

SAN FRANCISCO BAY AREA INTELLECTUAL PROPERTY
AMERICAN INN OF COURT

Michael A. Molano
President

Neil A. Smith
Vice President

Joshua M. Masur
Secretary/Treasurer

January 2006 Meeting Announcement:

Can Secret Art Be Prior Art?

Can offers for sale by a defendant or a third-party – offers that are confidential and unknown to the patentee –constitute invalidating prior art? January's program will feature a mock early neutral evaluation, with clients.

Panelists: **M. Scott Donahey**
Mary A. Fuller *Marvell Semiconductor*
Joseph A. Greco *Townsend & Townsend & Crew*
Michael Headley *Fish & Richardson*
John A.D. Kelley *Russo & Hale*
Michael A. Molano *Mayer Brown Rowe & Maw*

Time and Location: January 18, 2006 at 6:00pm
Townsend & Townsend & Crew
390 Lytton Avenue (at Waverley)
Palo Alto
650.326.2400

Dinner to Follow at: **Tamarine**
546 University Avenue (between Webster and Cowper)
Palo Alto
650.325.8500

Hypothetical: Can Secret Art Be Prior Art?

Pinnacle Security, Inc. manufactures building security systems. Its "Gatekeeper" systems incorporate advanced face-recognition features. Gatekeeper systems protect hundreds of government and corporate office complexes throughout the world.

Pinnacle's Gatekeeper systems utilize the CONREC 7000, a general-purpose pattern recognition system developed by Contextual Recognition Laboratories, Inc. in 1996. The CONREC 7000 can be programmed to provide pattern recognition for particular applications. Pinnacle developed proprietary software that uses the CONREC 7000 to recognize faces in the building environments.

Pinnacle conceived, reduced to practice, and applied for a patent concerning face-recognition building security technology in 2000. In 2004, Pinnacle obtained the '789 Patent covering that technology. The patent contains only apparatus claims, not method claims.

In 2005, Demarcation Technologies, Inc. began selling its "Boundary" product, another face-recognition building security system that competes directly with Gatekeeper. Like Gatekeeper, Boundary incorporates the CONREC 7000.

In July, 2005, Pinnacle filed suit in the United States District Court for the Northern District of California against Demarcation for infringement of the '789 Patent.

In December, 2005, after the initial Case Management Conference, Demarcation's attorneys sent a settlement demand to Pinnacle's attorneys requesting that Pinnacle dismiss its suit with prejudice, grant Demarcation a fully-paid license to the '789 Patent, issue a letter of apology to Demarcation's customers, and pay Demarcation twice its attorneys' fees. Demarcation indicated that if its settlement demands were not met by January 20, 2005, it would not participate in any further settlement negotiations, it would seek to invalidate the '789 Patent, and it would pursue all of its other remedies. The letter stated, "Demarcation, not Pinnacle, invented face-recognition building security systems. Demarcation did so in 1997, years before Pinnacle applied for the '789 Patent."

Accompanying Demarcation's demand were copies of a two-page cover letter and a fifty-page technical proposal from Demarcation to Insight Properties, Inc. in 1997 for a face-recognition building security system that also incorporated the CONREC 7000. The first page of the cover letter stated, "Offer to Build Advanced Face-Recognition Building Security System." The second page of the cover letter provided detailed pricing and delivery information. In addition, it referred to a separate non-disclosure agreement:

This Proposal (a) contains "Confidential Information" of Demarcation as that phrase is defined in the "Confidential Information Exchange Agreement" dated March 1, 1997 between Demarcation and Insight, and (b) is provided to Insight

subject to the terms of that Agreement. This Proposal may be used only in accordance with the terms of that Agreement. By accepting and retaining this Proposal, Insight confirms that this Proposal may be used only in accordance with the terms of that Agreement.

Each page of Demarcation's 1997 technical proposal was marked in two ways. "CONFIDENTIAL OFFER" appeared at the top center of each page, while "**Confidential-For Attorneys' Eyes Only**" (a designation provided for in the Protective Order in the case) appeared next to a Bates number at the bottom right of each page.

After receiving the letter, Pinnacle's attorneys consulted with Pinnacle's senior management, met again with the inventor of the '789 Patent, interviewed several of Pinnacle's employees and former employees, initiated a further search of Pinnacle's records, and consulted further with the attorneys that had prosecuted the '789 Patent. No one had any knowledge of Demarcation's 1997 proposal to Insight, and no document made any reference to it.

On January 4, 2006, Pinnacle's attorneys informally requested both a copy of the March 1, 1997 non-disclosure agreement and any documents concerning the actual sale or development of the device described in the 1997 proposal. On January 11, 2006, Demarcation's attorneys replied that they had not been able to locate a copy of the March 1, 1997 non-disclosure agreement and that there were no such documents, because Demarcation had never sold or actually built that device. The attorneys represented, however, that Demarcation employees would testify as follows: (1) the non-disclosure agreement was a "form" agreement that the company's law firm at the time told them to use when making any proposed product sale, but they stopped doing so at some time within a year or so when a prospective customer complained about having to sign it; and (2) after making the proposal to Insight Properties, they made a subsequent proposal with the same fifty-page technical disclosure to another potential customer, Beta Properties, but they have not been able to locate that file and cannot recall whether they had discontinued requiring the non-disclosure agreement at that time.

For purposes of the ENE, the parties agree that if Pinnacle prevails in the litigation, damages will be in the range of \$15-20 million. Also, Pinnacle acknowledges that there are several other companies who have made noises about entering the market, and appear to be awaiting the outcome of Demarcation's invalidity challenge to the '789 patent.

Early Neutral Evaluation is scheduled for January 18, 2006 in Palo Alto.



United States Court of Appeals,
Federal Circuit.

In re Jack E. CAVENEY and Roy A. Moody.
Appeal No. 84-1209.

May 8, 1985.

[Thomson/West proprietary material deleted]

*672 Charles F. Pigott, Jr., Pigott, Gerstman & Gilhooly, Ltd., Chicago, Ill., argued, for appellants.

Charles A. Wentzel, Tinley Park, Ill., of counsel.

John F. Pitrelli, U.S. Patent & Trademark Office, Arlington, Va., argued, for appellee.

Joseph F. Nakamura, Sol. and Jere W. Sears, Deputy Sol., U.S. Patent & Trademark Office, Arlington, Va., were on brief, for appellee.

*673 Before MARKEY, Chief Judge, and MILLER and SMITH, Circuit Judges.

JACK R. MILLER, Circuit Judge.

This is an appeal from the decision of the United States Patent and Trademark Office ("PTO") Board of Appeals ("board") sustaining the rejection of claims 26-28, 38-41, and 45 under [35 U.S.C. § 102\(b\)](#). We affirm.

BACKGROUND

The subject application, which is assigned to the Panduit Corporation, was filed on April 7, 1969, and is drawn to a one-piece cable tie adapted to be wrapped around a bundle of wires to secure them together. [\[FN1\]](#) Subsequent to filing this application, appellants presented claims 38-41 to provoke an interference with claims 1-3 and 5 of [U.S. Patent No. 3,486,201](#) to Walter Bourne, [\[FN2\]](#) which is assigned to Bowthorpe-Hellermann, Limited ("B-H"). An interference was declared, but subsequently suspended, pursuant to [37 C.F.R. § 1.292](#), [\[FN3\]](#) when Walter Bourne petitioned for a public use proceeding with respect to appellants' claimed invention.

[\[FN1\]](#). Claim 38 is illustrative of the subject invention:

A binding clip for cables and the like comprising an elongated flexible tongue, a relatively rigid head formed integrally with one end of said tongue and having an elongated eye therein, a pawl integrally and flexibly united to said head so as to define one side of said eye, said eye being formed as a straight passage of a substantially uniform cross-section complementary to that of said tongue, a series of ratchet teeth formed on said pawl so as to project into said eye in parallel relation to its major dimension, and a row of coacting teeth formed medially of said tongue, said tongue being wider than said pawl so that plain portions thereof flanking said row of teeth abut rigid parts of said head to ensure effective interengagement of the teeth on said pawl and said tongue in a manner to resist return movement of said tongue after the free end of the latter has been drawn through said eye to tighten the clip.

[FN2](#). Issued December 30, 1969, on application No. 750,301, filed August 5, 1968, on "Cable and Like Binding Clips."

[FN3. § 1.292](#) Public use proceedings.

(a) When a petition for the institution of public use proceedings, supported by affidavits or declarations and the fee set forth in § 1.17(j) is filed by one having information of the pendency of an application and is found, on reference to the primary examiner, to make a prima facie showing that the invention involved in an interference or claimed in an application believed to be on file had been in public use or on sale one year before the filing of the application, or before the date alleged by an interfering party in his or her preliminary statement or the date of invention established by such party, a hearing may be had before the Commissioner to determine whether a public use proceeding should be instituted. If instituted, times may be set for taking testimony, which shall be taken as provided by § 1.271 to 1.286. The petitioner will be heard in the proceedings but after decision therein will not be heard further in the prosecution of the application

for patent.

(b) The petition and accompanying papers should either: (1) Reflect that a copy of the same has been served upon the applicant or upon his attorney or agent of record; or (2) be filed with the Office in duplicate in the event service is not possible. The petition and accompanying papers, or a notice that such a petition has been filed, shall be entered in the application file.

Bourne's petition was granted on November 2, 1972. During 1973, appellants and Walter Bourne took depositions, filed these depositions and some exhibits in the PTO, submitted briefs, and appeared for a final hearing in the PTO. After the hearing, the examiner issued a decision holding that the claimed invention was "on sale" in this country before the April 7, 1968, critical date. The interference was dissolved on May 10, 1974, and *ex parte* prosecution before the examiner was resumed. On May 12, 1981, the appealed claims were finally rejected.

The basis for the rejection was that Insuloid Manufacturing Company ("Insuloid"), a British corporation wholly owned by B-H, offered to sell the claimed invention in the United States to Tyton Corporation ("Tyton") prior to the critical date. Specifically, on November 14, 1967, Insuloid sent samples of the claimed invention to Tyton for evaluation along with a catalogue and technical information. Receipt of these items was acknowledged on December 13, *674 1967, in a letter from Robert Hall, a market research analyst for Tyton, who indicated that Tyton was in the process of determining the quantity for an initial order. On February 9, 1968, Tyton placed an order with Insuloid setting forth prices and quantities of the desired cable ties, but the cable ties were not shipped until May 13, 1968, when Tyton deemed them acceptable.

Tyton was formed as a joint venture company to be Insuloid's exclusive seller in the United States. B-H owned 49% of Tyton, while Ideal Industries ("Ideal") owned the balance.

A majority of the board affirmed the final rejection, because Insuloid offered to sell cable ties to Tyton within the meaning of [35 U.S.C. § 102\(b\)](#). Insuloid and Tyton were deemed separate entities with a relationship analogous to manufacturer and either wholesaler or retailer. The fact that appellants did not cause the statutory bar was deemed irrelevant.

The dissenting member of the board asserted that Tyton acted like the marketing group in a large corporation whose receipt of samples from another group in the corporation would not be the subject of an "on sale" bar. It was further noted that Tyton kept the claimed invention secret from the purchasing public and did not complete a pricing schedule until after the critical date.

ANALYSIS

1. *Standards of Proof and Review*

In their briefs, appellants state that the PTO, having alleged that the claimed invention was "on sale," bears a heavy burden of proof, citing [Richdel, Inc. v. Sunspool Corp.](#), 714 F.2d 1573, 219 USPQ 8 (Fed.Cir.1983), and other cases involving issued patents. We are asked to bear this burden of proof in mind in considering "a number of factual issues involved in this appeal."

[1][2] However, although patents are entitled to a presumption of validity under [35 U.S.C. § 282](#), and the party asserting patent invalidity under [35 U.S.C. § 102\(b\)](#) must support the assertion by facts constituting clear and convincing evidence ([American Hoist & Derrick Co. v. Sowa & Sons, Inc.](#), 725 F.2d 1350, 1359-60, 220 USPQ 763, 770 (Fed.Cir.), cert. denied, 469 U.S. 821, 105 S.Ct. 95, 83 L.Ed.2d 41 (1984)), patent applications are not entitled to the procedural advantages of [35 U.S.C. § 282](#). From [In re Etter](#), 756 F.2d 852, 225 USPQ 1 (Fed.Cir.1984) (en banc), it is apparent that, due to [35 U.S.C. § 282](#), the standard of proof required to properly reject the claims of a patent application is necessarily lower than that required to invalidate patent claims. The three standards of proof generally recognized are proof by a preponderance of the evidence, proof by clear and convincing evidence, and proof beyond a reasonable doubt. [SSIH Equipment S.A. v. U.S. International Trade Commission](#), 718 F.2d 365, 380, 218 USPQ 678, 691 (Fed.Cir.1983) (Nies, J., additional views). Because it is the only standard of proof lower than clear and convincing, preponderance of the evidence is the standard that must be met by the PTO in making rejections (other than for "fraud" or "violation of the duty of disclosure" which requires clear and convincing evidence ([37 C.F.R. § 1.56\(d\)](#)) [FN4]).

[FN4](#). A higher standard for proving inequitable conduct is warranted due to the seriousness of such alleged wrongdoing. See [SSIH Equipment S.A.](#), 718 F.2d at 380-81, 218 USPQ at 691.

[3] In appeals from PTO rejections, the Federal Circuit does not find facts *de novo*, but, instead, reviews PTO findings under the clearly erroneous standard. See [In re Wilder](#), 736 F.2d 1516, 1520, 222 USPQ 369, 372 (Fed.Cir.1984). Under this standard of review, PTO findings are overturned only if the court is left with the definite and firm conviction that a mistake has been made. See [SSIH Equipment S.A.](#), 718 F.2d at 381, 218 USPQ at 692. For legal conclusions, the standard of review is correctness or error as a matter of law. [In re De Blauwe](#), 736 F.2d 699, 703, 222 USPQ 191, 195 (Fed.Cir.1984).

***675 2. "On Sale" Rejection**

[4] The PTO met its initial burden of going forward by making a *prima facie* showing that the claimed invention was "on sale" in accordance with [35 U.S.C. § 102\(b\)](#). See [In re Dybel](#), 524 F.2d 1393, 1400, 187 USPQ 593, 598 (CCPA 1975); [In re Josserand](#), 188 F.2d 486, 491, 89 USPQ 371, 376 (CCPA 1951). The shipment of samples of the claimed cable ties to Tyton on November 14, 1967, Robert Hall's acknowledgement letter of December 13, 1967, indicating that an initial order of cable ties was being prepared, and Tyton's subsequent order of February 9, 1968, setting forth prices and quantities of the desired cable ties strongly indicates that Insuloid had previously made an offer to sell ties embodying the claimed invention. An offer to sell a completed invention is sufficient to support a rejection under [35 U.S.C. § 102\(b\)](#). See [Barmag Barmer Maschinenfabrik AG v. Murata Machinery, Ltd.](#), 731 F.2d 831, 836-37, 221 USPQ 561, 565 (Fed.Cir.1984).

Appellants argue that no offer was made, because Tyton's marketing manager, Robert Adair, signed the February 9, 1968, order, thinking he had ordered cable ties other than the claimed invention. Robert Adair actually only testified that he ordered cable ties "similar " (emphasis added) to an old model. However, even if we assume that the claimed cable ties were not at least "similar" to the old model, the type of cable ties Robert Adair intended to order has no bearing on whether the claimed invention was *offered* for sale. Likewise, appellants' allegations that Tyton had not decided what specific cable tie structure it would accept when it made its February 9, 1968, order and that no agreement on structure was reached until after the critical date fail to show that no offer was made.

Although the above-related activities may not be clear and convincing evidence of facts that show the claimed invention was offered for sale, we are satisfied that they establish such facts by a preponderance of the evidence. Accordingly, the board's finding of these facts was not clearly erroneous.

[5] Appellants also urge us to overturn the board's finding that B-H owned 49% of Tyton during the relevant time periods, because "it appears probable that ... on February 9, 1968, [B-H] may well have acquired 100% of Tyton." In their supplemental brief before the board, however, appellants conceded that B-H owned 49% of Tyton during the period in question. Having made this concession below, appellants cannot now challenge the finding by the board on appeal.

[6] Even assuming that a sale or offer to sell was made by Insuloid prior to the critical date, appellants contend that such activity, kept secret from the trade, is not a bar under [35 U.S.C. § 102\(b\)](#). However, 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. See [Pennwalt Corp. v. Akzona Inc.](#), 740 F.2d 1573, 1580 n. 14, 222 USPQ 833, 837 n. 14 (Fed.Cir.1984); [General Electric Co. v. United States](#), 654 F.2d 55, 61-62, 211 USPQ 867, 873 (Ct.Cl.1981).

[7] An exception to this general rule exists where a patented method is kept secret and remains secret after a sale of the unpatented product of the method. Such a sale prior to the critical date is a bar if engaged in by the patentee or patent applicant, but not if engaged in by another. [FN5] See [W.L. Gore & Associates, Inc. v. Garlock, Inc.](#), 721 F.2d 1540, 1550, 220 USPQ 303, 310 (Fed.Cir.1983), *cert. denied*, 469 U.S. 851, 105 S.Ct. 172, 83 L.Ed.2d 107 (1984); [D.L. Auld Co. v. Chroma Graphics Corp.](#), 714 F.2d 1144, 1147-48, 219 USPQ 13, 16 (Fed.Cir.1983). However, the activity *676 in the instant case is distinguishable from that involved in *W.L. Gore* and *D.L. Auld*. Here the claimed invention was disclosed to the purchaser.

[FN5]. The "on sale" provision of [35 U.S.C. § 102\(b\)](#) is directed at precluding an inventor from commercializing his invention for over a year before he files his application. Sales or offers made by others and disclosing the claimed invention implicate the "public use" provision of [35 U.S.C. § 102\(b\)](#).

[8] At oral argument, counsel for appellants asserted that an offer to sell to potential users is required before that offer can be considered non-secret and, therefore, a statutory bar. It is well established, however, that a single sale or offer to sell is enough to bar patentability. [General Electric Co., 654 F.2d at 60, 211 USPQ at 872](#); [Manufacturing Research Corp. v. Graybar Electric Corp., 679 F.2d 1355, 1362, 215 USPQ 29, 34 \(11th Cir.1982\)](#). Having pointed out that Insuloid's offer to sell is distinguishable from that involved in *W.L. Gore* and *D.L. Auld*, the question is whether one offer to sell to a related company, like Tyton, constitutes an "on sale" bar under [35 U.S.C. § 102\(b\)](#).

[9][10][11][12] It is well settled that a sale is a contract between parties to give and to pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold. [77 C.J.S. Sales § 1 \(1952\)](#). Further, one cannot make a contract with himself. J. Calamari & J. Perillo, *Contracts* § 55 (2d ed. 1977). Accordingly, a sale or offer to sell under [35 U.S.C. § 102\(b\)](#) must be between two separate entities. [Union Carbide Corp. v. Filtrol Corp., 170 USPQ 482, 521 \(C.D.Cal.1971\), aff'd, 179 USPQ 209 \(9th Cir.1973\)](#). The mere fact that a product is delivered to a distributor does not exempt the transaction from [35 U.S.C. § 102\(b\)](#). [Kalvar Corp. v. Xidex Corp., 384 F.Supp. 1126, 1135, 182 USPQ 532, 539 \(N.D.Cal.1973\), aff'd, 556 F.2d 966, 195 USPQ 146 \(9th Cir.1977\)](#); see also [George R. Churchill Co. v. American Buff Co., 365 F.2d 129, 150 USPQ 417 \(7th Cir.1966\)](#). Here, although Insuloid and Tyton shared a common owner, B-H, control of these entities was clearly different; Insuloid was wholly owned by B-H, while the controlling interest in Tyton was held by Ideal. In addition, as pointed out by the Solicitor, the record shows that Tyton acted independently from Insuloid by deciding which Insuloid products it wanted and by holding up its order of cable ties until they proved to be satisfactory. If any line of demarcation was unclear, it was that between Ideal and Tyton (rather than Tyton and Insuloid), as evidenced by Tyton's use of Ideal letterhead and by Ideal officers holding similar titles in Tyton. Accordingly, we are persuaded that the PTO made a *prima facie* showing that Insuloid and Tyton were separate entities and that appellants have not rebutted it.

[13] As explained by this court's predecessor in [General Electric Co., 654 F.2d at 61, 211 USPQ at 873](#), the "on sale" bar has the following underlying

policies: (1) a policy against removing inventions from the public domain which the public justifiably comes to believe are freely available due to commercialization; (2) a policy favoring prompt and widespread disclosure of inventions to the public; and (3) a policy of giving the inventor a reasonable amount of time following sales activity to determine whether a patent is worthwhile. [FN6] As to the first policy, the public (or the "trade" as appellants call it) is not limited to potential users; separate entities, like Tyton, in the business of selling to potential users, are also members of the trade in that product. In the case of a patentee or patent applicant selling to an independently controlled distributor, all of the above policies warrant applying the "on sale" bar. When a sale disclosing the invention is made by a person other than the patentee or patent applicant, as in this case, the policy against removing inventions from the public domain and the policy favoring early filing of patent applications justify application of the "on sale" bar, as discussed in [General Electric Co., 654 F.2d at 62, 211 USPQ at 873](#).

[FN6. These policies were earlier identified in Barrett, [New Guidelines for Applying the On Sale Bar to Patentability](#), 24 *Stan.L.Rev.* 730, 732-35 (1972).

[14] Finally, appellants urge that if Insuloid made a sale or offer to sell, it did so in England, making that sale or offer to *677 sell outside the scope of [35 U.S.C. § 102\(b\)](#). Although Insuloid presumably made its offer from England, that offer was directed to Tyton at its place of business in the United States. Therefore, [35 U.S.C. § 102\(b\)](#) is applicable to the facts of this case.

SUMMARY

In view of the foregoing, we *affirm* the PTO's rejection of claims 26-28, 38- 41, and 45.

AFFIRMED.

761 F.2d 671, 226 U.S.P.Q. 1

END OF DOCUMENT