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Does **Offshore** Mean **Off-Limits**?

Courts address the geographic scope of patent laws.

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Designing around patents is an accepted way to avoid infringement. But can someone design around the patent law itself? Competitors may forgo the often burdensome and expensive process of designing around specific patent claims in favor of a design around the patent law. This new "design around"—fueled by technological advances—involves moving an establishment offshore and continuing to market and sell the patented invention to customers in the United States. Does the geographic scope of the patent laws extend far enough to reach offshore activities? The answer is most likely fact-dependent, but courts analyzing the question have established some guidance as to what the answer may be.

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The New Trend—Take it Offshore

Patents are territorial, and an act of infringement may occur only in a country where the patent owner has a valid patent. The territorial nature of the patent laws is reflected in 35 U.S.C. §271(a), the principal infringement statute in the United States. Under §271(a) "whoever without authority makes, uses, offers to sell, or sells any patented invention, *within the United States or imports into the United States* any patented invention during the term of the patent therefor, infringes the patent."[1] The geographic limitations on the "makes" and "uses" prongs of §271(a) are clear—if a potential infringer makes or uses a patented invention in the United States, it has committed infringement. But the range of activities captured within the scope of the "offers to sell" and "sells" prongs remains unclear.

The design around of the patent laws has become more creative as the ability to reach customers through technology increases. The latest trend goes something like this: An entrepreneur (the Competitor) sees a lucrative busi-

ness in selling an item, but learns that the item is covered by a patent in the United States. Competitor does some research to determine in what other countries the patentee has filed for a patent, and learns that the patentee did not file in Country Y. Competitor creates an establishment in Country Y to make the item covered by the patent. That item is then marketed and sold (perhaps through a website powered by an offshore server) to customers located in the United States.[2] Is this infringement under §271(a)? Recent caselaw suggests that it is.

The language of §271(a) does not offer express direction on the extraterritorial application of its offer to sell and sale prongs. The statute makes clear, however, and the Federal Circuit has confirmed, that the only activities relevant to direct infringement are those activities that take place within the borders of the United States.[3] In order for a potential infringer to be liable for direct infringement, then, the patentee must establish that the potential infringer offered to sell or sold the patented invention within the borders of the United States.

The caselaw addressing the exterritorial applicability of the offer to sell and sale prongs of §271(a) is not fully developed, but there is a distinct movement favoring the protection of these patent rights.

The key to this issue boils down to location: Where did the offer to sell or sale occur? The answer is not as simple as one might think. With respect to the location of a sale, the Federal Circuit and some district courts have set forth a framework to determine whether a sale takes place in the United States for purposes of §271(a). As a starting point, the Federal Circuit has concluded that a sale "does not only occur at a single point where some legally operative act took place."[4] For example, the location of the passage of title is relevant to the inquiry, but not dispositive.[5] Other factors include the place of performance, delivery, sales negotiations, payment, and receipt of sales proceeds.[6]

The Federal Circuit concluded that a sale existed for purposes of §271(a) where delivery and performance occurred within the United States.[7] Likewise, in *Litecubes v. Northern Light Products*, the court found evidence of a sale under §271(a) where the alleged infringer sold and shipped infringing products to customers located in the United States.[8] Some district courts have reached similar results. In *Fellowes v. Michilin Prosperity Company*, the district court ruled that a foreign manufacturer who sold paper shredders committed a sale under §271(a) because the United States was the primary destination of the infringed paper shredders, and the manufacturer directly negotiated with its customers inside the United States.[9] In *Ensign-Bickford v. ICI Explosives USA*, the sale of an infringing product (an explosive initiation device) occurred in the United States when a foreign corporation conducted marketing meetings regarding the infringing product in the United States, and received payment for the product inside the United States.[10]

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Courts have declined to extend the protection of §271(a) to sales containing an extraterritoriality component where there is little or no activity by the alleged infringer within the United States. For example, in *Wing Shing Products v. Simatelex Manufactory*, the Southern District of New York declined to extend §271(a) protection where the infringing product (a coffee maker) was manufactured in Hong Kong, delivered to a buyer that was located in Hong Kong, and then subsequently imported by the buyer into the United States. In addition, all the sales negotiations, including execution of the sales contract, occurred in Hong Kong.[11]

An *offer* to sell is different from a sale—an offer to sell need not be accepted to constitute infringement.[12] Under the patent statute, an offer to sell exists when a communication includes: (1) a description of the product, and (2) a price at which it can be purchased.[13] Thus, when the competitor sends a postcard from Country Y to customers located in the United States, and that postcard contains both a description of the infringing item and its price, that activity is likely an "offer to sell" under §271(a). But what happens when that description and price are made available to patentee's customers solely through a website powered by an offshore server? Courts are inclined to afford protection to the patentee in this instance as well.

A website may contain an "offer to sell" if it includes both pricing and ordering information.[14] Recent cases have held that offers to sell exist even when the offer was made through a foreign website. In *OptiGen v. International Genetics*, the Northern District of New York denied the defendants' motion for summary judgment and held that OptiGen adduced admissible evidence establishing that the defendant sold or offered to sell infringing methods within the United States where the defendants' offers to sell were made exclusively through a website powered by an offshore server. The court found it persuasive that the website was accessible to customers located in the United States, and that customers within the United States could purchase the infringing methods through the offshore website.[15]

The Federal Circuit has addressed the issue of offers to sell in the form of negotiations outside the United States that contemplate a sale to a United States customer. In *Transocean Offshore Deepwater Drilling v. Maersk Contractors USA*, the Federal Circuit strengthened the rights of patentees when it held that a foreign company committed an infringing act when an offer was made in Norway by a U.S. company to another U.S. company to sell a product within the United States.[16] The court focused on the location of the future sale that would occur as a result of the offer.

The court's rationale in *Transocean* raises another interesting issue—whether liability under §271(a) extends to offers to sell that do not contemplate actual sales of goods within the United States. The Federal Circuit has not squarely answered the question, and the district courts that have considered the issue are divided. Interestingly, the Southern District of New York has gone both ways on this issue. In *SEB, S.A. v. Montgomery Ward & Co.*, the court adopted the position that an offer in the United States to sell an infringing product outside the United States is actionable under §271(a). The court offered a meaningful explanation for this conclusion, noting that the key to an "offer to sell" under §271(a) is that the offer take place in the United States, and "if this Court required that both the offer to sell and the actual sale of the infringing product take place in the United States, it would make[ ] the 'offer to sell' language in §271(a) superfluous."[17] But just one year later, the court held otherwise, stating that in order to be found liable under §271(a) for "offering to sell" an infringing product, the sale contemplated by the unlawful offer must be intended to occur in the United States.[18] This issue may be academic, however, as more often than not, offers to sell to United States customers contemplate and result in a sale to U.S. customers.

A final issue that has been hotly contested in recent years is whether method patents can be infringed under the offer to sell and sale prongs of §271(a), particularly when the method is performed abroad. The district courts are divided, and the Federal Circuit has declined to decide the issue.[19] In *OptiGen v. International Genetics*, the Northern District of New York adopted the District of Columbia's holding that an offer to sell or sale within the United States of a patented method constitutes infringement, even where the steps of the patented method are performed abroad.[20] The Southern District of Texas has recently joined the position of these courts.[21] The Eastern District of Virginia, however, declined to adopt the holdings in *OptiGen* and *CLS Bank*, suggesting that the offer to sell and sale prongs do not apply to method patents.[22]

So What Are My Damages?

Once a determination has been made that the alleged infringer has committed an infringing act, the fact-finder must consider the amount of damages to award to the patentee. In patent law, damages are meant to put the patentee in the same financial position that it would have been had the infringement not occurred.[23] The damages that flow from an unaccepted offer to sell and an actual sale of an infringing are consequently different.

With respect to a sale, a patentee may be entitled to all available damages flowing from the actual sale of an infringing product, including lost profits and/or reasonable royalties. But what is the harm to the patentee if the potential infringer's offer to sell did not result in an actual sale? Courts have infrequently addressed remedies on infringing offers to sell that do not result in an actual sale, but it is likely that a patentee may seek both injunctive relief and damages related to the offer.[24] Often, the patentee may be content solely with injunctive relief, in order to put the brakes on the competition. But competing offers may require that the patentee reduce its price for the patented product, making price erosion damages a real possibility. The patentee may also be awarded damages resulting to an increase in its costs related to the infringing offers, including additional marketing costs.[25]

Conclusion

With an active Federal Circuit defining the contours of the patent laws, it has become more challenging to counsel clients on what may or may not constitute an infringing act when the act contains an offshore component. The courts have provided guidance on the unique issues related to extraterritoriality, and it is clear that the protection of patent rights is favored. With that in mind, practitioners should be aware of the increasingly creative attempts to design around the patent law, and counsel their clients accordingly.

1. 35 U.S.C. §271(a) (emphasis added).
2. This fact pattern is modeled after the facts in *OptiGen v. International Genetics*, 777 F. Supp. 2d 390 (N.D.N.Y. 2011). The authors were counsel to OptiGen in this matter. The *OptiGen* matter settled prior to the writing of this article.
3. *MEMC Electronic Materials v. Mitsubishi Materials Silicon*, 420 F.3d 1369, 1375-76 (Fed. Cir. 2005).
4. *Transocean Offshore Deepwater Drilling v. Maersk Contractors USA*, 617 F.3d 1296, 1310-11 (Fed. Cir. 2010); see also *MEMC Electronic Materials*, 420 F.3d at 1377 ("[I]n some cases the criterion for determining the location of 'sale' under §271(a) is not necessarily where legal title passes; the more familiar places of contracting and performance may take precedence over the passage of legal title.").
5. *Wing Shing Products v. Simatelex Manufactory*, 479 F. Supp. 2d 388, 403 (S.D.N.Y. 2007).
6. See, e.g., *Fellowes v. Michilin Prosperity*, 491 F. Supp. 2d 571, 577-79 (E.D. Va. 2007); *Ensign-Bickford v. ICI Explosives USA*, 817 F. Supp. 1018, 1025-27 (D. Conn. 1993).
7. *Transocean*, 617 F.3d 1296, 1310.
8. *Litecubes v. Northern Light Products*, 523 F.3d 1353, 1369-71 (Fed. Cir. 2008).
9. *Fellowes*, 491 F. Supp. 2d at 577-79.
10. *Ensign-Bickford*, 817 F. Supp. at 1025-27. The sale issue in the *Ensign-Bickford* case was decided for purposes of subject matter jurisdiction.
11. *Wing Shing Products*, 479 F. Supp. 388, 401-05.
12. *Transocean*, 617 F.3d at 1308.
13. *Biometrics v. New Womyn*, 112 F. Supp. 2d 869, 873 (E.D. Mo. 2000).
14. *ISCO International v. Conductus*, 2003 WL 280276, at * 2 (D. Del. Feb. 10, 2003).
15. *OptiGen*, 777 F. Supp. 2d at 403. See also *Baden Sports v. Kabushiki Kaisha Molten*, 2008 WL 356558, at * 1 (W.D. Wash. Jan. 29, 2008) ("Although Molten could not be held liable for offers to sell infringing balls abroad, if Molten offers to sell infringing basketballs to U.S. consumers, even if the offer is made through a foreign website, Molten has offered to sell an infringing product in violation of Section 271(a)"). In *Baden*, the court ultimately ruled against the plaintiff because it could not establish that the defendants' website contained pricing information or that consumers could purchase basketballs through the website.
16. *Transocean*, 617 F.3d at 1308-09.
17. *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 342 n.6 (S.D.N.Y. 2006) (Robsinson, J.).
18. *Wing Shing Products*, 479 F. Supp. at 407 (Holwell, J.).
19. *In re Bill of Lading Transmission & Processing Sys. Patent Litig.*, 681 F.3d 1323, 1332 (Fed. Cir. 2012).
20. *OptiGen*, LLC, 777 F. Supp. 2d at 403.
21. *WesternGeco v. Ion Geophysical*, 2012 U.S. Dist. LEXIS 67776, at *13 (S.D. Tex. May 15, 2012).
22. *W.L. Gore & Assocs. v. Medtronic*, 2012 U.S. Dist. LEXIS 84222, at *45 (E.D.Va. June 18, 2012).
23. Federal Circuit Bar Association Model Patent Jury Instructions, Instruction B.6.1 (2012).
24. *Rotec Indus. v. Mitsubishi*, 215 F.3d 1246, 1260 (Fed. Cir. 2000) (Newman, J. Concurring) ("The patentee need not await an actual sale, and may seek injunctive relief and any damages that may have accrued due to the offer.").
25. Federal Circuit Bar Association Model Patent Jury Instructions, Instruction B.6.4 (2012).