LITIGATORS CORNER:
How Law is Made

BY JOSEPH N. HOSTENY, OF NIRO, SCAVONE, HALLER & NIRO

Regular IP Today *columnist Joseph N. Hosteny is an intellectual property litigation attorney with the Chicago law firm of Niro, Scavone, Haller & Niro. A Registered Professional Engineer and former Assistant US Attorney, his articles have also appeared in* Corporate Counsel Magazine, The Docket *(American Corporate Counsel Association)*, American Medical News, Inventors' Digest, Litigation Magazine *and* Assembly Engineering Magazine. *An article quoting him recently appeared in the November, 1999 issue of* Entrepreneur Magazine. *Mr. Hosteny can be reached at (312) 236-0733, or by e-mail at jhosteny@hosteny.com, or by visiting his web site at http://www.hosteny.com.*

Sometimes it's interesting to see how the law develops. I vaguely recall learning in law school that we were to be cautious in relying on prior decisions of courts, and that we should not rely on a statement in a prior decision, if the statement was not necessary to that court's decision. What did we call it? *Obiter dicta*? Unfortunately, this is exactly what seems to have happened in the making of one important decision in the area of intellectual property.

One of the most significant decisions in intellectual property law in recent years is *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998). The Supreme Court, in creating a new test for whether an invention is on sale under Section 102(b), relied upon *obiter dicta*.

The *Pfaff* case was a saga. (One reason I like litigating cases on a contingent fee basis is that most of our cases – unlike the *Pfaff* case — have a beginning, a middle, and an end.) However, in this case, the inventor, Pfaff, sued Wells Electronics for infringing his patent, lost, appealed, won reversal of the judgment holding his patent invalid, sued again when Wells modified its devices, lost on infringement, appealed again, won a reversal and remand, tried his case before a special master, won on infringement, lost some claims as anticipated and prevailed against an on-sale attack. The first appeal was in 1989, and the second in 1993. Both sides appealed the third decision by the district court. The Federal Circuit, using traditional law, held that there had been a clear-cut sale more than a year before the patent application had been filed. The Federal Circuit also said no physical embodiment was required, because there was a complete set of detailed engineering drawings. Pfaff believed his invention would work, even though he had not built it before he sold it. Because he had sold it, the Federal Circuit wiped out his patent, and did not establish any new law in doing so. It specifically avoided reliance on prior decisions requiring a reduction to practice.

But Pfaff would not give up. He went to the Supreme Court, which agreed to hear his case. Its reason for doing so struck me as unusual: The court said that there was a difference of opinion between different appellate circuits concerning the application of the on-sale bar. A conflict between circuits is certainly a traditional reason for the Supreme Court to get involved. But as evidence of the conflict, the Supreme Court cited cases that **predated** the 1983 establishment of the Federal Circuit with its exclusive jurisdiction over patent matters. The conflict was not real, because no circuit after 1983, other than the Federal Circuit, has the jurisdiction to consider an on-sale issue.

The Supreme Court came up with the "ready for patenting" language that we are all now familiar with and affirmed the Federal Circuit's decision. This "ready for patenting" standard is now the law of the land, and must certainly be followed. But *Pfaff* was an easy case. The "invention" in question was the subject of a purchase order accepted before the critical date; its design was complete — so complete, in fact, that the pre-critical date drawings relied on as proof that the invention was "ready for patenting" were the same drawings that the manufacturer used in order to prepare tooling to manufacture the product that was sold. The design in *Pfaff* had already been effectively manufactured by the time the drawings existed.

But other cases may not be so simple. The Supreme Court's decision in *Pfaff* has left us and the district courts with a hard job: **to figure out exactly what it meant when it decreed this new standard, that an invention need only be "ready for patenting" to expose the inventor to a potential bar from his rights.** The Supreme Court characterized the invention as simple: "The invention in this case is mechanical and there is no argument that it contains complicated components or involves a complex interaction of parts."

But what about cases that are not so easy? Many cases may involve facts less clear than those in *Pfaff*. In one of our cases, the evidence shows a lot of uncertainty about what specific corresponding structures would be incorporated into a later product, and about which of those features would be incorporated into a later patent specification. Many aspects of the concepts in our case had not yet been tested, but "drawings" existed. As with many more complex inventions, both the "product" and the "invention" were in states of constant change and flux.

The "ready for patenting" standard is brand new. It appears in no prior Federal Circuit decisions. The sole citation in *Pfaff* in support of the new "ready for patenting" standard is a fifty-two-year old decision by Judge Learned Hand — *Metallizing Engineering Co., Inc. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946) — made before the enactment of the Patent Act of 1952. In the *Pfaff* case, the Supreme Court incompletely quoted *Metallizing*:

> It is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly.

In fact, the above statement from *Metallizing* is really **the second part** of a longer sentence. Judge Hand's complete sentence is preceded by another sentence mentioning "prior use." The Supreme Court's decision preceded its quotation with a remark leading one to believe that Judge Hand was speaking about a sale. He was not.

Presumably the Supreme Court took the phrase "ready for patenting" to mean whatever Judge Hand meant. But Judge Hand did not apply or interpret "ready for patenting" within the *Metallizing* decision; his opinion did not require him to do so. Judge Hand stated that "the only issue which we find necessary to decide is as to the inventor's public use of the patented process . . .." 153 F.2d at 517.

The issue in *Metallizing* was whether to invalidate a process patent (1) where the use prior to the critical date of the process was undisputedly "commercial," (2) where experimentation "was subordinate only," and (3) where the controlling fact applied by the lower court to uphold validity was the finding that such commercial use of a completed process invention was secret. The holding in *Metallizing* was that it did not matter whether the use was secret or public. The commercialization through use of the completed process barred the patent. The passage quoted by the Supreme Court, then, means an inventor must choose either to commercially exploit (use) his complete discovery in secrecy without getting a patent, or else — if he wants a patent – he must not commercially exploit (use) his completed discovery before the critical date. The stage of development of the invention was never litigated and never discussed in *Metallizing*. *Metallizing* does not deal at all with a sale; *Pfaff* does not deal at all with a public use. The words "ready for patenting," then, are *obiter dicta* in its purest sense — neither necessary for the holding nor interpreted by the court.

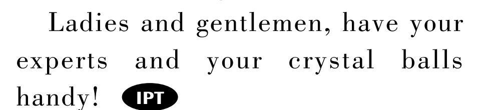
In his discussion of public use, Judge Hand referred to the 1829 Supreme Court decision in *Pennock v. Dialogue*, 27 U.S. 1, 2 Pet. 1, 7 L.Ed. 327 (1829). "Ready for patenting" does not exist in the *Pennock* decision — leading to the seemingly sound conclusion that Learned Hand made it up. Like *Metallizing*, the Pennock decision did not dwell on the issue of how complete an invention must be for a commercializing activity to become a bar. In *Pennock*, the publicly used invention claimed in the patents (a hose with joints that did not leak between segments) had been in actual public use for seven years before patents were obtained. Even so, the *Pennock* decision does have something to say about how complete an invention must be before prefiling activities may forfeit the rights. What *Pennock* says, then, sheds light on what *Metallizing* meant which, in turn, helps to interpret what *Pfaff* holds.

In *Pennock*, the public use in question was not experimental and was undisputedly commercial. It was also a use of the complete invention later claimed in the patent. That use, though, was under the control and auspices of the actual inventor. The patent owner had argued that such public use should not give rise to a defense, because it was by the inventor, or one in privity with him. The *Pennock* court disagreed, holding (through Mr. Justice Story) that even the inventor's prior public use may invalidate a patent. That, again, is still the law today.

The holding in *Pfaff* therefore depends upon cases dealing only with public uses, as a basis for holding that *Pfaff's* invention was on sale. To the extent that those prior cases cited by the Supreme Court discuss sales, their references are unnecessary to their holdings. *Pfaff* seems to rely upon *obiter dicta*.

Nor does the "ready for patenting" standard add clarity. *Pfaff* still allows proof that an invention was reduced to practice when it was offered for sale. *Pfaff* adds that "ready for patenting" can be satisfied in a second way, by showing that the inventor prepared documents from which a person of skill in the art could make the invention. That sounds to me very much like the constructive reduction to practice that occurs when a patent application is filed. *Pfaff* noted that the Federal Circuit had commented that the test for an on-sale bar had been criticized as vague, but then told us that the appropriate test was whether the invention had been "reduced to practice" (an interference requirement that the Federal Circuit has gently moved away from), or whether there are "drawings" or "other descriptions" that are "sufficiently specific." The new standard is equally vague, and we may have to realize that this is the best that the law can do when confronted with the amazing breadth and variety of facts and circumstances arising in on sale situations.

Ladies and gentlemen, have your experts and your crystal balls handy!



Author's Note: I want to recognize the contribution of one of our firm's lawyers, Rob Greenspoon, who closely studied these cases and found the inconsistencies.