Denver Law Review Forum

Volume 93 | Article 7

4-6-2016

Patent Law's Domestic Sales Trap

Bernard Chao

PATENT LAW'S DOMESTIC SALES TRAP

BERNARD CHAO*

INTRODUCTION

In 2015, *Carnegie Mellon University v. Marvell Technology Group, Ltd.* firmly shut the door on the worldwide causation theory holding that patentees could not recover damages based on foreign sales even if those sales were somehow caused by infringement in the United States. But just as it closed one troubling loophole, the Federal Circuit opened another. Based on a mishmash of factors, the decision suggested that patent law may classify some products that have never entered this country as still being sold in the United States. If that view prevails, many products that are made, delivered, and ultimately used abroad will still infringe patents under this country's law.

This Essay argues that subjecting such sales to United States patent law fails to respect Supreme Court precedent and is inconsistent with principles of international comity. What's more, the Federal Circuit's poorly developed rule for determining where a sale takes place creates unnecessary uncertainty and will trap the unwary. Accordingly, the courts should rethink how patent law locates a sale, and adopt the same bright line rule found in other areas of the law. The location of a sale should depend on the location of the products where legal title passes from the seller to the buyer. Such a rule makes both practical sense and is consistent with this country's conservative approach to applying its laws extraterritorially.

I. Locating Sales

Section 271(a) of the patent law defines direct infringement by stating that "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States . . . infringes the patent."[1] The statute identifies particular types of infringing conduct and requires that these activities have a specific connection to the United States. Nevertheless, patent holders have re-

* Bernard Chao is an Associate Professor at the University of Denver Sturm College of Law and Of Counsel to Chao, Hadidi, Stark & Barker LLP (CHSB). CHSB represents Marvell in matters unrelated to the Carnegie Mellon lawsuit discussed here. The opinions expressed here are mine alone and I have not been compensated for this work. Thanks to Timothy Holbrook and John Wilson for their helpful suggestions and Evelyn Zhao J.D. '17 for her research on this article.

1. 35 U.S.C. § 271(a) (2012).

peatedly tried to skirt the statute's explicit territorial limitation, and recover damages for infringing products found abroad.[2]

Just last year, the Federal Circuit rejected a new worldwide causation theory that would have allowed patent holders to recover damages on the sale of infringing products outside the United States.[3] In *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, the patent holder, Carnegie Mellon University, sought to obtain royalties on infringing semiconductor chips that the defendant made and sold abroad because the foreign sales were "caused" by acts of domestic infringement.[4] The defendant, Marvell, was a Silicon Valley-based semiconductor company.[5] Like many U.S. semiconductor companies, Marvell designed its chips inside the United States, but manufactured the chips outside this country and delivered their chips to customers abroad.[6] However, Marvell did use the infringing technology domestically as it tried to persuade customers to include the chips in their new products.[7] Specifically, Marvell tested the chips and performed computer simulations in the United States.[8] These activities are standard parts of a semiconductor company's "sales cycles" as the company tries to persuade customers to include its chips in the customers' products.[9] Both activities "used" the infringing technology and thus are a form of direct infringement under § 271(a). Accordingly, Carnegie Mellon was able to point to acts of infringement and argue that they "caused" customers to eventually buy Marvell's chips overseas.[10]

In the end, the Federal Circuit rejected Carnegie Mellon's worldwide causation theory, saying "it was not enough . . . that the damages-measuring foreign activity have been factually caused . . . by domestic activity constituting infringement . . . ."[11] "[T]erritoriality is satisfied

---

2. *See* Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007) (patentee arguing to extend defendant's liability based on copies of defendant's software loaded on computers abroad); Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972) (patent holder seeking to hold defendant liable for making and selling in the United States parts of the patented device for assembly and use abroad), *superseded by statute*, 35 U.S.C. § 271(f), *as recognized in Microsoft*, 550 U.S. 437.

3. Carnegie Mellon Univ. v. Marvell Tech. Grp. (*Carnegie Mellon II*), Ltd., 807 F.3d 1283, 1306 (Fed. Cir. 2015), *reh'g en banc denied in part*, 805 F.3d 1382 (Fed. Cir. 2015).

4. *See* Bernard Chao, *Patent Imperialism*, 109 NW. U. L. REV. ONLINE 77 (2014) (describing the theory and criticizing it on both policy and doctrinal grounds), http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1008&context=nulr_online.

5. Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd. (*Carnegie Mellon I*), 986 F. Supp. 2d 574, 590 (W.D. Pa. 2013) *aff'd in part, vacated in part, rev'd in part*, 807 F.3d 1283 (Fed. Cir. 2015).

6. *Id.* at 593–94.

7. *Id.* at 593.

8. *Id.*

9. *Id.*

10. *Id.* at 644.

11. Carnegie Mellon Univ. v. Marvell Tech. Grp. (*Carnegie Mellon II*), Ltd., 807 F.3d 1283, 1307 (Fed. Cir. 2015), *reh'g en banc denied in part*, 805 F.3d 1382 (Fed. Cir. 2015).

when and only when any one of those domestic actions for that unit (e.g., sale) is proved to be present [in the United States]."[12] But the Federal Circuit did not apply this rule to bar Carnegie Mellon from recovering royalties on the infringing semiconductor chips that remained outside the United States.[13] Rather the decision suggested that these chips may somehow have been sold in this country, and the Federal Circuit remanded the case to the district court to determine if that was the case.[14]

Unfortunately, the Federal Circuit did not provide a specific legal definition that the district court could easily apply. Relying on a trail of confusing precedent, the court said that the location of a sale depends on several different factors including where the contract was signed, the place of delivery and "'perhaps' . . . where other 'substantial activities of the sales transaction' occurred."[15] Although the Federal Circuit did not say what those other activities are, it did point out that Marvell designed, simulated, tested, evaluated, and qualified its chips in the United States.[16] Likewise, it noted that Marvell's customers performed many of those same activities in this country.[17] The clear implication is that all these activities are factors used to determine where the ultimate sale takes place.

II. Practical Considerations

There are several practical problems with defining the location of sale by this mishmash of factors. First, it leaves companies thinking about offshoring various activities for no good reason. One might question whether companies would really relocate facilities and activities because of patent law, but it would not be the first time. In 2012, Microsoft moved its European distribution center from Germany to the Netherlands rather than risk an injunction in Germany that would affect its ability to serve other markets.[18] The large amounts of money at issue

---

12. *Id.* at 1306.
13. *Id.* at 1308.
14. *Id.*
15. *Id.* The Federal Circuit conceded that by applicable standards, there is no single, universally applicable fact that determines the location of a sale, much less that a sale can have multiple locations. *Id.* Additional factors the Federal Circuit has considered include "the location of the seller and the buyer," "the points along the shipment route," "the place where the sales transaction would be deemed to have occurred as a matter of commercial law," and locations of "contracting and performance." *See, e.g.*, N. Am. Philips Corp. v. Am. Vending Sales, Inc., 35 F.3d 1576, 1579 (Fed. Cir. 1994) (holding that the infringing sale occurred at the buyer's location, "though not necessarily only there"); Litecubes, LLC v. N. Light Products, Inc., 523 F.3d 1353, 1371 (Fed. Cir. 2008) (finding infringing sale within the U.S. because infringing products were sold and delivered from outside the U.S. directly to customers in the United States); MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1377 (Fed. Cir. 2005) (finding no sale within the U.S. because no evidence suggested "contracting and performance" within the U.S. and "all of the essential activities took place" outside the U.S.).
16. *Carnegie Mellon II*, 807 F.3d at 1309.
17. *Id.*
18. Loek Essers, *Patent Litigation Risk Drives Microsoft to Move European Distribution Center*, COMPUTERWORLD (Apr. 2, 2012, 10:17 AM),

also suggest that offshoring is a real concern.[19] In previous cases that considered subjecting international sales to U.S. patent law, the damage base increased roughly four times when foreign sales were included.[20]

A second problem with the current test is its lack of clarity. Indeed, the court even admits that it is uncertain if there is only one place of sale.[21] This murkiness makes it extremely difficult to give good legal advice. Should a company's attorney advise their client to locate their sales staff abroad? Should U.S. companies require customers to send purchase orders to overseas offices? Should they meet with potential customers in safe havens like the Bahamas? Should computer simulations be performed on equipment located abroad? Can a person in the United States initiate the simulation so long as a foreign based computer performs the primary calculations? Alternatively, does the person "controlling" the simulation have to be outside the country too? Is one of these activities sufficient alone, a few together, or should companies move all these activities offshore? Or, do none of these activities matter if the customer evaluates the technology in the United States?

Finally, a third problem with the current test is that its effects will not be felt equally. Because the test is so unintuitive, it will create a trap for the unwary. Unsophisticated companies are unlikely to think that products made and delivered abroad will somehow be subject to U.S patent law. Consequently, they will do nothing and suffer the consequences. In contrast, sophisticated companies will consider a host of ridiculous and incredibly unproductive legal strategies and avoid exposure to U.S patent law.

III. Extraterritoriality and the Law

Defining a sale as taking place in this country when the product never touches our borders would also violate one of the Supreme Court's basic principles: the presumption against the extraterritorial application of United States law.[22] This presumption is particularly strong in patent law, where the Supreme Court has noted that "[o]ur patent system makes

---

http://www.computerworld.com/s/article/9225745/Patent_litigation_risk_drives_Microsoft_to_move_European_distribution_center [http://perma.cc/J6R9-RBU2].

19. In Carnegie Mellon's lawsuit with Marvell, the royalty base for the products made and ultimately used abroad was almost one billion dollars. Chao, *supra* note 4, at 89.

20. *Id.* (analyzing the damages at issue in both the *Carnegie Mellon I* and another decision involving similar issues, *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 711 F.3d 1348, 1375 (Fed. Cir. 2013)).

21. *Carnegie Mellon II*, 807 F.3d at 1308 ("[I]t is not even settled whether a sale can have more than one location." (citing Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371, 1378–79)).

22. Kiobel v. Royal Dutch Petrol. Co., 133 S. Ct. 1659, 1664 (2013) ("[T]he presumption against extraterritorial application . . . provides that '[w]hen a statute gives no clear indication of an extraterritorial application, it has none.'" (second alteration in original) (quoting Morrison v. Nat'l Austl. Bank Ltd., 561 U.S. 247, 255 (2010))).

no claim to extraterritorial effect."[23] The Court has even said that under the Constitution, Congress does not have the power to enact patent laws that extend to foreign commerce.[24]

Relying on this presumption, the Supreme Court has repeatedly refused to extend U.S. patent law to encompass foreign activities. In *Microsoft Corp. v. AT&T Corp.*, Microsoft had been exporting Windows operating systems to foreign computer manufacturers by email or by sending a master disk.[25] AT&T argued that Microsoft was liable under § 271(f) for supplying components of a patented invention from the United States.[26] The Supreme Court rejected AT&T's theory and held that Microsoft was not "supplying components" because only copies of Microsoft's software were being loaded into the computers.[27] One important reason underlying the Court's decision was the presumption against the extraterritorial application of U.S. patent laws.[28]

Similarly in *Deepsouth Packing Co. v. Laitram Inc.*, the Supreme Court held that a product that was assembled abroad was not made in the United States under § 271(a) even though all its components were made domestically.[29] Together *Deepsouth* and *Microsoft* demonstrate how seriously the Supreme Court views the presumption against the extraterritorial application of U.S. laws in the patent law context generally, and § 271 particularly. Of course, the issue here is whether the court should interpret a sale under § 271 to be inside the United States when the products never touch U.S. soil.

The Supreme Court has even said that Congress must provide a "clear and certain signal" before expanding patent statutes wider than courts had previously thought.[30] But since there is no "clear and certain

23. Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 531 (1972); *see also* Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 454–55 (2007) ("The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.").

24. Brown v. Duchesne, 60 U.S. 183, 195 (1856) ("The power [from Article I, Section 8, Clause 8 of the U.S. Constitution] thus granted is domestic in its character, and necessarily confined within the limits of the United States. It confers no power on Congress to regulate commerce, or the vehicles of commerce, which belong to a foreign nation, and occasionally visit our ports in their commercial pursuits.").

25. *Microsoft*, 550 U.S. at 441.

26. *Id.* at 442.

27. *Id.* at 453 ("Section 271(f) prohibits the supply of components 'from the United States . . . in such manner as to actively induce the combination of *such components*.' Under this formulation, the very components supplied from the United States, and not copies thereof, trigger § 271(f) liability when combined abroad to form the patented invention at issue." (citation omitted)).

28. *Id.* at 454 ("Any doubt that Microsoft's conduct falls outside § 271(f)'s compass would be resolved by the presumption against extraterritoriality.").

29. *Id.* at 528 –29. The *Deepsouth* decision provoked Congress to pass 35 U.S.C. § 271(f), which explicitly states that the exportation of the unassembled components of a patented invention is an infringement if the exporter actively induces the assembly of the device outside of the United States. *See* Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2132 (2008).

30. Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 531 (1972). Courts may have to be more cautious in applying laws extraterritorially after Morrison v. Nat'l Australia Bank Ltd., 561

signal" from Congress endorsing a definition of the place of sale that would encompass products that never enter this country, the Federal Circuit should reject that theory now.

Finally, as I previously argued, expanding U.S. patent law to capture foreign sales is also troubling from an international policy perspective.[31] I won't repeat those arguments in their entirety here. But the main point is straightforward. Under the present international patent regime, each country issues and enforces its own patents.[32] If the United States expects other countries to defer to U.S. law when products are made, delivered and ultimately consumed in this country, our courts should not try to apply United States law to products that remain abroad.

IV. A Simple Solution

The solution is simple. Patent law should adopt a bright line rule that is both easy to apply and consistent with common sense notions of where a sale takes place. The Federal Circuit has already said that "a contract between two U.S. companies for the sale of the patented invention with delivery and performance in the U.S. constitutes a sale under § 271(a) as a matter of law."[33] That rule should also apply to foreign companies. But that's as far as U.S. patent law should extend. It should not allow some unknown sales-related activities to expand the contours of what we consider a domestic sale. That injects undesirable uncertainty into the law.

Relying on where delivery takes place to define the location of a sale has the additional benefit of being consistent with other legal regimes. For example, Article 2 of the Uniform Commercial Code provides that "[a] 'sale' consists in the passing of title from the seller to the buyer for a price."[34] The Uniform Commercial Code further contains a default rule with regard to the passing of title. That is, title passes to the buyer when the seller has completed performance with regard to the physical delivery of the goods, and it is the "time and place" of delivery or ship-

---

U.S. 247, 255 (2010). *See* Timothy Holbrook, *Should Foreign Patent Law Matter?*, 34 CAMPBELL L. REV. 581, 606 (2012) (arguing that *Morrison* bolstered the strength of the extraterritorial presumption).

31. Chao, *supra* note 4 at 86–87.

32. Martin J. Adelman, Shubha Ghosh, Amy Landers & Toshiko Takenaka, *Global Issues in Patent Law* 1 (2011) ("A patent is a creature of national law, and an inventor seeking worldwide protection for her creation would have to obtain a patent in every country that offers patent protection.").

33. Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1310 (Fed. Cir. 2010). The Uniform Commercial Code takes a slightly different approach and distinguishes a sale from a "contract for sale" or "agreement to sell." Federal cases have elaborated, finding that a "contract for sale" or "agreement to sell" is a binding commitment for the exchange of goods for a price, but is not the "sale" itself. Corus Staal BV v. United States, 502 F.3d 1370, 1377–78 (Fed. Cir. 2007). Regardless of these differences, the two approaches both agree that the location of sale is determined by where delivery takes place.

34. U.C.C. § 2-106 (Am. Law Inst. & Unif. Law Comm'n 2003).

ment that controls.[35] Similarly, under international tax law, a sale occurs "at the time when, and the place where, the rights, title, and interest of the seller in the property are transferred to the buyer,"[36] and gains are generally taxed based on the location where the title to the personal property passed from seller to buyer.[37]

Defining the location of sale as the place where delivery occurs also makes intuitive sense. It limits the location to places where the goods have been physically present; the specific location is where ownership rights transfer. This bright line rule will avoid confusion and allow companies to conduct their business with greater confidence. It will also eliminate the sales trap that exists under current law.

Now the sharpness of the rule may dull if courts need to respond to schemes that try to evade the rule. Of course creating such exceptions is perfectly acceptable so long as they stay consistent with the underlying purposes of the rule. But, at this time, I don't envision a need for any exceptions because I can't imagine how any rule-evading schemes might work. If someone were to move the location of an infringing sale abroad to avoid infringement, U.S. patent law would still apply so long as the infringing products were either manufactured in the United States or ultimately used here.[38] To the extent that neither of those activities took place in this country, the products should not be the concern of U.S. patent law.

CONCLUSION

This country's patent laws only apply to infringing sales that take place inside the United States. Unfortunately, the location of a sale is poorly defined under current Federal Circuit precedent. For those that understand the law, this creates bizarre incentives for companies to locate a hodgepodge of sales-related activities outside the United States. Even then, no one can reliably predict the results of the court's current test. For those that are unaware of this legal nook, it creates a trap for the unwary. Products that are made, delivered, and ultimately used abroad may still infringe patents under this country's law. The solution is to provide a clearer, more intuitive definition. Specifically, the location of the sale should take place where delivery takes place and title to the products pass.

---

35. *Id.* § 2-401(2).
36. 26 C.F.R. §§ 1.861–7(c).
37. ALLISON CHRISTIANS, SAMUEL A. DONALDSON & PHILIP F. POSTLEWAITE, UNITED STATES INTERNATIONAL TAXATION 28 (Paul L. Caron et al. eds., 2nd ed. 2011).
38. Direct infringement as defined 35 U.S.C. § 271(a) does not just cover sales, but also making, using, offering to sell any patented inventions in the United State or importing such inventions into the United States.