HALO ELECTRONICS, INC. v. PULSE ELECTRONICS, INC., Appeal No. 2013-1472 (Fed. Cir. October 22, 2014). Before Lourie, O'Malley, Hughes. Appealed from D. Nev. (Judge Pro).

Background:

Both Halo and Pulse supply electronic components. Halo owns patents directed to electronic packages for mounting on printed circuit boards. Halo sued Pulse for patent infringement. Pulse moved for summary judgment that it did not directly infringe the Halo patents as to products that Pulse manufactured, shipped, and delivered outside the United States. The District Court granted the motion, holding that those products were sold and offered for sale outside the United States and thus were beyond the scope of § 271(a). Halo then appealed to the Federal Circuit.

Issue/Holding:

Did the District Court err in granting summary judgment that Pulse did not directly infringe the Halo patents? No, affirmed.

Discussion:

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." 35 U.S.C. § 271(a). However, the patent statute does not define the meaning of a "sale" within the United States for purposes of § 271(a).

Here, Pulse engaged in pricing negotiations in the United States with Cisco. Pulse executed a general agreement with Cisco that set forth manufacturing capacity, low price warranty, and lead time terms, but did not refer to any specific Pulse product or price. Upon receipt of purchase orders abroad, Pulse delivered the products from its manufacturing facility in Asia to Cisco contract manufacturers, also located in Asia, which then paid Pulse. After assembling the end products, the contract manufacturers submitted invoices to Cisco that itemized the cost of Pulse products and other components that were incorporated into the Cisco end products. Cisco then paid the contract manufacturers for the end products.

The Federal Circuit noted that because the vast majority of activities (manufacturing, ordering, invoicing, shipping and delivery) underlying the sales transaction occurred wholly outside the United States, the negotiation and contracting activities that occurred within the United States did not constitute a sale under § 271(a). Also, mere negotiations in the United States do not constitute an offer to sell there when the sale itself occurs outside the United States. The Federal Circuit thus determined that Pulse did not sell or offer to sell the products at issue within the United States for purposes of § 271(a).

Recognizing that a strong policy against extraterritorial liability exists in the patent law, the Federal Circuit noted that extending the geographical scope of § 271(a) to a foreign sale of goods covered by a U.S. patent would confer a worldwide exclusive right to a U.S. patent holder, which is contrary to the statute and case law.