

Keywords: patents; on sale bar; experimental use; contracts and required consideration

General: A promise to buy goods from a supplier separate from a patented invention can qualify as the requisite consideration for a valid contract to satisfy the “on-sale” condition, and pre- and post-installation testing clauses in an agreement may not be sufficient to qualify for the experimental use doctrine unless they evidence that the primary purpose of the sale was to conduct experimentation.

Sunoco Partners Marketing & Terminals L.P. v. U.S. Venture, Inc. and U.S. Oil Co., Inc.

United States Court of Appeals for the Federal Circuit

Nos. 2020-1640, 2020-1641

Decided: April 29, 2022

I. Background & Facts

Gasoline producers blend butane into gasoline as one of the last steps in the distribution process. The addition of butane allows for increased volatility which helps vehicles start with more consistency in colder weather, and butane is cheaper which increases the profitability. But due to the propensity for butane to contribute to air pollution, the EPA regulates this practice.

Sunoco’s (plaintiff, cross appellant, and current assignee) patents “describe a system and method for blending butane with the gasoline at a point close to the end of the distribution process: immediately before being distributed to the tanker trucks that take gasoline to consumer gas stations.” This technology seeks to maximize butane content while complying with the EPA regulations, which vary based on season and location.

Sunoco brought a suit against Venture in the northern district of Illinois for alleged patent infringement. Venture presented an on-sale-bar defense, which was based on the inventors’ company, MCE Blending¹ (“MCE”) offering to sell (on February 7, 2020, two days before the critical date) an automated butane-blending system to Equilon Enterprise LLC (“Equilon”) and install it at Equilon’s terminal in Detroit in consideration for Equilon’s commitment to purchase at least 500,000 barrels of butane from MCE over the next 5 years. Sunoco argued that the sale occurred primarily for purposes of experimentation. The district court agreed with Sunoco and found US Venture liable and awarded damages to Sunoco. Both parties appealed to the Federal Circuit.

¹ MCE merged with Sunoco in 2013, and Sunoco is now the assignee of the patent.

II. Issues

- 1) Whether MCE's offer qualifies as a bona fide offer to sell that would invalidate the patent?
- 2) And if it is a bona fide offer, can the sale fall into the experimental use exception?

III. Discussion

As this technology was patented prior to the passage of the AIA, the court noted that “no person is entitled to patent an ‘invention’ that has been ‘on-sale’ more than one year before filing a patent application” *Pfaff v. Wells Elecs. Inc.*, (SCOTUS 1998) (quoting pre-AIA §102(b) of the Patent Act). For this defense to prevail, US Venture must show that Sunoco's patented invention was both (1) the subject of a commercial offer for sale and (2) ready for patenting.

In response to an on-sale-bar defense, a patent owner can overcome the defense by demonstrating that the sale occurred primarily for purposes of experimentation. This experimental use doctrine has roots in the late 1800s from the landmark case *City of Elizabeth v. Am. Nicholson Pavement*, where the Supreme Court found that inventors may delay patenting to engage in bona fide efforts to perfect an invention, or to make sure that the invention will serve the intended purpose. This doctrine distinguishes between inventions put to experimental use and products sold commercially.

The court noted that the question of whether the Equilon transaction was for primarily experimental or commercial purposes is a question of law to be analyzed based on the totality of the surrounding circumstances and the court assessed the transaction under the law of contracts as generally understood, focusing on those activities that would be understood to be commercial sales and offers for sale in the commercial community.

Turning to the agreement, the court noted the express description of the transaction as a sale, without reference to any experimental purpose and with respect to consideration, the agreement identifies the purchase of butane (i.e., 500,000 barrels of Butane). The court further noted that the agreement states that MCE already developed the relevant technology and equipment, that Equilon wanted to purchase it, and that MCE was willing to sell it, install it, and supply butane for it. Additionally, the court pointed to the express contemplation of transfer of title to the installed equipment in the agreement. Each of these factors was found by the court to support the conclusion that the agreement bears all the hallmarks of a commercial contract for sale. The court found that Equilon purchased MCE's equipment by committing to buy MCE's butane and that this constituted a sale.

Sunoco's principal evidence for asserting a primarily experimental purpose was a section of the sale agreement titled “Equipment Testing.” But the Federal Circuit found that this provision alone was inconclusive and insufficient to show a primarily experimental purpose. Pointing to the facts that the pre-installation testing did not need to be done at Equilon, and testimony that it could have been performed prior to the completion of the deal, the court found that the need to perform this testing could not have been the primary purpose for the Equilon sale. The post-installation tests were dismissed as well, and understood to be acceptance tests to confirm the equipment was working as promised, not experiments. Thus, neither the pre-installation nor the post-installation test provisions of the agreement was found to undermined the court's conclusion that the agreement memorialized a commercial, bargained-for sale. Thus the court held that the experimental use determination weighed against Sunoco and the court reversed the district court by finding that the first prong of the *Pfaff* test was satisfied. However, with respect to the second

prong of the *Pfaff* test, the court remanded the case to the district court to determine whether the system sold anticipated or rendered obvious the claimed invention and that it was ready for patenting. The latter showing can be made in at least two ways: by proof of reduction to practice before the critical date or by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.

IV. Conclusion and Takeaways

- 1). Sales require consideration, not necessarily a money payment.
- 2) Pre-installation testing that can be performed separate from the site where equipment is disposed weighs against a finding that the primary purpose of the inventor at the time of the sale, as determined from an objective evaluation of the facts surrounding the transaction, was to conduct experimentation.
- 3) Post-installation testing at an installation site to ensure that the equipment is functioning properly (i.e., working as promised) does not rise to the requisite level to qualify for “experimental use.”