

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

HAMILTON BEACH BRANDS, INC.,
Plaintiff-Appellant,
– v. –
SUNBEAM PRODUCTS, INC.
(doing business as Jarden Consumer Solutions),
Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA IN CASE NO. 11-CV-0345
HON. JAMES R. SPENCER

**BRIEF OF NATIONAL SMALL BUSINESS ASSOCIATION AS *AMICUS
CURIAE* IN SUPPORT OF HAMILTON BEACH BRANDS INC.'S
PETITION FOR REHEARING EN BANC**

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CERTIFICATE OF INTEREST

Counsel for the *amicus curiae*, National Small Business Association,
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1. The full name of every party or amicus represented by me is:

National Small Business United d/b/a National Small Business Association.

2. The name of the real party in interest (if the party name in the caption is not the real party in interest) represented by me is:

National Small Business United d/b/a National Small Business Association.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

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Dated October 29, 2013

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STATEMENT OF COUNSEL

Counsel for the *amicus curiae*, National Small Business Association,
certifies the following pursuant to Fed. R. App. P. 29(c)(5):

1. No party's counsel authored the brief in whole or in part;
2. No party or a party's counsel contributed money that was intended to fund preparing or submitting the brief; and
3. No person — other than the *amicus curiae*, its members, or its counsel — contributed money that was intended to fund preparing or submitting the brief.

Date: October 29, 2013

Respectfully submitted,

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I. Interest of Amicus Curiae

The National Small Business Association (“NSBA” or “Association”) is the nation’s first small business advocacy organization. Founded over 75 years ago, the NSBA continues to advocate on behalf of America’s entrepreneurs. Today, the Association reaches more than 150,000 small businesses across the country and currently has 65,000 members representing every state and industry in the United States. Small businesses account for an important force in the innovative nature of the American economy, producing more patents per revenue dollar than larger companies.

But the vast majority of small businesses have limited financial resources and do not have the capability to manufacture products in-house. As a result, most small businesses are required to contract with third-party suppliers to produce products still under development so that those products can be tested. It is simply not feasible for most small businesses to divert valuable resources to filing and prosecuting patent applications before a prototype has even been manufactured.

Yet, the majority’s opinion deems the manufacturing of products by a third-party supplier to trigger the on-sale bar under § 102(b) without any analysis of whether the product was for experimental use. As a result, the majority’s decision puts small businesses in the untenable position of having to first incur patent-prosecution expenses before a product embodying the claimed invention has been

fully developed. On the other hand, larger corporations with the ability to manufacture products in-house can do so without fear of foreclosing their ability to later obtain a patent. Simply put, the majority's opinion unduly creates financial and competitive disadvantages for small businesses with no in-house manufacturing capabilities in favor of larger businesses that have those capabilities. Thus, to even the playing field, the NSBA files this brief in support of Hamilton Beach Brand Inc.'s ("Hamilton") Petition for Rehearing En Banc.

II. Summary of the Argument

In *Hamilton Beach*, the panel majority concluded that an offer made to Hamilton by its own supplier to manufacture the product potentially embodying Hamilton's invention constituted an offer to sell a patented invention that anticipates the claims of Hamilton's patent under 35 U.S.C. §102(b). The majority dismissed at the outset the confidential nature of the transaction and declined to consider whether the purpose of the sale was commercial or experimental in nature. Majority Op. 9. But as Judge Reyna correctly expressed in the dissent, this broad application of the on-sale bar in effect eliminates the protection of the experimental use for inventors who lack in-house fabricating capabilities. Dissent Op. 5. Because small business owners and individual inventors must rely on third-party suppliers to produce prototypes for experimental

use, the panel majority’s opinion will be especially damaging to small businesses’ and individual inventors’ ability to protect their innovations.

III. Argument

A. **The majority incorrectly removed the commercial element of the on-sale bar.**

“A person shall be entitled to a patent unless . . . the invention was . . . *on sale* . . . more than one year prior to the date of the application for patent” 35 U.S.C. § 102(b), (emphasis added). Until the majority’s opinion, a sale or transaction did not fall under § 102(b) unless it was commercial in nature. *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998).

Consistent with the Supreme Court’s holding, this Court has repeatedly held that, if an offer to sell is not for commercial purposes, then the on-sale bar of § 102(b) cannot be triggered. In *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, this Court specifically stated that the on-sale bar is not triggered when an inventor “takes a design to a fabricator and pays the fabricator for its services in fabricating a few sample products.” 182 F.3d 888, 891 (Fed. Cir. 1999). In *Brasseler*, the Court invalidated the patent only where the inventor had “commercially exploited the invention” by selling the products “for general marketing.” *Id.* Similarly, in *Trading Technologies Inc. v. eSpeed, Inc.*, the Court held that the inventors “own secret, personal use could not constitute a sale under . . . § 102(b),” reasoning that

the inventor did not sell or commercially market the invention. 595 F.3d 1340, 1361-62 (Fed. Cir. 2010).

In contrast, the majority opinion extends the on-sale bar to situations where an inventor contracts with a third-party supplier to build a product embodying the invention, irrespective of the purpose of that production. Majority Op. 12 (“[T]he supplier made an *offer* to sell”) (emphasis original). The majority refused to consider whether the product was being made for commercial or experimental purposes, but rather made the blanket determination that there was no “supplier exception” to the on-sale bar. Majority Op. 9 (“Second, there is no ‘supplier exception’ to the on-sale bar.”). The majority relied on language from *Special Devices, Inc. v. OEA, Inc.*, to support its ruling. See 270 F.3d 1353, 1357-58. But in *Special Devices*, the inventor conceded that the orders at issue were for “commercial” purposes, and the Court expressly noted that fact in making its decision. *Id.* at 1355-58.

The majority’s failure to consider whether the offer was commercial or experimental in nature is inconsistent at every turn with the Supreme Court’s and this Court’s precedent. As a result, the majority’s opinion should be reversed, especially in light of the adverse financial and competitive impact the decision will have on small businesses across the nation.

B. NSBA’s members will be placed at a financial and competitive disadvantage if the majority’s and the lower court’s determinations are not reversed.

In the dissent, Judge Reyna correctly notes that the majority’s opinion “portends grave consequences for innovation and experimental use.” Dissent Op.

1. In particular, the gravest concerns are for “small enterprises and individual inventors who lack in-house prototyping and fabricating capabilities. *Id.* at 5-6. Judge Reyna’s concerns will become reality if the majority’s opinion is left undisturbed.

As the statistics make clear, small businesses, including NSBA’s members, are vital to the country’s economic fabric, but they typically have limited financial resources. Small businesses account for 64% of new net jobs created between 1993 and 2011, and small businesses employ about half of the private-sector workforce. Small Business Administration Office of Advocacy, *Frequently Asked Questions* (2012), 1, http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf. Small businesses employ 43% of high-tech workers in the United States, comprise 98% of exporters, and produce 33% of export value. *Id.* Yet, companies with fewer than 20 employees are required by federal regulations to spend 36% more per employee than larger firms. *Id.* And self-employed individuals are required to pay an additional 15.3% tax on healthcare costs. *Id.* at 4. According to a recent NSBA survey conducted for the last fiscal year, 72% of firms completing

the survey spend between \$0-\$5 million annually in payroll. National Small Business Association, *2013 Mid-Year Economic Report* (2013), 3, <http://www.nsba.biz/wpcontent/uploads/2013/08/2013-MY-Report.pdf>. But about that same percentage of firms only make between \$0-\$5 million in gross sales over the same period. *Id.* Despite these challenging economic realities, small businesses produce 16 times more patents per employee than larger patenting firms. Small Business Administration Office of Advocacy, *Frequently Asked Questions* (2012), at 3.

The majority's decision now presents small businesses with yet another financial hurdle, and a Hobson's choice between spending precious financial resources on filing premature patent applications, or spending those same funds to fully develop the product at the risk of creating an invalidating event. Again, like Hamilton, the vast majority of small businesses and NSBA members are required to outsource the manufacturing of their products. Accordingly, a small business will typically request that a third party manufacture a product that is being further tested and developed. According to the majority, if the third party intends to accept the request and responds to confirm the timing of production, an invalidating commercial offer for sale has occurred. Majority Op. 12 (“[The] supplier responded . . . that it was ready to fulfill the order. In other words, the *supplier* made an offer to sell At that point, the commercial offer for sale was

made”) (emphasis original). This is so even if the inventor prepaid for the production, is obtaining no commercial or economic benefit, and is keeping resulting product confidential. *Id.* at 12-13.

To avoid the prejudice caused by the majority’s opinion, a small business is now required to divert its precious capital from the development of its product to the filing of a patent application. If it does not and instead fully develops a product to determine if it is even worthy of patent protection, the small business would have forfeited the right to seek a patent under the majority’s view. The prejudice of the majority’s opinion will be particularly felt going forward because the America Invents Act removed the one-year grace period previously available to inventors. *Compare* 35 U.S.C. § 102(b) (2010), *with* 35 U.S.C. § 102(a)(1) (2013). Further, it should be noted that filing a non-provisional patent application typically costs between \$10,000-\$20,000, depending on the complexity of the invention. Kirk Teska, *Patent Savvy for Managers: Spot and Protect Valuable Innovations in Your Company*, 207 (2007). But as reflected above, many small businesses simply cannot afford to incur that expense before fully developing the product in question. Thus, the majority’s opinion creates a financial hardship for small businesses that have no capability to manufacture in-house—a hardship not borne by larger corporations with those in-house capabilities.

The majority's opinion further creates undue and unnecessary competitive inequalities. Outsourcing is unquestionably a necessity for the majority of small businesses. See *Ling Nan Zheng v. Liberty Apparel Co.*, 355 F.3d 61, 73 (2d Cir. 2003); Michael Corbett, *The Outsourcing Revolution: Why It Makes Sense and How to Do it Right*, xiii 3 (2004). The dissent correctly notes: “[S]mall enterprises and individual inventors who lack in-house prototyping and fabricating capabilities . . . often have no choice but to reach out to third-party suppliers.” Dissent Op. 5-6. Moreover, when engaging in outsourcing activities, a small business is in a much weaker position to dictate the terms of the contractual relationship with the supplier compared to the bargaining position of a larger corporation. Under the majority's opinion, once a request to produce is made, the fate of the small business's future patent is left entirely in the hands of the *supplier* that will decide when to offer to sell the products back to the small business. This in turn further disadvantages small businesses to entities with in-house manufacturing facilities that allow them to control the timeline of production of prototypes and stockpile products before the critical date. To avoid these improper and unnecessary inequalities in the marketplace, the majority's opinion should be reversed.

IV. Conclusion

For at least the reasons set forth herein, the Court should grant Hamilton Beach Brands, Inc.'s Petition for Rehearing En Banc.

Dated October 29, 2013

Respectfully submitted,

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