The Fed. Circ. In August: Secret Sales And Public Disclosures

By **Sean Murray and Jeremiah Helm** (September 9, 2024)

This article is part of a monthly column that highlights an important patent appeal from the previous month. In this installment, we examine the Federal Circuit's rulings in Sanho v. Kaijet and Celanese International v. International Trade Commission.

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Public disclosures, public uses, secret uses and secret sales: The patent law can appear a confusing quagmire full of unseen hazards to inventors attempting to develop and exploit their innovations.

In two recent decisions, the U.S. Court of Appeals for the Federal Circuit waded into this quagmire and provided guidance to inventors who wonder what they are permitted to do between conceiving their invention and filing their patent application.

In Sanho Corp. v. Kaijet Technology International Limited Inc. on July 31, the Federal Circuit rejected a patent owner's argument that its secret sale of products embodying its inventions constituted a public disclosure of the invention. Affirming the Patent Trial and Appeal Board, the Federal Circuit ruled that the invention was not publicly disclosed by the secret sale.

Two weeks later, on Aug. 12, the court issued an opinion in Celanese International Corp. v. International Trade Commission, an appeal from the International Trade Commission. There the Federal Circuit ruled that Celanese's secret sale was an invalidating disclosure that put its invention on sale more than a year before it filed its patent application.

How can a secret sale be an invalidating disclosure but not a public disclosure? Some background is necessary.

The patentability of inventions is governed by the America Invents Act, which went into effect in September 2012. The relevant provision is Title 35 of the U.S. Code, Section 102. Section 102 specifies that certain types of disclosures will invalidate a patent if they occur before the inventor files his or her patent application.[1]

First, it is an invalidating disclosure if the invention is described in a patent or printed publication, publicly used or placed on sale before the inventor's patent application is filed. However, none of these things is an invalidating disclosure if done by the inventor less than a year before filing the patent application.

Second, it is an invalidating disclosure if someone else describes the invention in a patent application filed before the inventor's application. In essence, the inventor's patent is invalid because someone else won the race to the Patent Office.

The invalidating disclosure that spelled the end of Sanho's patent was an earlier-filed patent application. Someone else had beaten Sanho to the Patent Office.

But all was not lost for Sanho. The AIA's provision on invalidating disclosures also contains an exception — a sort of safe harbor.[2] That exception provides that, if an inventor publicly discloses the invention, that public disclosure negates any subsequent invalidating disclosure. Sanho argued that it publicly disclosed its invention when it sold products embodying the invention. And because that sale preceded the earlier-filed patent application, that application was not an invalidating disclosure.

But Sanho's sale was a secret sale negotiated between two individuals using private messages. The board ruled that an invention cannot be "publicly disclosed" by a secret sale, and it invalidated Sanho's patent.

On appeal to the Federal Circuit, Sanho argued that, if a secret sale is an invalidating disclosure, it must also be a public disclosure. Consistency requires no less.

The Federal Circuit disagreed. It held that "disclosure" and "publicly disclosed" are different terms that have different meanings. Putting an invention on sale is an invalidating disclosure — even if the sale is secret — because of the policy against allowing a patent owner to extend its monopoly beyond the statutory period.

The policy behind the AIA's publicly disclosed exception is very different. That provision is intended to encourage inventors to make their inventions available to the public. Because that policy is not served by secret sales, secret sales do not qualify as public disclosures.

The Federal Circuit therefore ruled that Sanho's secret sale was not a public disclosure that negated the third party's earlier patent application. The court affirmed the board's finding of unpatentability.

A secret sale is not the only secret activity that can constitute an invalidating disclosure, but not a public disclosure that triggers the safe harbor. Long ago, in the 1881 decision in Egbert v. Lippmann, the U.S. Supreme Court addressed a use that was later described as a "secret public use."

The invention in Egbert was an improved corset. The inventor's friend complained that she was always breaking her corset springs. The inventor developed a new type of corset spring and gave his friend a corset embodying the invention. She must have liked the corset, because she wore it for over two years and eventually married the inventor.

Because the inventor's friend wore the corset in public, the patent challenger argued the invention was "in public use" in violation of the contemporaneous patent statute. But the friend wore the corset under her clothing, so it was invisible to the public. The patent owner therefore argued that it was a secret use that should not invalidate the patent.

The Supreme Court ruled that the invention was in public use, but not because the public could somehow learn about the invention by studying the friend's clothing. Rather, the inventor made it public by giving it away without any restrictions. The friend was free to show the invention to anyone she wished. It was available to the public in that the inventor could no longer keep it secret.

Returing to Sanho, the lesson for inventors is clear. Inventors should publicly disclose their invention as soon as possible. A secret sale will not suffice. Nor, in all likelihood, will a secret public use. A better approach is to publish an article or present the invention at a conference or trade show. That will help establish, in any subsequent dispute, what was disclosed, when it was disclosed, and whether the disclosure was public.

Moreover, as the Celanese decision highlights, inventors must file their patent application within a year of any public disclosure, use, sale or commercialization of their invention. Given that a sale will start the one-year clock running, the invention ideally would be publicly disclosed no later than the date an offer for sale is accepted.

Finally, a company can make a public disclosure even if it is unsure whether the new product embodies or was produced by a patentable invention.

Unless the company can maintain any innovations as trade secrets, and is considering doing so, it can make a public disclosure to protect any patentable innovations it may have developed. Once the device, compound or method has been publicly disclosed, the company will have a year to determine whether it developed anything patentable and to file its patent application.

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[1] 35 U.S.C. § 102(a).

[2] 35 U.S.C. § 102(b)(1)(B) and § 102(b)(2)(B).