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Federal Circuit Patent Bulletin: *Halo Elecs., Inc. v. Pulse Elecs., Inc.*

August 5, 2016

"[W]hen substantial activities of a sales transaction, including the final formation of a contract for sale encompassing all essential terms as well as the delivery and performance under that sales contract, occur entirely outside the United States, pricing and contracting negotiations in the United States alone do not constitute or transform those extraterritorial activities into a sale within the United States for purposes of § 271(a)."

On August 5, 2016, in *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, the U.S. Court of Appeals for the Federal Circuit (Lourie,* O'Malley, Hughes) affirmed-in-part, vacated-in-part and remanded the district court's summary judgment that Pulse did not infringe U.S. Patents No. 5,656,985, No. 6,297,720, and No. 6,344,785, which related to surface mount electronic packages. The Federal Circuit stated:

Section 271(a) of the patent statute provides in relevant part that "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States . . . infringes the patent." We first consider whether the products that Pulse manufactured, shipped, and delivered to buyers abroad were sold within the United States for purposes of § 271(a). [A] sale may occur at multiple locations, including the location of the buyer, for purposes of personal jurisdiction. . . . Although the place of contracting may be one of several possible locations of a sale to confer personal jurisdiction, we have not deemed a sale to have occurred within the United States for purposes of liability under § 271(a) based solely on negotiation and contracting activities in the United States when the vast majority of activities underlying the sales transaction occurred wholly outside the United States. For such a sale, one must examine whether the activities in the United States are sufficient to constitute a "sale"

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under § 271(a), recognizing that a strong policy against extraterritorial liability exists in the patent law.

The patent statute does not define the meaning of a "sale" within the United States for purposes of § 271(a). We have stated that "the ordinary meaning of a sale includes the concept of a transfer of title or property." Indeed, Article 2 of the Uniform Commercial Code, which is recognized as a persuasive authority on the sale of goods, provides that "[a] 'sale' consists in the passing of title from the seller to the buyer for a price." Section 2-106 separately defines a "contract for sale" as including "both a present sale of goods and a contract to sell goods at a future time." While we have held that a sale is "not limited to the transfer of tangible property" but may also be determined by "the agreement by which such a transfer takes place," the location of actual or anticipated performance under a "contract for sale" remains pertinent to the transfer of title or property from a seller to a buyer. [W]hen substantial activities of a sales transaction, including the final formation of a contract for sale encompassing all essential terms as well as the delivery and performance under that sales contract, occur entirely outside the United States, pricing and contracting negotiations in the United States alone do not constitute or transform those extraterritorial activities into a sale within the United States for purposes of § 271(a).

On undisputed facts, the products under discussion here were manufactured, shipped, and delivered to buyers abroad. In addition, Pulse received the actual purchase orders for those products abroad. Although Pulse and Cisco had a general business agreement, that agreement did not refer to, and was not a contract to sell, any specific product. While Pulse and Cisco engaged in quarterly pricing negotiations for specific products, the negotiated price and projected demand did not constitute a firm agreement to buy and sell, binding on both Cisco and Pulse. Instead, Pulse received purchase orders from Cisco's foreign contract manufacturers, which then firmly established the essential terms including price and quantity of binding contracts to buy and sell. Moreover, Pulse was paid abroad by those contract manufacturers, not by Cisco, upon fulfillment of the purchase orders. Thus, substantial activities of the sales transactions at issue, in addition to manufacturing and delivery, occurred outside the United States. Although Halo did present evidence that pricing negotiations and certain contracting and marketing activities took place in the United States, which purportedly resulted in the purchase orders and sales overseas, as indicated, such pricing and contracting negotiations alone are insufficient to constitute a "sale" within the United States. . . .

We also reject Halo's argument that the sales at issue occurred in the United States simply because Halo suffered economic harm as a result of those sales. The incurring of harm alone does not control the infringement inquiry. As indicated, Pulse's activities in the United States were insufficient to constitute a sale within the United States to support direct infringement. Moreover, Halo recovered damages for products that Pulse delivered outside the United States but were ultimately imported into the United States in finished end products based on a theory of inducement. Following Halo's logic, a foreign sale of goods covered by a U.S. patent that harms the business interest of a U.S. patent holder would incur infringement liability under § 271 (a). Such an extension of the geographical scope of § 271(a) in effect would confer a worldwide exclusive right to a U.S. patent holder, which is contrary to the statute and case law.

[Nor did Pulse] directly infringe the Halo patents under the "offer to sell" provision by offering to sell in the United States the products at issue, because the locations of the contemplated sales were outside the United States. Cisco outsourced all of its manufacturing activities to foreign countries, and it is undisputed that the locations of the contemplated sales were outside the United States. Likewise, with respect to other Pulse customers, there is no evidence that the products at issue were contemplated to be sold within the United States.

An offer to sell, in order to be an infringement, must be an offer contemplating sale in the United States. Otherwise, the presumption against extraterritoriality would be breached. If a sale outside the United States is not an infringement of a U.S. patent, an offer to sell, even if made in the United States, when the sale would occur outside the United States, similarly would not be an infringement of a U.S. patent. We therefore hold that Pulse did not offer to sell the products at issue within the United States for purposes of § 271(a).