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## Territoriality and Tangibility After Transocean

Timothy R. Holbrook  
*Emory University School of Law*

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# TERRITORIALITY AND TANGIBILITY AFTER *TRANSOCEAN*

Timothy R. Holbrook\*

## ABSTRACT

*Patent law is generally considered the most territorial form of intellectual property. The extension of infringement to include “offers to sell” inventions opened the door to potential extraterritorial expansion of U.S. patent law. In Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., the U.S. Court of Appeals for the Federal Circuit walked through the door by concluding (1) that the location of the ultimate sale, not the location of the offer, determines whether patent infringement occurred and (2) that there can be infringement by selling or offering to sell an invention based solely on diagrams and schematics. The one–two punch of these holdings works a considerable expansion of the territorial scope of a U.S. patent and of these infringement provisions generally. This Essay explores the consequences of these holdings, making the following conclusions. First, the elimination of a tangibility requirement for infringement, while ultimately correct, creates a number of problems when coupled with the court’s holding on extraterritoriality. Because the sale need not be consummated for there to be an infringing offer to sell, the court extended infringement to circumstances where no activity has taken place within the United States. Moreover, if this standard is used to inform the scope of the on-sale bar to patentability, then the court greatly expanded potential sources of prior art that could be used to invalidate existing U.S. patents. Additionally, comparing Transocean to the territoriality standards in trademark law demonstrates that the holding of Transocean may not be as extensive as some of the language in the opinion suggests if it is limited to offers made abroad by U.S. citizens or corporations. Regardless of the citizenship factor, this comparative analysis also*

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\* Professor of Law, Emory University School of Law. © 2011. I greatly appreciate comments on earlier drafts by Bernard Chou, Lucas Osbourne, and Sean Seymore. Thanks for wonderful research assistance to Alex Meier and Katherine Merriam. I would like to dedicate this Essay to the memory of two individuals who were invaluable in my development as a person and a lawyer and whom I lost in 2011. First, I dedicate this Essay to the memory of the Honorable Glenn L. Archer, Jr. of the U.S. Court of Appeals for the Federal Circuit, for whom I clerked. He was a wonderful mentor, a brilliant jurist, and a kind, genuine person. Second, I dedicate this Essay to the memory of my mother, Lenore Schang Holbrook, to whom I owe everything.

*demonstrates that the Federal Circuit should take into account potential conflicts with the law in foreign locations where the negotiations take place.*

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## INTRODUCTION

When Congress amended the Patent Act to include “offer[ing] to sell” an invention as a form of direct infringement in 1994,<sup>1</sup> it provided very little guidance as to the meaning and scope of that provision.<sup>2</sup> Courts<sup>3</sup> and commentators<sup>4</sup> have bemoaned this dearth of guidance and have attempted to fill the void.<sup>5</sup> Nevertheless, two key, and seemingly unrelated, ambiguities remained: (1) What was the extraterritorial reach of infringement by offering to sell an invention, and (2) could there be an infringing offer in the absence of a tangible embodiment of the invention?

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<sup>1</sup> Uruguay Round Agreements Act, Pub. L. No. 103-465, § 533(a)(1)(A), 108 Stat. 4809, 4988 (1994) (codified at 35 U.S.C. § 271(a) (2006)).

<sup>2</sup> See Timothy R. Holbrook, *Liability for the “Threat of a Sale”: Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement*, 43 SANTA CLARA L. REV. 751, 763 (2003).

<sup>3</sup> See, e.g., 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1378 (Fed. Cir. 1998) (“Little interpretation of this change as it relates to direct infringement under § 271(a) has been given . . . .”); *Sitrick v. Freehand Sys., Inc.*, No. 02 C 1568, 2002 WL 31443128, at \*3 (N.D. Ill. Oct. 30, 2002) (“Federal Circuit case law defining ‘offer to sell’ under § 271 is still developing . . . .”); *Cybiotronics, Ltd. v. Golden Source Elecs., Ltd.*, 130 F. Supp. 2d 1152, 1167 (C.D. Cal. 2001) (“‘[O]ffer to sell’ has received relatively little interpretation in the courts, and is not helpfully defined in the statute or in its legislative history.”); *ESAB Grp., Inc. v. Centricut, LLC*, 34 F. Supp. 2d 323, 333 (D.S.C. 1999) (“There is scant case law available interpreting what constitutes an ‘offer to sell’ as it appears in the amended form of 35 U.S.C. § 271(a).”); see also Joan E. Beckner, Note, *Patent Infringement by Component Export: Waymark Corp. v. Porta Systems Corp. and the Extraterritorial Effect of U.S. Patent Law*, 39 HOUS. L. REV. 803, 823 (2002) (“[T]he law surrounding an ‘offer to sell’ an invention without an actual or contemplated infringing sale remains unsettled.”).

<sup>4</sup> See, e.g., Donald S. Chisum, Commentary, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L L. 603, 608 (1997) (“Adding ‘offering for sale’ may have interesting implications for the territorial scope of a U.S. patent, depending on how the phrase is interpreted. . . . Is an offer by a person in another country to a customer in the United States an offer in the United States even though the sale will be consummated or the product delivered outside the United States?”); Edwin D. Garlepp, *An Analysis of the Patentee’s New Exclusive Right to “Offer to Sell,”* 81 J. PAT. & TRADEMARK OFF. SOC’Y 315, 318–25 (1999); Holbrook, *supra* note 2, at 763; Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701, 723–26 (2004); Thomas L. Irving & Stacy D. Lewis, *Proving a Date of Invention and Infringement After GATT/TRIPS*, 22 AIPLA Q.J. 309, 349–52 (1994); Scott A. Cromar, Note, *Location of the Contemplated Sale: The Ultimate Guide in “Offer to Sell” Transnational U.S. Patent Infringement*, 2012 U. ILL. L. REV. (forthcoming 2012) (manuscript at 7–9, 28–32), available at <http://ssrn.com/abstract=1765342>; Rex W. Miller, II, Note, *Construing “Offers to Sell” Patent Infringement: Why Economic Interests Rather than Territoriality Should Guide the Construction*, 70 OHIO ST. L.J. 403, 407–09 (2009); Robert Ryan Morishita, Note, *Patent Infringement After GATT: What Is an Offer to Sell?*, 1997 UTAH L. REV. 905, 908; Larry S. Zelson, Comment, *The Illusion of “Offer to Sell” Patent Infringement: When an Offer Is an Offer but Is Not an Offer*, 154 U. PA. L. REV. 1283, 1300–01 (2006).

<sup>5</sup> See *infra* notes 13–33 and accompanying text.

These issues remained unresolved until *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*<sup>6</sup> First, the Federal Circuit finally resolved a split in the district courts over the extraterritorial reach of the offer-to-sell provision, holding that an offer to sell is infringing if the offer's contemplated sale would occur in the United States, regardless of where the actual offer was made.<sup>7</sup> This approach, while offering considerable certainty, allows U.S. patents to reach activities occurring exclusively outside of the United States. Second, more subtly and perhaps more importantly, the Federal Circuit concluded that an offer or a sale can infringe in the absence of a physical embodiment of the invention.<sup>8</sup> In other words, the court appears to be permitting "paper" infringement under these provisions, which is not the norm in patent law.

While the extraterritorial aspect of the holding has garnered attention,<sup>9</sup> the court's reasoning regarding tangibility is also incredibly important. Indeed, the one-two punch of the court's conclusions has an unintended collateral consequence: an immense expansion of the scope of this infringement provision. In this Essay, I explore the development of the law by the court, drawing on my earlier work in the area. The court's decision in *Transocean* is a considerable step in the development of the law of patent infringement. When deconstructed, however, it does portend some potentially unintended consequences, not only for this infringement provision but also for infringement by selling an invention and for the on-sale bar to patentability of 35 U.S.C. § 102(b). In particular, it is now possible to find a party liable for infringement even though *no sale is ever concluded* in the United States, so long as the negotiations contemplate a future sale in the United States. The

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<sup>6</sup> 617 F.3d 1296, 1309, 1311 (Fed. Cir. 2010). The district court more recently concluded that there was no infringement or liability for the offer to sell the patented invention. *See Transocean Offshore Deepwater Drilling Inc. v. Maersk Contractors USA, Inc.*, No. H-07-2392, 2011 WL 2604769, at \*5-7 (S.D. Tex. June 30, 2011).

<sup>7</sup> *See Transocean*, 617 F.3d at 1309.

<sup>8</sup> *See id.* at 1310-11.

<sup>9</sup> *See, e.g.*, Melissa Y. Lerner, Note, *You Can Run, but You Can't Hide: The Expansion of Direct Infringement and the Evisceration of Preventive Contracting in Maersk*, 93 J. PAT. & TRADEMARK OFF. SOC'Y 207, 231-32 (2011); Susan Decker, *Transocean Wins Ruling Reviving Patent-Infringement Lawsuit Against Maersk*, BLOOMBERG (Aug. 18, 2010, 1:22 PM), <http://www.bloomberg.com/news/2010-08-18/transocean-wins-ruling-reviving-patent-infringement-lawsuit-against-maersk.html>; Jason Rantanen, *Transocean v. Maersk: Speeding Up Deepsea Drilling*, PATENTLY-O (Aug. 19, 2010), <http://www.patentlyo.com/patent/2010/08/transocean-v-maersk-speeding-up-deepsea-drilling.html?cid=6a00d8341c588553ef013486556c46970c>; Jimmie K. Tolliver, *Offer to Sell in Another Country May Infringe a Patented Invention Under 35 U.S.C. § 271*, CHI. IP BLOG (Aug. 25, 2010), <http://chicagoipblog.com/2010/08/25/offer-to-sell-outside-of-the-united-states-may-infringe-a-patented-invention-under-35-u-s-c-%C2%A7271/>.

threat of a sale in the United States is sufficient alone, absent any actual transaction being completed. While I agree with the court's tangibility holding, I ultimately fault the court's conclusion regarding the extraterritorial reach of the provision because it fails to account for issues of comity and conflicts of law. Relatedly, given the oft-explored parallels between infringement for offering to sell an invention and invalidity for placing an invention on sale, the court may have ushered in a considerable expansion of prior art that could be used to invalidate patents.

This Essay posits potential ways for the courts to grapple with *Transocean's* considerable expansion of patent law infringement. First, drawing an analogy to trademark law, I argue that the extraterritorial holding could be limited based on the citizenship of the parties at issue as well as the impact on U.S. commerce. Second, the courts could look to the law of the jurisdiction where the various negotiations took place to assess whether there is a potential conflict in finding liability for the infringement of a U.S. patent.

#### I. THE EVOLUTION OF THE LEGAL STANDARD FOR INFRINGING OFFERS TO SELL A PATENTED INVENTION

Infringement for merely offering to sell an invention is a relatively new development in U.S. patent law. The law was clear that the threat of a sale alone did not constitute an infringing act; only completed sales ran afoul of the patentee's exclusive rights. This state of the law changed when Congress amended § 271(a) to add, *inter alia*, "offers to sell" an invention within the United States as a form of infringement<sup>10</sup> in order to implement the requirements of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>11</sup> The provision's legislative history unfortunately offers no guidance as to what constitutes an infringing offer, leaving the development to the courts.<sup>12</sup> Although the language has been part of the U.S. patent statute for over fifteen years now, the Federal Circuit has only recently

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<sup>10</sup> Uruguay Round Agreements Act, Pub. L. No. 103-465, § 533(a)(1)(A), 108 Stat. 4809, 4988 (1994) (codified at 35 U.S.C. § 271(a) (2006)).

<sup>11</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights art. 28(1)(a), Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299. TRIPS was part of the broader agreements in the Uruguay Round of negotiations that resulted in converting the GATT system to the World Trade Organization (WTO). *See* Miller, *supra* note 4, at 407–08. Congress modified U.S. patent law in other ways as well, including adding importation as an exclusive right under § 271(a) and adding "offer[ing] to sell" the invention as a form of contributory infringement under 35 U.S.C. § 271(c). *See* Uruguay Round Agreements Act § 533(a)(1)(B)–(2); *see also* Holbrook, *supra* note 4, at 719, 722.

<sup>12</sup> Holbrook, *supra* note 2, at 763.

elaborated the standards for the provision. *Transocean* represents the most significant development in this area.

A. *The State of the Law Before Transocean*<sup>13</sup>

Prior to *Transocean*, the Federal Circuit had few occasions to address the scope of this relatively new form of infringement. The earliest cases were not on the merits but instead addressed issues of personal jurisdiction: patentees relied upon commercialization efforts in a given state to support personal jurisdiction over the accused infringer.<sup>14</sup> In these cases, the Federal Circuit offered some clarification as to this provision. For example, the court held that offers to sell are governed by federal common law, not state contract law,<sup>15</sup> and that offers to donate do not constitute infringing offers to sell.<sup>16</sup> None of these decisions offered a definition of what does constitute an infringing offer to sell.

Subsequently, the court in *Rotec Industries, Inc. v. Mitsubishi Corp.*<sup>17</sup> partially answered that question. In *Rotec*, the court held that, to be an act of infringement, an offer to sell must be a formal commercial offer “according to the norms of traditional contractual analysis”<sup>18</sup> and that the analysis is informed by traditional sources of authority, such as the *Uniform Commercial Code* and the *Restatement (Second) of Contracts*.<sup>19</sup> Thus, mere advertisements, as invitations for offers to buy a product, would not trigger liability.<sup>20</sup> Many of the decisions regarding whether there has been an infringing offer to sell have turned on this particular issue.<sup>21</sup> The analyses tend to be very fact specific, given the broad nature of the inquiry.<sup>22</sup>

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<sup>13</sup> This summary is somewhat succinct. More thorough and robust explorations of the common law development of infringing offers to sell can be found in Holbrook, *supra* note 2, at 765–70; Holbrook, *supra* note 4, at 723–26; and Cromar, *supra* note 4 (manuscript at 9–27).

<sup>14</sup> *HollyAnne Corp. v. TFT, Inc.*, 199 F.3d 1304, 1308–10 (Fed. Cir. 1999); *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1378–81 (Fed. Cir. 1998).

<sup>15</sup> *3D Sys.*, 160 F.3d at 1379.

<sup>16</sup> *HollyAnne Corp.*, 199 F.3d at 1308–09.

<sup>17</sup> 215 F.3d 1246 (Fed. Cir. 2000).

<sup>18</sup> *Id.* at 1254–55.

<sup>19</sup> *Id.* at 1255, 1257 & n.5.

<sup>20</sup> *Id.* at 1257.

<sup>21</sup> *See, e.g.*, *Grp. One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1047–48 (Fed. Cir. 2001) (considering the U.C.C. and treatises such as *Corbin on Contracts*, *The Law of Contracts*, and the *Restatement (Second) of Contracts* to inform the commercial-offer inquiry).

<sup>22</sup> *See, e.g.*, *Fellowes, Inc. v. Michilin Prosperity Co.*, 491 F. Supp. 2d 571, 577–83 (E.D. Va. 2007) (describing the actions of a manufacturer and importer as related to communicating with retailers, arranging vendor agreements, and participating in vendor events, for the purpose of selling and offering to sell specific patented models of paper shredders); *Moldflow Corp. v. Simcon, Inc.*, 296 F. Supp. 2d 34, 40–45 (D. Mass.

Later cases by the Federal Circuit and district courts have put some flesh onto the offer-to-sell standard. For example, the courts have made clear that infringement by offering to sell a patented method will rarely, if ever, be cognizable.<sup>23</sup> The courts have also elaborated on the impact of the new standard on intervening rights,<sup>24</sup> which protects third parties if the scope of a patent is changed during reissue.<sup>25</sup> Specifically, the Federal Circuit has held that, for absolute intervening rights to apply under the statute, the infringing good must have been manufactured prior to the reissue date and that, thus, “the ‘offer to sell’ language . . . has not changed the statutory requirement that absolute intervening rights apply only to existing products.”<sup>26</sup>

*B. Lingering Ambiguities: The Extraterritorial Reach of “Offer[ing] to Sell” and the Requirement for a Tangible Infringing Device*

The introduction of infringement for merely offering to sell the invention added an additional wrinkle: What are the territorial limits on such an act of infringement? Would there be infringement if the offer was made in the United States but the sale was overseas? Must both the offer and the contemplated sale be within the United States? Over the years, a clear split developed in the district courts, with some requiring both the offer and sale to be in the United

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2003) (analyzing the specific contacts defendant had with a state to determine whether she could be subject to general or specific jurisdiction).

<sup>23</sup> See *Embrex, Inc. v. Serv. Eng’g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (per curiam) (holding that an offer to sell a machine capable of performing a claimed method is not infringement); *Mirror Worlds, LLC v. Apple, Inc.*, 784 F. Supp. 2d 703, 725 (E.D. Tex. 2011) (“[A] sale or offer for sale is insufficient to prove direct infringement of a method claim—sale of the apparatus is not the sale of the method—and thereby irrelevant in calculating liability for direct infringement.”). Indeed, the Federal Circuit in *NTP, Inc. v. Research in Motion, Ltd.* suggested, but did not hold, that it would be impossible to infringe a method claim by offering to sell or selling the method. See 418 F.3d 1282, 1320–21 (Fed. Cir. 2005) (“[T]he legislative history of section 271(a) indicates Congress’s understanding that method claims could only be directly infringed by use. . . . We need not and do not hold that method claims may not be infringed under the ‘sells’ and ‘offers to sell’ prongs of section 271(a).”). This line of cases creates a significant asymmetry with the on-sale bar, by which a pre-critical-date commercial agreement to perform a patented method can invalidate the patent claim. See, e.g., *Scaltech, Inc. v. Retec/Tetra, LLC*, 269 F.3d 1321, 1328–29 (Fed. Cir. 2001).

<sup>24</sup> 35 U.S.C. § 252 (2006). Seemingly, such behavior, if performed by a third party, would not be infringing conduct, even though it would serve to invalidate the patent if before the critical date. The court has offered no explanation as to this disparate treatment of seemingly identical behavior.

<sup>25</sup> *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1359–61 (Fed. Cir. 2001). For a general discussion of intervening rights, see Holbrook, *supra* note 2, at 768–70. The Federal Circuit recently held en banc that intervening rights after reexamination are triggered only by claim amendments or by the addition of new claims; adoption of a narrowing claim construction is insufficient. *Marine Polymer Techs., Inc. v. HemCon, Inc.*, No. 2010-1548, 2012 WL 858700, at \*8–9 (Fed. Cir. Mar. 15, 2012) (en banc).

<sup>26</sup> *Shockley*, 248 F.3d at 1353. *But cf. infra* notes 53–58 and accompanying text (explaining how the Federal Circuit permits infringement by selling or offering to sell an invention absent a physical embodiment).

States,<sup>27</sup> and others limiting the territoriality requirement to the offer only, not the contemplated sale.<sup>28</sup>

The Federal Circuit itself passed on resolving the issue a number of times. The issue was presented in the *Rotec* case, yet the court did not resolve the question because it concluded there was no offer to sell, regardless of where the offer took place.<sup>29</sup> Judge Newman, in contrast, would have decided the case on the territorial basis. In her view, to infringe, both the offer and the contemplated sale would have to take place within the United States.<sup>30</sup> The Federal Circuit took a similar approach in *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, again avoiding the territoriality issue by concluding there was simply no commercial offer to sell.<sup>31</sup> The state of the law remained unsettled<sup>32</sup> until the Federal Circuit's decision in *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*<sup>33</sup>

## II. *TRANSOCEAN*: EXPANDING THE EXTRATERRITORIAL REACH OF U.S. PATENTS AND ELIMINATING THE NEED FOR A TANGIBLE INFRINGING DEVICE

Before the decision in this case, *Transocean* was more famous, or perhaps notorious, for its rig involved in the Gulf of Mexico explosion and resulting oil spill.<sup>34</sup> In *Transocean*, the Federal Circuit confronted head-on the split that had

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<sup>27</sup> See, e.g., *Semiconductor Energy Lab. Co. v. Chi Mei Optoelectronics Corp.*, 531 F. Supp. 2d 1084, 1110–11 (N.D. Cal. 2007); *Wing Shing Prods. (BVI), Ltd. v. Simatelex Manufactory Co.*, 479 F. Supp. 2d 388, 401 (S.D.N.Y. 2007); *Cybiotronics, Ltd. v. Golden Source Elecs., Ltd.*, 130 F. Supp. 2d 1152, 1170–71 (C.D. Cal. 2001); *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 342 (S.D.N.Y. 2006), *aff'd*, 594 F.3d 1360 (Fed. Cir. 2010), *aff'd sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011); *Quality Tubing, Inc. v. Precision Tube Holdings Corp.*, 75 F. Supp. 2d 613, 614–25 (S.D. Tex. 1999).

<sup>28</sup> See, e.g., *Wesley Jessen Corp. v. Bausch & Lomb, Inc.*, 256 F. Supp. 2d 228, 233–34 (D. Del. 2003); *FieldTurf, Inc. v. Sw. Recreational Indus., Inc.*, 235 F. Supp. 2d 708, 731–32 (E.D. Ky. 2002), *vacated in part on standing grounds*, 357 F.3d 1266 (Fed. Cir. 2004).

<sup>29</sup> 215 F.3d 1246, 1257 (Fed. Cir. 2000).

<sup>30</sup> *Id.* at 1258–60 (Newman, J., concurring in the judgment).

<sup>31</sup> 420 F.3d 1369, 1376 (Fed. Cir. 2005). The court did seem to suggest that the *offer* would need to be in the United States, however. See *id.* (“MEMC points to no evidence of negotiations occurring in the United States between SUMCO and Samsung Austin.”). Under the holding of *Transocean*, such a consideration would be irrelevant. See *infra* notes 70–79 and accompanying text.

<sup>32</sup> See *SEB S.A.*, 594 F.3d at 1375 (“This court has yet to define the full territorial scope of the ‘offers to sell’ offense in § 271(a).”); *Semiconductor Energy Lab. Co.*, 531 F. Supp. 2d at 1110–11 (“In light of the fact that the parties . . . rely on District Court opinions for support of their respective positions, it would appear that the issue is unsettled.”).

<sup>33</sup> 617 F.3d 1296 (Fed. Cir. 2010).

<sup>34</sup> See Braden Reddall, *Transocean Talking with BP over Gulf Oil Spill*, INS. J. (May 25, 2011), <http://www.insurancejournal.com/news/international/2011/05/25/199887.htm>. The rig covered by the patent at issue in *Transocean* differed from the one involved in the Gulf accident.

developed among the district courts regarding the extraterritorial application of the offer-to-sell infringement provision, and this time it did not (and, indeed, could not) dodge the issue as it did in *Rotec* and *MEMC*. Unlike those cases, where there was a factual dispute as to whether an infringing offer had been made regardless of its territorial location, here there was no dispute on appeal that an offer had been made outside of the United States, although the contemplated sale would take place within the United States.<sup>35</sup>

Specifically, Transocean's patents related to an apparatus for offshore drilling.<sup>36</sup> Although they were aware of the patents, Maersk A/S (a Danish company) contracted with Keppel FELS, Ltd. to build an arguably infringing rig in Singapore.<sup>37</sup> Maersk A/S then negotiated with Statoil ASA (a Norwegian company) for Statoil's use of the rig.<sup>38</sup> The companies reached an agreement, and Maersk USA, the American subsidiary of Maersk A/S, and Statoil Gulf of Mexico, LLC, a Texas corporation, signed a contract in Norway designating that the rig would be used in the Gulf of Mexico but affording Statoil the right to use the rig outside of that area contingent on certain restrictions.<sup>39</sup> Maersk USA was aware of Transocean's patents and expressly reserved the right in the contract to alter the design "in view of court or administrative determinations throughout the world."<sup>40</sup> In light of Transocean's successful assertion of the patents against a different company, Maersk USA altered the design to comply with the injunction in that case to sell something that, after the modification, did not infringe.<sup>41</sup>

The district court granted summary judgment of noninfringement by relying "on the undisputed facts that the negotiation and signing of the contract took place outside the [United States] and that the contract gave Maersk the option to alter the rig to avoid infringement."<sup>42</sup> Thus, because the record demonstrated both an offer and actual sale, the Federal Circuit confronted the territoriality issue squarely.<sup>43</sup> More subtly, and perhaps more importantly, the

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<sup>35</sup> See *Transocean*, 617 F.3d at 1308 ("There is no dispute that there was an offer to sell in this case, but Maersk USA argues that the offer was made in Norway, not the United States, thereby absolving it of § 271(a) liability.").

<sup>36</sup> *Id.* at 1300–01.

<sup>37</sup> *Id.* at 1307.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* (quoting the contract between Transocean and Maersk) (internal quotation marks omitted).

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* at 1308.

<sup>43</sup> *Id.* at 1308–10.

court also confronted an interesting dynamic: as of the time the offer was made and accepted, no rig had actually been built.<sup>44</sup> Indeed, the rig that ultimately was delivered had been altered in accordance with the injunction in the other litigation in a manner that was noninfringing.<sup>45</sup> As a result, the court was faced with a unique question: Could there be an infringing sale or offer to sell based strictly on the *design* and absent a tangible object?<sup>46</sup> In other words, could there be “paper” infringement?

A. *(Apparent) Resolution of the Extraterritoriality Issue*

The district courts had split on the territoriality issue, but the disagreement involved whether an offer made in the United States would be infringing if the sale contemplated was outside of the United States.<sup>47</sup> All of the previous cases assumed that the offer itself would need to be made within the United States.<sup>48</sup> *Rotec* and *MEMC* seemed to operate under that assumption, even though the Federal Circuit refused to answer the question in both cases. In *Transocean*, however, the court rejected that assumption and worked a considerable change in the extraterritorial reach of infringement by offering to sell a patented item.

The Federal Circuit rejected the argument that at least the offer had to be in the United States, viewing it as inconsistent with the statutory language and contrary to public policy:

The statute precludes “offers to sell . . . within the United States.” To adopt Maersk USA’s position would have us read the statute as “offers made within the United States to sell” or “offers made within the United States to sell within the United States.” First, this is not the statutory language. Second, this interpretation would exalt form over substance by allowing a U.S. company to travel abroad to make offers to sell back into the U.S. without any liability for infringement. This company would generate interest in its product in the U.S. to the detriment of the U.S. patent owner, the type of harm

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<sup>44</sup> *Id.* at 1310.

<sup>45</sup> The Federal Circuit affirmed the district court’s grant of summary judgment as to the modified rig, holding that *Transocean* was collaterally estopped from asserting infringement over it. *Id.* at 1312.

<sup>46</sup> *See id.* at 1311–12.

<sup>47</sup> *See supra* notes 27–28 and accompanying text.

<sup>48</sup> *See, e.g.,* *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 341 n.6 (S.D.N.Y. 2006), *aff’d*, 594 F.3d 1360 (Fed. Cir. 2010), *aff’d sub nom.* *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

that offer to sell within the U.S. liability is meant to remedy. These acts create a real harm in the U.S. to a U.S. patentee.<sup>49</sup>

Therefore, instead of quibbling over whether the offer had taken place in the United States, the court found the location of the contemplated sale determinative. Thus, an offer made anywhere in the world that contemplates a sale in the United States could be an infringing offer to sell. The court recognized the extraterritorial reach of its holding and even acknowledged that the presumption against the extraterritorial application of U.S. laws suggests a narrower construction of the statute.<sup>50</sup> But the court dismissed this concern.<sup>51</sup> Thus, the court reversed the district court's summary judgment of no infringement and remanded the case to consider whether the rig in the offer actually infringed the patents at issue.<sup>52</sup>

*B. Intangibility: Allowing for "Paper" Infringement by Selling or Offering to Sell the Invention*

It is the latter aspect of the court's holding that, while not garnering the attention of the patent world as much, has potentially far-sweeping implications. The court specifically instructed the district court to "determine what was offered for sale, not what was ultimately delivered."<sup>53</sup> In analyzing whether there had been an infringing *sale* of the invention, the court reached the same conclusion regarding the territoriality issue.<sup>54</sup> More importantly, the court found that the proper basis for assessing infringement was not the rig actually delivered, but instead the rig that was the subject of the original agreement.<sup>55</sup>

Maersk specifically argued that there could not be an infringing sale under § 271(a) "because the rig was not complete at the time of contracting."<sup>56</sup> In Maersk's view, "for there to have been a sale within the meaning of 35 U.S.C.

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<sup>49</sup> *Transocean*, 617 F.3d at 1309 (alteration in original) (citations omitted) (quoting 35 U.S.C. § 271(a) (2006)).

<sup>50</sup> *Id.*

<sup>51</sup> *See id.*

<sup>52</sup> *Id.* at 1313.

<sup>53</sup> *Id.* at 1310 n.4 (citing *Holbrook*, *supra* note 2, at 753).

<sup>54</sup> *Id.* at 1310.

<sup>55</sup> *Id.* at 1311.

<sup>56</sup> *Id.* at 1310.

§ 271(a), the entire apparatus must have been constructed and ready for use.”<sup>57</sup> The court rejected Maersk’s argument, reasoning:

Maersk USA and Statoil signed a contract and the schematics that accompanied that contract could support a finding that the sale was of an infringing article under § 271(a). The fact that Maersk USA, after the execution of the contract, altered the rig in response to the GSF injunction is irrelevant to this infringement analysis. The potentially infringing article is the rig sold in the contract, not the altered rig that Maersk USA delivered to the U.S.

Finally, we reject Maersk USA’s claim that the entire apparatus must have been constructed and ready for use in order to have been sold. . . . A “sale” is not limited to the transfer of tangible property; a sale may also be the agreement by which such a transfer takes place. In this case, there was a contract to sell a rig that included schematics. . . . Transocean argues that these schematics show sale of the patented invention. This is a genuine issue of material fact sufficient to withstand summary judgment.<sup>58</sup>

The court therefore concluded that it is possible to infringe a patent by selling or offering to sell an invention without ever having constructed the infringing device.<sup>59</sup> Under this reasoning, a party could infringe a patent based on mere schematics or designs without ever constructing an infringing device, so long as there was an offer to sell or a sale of the unconstructed device.<sup>60</sup>

### III. IMPLICATIONS OF *TRANSOCEAN*: CONSIDERABLE EXPANSION OF COMMERCIALY BASED INFRINGEMENT

Both of *Transocean*’s holdings regarding the territorial reach of offers to sell (and sales) and the possibility for intangible infringement deserve further consideration. Individually, neither holding may seem terribly significant; together, however, they portend a significant expansion of the scope of patent

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<sup>57</sup> *Id.* (quoting Brief of Defendant–Appellee Maersk Contractors USA, Inc. at 60, *Transocean*, 617 F.3d 1296 (No. 2009-1556)) (internal quotation mark omitted).

<sup>58</sup> *Id.* at 1311 (citation omitted).

<sup>59</sup> *Id.*

<sup>60</sup> On remand, the district court found no infringement. *See* *Transocean Offshore Deepwater Drilling Inc. v. Maersk Contractors USA, Inc.*, No. H-07-2392, 2011 WL 2604769, at \*5 (S.D. Tex. June 30, 2011). The court concluded, *inter alia*, that “[a]n offer to enter into a contract that includes language that avoids infringement cannot constitute an infringing act.” *Id.* at \*6. Moreover, assuming there was infringement, there was no evidence of price erosion, and the grant of a reasonable royalty could be unconscionable because the harm was *de minimis*. *Id.* (citing *Holbrook*, *supra* note 2, at 789–92). The district court’s conclusions do not alter the importance of the Federal Circuit’s decision in the case, and it is not clear that the district court’s judgment is entirely consistent with the Federal Circuit’s decision.

infringement. This Part deconstructs the court's analysis for both holdings. As to the extraterritoriality issue, this Part analyzes the various possible permutations of the holding and concludes that the extraterritorial reach afforded by the decision is highly problematic. As to the tangibility issue, this Part argues that, while the holding is correct—there should be infringement based on sales or offers to sell in the absence of a manufactured good—it is troubling when coupled with the court's conclusion on extraterritoriality. Intangibility now creates a broad swath of potentially infringing behavior outside of the United States. Moreover, as yet unrecognized by the courts or the literature, the combination of the two holdings augurs a potential sweeping expansion of information that could be used to invalidate U.S. patents pursuant to the on-sale bar to patentability under 35 U.S.C. § 102(b).

A. *Deconstructing and Evaluating the Extraterritorial Reach of Infringing Offers to Sell*

The norm for U.S. law is that it does not apply extraterritorially<sup>61</sup> absent a clear signal from Congress.<sup>62</sup> This presumption is rooted in a variety of considerations, including potential conflict with another nation's law, international comity, choice-of-law concerns, congressional intent, and separation of powers.<sup>63</sup> Although the courts have inconsistently applied the presumption,<sup>64</sup> it appeared to have particular salience in the context of patent law, arguably the most territorially rooted form of intellectual property.<sup>65</sup>

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<sup>61</sup> One interesting case has explored exactly what *is the territory* of the United States, in part to determine whether U.S. law should apply to the allegedly infringing acts. See *WesternGeco L.L.C. v. Ion Geophysical Corp.*, 776 F. Supp. 2d 342, 364–72 (S.D. Tex. 2011) (addressing the issue of “whether the seas located approximately 100 miles away from Alaska can be considered ‘territory’ of the United States for purposes of patent law”); accord *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1856) (discussing infringement on vessels temporarily in U.S. ports). See generally J. Jonas Anderson, *Hiding Behind Nationality: The Temporary Presence Exception and Patent Infringement Avoidance*, 15 MICH. TELECOMM. & TECH. L. REV. 1 (2008) (discussing the history, purpose, and application of the temporary-presence exception); Ted L. Field, *The “Planes, Trains, and Automobiles” Defense to Infringement for Today’s Global Economy: Section 272 of the Patent Act*, 12 B.U. J. SCI. & TECH. L. 26 (2006) (same).

<sup>62</sup> See *Morrison v. Nat’l Austl. Bank Ltd.*, 130 S. Ct. 2869, 2877–78 (2010); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455–56 (2007); *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991), *superseded by statute*, Civil Rights Act of 1991, Pub. L. No. 102-166, 105 Stat. 1071, *as recognized in* *Landgraf v. Usi Film Prods.*, 511 U.S. 244 (1994).

<sup>63</sup> Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT’L L. 505, 513–17 (1997).

<sup>64</sup> *Morrison*, 130 S. Ct. at 2878–80 (noting disregard of the presumption in the context of securities regulation); *Holbrook*, *supra* note 4, at 729–31.

<sup>65</sup> *Chisum*, *supra* note 4, at 605.

In considering the extraterritoriality of offers to sell, the following table breaks down the various permutations. It recognizes that there are two elements to this form of infringement: the location of the offer and the location of the ultimate sale. The locations of the offers can be limited to those in the United States and those anywhere, as can the location of the contemplated sales. Considering the two elements results in the following two-by-two matrix:

|   | <i>Sale Must Be in United States</i>        | <i>Sale May Be Outside United States</i>                 |
|---|---|--|
| <i>Offer Must Be in United States</i>     | <b>Offer &amp; sale in United States</b>    | <b>Offer in, sale outside United States</b>              |
| <i>Offer May Be Outside United States</i> | <b>Offer outside, sale in United States</b> | <del><b>Offer &amp; sale outside United States</b></del> |

The upper-left quadrant, “Offer & sale in United States,” undisputedly is covered by § 271(a)’s proscription on offering to sell the invention. Both acts—the offer and the contemplated sale—are within the United States.<sup>66</sup> Such activity would not run afoul of extraterritorial concerns. The light-gray shading indicates that this quadrant undisputedly falls within the scope of § 271(a).

Also uncontroversial is the conclusion that the bottom-right quadrant—offers made outside of the United States to sell a device outside of the United States—would not infringe. Indeed, to hold that there could be infringement in that context would be an extreme expansion of the extraterritorial scope of a U.S. patent because infringement liability would be untethered to anything occurring in the United States. Precluding infringement for this quadrant is an

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<sup>66</sup> See, e.g., *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 463 (D.N.J. 2002) (“Given the fact that MDS offers to sell the allegedly infringing assays in the United States and that these sales are consummated in the United States, the Court finds that there is insufficient grounds upon which to grant summary judgment at this time with regard to violations of § 271(a).”).

application of the classic approach to territoriality.<sup>67</sup> One possible exception could be if courts applied a pure effects-based test—that somehow these external events had some impact on U.S. markets.<sup>68</sup> The courts, so far, have not applied such an expansive effects-based test in patent law.<sup>69</sup>

Prior to *Transocean*, the courts generally assumed that at least the *offer* had to be made within the United States. The district courts were split between the top two quadrants and disagreed as to whether the contemplated sale necessarily had to be in the United States to infringe.<sup>70</sup> All of the cases assumed that at least the *offer* had to be made in the United States.<sup>71</sup>

Even the Federal Circuit's decisions in *Rotec* and *MEMC* took as a given that the offer needed to be in the United States. In *Rotec*, both the majority and the concurrence assumed the offer had to take place within the United States. The majority's analysis focused on domestic activities, and the court framed the issue as follows:

There is no genuine dispute that at least some of Defendants' activities before signing the agreement with TGDPC took place in the United States. At the same time, it is also undisputed that many of these activities took place outside the United States, in China and elsewhere. These extraterritorial activities however, are irrelevant to the case before us, because "[t]he right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated of acts wholly done in a foreign country." Thus, we must establish *whether Defendants' activities in the United States*, as would be construed by a reasonable

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<sup>67</sup> See William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 BERKELEY J. INT'L L. 85, 88 (1998) (explaining the "traditional view" that U.S. law should apply only to conduct within the United States, regardless of the location of any resulting effects).

<sup>68</sup> See *id.* at 124 (advocating the Borkian view that the effect of the act, not its location, should determine whether acts are extraterritorial); see also Miller, *supra* note 4.

<sup>69</sup> See generally Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2154–62 (2008) (discussing the pros and cons of effects-based tests).

<sup>70</sup> See Holbrook, *supra* note 4, at 733–35, 739–41; *supra* notes 27–28 and accompanying text.

<sup>71</sup> See, e.g., *Cybiotronics, Ltd. v. Golden Source Elecs., Ltd.*, 130 F. Supp. 2d 1152, 1171 (C.D. Cal. 2001) ("[A]n 'offer to sell' made *within* the United States that contemplates a 'sale' of goods *outside* of the United States is not within the permissible scope of liability for 35 U.S.C. § 271(a). No direct infringement can be found solely premised on an 'offer to sell' within the United States, unless the sale that is *contemplated* by the 'offer' is or will also be consummated within the United States.").

jury, are sufficient to establish an “offer for sale,” as that phrase is used in § 271(a).<sup>72</sup>

This characterization of the facts would be inapposite, and even incorrect, if the court had contemplated using the later-articulated *Transocean* standard. Acts in China *could* be relevant if they constituted an offer that contemplates a sale within the United States. Moreover, the focus on the negotiation activities within the United States would be irrelevant if the sale were to be in China.<sup>73</sup> Even Judge Newman’s concurrence notes that she believed the offer itself had to be made in the United States; indeed, she relied on a comparative analysis of United Kingdom law that noted that “‘offers to dispose of’ the patented product ‘must be read as meaning, ‘offers in the United Kingdom to dispose of the product in the United Kingdom.’”<sup>74</sup> Judge Newman’s analysis clearly contemplated that both the offer and the contemplated sale would need to be in the United States.

Similarly, in *MEMC*, the court reasoned that “MEMC point[ed] to no evidence of negotiations occurring in the United States between SUMCO and Samsung Austin. At the same time, transmittal of e-mails containing technical data from SUMCO to Samsung Austin [ould not] constitute an ‘offer for sale.’”<sup>75</sup> Under the *Transocean* rule, there would be no need to consider the evidence of the location of the negotiations because the location would be irrelevant. Contrary to *Transocean*’s assertion that *MEMC* was “even further attenuated [than *Rotec*] as it did not even consider location of the offer or the contemplated sale,”<sup>76</sup> *MEMC* suggests that the court believed that an offer within the United States was a necessary condition, regardless of the location of the sale.

In essence, none of the courts that confronted this issue had ever considered the lower-left quadrant, “Offer outside, sale in United States,” within the territorial scope of the offer-to-sell provision. After *Transocean*, the two left quadrants (enclosed by the double line) constitute infringement. *Transocean*’s

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<sup>72</sup> *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) (alteration in original) (emphases added) (citation omitted) (quoting *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915)).

<sup>73</sup> *See id.* at 1249 (delineating all of the activities that took place within the United States).

<sup>74</sup> *Id.* at 1259 (Newman, J., concurring in the judgment) (quoting *Kalman v. PCL Packaging (U.K.) Ltd.*, [1982] F.S.R. 406 (Pat) at 418 (Eng.)).

<sup>75</sup> *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1376 (Fed. Cir. 2005).

<sup>76</sup> *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1310 (Fed. Cir. 2010).

rule, while apparent from considering the above matrix, was never explicitly considered by earlier courts. By choosing this rule, the court seems to have embraced the Borkian view of extraterritoriality described by Professor William S. Dodge: acts of Congress apply only to activities where the effect is inside, regardless of the locus of the activity.<sup>77</sup> In essence, the *Transocean* rule is a form of an effects-based test, where the exercise of U.S. law is justified because the act—the offer—will have effects within the United States.<sup>78</sup>

Technically, there is no reason why infringement for offering to sell necessarily should be limited to those two quadrants. It is conceivable that all *three* quadrants could fall within the scope of the offer-to-sell provision, i.e., that offers in the United States to sell in the United States, offers outside of the United States to sell in the United States, and offers in the United States to sell outside of the United States, could all fall within the scope of § 271(a). In other words, the facts of *Transocean* did not present the situation where negotiations took place in the United States over a foreign sale, as was arguably the situation in *Rotec* and *MEMC*. The traditional territorial rule is that Congress can clearly regulate activity that occurs within the United States;<sup>79</sup> thus, regulation of such domestic negotiations would be within congressional power. Therefore, it is conceivable that, even post-*Transocean*, making an offer within the United States to sell outside the United States would be an act of infringement.<sup>80</sup> This interpretation would expand the scope of this provision beyond its already-considerable reach.

The language of *Transocean* is, of course, inconsistent with that interpretation because the court expressly noted that “[t]he focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer,” and indeed, “the location of the contemplated sale *controls* whether there is an offer to sell within the United States.”<sup>81</sup>

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<sup>77</sup> See Dodge, *supra* note 67, at 88.

<sup>78</sup> See *Transocean*, 617 F.3d at 1309 (“These acts create a real harm in the U.S. to a U.S. patentee.”). See generally Holbrook, *supra* note 69, at 2154–57 (discussing various effects-based tests).

<sup>79</sup> See Dodge, *supra* note 67, at 88.

<sup>80</sup> See *ION, Inc. v. Sercel, Inc.*, No. 5:06-CV-236-DF, 2010 WL 3768110, at \*4 (E.D. Tex. Sept. 16, 2010) (“In this case, it is undisputed that the devices implicated by Sercel’s motion were manufactured, sold, and delivered abroad while the offers for those devices were made in the U.S. . . . Thus, unlike *Transocean*, where the Court answered the question regarding foreign offers for domestic sales, the question here is whether domestic offers for foreign sales fall within the scope of U.S. patent protection.”).

<sup>81</sup> *Transocean*, 617 F.3d at 1309 (emphasis added).

Consequently, two district courts have expressly held that an offer within the United States to sell an invention abroad is not an act of infringement.<sup>82</sup>

Nevertheless, the Federal Circuit, in a post-*Transocean* decision, recognized the ambiguity surrounding whether domestic offers to sell abroad could nevertheless still be infringing. In *August Technology Corp. v. Camtek, Ltd.*, the court, in rather cursory form, addressed the scope of the injunction granted in the case.<sup>83</sup> The district court's injunction precluded the infringer "from communicating with third parties in the United States for the purpose of offering to sell accused devices for use outside the United States."<sup>84</sup> Because the judgment was vacated and remanded on other grounds, the court did not reach the issue of the scope of the injunction.<sup>85</sup> The court noted, however:

We have no opinion at this time regarding the effect of *Transocean* on the now-vacated injunction. Should the trial court find that Camtek and its Falcon inspection machine infringe under our claim construction, however, it should take into account the effect, if any, *Transocean* has when crafting an appropriate injunction.<sup>86</sup>

The import of this language could be that the Federal Circuit thinks that enjoining domestic communications for foreign sales is not appropriate. Yet the court expressly leaves the question open, demonstrating that *Transocean* may not preclude infringement when an offer is made in the United States to sell a device abroad.

The court in *Transocean*, therefore, took a somewhat unexpected path in resolving the territoriality issue. While not offering the broadest possible interpretation—one that would ensnare all three quadrants—its holding went well beyond what prior courts considered by eliminating any need for the offer to be made within the United States.

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<sup>82</sup> See *Halo Elecs., Inc. v. Pulse Eng'g, Inc.*, 810 F. Supp. 2d 1173, 1208 (D. Nev. 2011) ("Although Halo has provided evidence indicating that pricing discussions took place between Pulse and its customers in the United States, Pulse has provided evidence that the majority of its accused products were manufactured and shipped outside of the United States."); *ION*, 2010 WL 3768110, at \*4 ("Sercel's domestic offers to PDVSA/Bariven; Fundacao Euclides de Cunha in Brazil; and Mitcham Industries in 2008 and 2009 in Canada fall outside the scope of the patent laws as a matter of law.")

<sup>83</sup> 655 F.3d 1278, 1290–91 (Fed. Cir. 2011).

<sup>84</sup> *Id.* at 1290.

<sup>85</sup> *Id.*

<sup>86</sup> *Id.* at 1290–91 (emphasis added).

*B. Reconsidering the “Invention”: Intangible Infringement by Selling and Offering to Sell the Patented Invention*

Although the territoriality holding of the *Transocean* decision has garnered attention,<sup>87</sup> perhaps the more striking aspect of the decision is that it opens the door for infringement by offering to sell or selling a patented invention based on documents alone and without a physical embodiment of the invention.<sup>88</sup> I have previously proposed, and argued for, this approach,<sup>89</sup> and the Federal Circuit seems to have agreed.<sup>90</sup>

Of course, I agree with the court’s conclusion, and indeed, it is consistent with viewing infringement of a patent through sales or offers to sell as an appropriation of the economic value of the invention, as opposed to its physical incarnation.<sup>91</sup> Such economic appropriation is sharply different from infringement by making, using, or importing the claimed invention, which contemplates a physical appropriation of the invention.<sup>92</sup> Such physical appropriations may have economic consequences, such as foregone sales by the patentee;<sup>93</sup> the focus, though, is on the physical instantiation of the invention. Nevertheless, two questions remain: Did the Federal Circuit have authority to reach this conclusion, and if so, what should be the basis of comparison with the patent to determine infringement? The following subsections address these issues.

*1. Is Transocean Contrary to Supreme Court Precedent?*

The Federal Circuit’s move here is somewhat controversial. The holding regarding tangibility is arguably inconsistent with the Supreme Court’s

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<sup>87</sup> See, e.g., Thomas Carey, *When Does an “Offer for Sale” Made in Another Country Result in Infringement of a U.S. Patent?*, SUNSTEIN INTELL. PROP. UPDATE (Aug. 2010), [http://www.sunsteinlaw.com/publications-news/news-letters/2010/08/Carey\\_201008.html](http://www.sunsteinlaw.com/publications-news/news-letters/2010/08/Carey_201008.html).

<sup>88</sup> See *supra* notes 53–58 and accompanying text. *But see* Lerner, *supra* note 9, at 217–19 (analyzing common law contracts to argue that there must be “a thing capable of being transferred” for there to be a sale).

<sup>89</sup> See Holbrook, *supra* note 2, at 805–13.

<sup>90</sup> *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1310 n.4 (Fed. Cir. 2010) (“[T]he district court . . . never reached the factual issue of whether the subject of the offer to sell was of a ‘patented invention’ by analyzing the design of the rig. Of course, in this analysis, the district court must determine what was offered for sale, not what was ultimately delivered.” (citing Holbrook, *supra* note 2, at 753)).

<sup>91</sup> See Holbrook, *supra* note 2, at 805–13.

<sup>92</sup> *Id.* at 813–15.

<sup>93</sup> See generally Katherine J. Strandburg, *Users as Innovators: Implications for Patent Doctrine*, 79 U. COLO. L. REV. 467 (2008) (discussing how uses of inventions are different than the typical economic rationale).

decision in *Deepsouth Packing Co. v. Laitram Corp.*<sup>94</sup> The Court in *Deepsouth* concluded there was no infringement under the then-patent laws<sup>95</sup> when the accused infringer had only manufactured the components of the patented device without assembling them within the United States; instead, the components were sent abroad and assembled there.<sup>96</sup> Although seemingly facing a question of whether the invention had been made within the United States, the Supreme Court conflated “making” with “selling”: “The sales question thus resolves itself into the question of manufacture: did Deepsouth ‘make’ (and then sell) something cognizable under the patent law as the patented invention, or did it ‘make’ (and then sell) something that fell short of infringement?”<sup>97</sup> The Court thus seems to suggest that infringing sales are tied to the manufacture of the good, not merely to the sale.

*Transocean* is arguably inconsistent with this view. In *Deepsouth*, all of the components were manufactured, just not assembled.<sup>98</sup> To manufacture such a device, the infringer likely would have had design schematics or manufacturing instructions of the deveining device that would demonstrate that the good had been sold, even in the absence of the fully manufactured product. Nevertheless, the Court found no infringement.<sup>99</sup>

A rather glib way of avoiding this language in *Deepsouth* is to simply note that infringement by offering to sell an invention was added after *Deepsouth*, so the decision is not controlling. One could argue that implicitly Congress expanded the scope of § 271(a) or even silently overruled *Deepsouth* to allow infringing sales for inchoate devices. That is too easy of an answer, however. With respect to the territoriality question, *Transocean* is facially consistent with *Deepsouth*. The sale in *Deepsouth* would have been outside the United States;<sup>100</sup> thus, *Deepsouth* does not apply to the situation in *Transocean*. But that reconciliation ignores the above language in *Deepsouth*.

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<sup>94</sup> 406 U.S. 518 (1972), *superseded in part by statute*, Patent Law Amendments Act of 1984, Pub. L. No. 98-622, 98 Stat. 3383.

<sup>95</sup> Congress adopted 35 U.S.C. § 271(f) to overrule *Deepsouth* to a certain extent, but other aspects of the decision remain binding precedent. *See Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1253 n.2 (Fed. Cir. 2000) (“[A]s to claims brought under § 271(a), *Deepsouth* remains good law: one may not be held liable under § 271(a) for ‘making’ or ‘selling’ less than a complete invention.”).

<sup>96</sup> *Deepsouth*, 406 U.S. at 523–28.

<sup>97</sup> *Id.* at 527. *But see* Holbrook, *supra* note 2, at 806–07 (criticizing *Deepsouth* on this ground).

<sup>98</sup> *Deepsouth*, 406 U.S. at 524.

<sup>99</sup> *Id.* at 529.

<sup>100</sup> *See id.* at 524.

The stronger argument is that the Supreme Court did not truly confront purely intangible infringement through sales. Instead, it was focused on the actual manufacture of the components that were then sent overseas. The Court did not address what would have happened if the device ultimately assembled had been sold in the United States pursuant to a contract before any of the parts were assembled. The tangibility issue simply was not before the Court.

The Supreme Court itself, in a different context, recognized that there can be an “invention” before something is actually physically constructed. In *Pfaff v. Wells Electronics, Inc.*, the Supreme Court addressed whether an invention had to be physically complete to trigger the on-sale bar to patentability found in 35 U.S.C. § 102(b).<sup>101</sup> This provision precludes a patent if the invention was “on sale in this country” more than one year before the date of the patent application.<sup>102</sup> In *Pfaff*, the inventor had never built the invention prior to offering to sell it; the sale was based solely on engineering diagrams.<sup>103</sup> Nevertheless, the Supreme Court concluded that the invention could be on sale even without a physical embodiment, so long as the invention was “ready for patenting.”<sup>104</sup> The Court recognized that the key to “invention” is the idea, not the physical embodiment of the idea.<sup>105</sup> An invention, therefore, can be complete and on sale prior to being physically built.<sup>106</sup> The reasoning of *Pfaff* demonstrates that the Supreme Court recognizes that the value of an invention can be appropriated even absent a physical incarnation of the invention. Consequently, the Court may be willing to rethink *Deepsouth*’s rather loose language, which is arguably dicta.

Regardless, the Federal Circuit reached the correct outcome. Allowing for intangible infringement in the context of sales and offers to sell is consistent with the view of such infringement effecting an appropriation of the economic value of the invention. There need not be a physical embodiment of the invention for harm to inure to a patentee. Indeed, the on-sale-bar standard confirms that an invention could be “on the market” without actually being built. Requiring a physical embodiment of the infringing good would prevent patent holders from suing based on this harm until a good is manufactured. For

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<sup>101</sup> 525 U.S. 55 (1998).

<sup>102</sup> 35 U.S.C. § 102(b) (2006).

<sup>103</sup> *Pfaff*, 525 U.S. at 58.

<sup>104</sup> *Id.* at 67.

<sup>105</sup> *Id.* at 60 (“The primary meaning of the word ‘invention’ in the Patent Act unquestionably refers to the inventor’s conception rather than to a physical embodiment of that idea.”).

<sup>106</sup> *Id.* at 66–67.

complex inventions, like the offshore oil rig in *Transocean* or complex satellites,<sup>107</sup> waiting until manufacture may simply be too late. Moreover, it would allow parties to game the system by completing contracts on a good that would be infringing and by subsequently modifying the device that is actually manufactured. Such “bait-and-switch” would harm the patentee because she would have lost a potential sale yet would not have a cause of action. Because the Federal Circuit has recognized that bait-and-switch scenarios can create a cognizable harm to the patentee, infringement absent a tangible device must be permissible to afford adequate protection to patentees against such schemes.<sup>108</sup>

## 2. *What Is the Basis of Comparison for Infringement? The Need for an Enablement Standard*

Of course, without a physical embodiment of the device, comparing the infringing good to the patent claim is problematic. Unspoken in the decision but seemingly necessary for such comparison is the sufficiency of the description of the item subject to the offer or sale. Patent law has a tool to deal with this potential uncertainty, however: the enablement doctrine. The traditional enablement doctrine is a disclosure obligation on the part of the patentee: the patentee must disclose how to make and use the claimed invention.<sup>109</sup> But the concept of enablement—a disclosure either in a patent or elsewhere that is sufficient to teach one of ordinary skill in the art how to make the invention—is ubiquitous in patent law.<sup>110</sup>

Most appropriately, the courts have used an enablement-like inquiry to determine whether an inventor has triggered the on-sale bar of § 102(b), which precludes the patentability of an invention if the inventor places it “on sale” more than one year prior to filing the relevant patent application.<sup>111</sup> The

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<sup>107</sup> See, e.g., *Space Sys./Loral, Inc. v. Lockheed Martin Corp.*, 271 F.3d 1076 (Fed. Cir. 2001); *Hughes Aircraft Co. v. United States*, 140 F.3d 1470 (Fed. Cir. 1998), *abrogated en banc by Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000), *vacated*, 535 U.S. 722 (2002).

<sup>108</sup> See *Am. Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1270 (Fed. Cir. 2008) (“Although the evidence in this case was relatively sparse, it sufficed for the jury to assume that USSC offered the VPRO I for sale and then substituted the non-infringing VPRO II—a bait-and-switch—and to find that absent USSC’s offer to sell the VPRO I, the sales would have gone to American Seating.”).

<sup>109</sup> 35 U.S.C. § 112, ¶ 1 (2006).

<sup>110</sup> See Timothy R. Holbrook, *Possession in Patent Law*, 59 SMU L. REV. 123, 150–60 (2006) (discussing the role of enablement in a myriad of patent law doctrines).

<sup>111</sup> 35 U.S.C. § 102(b); see also Timothy R. Holbrook, *The More Things Change, the More They Stay the Same: Implications of Pfaff v. Wells Electronics, Inc. and the Quest for Predictability in the On-Sale Bar*, 15 BERKELEY TECH. L.J. 933, 967–74 (2000) (advocating express incorporation of enablement under § 112 into the on-sale bar).

Supreme Court determined that the on-sale bar can be triggered even if the invention has not been constructed so long as “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.”<sup>112</sup> In this context, a court or jury compares what was offered for sale to the patent claims to determine whether the item for sale is the same as, or an obvious variant of, the claimed invention. The enablement requirement provides the basis for this comparison.

The Federal Circuit in *Transocean* offered no pronouncement on the appropriate standard for assessing infringement based on what was offered or sold in the contract. To provide a basis of comparison to the patent claim, I suggest that the disclosures surrounding the negotiations must be enabling: they must demonstrate to a person skilled in the art how to make the invention.<sup>113</sup> In assessing infringement, a court should look at the various documents used in the negotiations as well as any design documents drafted by the parties, regardless of whether they were subject to the negotiation. The inquiry would go beyond traditional contract interpretation, which only considers parole evidence if the contract document itself is ambiguous.<sup>114</sup> This analysis is also separate from the threshold issue of whether there has been a commercial offer to sell the invention pursuant to contract law; instead, this represents the infringement analysis in which the construed patent is compared to the device accused of infringement.<sup>115</sup> The inquiry is to determine what was the subject of the offer to sell, and the relevant evidence can go beyond that of the contract itself. All of this information should demonstrate that the device could be readily assembled, pursuant to the enablement requirement, to form an appropriate basis of comparison to the patent claim. The various documents should contain enough information to show the presence or absence of all of the limitations of the claim. In this way, agreements to investigate or explore a potential research avenue or device would not be infringing: the parties to the negotiation would not be in a position to build the device. Instead, the patentee would have to show that the accused infringer could readily manufacture the device from the various diagrams or other specifications. In this way, although

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<sup>112</sup> Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 67–68 (1998).

<sup>113</sup> See Holbrook, *supra* note 2, at 815–20 (cataloging examples of “paper infringement”).

<sup>114</sup> See, e.g., Thomsen v. Famous Dave’s of Am., Inc., 606 F.3d 905, 908 (8th Cir. 2010) (applying Minnesota law); Addicks Servs., Inc. v. GGP-Bridgeland, LP, 596 F.3d 286, 294 (5th Cir. 2010) (applying Texas law).

<sup>115</sup> See Vitronics Corp. v. Conception, Inc., 90 F.3d 1576, 1582 (Fed. Cir. 1996).

there can be infringement for the inchoate device, there is a proper lens to determine whether the patent claims read on that device.

*C. The One–Two Punch of Extraterritoriality and Intangibility: Criticisms and Consequences*

The *Transocean* decision advanced the law in two significant aspects: clarifying the extraterritorial reach of infringing offers to sell the invention and rejecting a requirement for a tangible embodiment of the infringing device for offering to sell or selling the invention.

Of course, the rule in *Transocean* does have its benefits. It is a relatively clear rule that affords a level of certainty and predictability: courts need not evaluate the location of an offer, or whether there has even been an offer, if the contemplated sale is outside of the United States. In the abstract, parties negotiating to sell something within the United States, assuming they are aware of U.S. patents and patent law, should know they risk infringement liability.<sup>116</sup>

*1. The Territoriality and Tangibility Holdings Permit Infringement for Acts Entirely Removed from the United States*

Nevertheless, the court’s reasoning and the impact of the rule are not without problems.<sup>117</sup> The court’s holding does create odd results from a territoriality perspective. Under *Transocean*, two companies could enter into negotiations in Hungary regarding a patented invention, the sale of which would occur in the United States. Yet, as the courts have made clear, the offer need not be accepted for there to be an infringing offer to sell.<sup>118</sup> As a result,

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<sup>116</sup> See Cromar, *supra* note 4 (manuscript at 30) (justifying a “Location of the Contemplated Sale” rule based, inter alia, on notice considerations).

<sup>117</sup> It is not entirely clear that the court’s statutory construction is correct. The court states that the statute defines as infringing “offers to sell . . . within the United States,” necessarily requiring the focus to be on the location of the sale. *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1309 (Fed. Cir. 2010) (alteration in original) (quoting 35 U.S.C. § 271(a) (2006)) (internal quotation marks omitted). The entirety of § 271(a), however, suggests that, arguably, it is the offer—not the sale—that needs to be within the United States. The “offer to sell” language was added to the string of acts that are also infringing: making, using, and selling. As one amicus argued in petitioning the Federal Circuit for rehearing in *Transocean*, parallelism in the statute suggests that “within the United States” actually modifies “offer,” not “to sell.” See Stena Drilling Limited’s Amicus Curiae Brief in Support of Defendant–Appellee’s Combined Petition for Panel Rehearing and Rehearing En Banc at 3–7, *Transocean*, 617 F.3d 1296 (No. 2009-1556). Parallel structure, therefore, suggests that the term that is appropriately limited is “offer.”

<sup>118</sup> *Transocean*, 617 F.3d at 1308 (Fed. Cir. 2010); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1376 (Fed. Cir. 2005).

under the *Transocean* rule, two parties negotiating, but not reaching an agreement, to potentially sell something in the United States could be liable for infringement of a U.S. patent notwithstanding that no actual commercial activity would take place within the United States.

Moreover, and rather counterintuitively, under the court's holding, actual contract negotiations within the United States are outside the scope of the patent's exclusive rights if the sale will be abroad. Thus, two parties—even two *American* companies—could hold negotiations in Ohio regarding an invention to be used in Hungary, and notwithstanding that such commercial activity is taking place within the United States—activity that could be of considerable value to the patent holder—these two companies would be immune to an infringement suit. Indeed, according to the court's holding regarding sales, there would be no infringement for selling the invention even if the two companies reached and signed an agreement within the United States. The traditional view of the territorial nature of Congress's power is that it can regulate conduct that occurs within the United States, yet the Federal Circuit has precluded such liability in these circumstances. It is therefore somewhat perplexing that the upper-right quadrant of the above chart is now clearly not an act of infringement, notwithstanding that considerable activity takes place in the United States.

## 2. *Unforeseen Consequences: The Potential Impact of Transocean on the On-Sale Bar*

The shift in focus to the location of the sale, as opposed to the location of commercial negotiations, creates tension with current law dealing with the on-sale bar and could greatly expand the scope of prior art that could be used to invalidate patents. Section 102(b) of the Patent Act precludes a patent if the invention was “on sale in this country” more than a year before the date that the application was filed.<sup>119</sup> Thus, just like the infringement provision, the on-sale bar is territorially limited to the United States. The bar only applies if the invention is on sale within the United States.

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<sup>119</sup> 35 U.S.C. § 102(b). The territorial limitations on the on-sale and public-use bars have been removed under the America Invents Act of 2011 (AIA). See Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 3(b)(1), § 102(a)(1), 125 Stat. 284, 286 (2011). For extant and currently pending applications, however, the geographic limitation will remain in force until those patents expire. Sec. 3(n)(1), 125 Stat. at 293.

The Federal Circuit has never squarely addressed the territorial limits of the on-sale bar.<sup>120</sup> At present, the only authority on this issue is the Ninth Circuit's decision in *Robbins Co. v. Lawrence Manufacturing Co.*<sup>121</sup> The Ninth Circuit adopted the following test:

Whether or not such a sale is consummated in a foreign country, we hold that the product is "on sale" in the United States, within the proscription of the statute, if substantial activity prefatory to a sale occurs in the United States. An offer for sale, made in this country, is sufficient prefatory activity occurring here, to bring the matter within the statute.<sup>122</sup>

In the absence of Federal Circuit precedent, district courts have continued to follow the Ninth Circuit's test.<sup>123</sup> The focus, therefore, has been on what acts preceding the offer are within the United States, regardless of where the contemplated sale may be.<sup>124</sup>

This approach to the on-sale bar is inconsistent with the Federal Circuit's reasoning in *Transocean*. While, technically, the on-sale bar and infringement

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<sup>120</sup> See *Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd.*, Nos. C 04-2000 CW, C 06-2929 CW, 2007 WL 3231709, at \*3 (N.D. Cal. Oct. 30, 2007) ("There is little case law examining the requirement that the offer be made in the United States."); Holbrook, *supra* note 4, at 742.

<sup>121</sup> 482 F.2d 426 (9th Cir. 1973).

<sup>122</sup> *Id.* at 434.

<sup>123</sup> See, e.g., *MDS Assocs., Ltd. P'ship v. United States*, 37 Fed. Cl. 611, 631 (1997) (holding that "if substantial activity prefatory to a sale occurs in the United States," then the activity falls "within the proscription of the statute" (quoting *Robbins*, 482 F.2d at 434) (internal quotation mark omitted)); *Linear Tech. Corp. v. Micrel, Inc.*, 63 F. Supp. 2d 1103, 1126 (N.D. Cal. 1999) ("Sales and offers to sell to foreign customers can invalidate a patent if the sale is made in the United States, if the offer is extended from the United States, or if substantial sales activity prefatory to the sale occurs in the United States." (citing *Robbins*, 482 F.2d at 434)), *aff'd in part, rev'd in part*, 275 F.3d 1040 (Fed. Cir. 2001); *B.F. Goodrich Co. v. Aircraft Braking Sys. Corp.*, 825 F. Supp. 65, 71-72 (D. Del. 1993) (reaching the same conclusion as *MDS*).

<sup>124</sup> A recent district court decision found an offer abroad triggered the on-sale bar, given relevant activity within the United States:

Plaintiff is correct in noting that *Robbins* also held that an "offer for sale, made in this country, is sufficient prefatory activity occurring here." However, there is no support for Plaintiff's contention that an offer made in the United States is necessary under *Robbins*.

While MPS's actual offer to sell the MP1010 chip to Ambit took place in Taiwan, it cannot be considered in a vacuum. The arrangements for MPS's sales trip were made from its United States offices, and MPS communicated from the United States with Ambit about the sale. The products were also made in and shipped from this country. Given this additional evidence, the fact that the offer itself was not made while the offeree and offeror were in the United States is not dispositive. The Court finds that sufficient activity prefatory to the sale occurred in the United States to satisfy the first prong of the *Pfaff* test.

*See Monolithic Power Sys.*, 2007 WL 3231709, at \*3 (citation omitted) (quoting *Robbins*, 482 F.2d at 434).

for offering to sell an invention are distinct statutory provisions with different policies underlying them,<sup>125</sup> even the Federal Circuit has noted the parallels between the two provisions.<sup>126</sup> Thus, the two provisions have informed each other in the past. Indeed, a deconstruction of the two provisions demonstrates that, notwithstanding that the former is a prior-art provision and the latter an infringement provision, both are concerned with the economic appropriation of the invention. The on-sale bar deals with economic exploitation by the inventor or others before the application is filed, and infringement by offering to sell the invention relates to post-issuance exploitation.<sup>127</sup>

If the *Transocean* standard is used in the context of the on-sale bar, the scope of potential invalidating prior art is massive. Negotiations anywhere in the world that contemplate a sale in the United States would preclude patent protection for an inventor, even though virtually no activity has taken place in the United States.<sup>128</sup> Indeed, there may not be any knowledge of the offer within the territorial United States if the negotiations are confidential and do not involve U.S. citizens.<sup>129</sup> Patent applicants may not be able to obtain patents because of remote negotiations overseas that do not transmit any information into the United States. Given that the on-sale bar is a form of prior art, dealing with what should be viewed as within the public domain,<sup>130</sup> the *Transocean* rule could create a broad swath of prior art that is essentially unknowable to parties in the United States. Hence, placing the focus on the prefatory acts, as the *Robbins* court has done, seems the more appropriate standard for the on-sale bar.

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<sup>125</sup> See *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1379 n.4 (Fed. Cir. 1998).

<sup>126</sup> See *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1254–55 (Fed. Cir. 2000) (“In *Pfaff*, the Supreme Court noted that the norms of traditional contract law should be the basis for the on-sale determinations under § 102(b). . . . This analysis is not divergent from our § 271(a) analysis, because an offer for sale, whether made before or after a patent is applied for, or after it is granted, requires no more than a commercial offer for sale. Both sections invoke the traditional contractual analysis. Therefore, we similarly define § 271(a)’s ‘offer to sell’ liability according to the norms of traditional contractual analysis.”).

<sup>127</sup> See *Holbrook*, *supra* note 2, at 778 (“The value that the patentee extracts from the patent pre-term is the same value that an infringer inappropriately extracts during the patent term—the commercial value of the invention.”).

<sup>128</sup> Under the AIA, however, the on-sale bar will no longer be limited to sales “within this country.” See Pub. L. No. 112-29, sec. 3(b)(1), § 102(a)(1), 125 Stat. 284, 286 (2011). Thus, once those provisions take effect in 2013, any offer to sell anywhere in the world, even if the contemplated sale is *not* in the United States, will be invalidating. Patents filed before the effective date of the new § 102, however, will continue to be governed by the 1952 Patent Act, which could last until 2033. See sec. 3(n)(1), 125 Stat. at 293.

<sup>129</sup> Whether such offers to sell will qualify as prior art under the AIA is an open question that the courts will have to address.

<sup>130</sup> *Holbrook*, *supra* note 2, at 781–84.

If the Federal Circuit were to take such a bifurcated approach, then the symmetry between the on-sale bar and offer-to-sell infringement would be disrupted. Given that the two provisions essentially deal with the same concern, such treatment would be inconsistent as a policy matter. *Transocean*, therefore, could unintentionally effect a considerable expansion of the on-sale bar by ensnaring activities conducted completely outside of the United States that contemplate a U.S. sale. Given that none of these activities are within the United States at all, this expansion would create uncertainty for applicants as to whether potentially invalidating offers to sell have been made, at least by third parties.<sup>131</sup>

#### IV. DOES *TRANSOCEAN* REALLY STAND FOR WHAT IT SAYS?

*Transocean* offers a striking expansion of potential infringement liability because of its broad holdings regarding territoriality and tangibility. A closer review of the facts, however, suggests that the expansive scope of the holdings could be limited in future cases. Indeed, comparing *Transocean* with a trademark case confronting issues of extraterritoriality, *Steele v. Bulova Watch Co.*,<sup>132</sup> exemplifies how *Transocean*'s holdings may be more limited than they appear.

##### A. *Citizenship, Effects, and Conflicts: How Bulova Could Inform the Scope of Infringing Offers to Sell*

*Bulova* is not a patent case—instead, it is a trademark case—but it is one of the only cases in which the Supreme Court addressed the extraterritorial scope of a federal intellectual property right.<sup>133</sup> Indeed, “[o]f the major intellectual property rights, trademark rights have long been the most susceptible to extraterritorial application.”<sup>134</sup> While trademarks do differ considerably from patents in a number of ways, including the source of congressional authority for creating the rights,<sup>135</sup> the theories that underlie these forms of protection,<sup>136</sup>

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<sup>131</sup> If the Federal Circuit takes into account the citizenship of the party making the offer, limiting the on-sale bar to offers made by U.S. citizens, then some balance may be restored. For more on this argument, see *infra* note 154 and accompanying text.

<sup>132</sup> 344 U.S. 280 (1952).

<sup>133</sup> *Bulova*, 344 U.S. 280.

<sup>134</sup> Graeme W. Austin, *Importing Kazaa—Exporting Grokster*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 577, 602 (2006).

<sup>135</sup> Congress can protect trademarks under the Commerce Clause, but not under the Copyright and Patent Clause. See *Trade-Mark Cases*, 100 U.S. 82 (1879). The latter authorized the patent system's creation. See U.S. CONST. art. I, § 8, cl. 8. See generally Timothy R. Holbrook, *The Treaty Power and the Patent Clause*:

and the nature of the harm the right is intended to address,<sup>137</sup> the reasoning of the Supreme Court provides some useful insights into the issue of territoriality in patent law and, in particular, the holding in *Transocean*.<sup>138</sup>

In *Bulova*, the accused trademark infringer was a U.S. citizen selling arguably infringing counterfeit watches in Mexico.<sup>139</sup> Although he, at one point, had a trademark registration in Mexico for the mark “Bulova,” the Mexican government revoked it.<sup>140</sup> Some of the infringing watches managed to make their way back into the United States, particularly along the Texas–Mexico border.<sup>141</sup> The issue was whether U.S. courts had jurisdiction to hear a claim of trademark infringement under U.S. law when the allegedly infringing acts took place entirely in Mexico.<sup>142</sup> The Supreme Court held that, under these facts, jurisdiction was appropriate.<sup>143</sup>

Subsequently, courts have identified what have come to be known as the *Bulova* factors, which identify when it is appropriate to allow extraterritorial application of U.S. trademark law: (1) whether there is a substantial effect on U.S. commerce; (2) what the citizenship of the accused infringer is; and (3)

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*Are There Limits on the United States' Ability to Harmonize?*, 22 CARDOZO ARTS & ENT. L.J. 1 (2004) (discussing potential constitutional limits on Congress's power under the Copyright and Patent Clause).

<sup>136</sup> See Roger D. Blair & Thomas F. Cotter, *The Elusive Logic of Standing Doctrine in Intellectual Property Law*, 74 TUL. L. REV. 1323, 1380 (2000).

<sup>137</sup> Trademarks are meant to protect against consumer confusion and dilution with respect to a symbol used to identify the source of a good or service. See Clarisa Long, *Dilution*, 106 COLUM. L. REV. 1029, 1033–35 (2006). Patents provide inventors the right to exclude others from practicing their invention; the focus is on the patent claims themselves and not on the impact on consumers in assessing liability. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc).

<sup>138</sup> One might think that copyright would be more appropriate for comparison, given that authority for the copyright system is found in the same constitutional provision as for the patent system and that a similar incentive structure underlies both copyright and patent. See Jeanne C. Fromer, *Claiming Intellectual Property*, 76 U. CHI. L. REV. 719 (2009) (making copyright and patent comparisons). Copyright law, though, has been far more strictly enforced with respect to extraterritorial application. See *Subafilms, Ltd. v. MGM–Pathe Comm'ns Co.*, 24 F.3d 1088, 1095–98 (9th Cir. 1994) (en banc); Holbrook, *supra* note 4, at 735–38 (comparing the authorization right in copyright law to the offer-to-sell right in patent law). The courts have not confronted a case analogous to *Transocean*, where there has been authorization outside of the United States for copies to be made within the United States. Under current law, however, the authorization right in copyright is treated as a variant of vicarious liability that differs from patent law because vicarious liability has been codified in the separate provisions of 35 U.S.C. § 271(b) and (c). See Holbrook, *supra* note 4, at 747.

<sup>139</sup> 344 U.S. 280, 281 (1952).

<sup>140</sup> *Id.* at 285.

<sup>141</sup> *Id.*

<sup>142</sup> *Id.* at 281.

<sup>143</sup> *Id.* at 291–92.

whether exercising jurisdiction would create a conflict with foreign law.<sup>144</sup> Thus, the courts have used a far more nuanced inquiry into whether it is appropriate to apply U.S. trademark law extraterritorially than they have in patent law.

Two of the *Bulova* factors are present in *Transocean*; the missing factor is consideration of potential conflicts of law.<sup>145</sup> The accused infringer was a U.S. corporation, satisfying any consideration of citizenship. Seemingly, because the contemplated sale would be in the United States, there would be some impact on U.S. commerce. Thus, one could argue that *Transocean*'s holding regarding extraterritoriality—that only the location of the contemplated sale is relevant—may go beyond its facts.

The Federal Circuit itself seems cognizant of the importance of the citizenship of the parties and of the potential effect within the United States. The *Transocean* court characterized the issue as follows:

This case presents the question whether an offer which is made in Norway by a U.S. company to a U.S. company to sell a product within the U.S., for delivery and use within the U.S. constitutes an offer to sell within the U.S. under § 271(a). We conclude that it does.<sup>146</sup>

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<sup>144</sup> E.g., *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956). The circuit courts have offered a variety of interpretations of *Bulova*, ranging from a wide-sweeping effects-based inquiry in the Ninth Circuit, akin to the approach used in antitrust law, see *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 427–29 (9th Cir. 1977), to the strict application of these factors as seemingly necessary prerequisites in the Second Circuit, see *Vanity Fair Mills, Inc.*, 234 F.2d at 642–43, to the multi-tiered approach in the First Circuit, see *McBee v. Delica Co.*, 417 F.3d 107, 121 (1st Cir. 2005) (finding jurisdiction when the infringer is a U.S. citizen, regardless of the effect on commerce, and, when the infringer is a noncitizen, there is a substantial effect on U.S. commerce, with conflicts and comity concerns acting as mere jurisprudential considerations). See generally Graeme B. Dinwoodie, *Developing a Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 780–82 (2009) (discussing various formulations of trademark tests); Holbrook, *supra* note 69, at 2157 n.149 (discussing variations in trademark cases). Notwithstanding this considerable variation, all of these approaches take into account citizenship and conflicts to some extent.

<sup>145</sup> Admittedly, *Bulova* dealt with a jurisdictional issue, and I propose consideration of these factors as relevant to the substantive issue of infringement. *Accord* *Litecubes, LLC v. N. Light Prods., Inc.*, 523 F.3d 1353, 1363–66 (Fed. Cir. 2008) (rejecting that extraterritorial issues under § 271(a) are jurisdictional and finding instead that they are substantive). Even in trademark law, however, calling the issue “jurisdictional” is a bit of a misnomer. See Dinwoodie, *supra* note 144, at 780 (“A similar conceptual structure is found in cases involving the extraterritorial application of U.S. trademark law (often litigated as a question of subject matter jurisdiction, but effectively assessing prescriptive authority).”).

<sup>146</sup> 617 F.3d 1296, 1309 (Fed. Cir. 2010).

Later, in support of its statutory construction argument, the court noted that limiting liability under these facts would facilitate arbitrage by parties to avoid liability.<sup>147</sup> An interpretation requiring that the offer itself be made in the United States “would exalt form over substance by allowing a U.S. company to travel abroad to make offers to sell back into the U.S. without any liability for infringement.”<sup>148</sup> Moreover, in one formulation of the court’s holding, the court states:

We hold that the district court erred because a contract *between two U.S. companies* for performance in the U.S. may constitute an offer to sell within the U.S. under §271(a). The fact that the offer was negotiated or a contract signed while the *two U.S. companies* were abroad does not remove this case from statutory liability.<sup>149</sup>

The court was therefore aware of the issues surrounding citizenship: the facts involved two U.S. citizens, which, when compared to the facts in *Bulova*, suggests that the extraterritorial enforcement of the patent may not be as troubling.

The court’s analysis also recognizes that there should be some sort of impact within the United States if U.S. law is to apply. In characterizing the consequences of offers to sell in the United States, the Federal Circuit also recognized that such offers would allow a company to “generate interest in its product in the U.S. to the detriment of the U.S. patent owner, the type of harm that offer to sell within the U.S. liability is meant to remedy. These acts create a real harm in the U.S. to a U.S. patentee.”<sup>150</sup> The court, like the Supreme Court in *Bulova*, recognized that there must be some sort of impact within the United States to justify the extraterritorial application of U.S. patent law.<sup>151</sup>

Of course, the language of the court’s holding is ultimately much broader: “In order for an offer to sell to constitute infringement, the offer must be to sell a patented invention within the United States. The focus should not be on the location of the offer, but rather the location of the future sale that would occur

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<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> *Id.* at 1310 (emphases added).

<sup>150</sup> *Id.* at 1309 (citation omitted).

<sup>151</sup> This recognition is far short of a pure effects-based test. *See generally* Holbrook, *supra* note 69, at 2154–57 (discussing various effects-based approaches). A pure effects-based test would simply assess whether activities outside of the United States have any impact on the United States at all. Thus, even foreign actors could seemingly impact the United States under such a test. *But see* Miller, *supra* note 4, at 447–50 (advocating for an effects-based test for assessing infringing offers to sell).

pursuant to the offer.”<sup>152</sup> The court’s conclusion appears to be that solely the contemplated sale’s location governs.<sup>153</sup> The court’s reasoning, however, suggests that the case may actually be limited to this factual situation: where there are U.S. citizens involved and there is some harm felt in the United States. These factual considerations track with the Supreme Court’s analysis in *Bulova* and support the court’s conclusion that extraterritorial application of U.S. patent law may be appropriate even in the face of the presumption against extraterritoriality. Future litigants may attempt to limit the holding of *Transocean* on this basis.

Moreover, consideration of the citizenship of the party making the offer could limit the expansive impact *Transocean* may have on the on-sale bar. The on-sale bar helps define the scope of the prior art in assessing the novelty and nonobviousness of a claimed invention. The statute specifically limits on-sale activities to those within this country.<sup>154</sup> If, however, the overseas offer to sell the device in the United States is made by or to a U.S. citizen, then the knowledge has been transmitted to a third party who has a nexus to the United States. In terms of the scope of the knowledge of the patented invention, it is in effect within this country because it has been disclosed to a citizen of the United States. In this fashion, citizenship could provide a straightforward limiting principle to the potential vast reach that *Transocean* could create for the on-sale bar.<sup>155</sup>

#### *B. What’s Missing? Taking Account of Potential Conflicts of Law*

The reasoning of *Transocean*, notwithstanding its seemingly broad holding, generally tracks that of the Supreme Court in *Bulova* but with one striking exception: the failure of the court to consider possible conflicts of law with foreign jurisdictions. The Federal Circuit has overlooked this consideration in other contexts as well,<sup>156</sup> even though this concern has been articulated not only by the Supreme Court in *Bulova* but also by one of the Federal Circuit’s

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<sup>152</sup> *Transocean*, 617 F.3d at 1309.

<sup>153</sup> *Cf. Cromar*, *supra* note 4 (manuscript at 28–32) (advocating a strict “Location of the Contemplated Sale” test, regardless of nationality of the parties to the offer).

<sup>154</sup> *See* 35 U.S.C. § 102(b) (2006).

<sup>155</sup> While my analysis focuses on the on-sale bar under the 1952 Patent Act, a citizenship-based constraint could also apply under the AIA. In this way, notwithstanding the AIA’s elimination of the territorial limits of the on-sale bar, a court could legitimately hold that the on-sale bar is triggered only by sales activities involving United States citizens or corporations to provide some limits on the scope of the provision.

<sup>156</sup> *See Holbrook*, *supra* note 69, at 2161–62.

predecessor courts.<sup>157</sup> The failure to take account of these potential conflicts is a considerable flaw in the court's reasoning. The courts could look to the law of the jurisdiction where the various negotiations took place to assess whether there is a potential conflict in holding.

An example makes the problems with the court's conclusion clear. Suppose that the party making the offer to sell the invention actually owns the patent in the jurisdiction in which the negotiations take place.<sup>158</sup> Part of the negotiations, and the offer to sell, includes sales to the United States. In a global marketplace, such an offer could be made in the context of negotiations dealing with a product or products in multiple countries. Under the broad reading of *Transocean's* holding, an offer in this context would infringe a U.S. patent, even though the offeror is negotiating in a country where he owns the patent. Indeed, the offeror would be exposed to liability in the United States *even if the sale is never completed and even though the offeror owns the patent in the given country*.<sup>159</sup> Patent infringement is a strict liability offense,<sup>160</sup> so there would be infringement even if the offeror were unaware of the U.S. patent. It is in this way that the potential broader holding of *Transocean* has considerable extraterritorial impact and risks creating conflicts with foreign jurisdictions.<sup>161</sup>

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<sup>157</sup> See *Decca Ltd. v. United States*, 544 F.2d 1070, 1074 (Ct. Cl. 1976) (“Neither is there a probable conflict with the patent laws of other count[r]ies.”).

<sup>158</sup> This analysis will, for the time being, ignore the citizenship consideration. It is clear, though, that the owner of the patent in the foreign jurisdiction could very well be a U.S. citizen. Under international law, ownership and validity of patents in different countries are independent of each other. See Paris Convention for the Protection of Industrial Property art. 4bis, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305. Thus it is possible for there to be different owners of a patent that covers the same invention around the world. See Holbrook, *supra* note 69, at 2176–77. If the U.S. citizen has failed to obtain patent protection in the U.S., however, it suggests he may be aware of the competing U.S. patent.

Moreover, potential problems could arise on other bases, even absent some form of ownership conflict, such as if there simply is no patent in the country of negotiations or if such a patent would not be valid in a given country. *Id.* at 2172–78; Holbrook, *supra* note 4, at 750–58. Even the standards for infringement, such as what constitutes an infringing offer to sell, can vary from country to country. See, e.g., MARKETA TRIMBLE, GLOBAL PATENTS: LIMITS OF TRANSNATIONAL ENFORCEMENT § 3.3 (2012) (discussing differences between German and U.S. law on infringing offers to sell the invention).

<sup>159</sup> The court's holding with respect to an actual sale could also trigger liability for the party holding the patent in the jurisdiction where the negotiations took place. This would be the case even if the ultimately delivered products are different due to the intangibility portion of the *Transocean* decision.

<sup>160</sup> *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (en banc).

<sup>161</sup> One commentator advocates exactly for this broad interpretation of *Transocean*—that the location of the sale alone determines whether there is U.S. infringement. See Cromar, *supra* note 4 (manuscript at 30). Cromar argues that, “[u]nder this rule, a potential infringer would be on notice that, no matter its nationality, or location, if it makes an offer to sell a U.S.-patented device, and the location of the contemplated sale is in the United States, it is potentially infringing the U.S. patent.” *Id.* While Cromar is correct that such a rule is certain, at least for courts, he is incorrect in suggesting that there will be notice to potential infringers. Again, he assumes that the offeror is *actually aware* of the patent, which may not be the case and is not necessary for

The failure of the Federal Circuit to account for potential conflicts is striking, not only in the context of infringing offers to sell but in others as well.<sup>162</sup> Elsewhere, I have offered various mechanisms by which courts could account for concerns with conflicts, both specifically within the context of infringement by offering to sell the invention<sup>163</sup> and more broadly.<sup>164</sup>

## CONCLUSION

The Federal Circuit's decision in *Transocean* is important. It greatly expanded the extraterritorial reach of infringing offers to sell and the scope of infringement by offering to sell or selling inventions that are not yet built but instead simply designed on paper. Individually, these outcomes may not seem striking, but together they effect a considerable change in U.S. patent law. To cabin the scope of these provisions and the potential negative impacts on territoriality and the scope of the on-sale bar, the Federal Circuit should either limit the scope of *Transocean* to its facts, as the *Bulova* comparison suggests, or take into account the other factors present in the *Bulova* case—effects on the United States, the citizenship of parties involved in the transaction, and, most importantly, potential conflicts with foreign law. In this fashion, an appropriate balance between protecting the patent owner and respecting the territoriality principle can be achieved.

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liability to attach in a strict liability regime. Even if the offeror subsequently becomes aware of the U.S. patent and changes the product, he seemingly is liable under the reasoning of *Transocean*. See 617 F.3d 1296, 1310 n.4 (Fed. Cir. 2010).

Moreover, Cromar ignores the considerable conflicts problem: Why should the owner of a patent in one country be liable to another in a different country when it is negotiating on its own patent in its own country? Cromar also suggests that his approach is consistent with the presumption against applying U.S. law extraterritorially. See Cromar, *supra* note 4 (manuscript at 32). It is not clear how that is the case. He is correct that the presumption is consistent with the rule that sales outside of the United States are not infringing. It is incorrect, however, to suggest that his location-only rule is consonant with the presumption. Under his rule, liability will be triggered for activities completely outside the United States *even if nothing ever occurs within the United States* (i.e., the actual sale is never completed). That is a direct extraterritorial application of U.S. law, even more than was present in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454–55 (2007), in which the Supreme Court used the presumption to narrowly interpret the infringement provisions of 35 U.S.C. § 271(f) that relate to the exportation of components that could be assembled abroad into infringing devices. The same can be said for finding liability for sales in the United States short of actual delivery when the agreement reached is outside of the United States.

<sup>162</sup> See, e.g., *NTP, Inc. v. Research in Motion, Ltd. (NTP II)*, 418 F.3d 1282 (Fed. Cir. 2005); Holbrook, *supra* note 69, at 2160–62.

<sup>163</sup> See Holbrook, *supra* note 4, at 748–59 (offering two approaches by which U.S. courts could consider the law of the country in which a sale is completed).

<sup>164</sup> See Holbrook, *supra* note 69, at 2163–85 (advocating a general theory of extraterritorial infringement).