to create a special "supplier" exception to the on sale bar.

Looking last at the policies behind the on sale bar, two of them support the *Special Devices* holding; namely the policy of favoring prompt and widespread disclosure of new inventions to the public by entering the patent system, which the *Special Devices* court specifically mentioned,[102] and the policy of not wanting inventors to commercially exploit the exclusivity

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[97] Brasseler U.S.A. I, L.P. v. Stryker Sales Corp., 182 F.3d 888, 890 (Fed. Cir. 1999)..
[98] *Id.* at 891.
[99] *Id.*
[100] *Id.* at 891-92.
[101] Woodland Trust v. Flowertree Nursery, Inc., 148 F.3d 1368, 1370 (Fed. Cir. 1998).
[102] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1357 (Fed.Cir. 2001).

afforded by the patent, for example by stockpiling commercial embodiments of their invention beyond the statutorily prescribed period. Further, even if some or all of the policies behind the on sale bar undermined the decision in *Special Devices*, the end result likely should not have been any different. It was under the old "totality of the circumstances" test, which the Supreme Court overruled in *Pfaff*, that a court weighed the policies underlying section 102(b) in aiding its ultimate determination.[103] Under the current two-pronged *Pfaff* test, however, the Supreme Court articulated no room for policy considerations by the courts at all; the only test is that the "on-sale bar applies when two conditions are satisfied before the critical date."[104] Courts apply the two-pronged test without balancing the various policies of the bar according to the totality of the circumstances.[105] Indeed, the Supreme Court's own "interest in providing inventors with a definite standard for determining when a patent application must be filed,"[106] would be harmed if courts could freely weigh the policies of the on sale bar in making their decisions.

In sum, based on the text of section 102(b), Federal Circuit precedent, and the role of policy in making its decision, the court likely decided *Special Devices* correctly. There exist, however, valid criticisms of the decision, which will now be discussed.

The first set of criticism is directed at the *Special Devices*-court's reliance on the statutory text of section 102(b) in holding that "the text of section 102(b) itself makes no room for a 'supplier' exception."[107] Critics point out that while it is true that the text of section 102(b) says nothing about a supplier exception, it also does not say anything about an "experimental use"

[103] UMC Elecs. Co. v. United States, 816 F.2d 656 (Fed. Cir. 1987).
[104] Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 67 (1998).
[105] Electromotive Div. Gen. Motors v. Transp. Systems, 417 F.3d 1203, 1209 (Fed. Cir. 2005) ("Following *Pfaff*, we now apply the two-part test "'without balancing various policies [of the bar] according to the totality of the circumstances.'").
[106] *Pfaff*, 545 U.S. at 65.
[107] *Special Devices*, 270 F.3d at 1355.

exception, which courts *have* accepted as an exception to the on sale bar.[108] The "experimental use" exception to the on sale bar, the existence of which the Supreme Court reiterated in *Pfaff*,[109] provides that "[i]f the sale was primarily for experimentation rather than commercial gain, then the sale is not invalidating under § 102(b)."[110] If the Supreme Court and the Federal Circuit have been willing to accept the "experimental use" exception to the on sale bar in the past, the argument is that they are free to do the same with the "supplier" exception.[111]

Critics also point out that, rather ironically, the Federal Circuit in fact articulated an exception to the on sale bar, while at the same time showing disfavor for exception-creation, when in *Special Devices* it repeated the "few sample products" exception:[112] "[t]his is not a case in which an individual inventor takes a design to a fabricator and pays the fabricator for its services in fabricating a few sample products."[113] This language that the Federal Circuit repeated in *Special Devices*, and created in *Brasseler*, suggests a limited exception to the on sale bar for small sales of sample products from a manufacturer to an inventor. This exception also does not exist in the text of section 102(b). How can the court's reason for rejecting the "supplier exception"—that it has no support in the text of section 102(b)—be valid when, at the same time, the court is willing to create other exceptions that also appear nowhere in the text?[114]

These are valid criticisms. However, they can be reasonably countered. In contrast to the "supplier" exception that was proposed in *Special Devices*, the "experimental use" exception was

[108] Fletcher, *supra* note 833, at 220.
[109] *Pfaff*, 525 U.S. at 64 ("[A]n inventor who seeks to perfect his discovery may conduct extensive testing without losing his right to obtain a patent for his invention-even if such testing occurs in the public eye. The law has long recognized the distinction between inventions put to experimental use and products sold commercially.").
[110] *Electromotive*, 417 F.3d at 1210.
[111] Fletcher, *supra* note 83, at 219.
[112] Fletcher, *supra* note 83, at 221.
[113] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1355 (Fed.Cir. 2001). (citing Brasseler U.S.A. I, L.P. v. Stryker Sales Corp., 182 F.3d 888, 891 (Fed. Cir. 1999).
[114] Fletcher, *supra* note 833, at 219.

created by the Supreme Court.[115] It is eminently reasonable for the Federal Circuit to apply a rule of law that was created by, and continues to be recognized by, the Supreme Court. Such action does not, however, require that the Federal Circuit recognize other exceptions to the on sale bar, including the "supplier" exception proposed by OEA, that have not been accepted by the Supreme Court. As for the "few sample products" exception, it has never been used by the Federal Circuit in supporting a holding that falls into its confines. At the moment, it remains dicta, which is not binding on future courts.[116] It is therefore unclear if the Federal Circuit has even created such a "few sample products" exception.

The second set of criticism of *Special Devices* is directed at the precedent that the Federal Circuit relied on in making its decision. According to critics, none of the cases the court cited dealt with a purchase by an inventor of his invention from an outside manufacturer.[117] Therefore, no controlling precedent existed, and the court could have treated the case as one of first impression to come to any conclusion that it thought was best; namely, that a sale from a manufacturer to an inventor of the invention does *not* trigger the on sale bar.[118]

This set of criticism is less persuasive than the statutory text-directed criticism presented above. First, the mere fact that there was no precedent that was directly on point to the factual situation in *Special Devices* does not compel a result different than the result the court actually reached. Second, while it is true that generally a "holding in one fact-specific case does not bind [a court] in another fact-specific case when the two cases have different records,"[119] it is not true that a court can come to any result it wants in the later case. It must continue to reasonably rely

115 *See* Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 64 (1998). ("experimental use" exception reiterated); Elizabeth v. American Nicholson Pavement Co., 97 U.S. 126, 137 (1877) ("experimental use" exception created).
116 *See* Virginia v. Moore, 553 U.S. 164, 173 (2008).
117 Fletcher, *supra* note 833, at 215.
118 *Id.*
119 Ingmantoro v. Mukasey, 550 F.3d 646, 651 (7th Cir. 2008).

on precedent in making its conclusions. The *Special Devices* court did this by collecting the propositions articulated by its precedent—it does not matter who, whether the inventor or a third party, places the invention on sale; creating exceptions to the on sale bar is disfavored; and even secret activity will trigger the on sale bar—and logically connecting them to its conclusion that a sale of a manufactured invention from a manufacturer to an inventor triggers the on sale bar. The opposite conclusion would not have logically flowed from these precedential propositions.

The third set of criticism directed at *Special Devices* is policy-based.[120] A few of the arguments are that the *Special Devices* rule unfairly discriminates against smaller entities that cannot manufacture their products without the help of a supplier,[121] that a sale by a manufacturer to the inventor is of no benefit to the inventor vis-à-vis commercial exploitation,[122] that no information is being removed from the public domain by allowing an inventor to obtain a patent in these circumstances,[123] and that the patent system should not penalize a decision by a company to become fabless, which was likely made because it was more economically efficient to do so.[124]

While these policy arguments have merit on their own, as shown above, Supreme Court and Federal Circuit precedent no longer allows for policy considerations in applying the on sale bar.[125] Rather, both courts prefer certainty of application of the on sale bar.[126] Therefore, the

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[120] *See* Fletcher, *supra* note 833, at 224-240; Kuester, *supra* note 83, at 1; Cray, *supra* note 83, at 73.
[121] Kuester, *supra* note 83, at 1; Cray, *supra* note 83, at 73; Fletcher, *supra* note 833, at 230.
[122] Cray, *supra* note 83, at 73.
[123] *Id.*
[124] Fletcher, *supra* note 83, at 232.
[125] Pfaff v. Wells Electronics, Inc., 525 U.S. 55, 67 (1998); *see* Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Motors Corp., 417 F.3d 1203, 1209 (Fed. Cir. 2005) ("Following *Pfaff*, we now apply the two-part test 'without balancing various policies [of the bar] according to the totality of the circumstances.' '") (quoting EZ Dock, Inc. v. Schafer Sys., Inc., 276 F.3d 1347, 1351 (Fed. Cir. 2002)).
[126] Scott R. Hovery, *The On-Sale Bar: A Uniform and Consistent Standard*, 6 WAKE FOREST INTELL. PROP. L.J. 1, 5 (2006).

critics' policy arguments give no support for a holding opposite of the one the court reached in *Special Devices*.

Although valid criticisms of the Federal Circuit's decision in *Special Devices* exist, it is likely that the court was required to come to the conclusion that it did because of the text of section 102(b) and its precedent. And although *Special Devices* may have in fact created favoritism in U.S. patent law for large companies that can manufacture their own products in-house, the holding's effect may be short-lived due to the newly passed America Invents Act.

VI. Does Anything Change Under the America Invents Act?

For the first time since the Patent Act of 1952, Congress has acted to effect far-reaching, substantive change in the patent laws of the United States. Titled the Leahy-Smith America Invents Act ("AIA"), the act was signed into law in 2011.[127] Among other things, the AIA converts our patent system into a first-to-file system[128] from a first-to-invent system[129], and also amends 35 U.S.C. § 102, the statutory source of the on sale bar, in a meaningful way.[130]

Section 102(a) of the AIA, the new statutory source of the on sale bar, now provides 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."[131] The one-year grace period remains, and is codified in the amended version of section 102(b), which provides that the use and sale bars to patenting listed in section 102(a) do not prevent an inventor from receiving a patent on his invention if his activities took place one year or less before the filing date of his patent

[127] Leahy-Smith America Invents Act ("America Invents Act"), Pub. L. No. 112-29, 125 Stat. 284 (2011).
[128] All things being equal, the first person to file a patent application on an invention is entitled to the patent for that invention.
[129] All things being equal, the first person to conceive of the invention is entitled to the patent for that invention.
[130] *Id.* America Invents Act § 102.
[131] *Id.* America Invents Act § 102(a) (emphasis added).

application.[132] For comparison, prior to the amendment, section 102(b) provided that "[a] person shall be entitled to a patent unless—(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or *on sale* in this country, more than one year prior to the date of the application for patent in the United States."[133]

At first glance, it looks as if the AIA may not change the effect of the on sale bar on fabless companies; i.e. *Special Devices* will remain the law, and an agreement to transfer products, which are designed by a fabless company, from a manufacturer to that fabless company, will still trigger the one-year clock of the on sale bar. After all, Congress did not add any modifiers to "on sale" in the new statute, but rather placed it in a more comprehensive list of activities that bar patentability—activities already listed in current section 102(a).[134] If we only focus on the term "on sale" in the new statute, then the arguments that the Federal Circuit made in *Special Devices* remain in force.

However, Congress made an important addition to section 102 under the AIA that will likely overrule the *Special Devices* decision. The list of barring activities now ends with the phrase "or otherwise available to the public."[135] This addition suggests that Congress envisioned that the preceding items in the list—the invention being in public use, or on sale—would act as bars to patentability only when, and because, the invention has been made sufficiently "available to the public" as a result of those activities. Indeed, the Supreme Court's statutory construction principle of *noscitur a sociis*, that "words grouped in a list should be given related meaning,"

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[132] *Id.* America Invents Act § 102(b).
[133] 35 U.S.C. § 102(b) (2001) (emphasis added).
[134] Current 35 U.S.C. § 102(a) works in conjunction with current 35 U.S.C. § 102(b), and provides that "[a] person shall be entitled to a patent unless—(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent." 35 U.S.C. § 102(a).
[135] America Invents Act, § 102(a).

supports such an interpretation.[136] Under this interpretation, a sale of products from a supplier to a fabless company, as long as it is sufficiently non-public, will *not* start the one-year clock of the on sale bar. Fabless companies rejoice!

This *Special Devices*-overruling interpretation is further supported by the legislative history of the AIA. Sen. Jon Kyl (R-Ariz.), who was very active in the passage of the AIA, said to the Senate that "in order to trigger the bar in new 102(a) in our legislation, an action must make the patented subject matter available to the public before the effective filing date."[137] He later focused his comments on the use and sale bars in the list, and stated that "public uses and sales are prior art[138] only if they make the invention available to the public."[139] On the other hand, "an inventor's confidential sale of his invention . . . will no longer constitute private [sic] art," describing this as "one of the [AIA]'s clear improvements over current law."[140] According to Sen. Kyl, the previous interpretation of section 102(b), "which allowed private and non-disclosing . . . sales to constitute invalidating prior art, would be fairly disastrous for the U.S. patent system."[141] Given the Supreme Court's approval of consulting the legislative history of a statute if the meaning of a term is uncertain,[142] Sen. Kyl's statements should make it clear that the on sale bar under the AIA applies only to sales that make an invention available to the public.

Sen. Kyl also opined that the "primary" policy of the on sale bar that the Federal Circuit mentioned in *Special Devices*—the policy of encouraging an inventor to enter the patent system

[136] Dole v. United Steelworkers of America, 494 U.S. 26, 36 (1990).
[137] 157 CONG. REC. 5431 (2011).
[138] "Prior art" is all information, such as patents, publications, or activities, which might be relevant to the patentability of an invention.
[139] *Id.*
[140] 157 CONG. REC. 5320 (2011).
[141] 157 CONG. REC. 1371 (2011).
[142] United States v. Great N. Ry., 287 U.S. 144, 154-55 (1932) ("In aid of the process of construction we are at liberty, if the meaning be uncertain, to have recourse to the legislative history of the measure and the statements by those in charge of it during its consideration by the Congress.").

promptly[143]—has been "eliminated" by the AIA's new section 102(a).[144] There's no reason, he said, "to fear commercialization that merely consists of a secret sale or offer for sale but that does not operate to disclose the invention to the public."[145] Instead, "the new definition of prior art will serve only one purpose: to prevent the withdrawal by an inventor of that which was already in the possession of the public."[146] The fact that the only policy on which the *Special Devices* ruling rests has been expressly rejected by Congress is another indication that the court's holding will not stand under the new AIA.

Although we will not know with certainty how the courts will apply the on sale bar under the AIA until they actually do it, both the text of the new statute and the accompanying legislative history make it clear that Congress has acted to change the status quo.[147] No longer should the on sale bar apply to a "patentee's commercial activities [that take] place in secret."[148] Fabless companies will no longer need to worry about their outsourced-manufacturing business model putting them at a disadvantage against larger companies that can manufacture their own inventions in-house. *Special Devices* will likely no longer be good law because it looks like Congress heeded the Federal Circuit's statement that "Congress, not [the Federal Circuit], must create," a supplier exception to the on sale bar.[149]

[143] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1357 (Fed. Cir. 2001) (citing Woodland Trust v. Flower Tree Nursery, Inc., 148 F.3d 1368, 1370 (Fed. Cir. 1998)).
[144] 157 CONG. REC. 1371 (2011). Though the policy of encouraging prompt patent filings is no longer promoted by the on-sale bar under the AIA, the policy continues to be promoted by the AIA's first-to-file regime, whereby the first inventor to file a patent application on an invention is entitled to the patent.
[145] *Id.*
[146] *Id.*
[147] *See* Midlantic Nat'l Bank v. New Jersey Dep't of Envtl. Prot., 474 U.S. 494, 501 (1986) ("The normal rule of statutory construction is that if Congress intends for legislation to change the interpretation of a judicially created concept, it makes that intent specific.").
[148] Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1357 (Fed. Cir. 2001) (citing Woodland Trust v. Flowertree Nursery, Inc., 148 F.3d 1368, 1370 (Fed. Cir. 1998)).
[149] *Id.*

VII. Advice for Fabless Companies

New section 102(a) of the AIA, and therefore the likely inapplicability of *Special Devices*, will be in effect for patent applications filed on or after March 16, 2013.[150] Consistent with the discussion above, after that date, fabless companies will likely not need to worry about their supply agreements with manufacturers triggering the on sale bar. Fabless companies should, however, make it clear in their agreements with their suppliers that the substance of their relationship is not public, by, for example, signing non-disclosure agreements with their suppliers. Such action will make it clear that any "sales" between the manufacturer and the fabless company are not "public" as required by the AIA to trigger the on sale bar.

Until the AIA becomes effective, however, fabless companies must continue to be wary of the *Special Devices* ruling. As the court in that case found, any sale of commercial quantities of a finished product from a manufacturer to a fabless company will start the fabless company's one year clock for the purposes of the on sale bar.[151] Given that backdrop, there are a few things that the fabless company can do to try and protect itself.

First, and perhaps this is the simplest solution, the fabless company should promptly file its patent applications. This solution does not prevent the company's one-year clock from starting, but rather takes the expiration of the clock out of the calculus. Although this solution sounds simple, it presents practical problems. For those small entities—who are more likely to be fabless than not[152]—that aren't sophisticated enough to know much about the on sale bar in the first place, they will likely not know when their clock has started, and therefore will have no

[150] America Invents Act, § 146(n) ("the amendments made by this section shall take effect upon the expiration of the 18-month period beginning on the date of the enactment of this Act . . .."). The AIA was enacted on September 16, 2011.
[151] *Special Devices*, 270 F.3d at 1357.
[152] Ansari, *supra* note 4, at 137 ("Smaller chip designers cannot afford to operate manufacturing plants. Instead, they hire manufacturers to build their designs and sell back chips made to the designer's specifications.").

filing deadline in mind to beat. Also, some novel features of a product that the fabless company would like to protect may be discovered only after their product has been manufactured, marketed, or used by the public.[153] If this is the case, then the one-year patent filing deadline may have long passed before the company had a chance to file a patent application, because the on sale bar clock was triggered long before any marketing or sales to the public actually took place.

Another solution for fabless companies may be to delay mass production, and to at first only contract with the manufacturer for evaluation production. This may fall into the exception articulated by the Federal Circuit in *Special Devices* where "an individual inventor takes a design to a fabricator and pays the fabricator for its services in fabricating a few sample products."[154] This may not start the one-year clock, and can give the fabless company more time to thoroughly evaluate which features of the product it wants patent protection for after actually having the product on-hand. Only then will the company contract with the manufacturer for commercial quantities of its product. However, this strategy only delays the company's market introduction of its product. In a competitive industry such as the semiconductor industry,[155] a small company may not be able to afford to do this. Further, it is not entirely clear that the "few sample products" exception even exists.

Yet another possible solution is for fabless companies to structure their manufacturing agreements as service manufacturing agreements rather than product purchase agreements.[156] The idea is that the fabless company is paying the manufacturer only for assembly and manufacturing services, not for any transfer of title in the product. The fabless company will

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[153] Kuester, supra note 83.
[154] *Special Devices*, 270 F.3d at 1356.
[155] Ansari, *supra* note 4, at 138.
[156] Kuester, *supra* note 83; Levy, *supra* note 22, at 206.

then be responsible for supplying or purchasing the raw materials that the manufacturer will use. Ideally, the fabless company can argue that it retained ownership rights in the product during the entire assembly and manufacturing process, and that legal title to the products never changed hands.[157] A situation like this would be analogous to a license where there is no "product transfer" to the buyer, and which does not trigger the on sale bar according to the Federal Circuit.[158] This type of service agreement may take the transaction out of the Federal Circuit's definition of a sale as "'a contract . . . *to give and pass rights of property* for consideration which the buyer pays or promises to pay the seller *for the thing bought or sold*.'"[159] However, this approach does not appear to have been analyzed in a published case before, and it may be risky as the court might look beyond the formal language of the contract to find that a section 102(b) "sale" has in fact taken place.[160]

It should be apparent that there is no clear way to avoid triggering the on sale bar's one-year clock under current law when a fabless company outsources the volume manufacturing of its products. The only way that a fabless company can be certain that it can obtain patent protection for its products is to ensure that it files its patent applications before the expiration of any conceivable one-year clock.

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157 Kuester, *supra* note 83; Levy, *supra* note 22, at 206.
158 In re Kollar, 286 F.3d 1326, 1330-31 (Fed. Cir. 2001).
159 Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1355 (Fed. Cir. 2001) (emphasis added) (quoting Zacharin v. United States, 213 F.3d 1366, 1370 (Fed. Cir. 2000)).
160 *See* Litecubes, LLC v. Northern Light Products, Inc., 523 F.3d 1353, 1370 (Fed. Cir. 2008) (rejecting a "formalistic" approach to determining whether a "sale" occurred in Canada or in the United States for purposes of determining patent infringement under 35 U.S.C. § 271(a)); *Kollar*, 286 F.3d at 1331 ("In certain situations, a 'license' . . . may be tantamount to a sale . . . 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."); Elan Corp., PLC v. Andrx Pharms., Inc., 366 F.3d 1336, 1341 (Fed. Cir. 2004) ("simply disguis[ing] a sales price as a licensing fee . . . would not avoid triggering the on-sale bar.").

VIII. Conclusion

Fabless companies are here to stay, especially in the semiconductor industry. These companies were certainly disadvantaged by the Federal Circuit's (likely correct) decision in *Special Devices,* which gives fabless companies less time to file patent applications covering their products than their competitors who manufacture their products in-house have. However, the effects of *Special Devices* will likely be short-lived, as the new America Invents Act should move properly constructed contracts between fabless companies and manufacturers out of the reach of the on sale bar. Until then, fabless companies should take care to file their patent applications as quickly as possible. They must also be aware that patents they have already been awarded may be invalidated by their *Special Devices*-type activities,[161] which their competitors may expose in litigation.

[161] Cray, *supra* note 83, at 73.