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## **THE LEAKY COMMON LAW: AN “OFFER TO SELL” AS A POLICY TOOL IN PATENT LAW AND BEYOND**

**Lucas S. Osborn\***

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## INTRODUCTION

Like the diffusion of water that has spilled over its riverbank, the legal concept of an offer has spread from its contract law origins into areas of the law as diverse as criminal law and intellectual property law. The spread of this common law concept has occurred without much attention or analysis, an oversight that this Article seeks to redress.

In analyzing the spread of the *offer concept* throughout the law, the following Part I deconstructs the contract law meaning of an offer and demonstrates that while the offer concept continues to play a policy role in the law of contracts, it is at best a secondary policy tool. Part II of this Article surveys several areas of the law that have imported the offer concept and analyzes how each area uses the concept to achieve policy goals. The analysis shows that, perhaps unsurprisingly, the policies underlying the offer concept in these various areas of law differ from the original contract law policies. Surprisingly, however, while at times lawmakers have extensively modified the definition of an offer to better achieve specific policy objectives, at other times lawmakers have imported the offer concept with no apparent

analysis of whether and how they should modify the definition to best achieve policy objectives.

Part III provides a case study of patent law's use of the offer concept to regulate patent infringement. This study is divided into two parts: the first part provides a normative analysis of how the offer concept should be used to regulate patent infringement, and the second part analyzes the legislative text and context of the offer concept as it currently appears in patent law. The study reveals that the legislature appears to have given little thought to how it should use the offer concept in patent law, and courts interpret the term "offer" in such a manner as to cling to an ill-fitted contract law definition. Part IV provides observations on and suggestions for using the offer concept as a policy tool in patent law and beyond.

#### I. DECONSTRUCTING THE CONTRACT LAW OFFER

The concept of an offer that an offeree may accept to create a contract is a pillar of contract law. First-year law students spend numerous contracts classes immersed in the complexities of offers: offers can be terminated by a counter-offer, rejection, the death of the offeror, revocation, lapse, and so on (and the rules all change if the offer is an option).<sup>1</sup> Based on the attention given to the offer concept in law school, one might think it has existed as long as the law itself. It has not.

Instead, the offer concept is only one of several tools (including acceptance and consideration) adopted to explain and regulate contract formation. In fact, the formal concept of an offer did not appear until about the mid-eighteenth century, when Pothier<sup>2</sup> developed it (along with acceptance) in French law.<sup>3</sup> After that development, the concept eventually migrated to England and America. Precursors of the concept can be found in Roman law, but the formalized

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1. See generally RESTATEMENT (SECOND) OF CONTRACTS §§ 36–37 (1981).

2. Robert Joseph Pothier (1699–1772) was a French jurist who had an enormous influence in the law of contracts in Europe, England, and America, and he is best known for his work *TRAITE D'OBLIGATIONS* (1761). See Joseph M. Perillo, *Robert J. Pothier's Influence on the Common Law of Contract*, 11 TEX. WESLEYAN L. REV. 267, 267 n.1, 269 (2005).

3. See Parviz Owsia, *The Notion and Function of Offer and Acceptance Under French and English Law*, 66 TUL. L. REV. 871, 873–75 (1992).

concepts of a sequential offer and acceptance did not exist until Pothier identified them, and the concepts did not gain prominence until the nineteenth century.<sup>4</sup> As the renowned legal historian A.W.B. Simpson explains it, the offer-and-acceptance doctrine grew out of the requirement of consideration and performed some of the same functions.<sup>5</sup>

The simplicity and concreteness of an offer that the offeree can accept makes a wonderful pedagogical tool. Though a formal offer need not be identified for a contract to exist,<sup>6</sup> many contracts textbooks treat offers prominently in the discussion of contract formation.<sup>7</sup> Focusing on offer and acceptance—the sequence that creates a great number of contracts—helps people conceptualize the contract formation process.

In addition to being a good pedagogical tool, the offer concept helps justify and regulate the contract formation process. For example, when analyzing a simple offer of exchange (“I offer to sell you a book for \$10”), one might conclude that the statement should have the potential to bind the speaker as a normative matter because people ought generally to do what they say they will do.<sup>8</sup> Or, one might believe an offer should be able to bind the speaker because, as a matter of efficiency, the offeree should be able to rely on the offeror’s promise so that the offeree can best arrange his subsequent affairs.<sup>9</sup>

But to identify one example of an offer does not define an offer, and the simple example of the sale of a book for money masks many questions. For example, assuming that society

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4. See *id.* at 873–75; see also A.W.B. Simpson, *Innovation in Nineteenth Century Contract Law*, 91 L.Q. REV. 247, 258–62 (1975).

5. Simpson, *supra* note 4, at 258.

6. See U.C.C. § 2-204(1) (1990) (“A contract for sale of goods may be made in any manner sufficient to show agreement . . .”).

7. See, e.g., E. ALLEN FARNSWORTH ET AL., *CONTRACTS: CASES AND MATERIALS* 126 (7th ed. 2008) (“Nonetheless, it is useful at least to begin with the assumption of a clear offer followed by a clear acceptance.”).

8. This statement invites debate about whether an offer is a promise, a debate that is beyond the scope of this article. See, e.g., Melvin A. Eisenberg, *The Revocation of Offers*, 2004 WIS. L. REV. 271, 273–78 (2004) (and sources cited therein); Samuel Williston, *An Offer is a Promise*, 23 ILL. L. REV. 100 (1928); Samuel Williston, *Is An Offer a Promise?*, 22 ILL. L. REV. 788 (1928).

9. See, e.g., Richard Craswell, *Offer, Acceptance, and Efficient Reliance*, 48 STAN. L. REV. 481, 501–09 (1996); Charles J. Goetz & Robert E. Scott, *Enforcing Promises: An Examination of the Basis of Contract*, 89 YALE L.J. 1261 (1980).

does not want every promise to be legally binding as a contract,<sup>10</sup> one must decide when contracts (that is, binding promises) exist and when they do not. To assist in drawing the line between legally enforceable and unenforceable promises, the common law developed a formal definition of an offer: “the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it.”<sup>11</sup> As discussed below, this definition results largely from the balancing that contract law performs in allowing parties to enter into contracts as easily as possible and not allowing contracts to be entered into so easily as to become a nuisance.

On the one hand, traditional contract law seeks to ensure that individuals have the freedom to enter into contracts according to their will and without having to comply with rigid formalities. This freedom may be called “freedom to contract,” and it includes the notion that ordinary people should generally be able to order their affairs as they wish through contracts and do so without the need for lawyers, other experts, or sophisticated rituals.<sup>12</sup> A sufficient measure of freedom to contract protects individuals’ autonomy by allowing them to enter into contracts if they choose<sup>13</sup> and facilitates an efficient economy in which parties can bind themselves and their trading partners in enforceable contracts with relative ease and little formality.

On the other hand, traditional contract law also seeks to ensure that individuals are free from having contractual obligations imposed on them unexpectedly. This freedom may be referred to as “freedom from contract,” and it is rooted

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10. Who, after all, wants to be legally bound to every idle promise, such as a promise to call a friend back in a few minutes?

11. RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981).

12. See *Printing & Numerical Registering Co. v. Sampson*, 19 L.R. Eq. 462, 465 (V.C. 1875) (“[M]en of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts when entered into freely and voluntarily shall be held sacred and shall be enforced by Courts of justice.”). See generally P.S. ATIYAH, *THE RISE AND FALL OF FREEDOM OF CONTRACT* (1979); Mark Pettit, Jr., *Freedom, Freedom of Contract, and the ‘Rise and Fall,’* 79 B.U. L. REV. 263 (1999).

13. The objective theory of contracts places some limits on an individual’s autonomy, since whether an act is an offer is judged objectively and not with reference to the offeror’s subjective choices/intentions. E.g., Wayne Barnes, *The Objective Theory of Contracts*, 76 U. CIN. L. REV. 1119, 1120 (2008).

in similar concerns for autonomy and economic efficiency.<sup>14</sup> It embodies the notions that freedom includes the ability to avoid becoming contractually bound except through the informed exercise of the will<sup>15</sup> and that economic efficiency is best attained when parties are able to engage in negotiations without fear of incurring unintended contractual liability (since they might otherwise forgo negotiations altogether, possibly ending all but the simplest transactions).<sup>16</sup>

Thus it may be said that the traditional rules governing contract formation represent tools used to balance freedom *to* contract and freedom *from* contract, making contracts neither too difficult nor too easy to create.<sup>17</sup> Among the balancing tools the law uses is the concept of an offer, traditionally the first step in creating a contract.<sup>18</sup> The offer definition helps protect the freedom *to* contract by allowing offers to result from myriad manifestations of willingness to enter into a bargain. Instead of requiring the offeror<sup>19</sup> to use special words or rituals, the definition permits a broad array of actions (including but not limited to words) to constitute an offer, making it easy (but as explained immediately below, not too easy) for the offer to come into being.<sup>20</sup> Further, the offeror can define the terms of the eventual bargain and can

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14. See, e.g., E. Allan Farnsworth, *Precontractual Liability and Preliminary Agreements: Fair Dealings and Failed Negotiations*, 87 COLUM. L. REV. 217, 221 (1987) (discussing the traditional view of freedom from contract); Omri Ben-Shahar, *Freedom From Contract*, 2004 WIS. L. REV. 261, 261 (2004).

15. Again, the offeror's choice is limited in some respects by the objective interpretation of his acts. See Barnes, *supra* note 13.

16. E.g., Ben-Shahar, *supra* note 14, at 267–68 (describing arguments in favor of freedom from contract).

17. See Edwin W. Patterson, *An Apology for Consideration*, 58 COLUM. L. REV. 929, 948 (1958) (“A good legal rule as to the enforceability of promises should make contracting available to nonlawyers who will take pains to clarify their ideas as to what they want to contract about; yet it should not make contracting so easy that it hooks the unwary signer or the casual promisor. The first may be called freedom *to* contract, the second, freedom *from* contract.”).

18. An offer and its corresponding acceptance typically constitute the bargained-for consideration necessary to support the parties' promises.

19. Throughout this Article, I refer to the offeror as the party who proposes a potential bargain, regardless of whether her actions qualify as a formal offer.

20. See, e.g., 1 ARTHUR L. CORBIN, CORBIN ON CONTRACTS § 2.2, at 108 (Joseph M. Perillo, ed., rev. ed. 1993) (“[T]here is no magic formula to determine whether a particular communication is an offer . . . . [T]he ordinary meaning of language is influential, but never determinative. For example, the word ‘quote’ may be understood as making a commitment, while the word ‘offer’ may, in context be deemed a mere price quotation.” (footnote omitted)).

require an acceptance to take a certain form.

Additionally, the offer definition protects freedom *from* contract by placing an important restriction on the manifestations that can constitute an offer: the manifestation must be clear enough so that the offeree should understand that his “assent to that bargain is invited and will conclude it.”<sup>21</sup> That is, the manifestation, while not forced into any particular form or language, must meet a minimum degree of formality such that it is clear that the offeror seriously contemplates a binding deal. The law includes this hesitancy to label conduct as an offer because of the offeror’s vulnerability should the label attach: once an offer has been communicated, the power to create a contract shifts almost entirely to the offeree, who need only indicate assent.<sup>22</sup> That is, by labeling something an “offer,” the law puts the parties one step (acceptance) away from transforming their relationship from a pre-contractual environment of individual autonomy and personal norms to a post-contractual environment that, while presumably centered on terms to which the parties voluntarily agreed, nevertheless contains government-imposed responsibilities<sup>23</sup> and remedies.<sup>24</sup> In light of the power shift from the offeror to the offeree, if the law too readily labels conduct an offer, potential offerors might reduce their interactions for fear of being exposed to undesired legal liability or might incur wasteful transaction costs in an effort to ensure that their conduct is not treated as an offer.<sup>25</sup>

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21. RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981).

22. See E. ALLAN FARNSWORTH, CONTRACTS § 3.10, at 131 (4th ed. 2004) (“Courts have reason for caution, since to hold the maker of a proposal to a contract exposes the maker to liability based on the recipient’s expectation interest, even in the absence of any reliance.”). The offeror may not be completely vulnerable; she may be able to revoke. In addition, the offeror can prescribe particular manners by which the offeree must accept.

23. For example, the law provides gap-filling terms even though the parties never agreed on them. See, e.g., *id.* §§ 7.15–17, at 480–500.

24. Although an individual who backs out of selling an item before making an offer might face the ire of the potential purchaser and other friends, if instead the individual has made a formal offer, the other party may accept immediately and hold the seller liable for either specific performance or damages. See 1 SAMUEL WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 1:1, at 3 (Richard A. Lord ed., 4th ed. 2007) (defining a contract as a promise for which the law will provide a remedy when it is breached).

25. See, e.g., Ben-Shahar, *supra* note 14, at 267–68; Melvin Aron Eisenberg, *Expression Rules in Contract Law and Problems of Offer and Acceptance*, 82



Thus, to prevent contractual obligations from surprising parties who did not intend currently to be bound, contract law sets the bar for what constitutes an offer higher than it otherwise might: to be an offer, a communication must be sufficiently clear to be accepted without anything other than an offeree giving a return promise or performing the required action.<sup>26</sup> This principle of restraint has caused courts to tend to distinguish offers from mere negotiations, advertisements, and invitations to offer, rationalizing the exclusions on the ground that “neither the advertiser nor the reader of the [advertisement] understands that the reader is empowered to close the deal without further expression by the advertiser.”<sup>27</sup> This view has been challenged, with some scholars calling for courts to presume advertisements and similar communications are offers.<sup>28</sup> The common law presumption that advertisements are generally not offers remains, however, and its rationale, while not irrefutable, is not unreasonable. For example, it lessens the likelihood that an advertiser will unintentionally enter into a contract (or too many contracts).<sup>29</sup>

Contract law could, of course, choose a more active policy role for the offer concept, such as using it to police false

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CAL. L. REV. 1127, 1178 (1994) (noting that liability concerns might reduce the amount of contracting, but also arguing that making contracting too difficult would reduce people’s autonomy to choose to enter into contracts).

26. See FARNSWORTH, *supra* note 22, § 3.3, at 110 (“[An offer] can be defined as a manifestation to another of assent to enter into a contract if the other manifests assent in return by some action, often a promise but sometimes a performance. By making the offer, the offeror thus confers upon the offeree the power to create a contract.” (footnote omitted)). Other doctrines, including consideration, also slow contract formation.

27. CORBIN, *supra* note 20, at 116.

28. See Eisenberg, *supra* note 25, at 1167–68 (“Suppose a store advertises 17” Sony TVs at \$350, a customer comes in and says he will buy the TV at that price, and the salesman responds, ‘We’re not selling the set at \$350, but we’ll sell it at \$400.’ The reaction of the customer would not be, as Corbin would have it, ‘Of course; I understand; your advertisement was only inviting me to consider and examine and negotiate,’ but instead, ‘You people are liars, cheats, or both.’”); Jay M. Feinman & Stephen R. Brill, *Is an Advertisement an Offer? Why It Is and Why It Matters*, 58 HASTINGS L.J. 61 (2006) (arguing that advertisements are offers).

29. Contract law recognizes that advertisements may be specific enough to constitute an offer, such as where they specify the price, quantity, and who may make the purchase (e.g., first come, first served). See, e.g., *Lefkowitz v. Great Minneapolis Surplus Store, Inc.*, 86 N.W.2d 689, 691 (Minn. 1957). In addition, many other laws regulate advertisements. See *infra* note 30.

advertising; it has not taken that path though, and is content to let the offer concept take a lesser policy role compared to other formation doctrines, such as consideration.<sup>30</sup> In addition, concerns about fairness and false advertising are largely policed by laws outside of the traditional contract realm, such as unfair and deceptive trade practice laws.<sup>31</sup>

Rather than increasing in significance, the role of the offer has decreased since its zenith in the mid-to-late nineteenth-century, after which scholars increasingly observed some of the weaknesses of a rigid and oversimplified offer-and-acceptance approach to contract formation.<sup>32</sup> The usefulness and preeminence of a strict offer-and-acceptance paradigm began to strain under the weight of standardized forms, the so-called battle of the forms, and evermore complex deals involving non-serial communications between individuals, but rather rounds of negotiation involving managers, officers, and lawyers. These complexities make it difficult to pinpoint a formal offer.<sup>33</sup> In many sophisticated negotiations, there is no explicit offer for a party to accept and thus there is “little occasion to apply the classic rules of offer and acceptance.”<sup>34</sup>

Recognizing these difficulties, courts have at times abolished the all-or-nothing formation test, ignored the

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30. This is not surprising, as the offer definition largely grew out of, and incorporates the doctrine of, bargained-for consideration. See Simpson, *supra* note 4, at 258.

31. Various federal and state laws regulate advertising and other unfair and deceptive trade practices to protect consumers. See, e.g., Anthony Paul Dunbar, Comment, *Consumer Protection: The Practical Effectiveness of State Deceptive Trade Practices Legislation*, 59 TUL. L. REV. 427 (1984) (discussing various consumer protection laws); Stewart Macaulay, *Bambi Meets Godzilla: Reflections on Contracts Scholarship and Teaching v. State Unfair and Deceptive Trade Practices and Consumer Protection Statutes*, 26 HOUS. L. REV. 575, 582–89 (1989) (discussing state unfair and deceptive trade practices that may impact contracts); Jeff Sovern, *Private Actions Under the Deceptive Trade Practices Acts: Reconsidering the FTC Act as Rule Model*, 52 OHIO ST. L.J. 437 (1991) (discussing FTC consumer protection laws). It is likely that the laws concerning unfair and deceptive trade practices are a better avenue for policing fairness issues than offer and acceptance, but that analysis is beyond the scope of this Article.

32. See, e.g., Arthur L. Corbin, *Offer and Acceptance, and Some of the Resulting Legal Relations*, 26 YALE L.J. 169, 205–06 (1917); K.N. Llewellyn, *On Our Case-Law of Contract: Offer and Acceptance*, I, 48 YALE L.J. 1, 14–29 (1938).

33. See Farnsworth, *supra* note 14, at 218–20.

34. *Id.* at 219.

search for an offer, and even held parties liable pre-contractually.<sup>35</sup> In addition to the decreasing significance of the contract law offer, Article 2 of the Uniform Commercial Code,<sup>36</sup> a model code governing the sale of goods, demonstrates the decline of the offer by explicitly dispensing with the requirements of an identifiable offer<sup>37</sup> and moment of formation.<sup>38</sup>

In conclusion, while the offer concept continues to play a policy role in the law of contracts, for example in helping to balance freedom-from and freedom-to contract, it is a secondary policy tool. The next section demonstrates that, in stark contrast to contract law, the offer concept plays a more overt policy role in other areas of the law to which it has migrated, including trademark law,<sup>39</sup> securities law,<sup>40</sup> environmental law,<sup>41</sup> criminal law,<sup>42</sup> and patent law.<sup>43</sup> The policies underlying the offer concept in these various areas of law differ from the original contract law policies, and in many instances lawmakers have extensively modified the definition of an offer to better achieve specific policy objectives. At other times, however, lawmakers have imported the offer concept with no apparent analysis of whether the contract law definition is congruent with the new legal environment or whether and how they should modify the definition to best achieve policy objectives. As will be seen, this has led to confusion and sub-optimal roles for the offer concept.

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35. See generally *id.*; Charles L. Knapp, *Enforcing the Contract to Bargain*, 44 N.Y.U. L. REV. 673 (1969).

36. The U.C.C. came about through a joint project between the National Council of Commissioners on Uniform State Laws and the American Law Institute in the 1940s. JOHN D. CALAMARI & JOSEPH M. PERILLO, CALAMARI AND PERILLO ON CONTRACTS § 1.7, at 15 (6th ed. 2009). After revisions, every state except Louisiana adopted a version of the U.C.C. (though with various modifications) between 1957 and 1967. *Id.*

37. See U.C.C. § 2-204(1) (1990) (“A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.”).

38. See *id.* § 2-204(2) (“An agreement sufficient to constitute a contract for sale may be found even though the moment of its making is undetermined.”).

39. See *infra* Part II.A.

40. See *infra* Part II.B.

41. See *infra* Part II.C.

42. See *infra* Part II.D.

43. See *infra* Part III.

## II. USE OF THE OFFER CONCEPT OUTSIDE OF CONTRACT LAW

As discussed in the preceding section, the contract law definition of an offer helps balance freedom-from and freedom-to contract and emphasizes the offeror's actions and their effect on the offeree (*i.e.*, the offeree must reasonably understand that her assent is invited and will conclude the bargain). From this, one can make two important observations about the definition and function of an offer in contract law: first, it focuses almost exclusively on the offeror and the offeree, as opposed to third parties or society at large; and second, contract law asks not simply whether the purported offer might have piqued the offeree's commercial interest, but rather whether it gave her reason to believe she could conclude the bargain with nothing more than an acceptance.

The areas of the law outside of contract law that employ the offer concept<sup>44</sup> do so in a dramatically different way. Contract law's concerns about freedom-from and freedom-to contract are minimal. Additionally, outside of contract law the focus shifts more strongly from particular offerees to society more generally. Finally, the areas outside of contract law are more concerned about whether the purported offer might have piqued the offeree's commercial interest and less about whether it gave the offeree reason to believe she could conclude a bargain. As will be discussed, the new roles for the offer concept generally result in definitions for the offer concept that differ from the contract law definition.

A. *Trademark Law*

The Lanham Act<sup>45</sup> is the principle source of federal law governing trademarks. Trademark law is justified by a variety of policies, including consumer protection,<sup>46</sup> protection

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44. I use the phrase offer concept to refer to formal, contract law offers and less formal commercial promotions (e.g., advertisements and quotes) that would not qualify as formal offers.

45. Lanham Act §§ 1–45, 15 U.S.C. §§ 1051–72, 1091–96, 1111–29, 1141–41n (2006).

46. *See, e.g.*, Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 S.C. L. REV. 695, 699 (1997) (“The primary stated purpose for legal recognition of trademark rights is to prevent consumer confusion. . . . Consumers . . . use the mark as a signal of the quality of goods, expecting that goods branded with the mark will be of the quality they have come to associate with past purchases bearing the mark.”).

of property,<sup>47</sup> and economic efficiency.<sup>48</sup> Under the consumer protection rationale, trademark law protects consumers against confusion as to the quality and source of certain goods: consumers associate a trademark with the producer of those goods, and thus the quality of the goods.<sup>49</sup> Under the property and economic efficiency rationales, trademark law encourages companies to invest in high quality goods by protecting consumers' associations between the high quality goods and the producer.<sup>50</sup> Because the trademark owner can control who uses the trademark (and thus its associated consumer goodwill), trademark owners will be willing to invest in quality goods to build up goodwill.<sup>51</sup> Further, under the efficiency justification, trademarks reduce consumer search costs when shopping because the trademark serves as a short-hand identifier of a specific source for desired goods or services.<sup>52</sup>

Section 32(1)(a) of the Lanham Act imposes liability on a person who, without permission, uses a registered mark "in connection with the sale, offering for sale, distribution, or advertising of any goods or services . . . [if] such use is likely to cause confusion, or to cause mistake, or to deceive . . . ."<sup>53</sup> A quintessential example of trademark infringement is a person who purposefully sells inferior, non-Coca-Cola soda with a Coca-Cola label on it. Such a fraudulent sale infringes

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47. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (4th ed. 1996) (discussing the dual goals of trademark law to "protect both consumers from deception and confusion over trade symbols and to protect the plaintiff's infringed trademark as property").

48. See William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 275 (1987).

49. Burk, *supra* note 46, at 699–700.

50. Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 198 (1985) ("[T]rademarks foster . . . the maintenance of quality by securing to the producer the benefits of good reputation.").

51. See *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995) ("[Trademark] law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby 'encourages[s] the production of quality products.'" (quoting 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2.01[1] (3d ed. 1992))).

52. *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 305 n.2 (9th Cir. 1992) ("In economic terms, trademarks reduce consumer search costs by informing people that trademarked products come from the same source."); see Landes & Posner, *supra* note 48, at 269.

53. 15 U.S.C. § 1114(1)(a) (2006). The Lanham Act also covers nonregistered trademarks in § 43, 15 U.S.C. § 1125 (2006).

the Coca-Cola trademark and implicates trademark law's consumer protection and economic efficiency rationales: the consumer is harmed because it buys the inferior product believing it is Coca-Cola, the owner of the Coca-Cola trademark has lost incentive to invest in its brand, and consumers have less ability to use the name Coca-Cola as shorthand for a source of a specific good they desire.

The Lanham Act not only precludes *actual sales* of infringing (mislabeled) soda, but also invokes the offer concept and prohibits the *offering for sale* and *advertising* of any goods or services that are likely to cause confusion, even if those offers and advertisements do not actually lead to infringing sales.<sup>54</sup> By prohibiting infringing advertisements, the Lanham Act uses the offer concept in a broader manner than does contract law, which excludes most advertisements from its offer concept.<sup>55</sup> Infringement based on an advertisement can be found, for example, if the advertisement promotes counterfeit goods. Rather than having to wait to bring suit based on an actual sale, the trademark owner may bring suit based on the advertisement alone if it can demonstrate that the advertisement is likely to lead to a confusing sale.<sup>56</sup>

In addition, courts have identified a second situation where infringement can be based on an advertisement or offer to sell. Suppose a fan of Coca-Cola passes by a store with a large sign that reads, "Cold Coca-Cola brand soda inside," but, upon entering the store she is informed by the sales clerk that the store does not sell Coca-Cola soda, but does offer its own brand of soda.<sup>57</sup> She is thirsty, and having been lured by the sign mentioning Coca-Cola, might be tempted to buy the off-brand soda since she has already stopped in and has soda on her mind. There is no confusion at the time of sale (she knows it is not Coca-Cola), but the advertisement caused her to stop in rather than continue walking.

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54. See Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a).

55. See *supra* notes 27–29 and accompanying text.

56. See 1 JAMES B. ASTRACHAN & DONNA M.D. THOMAS, THE LAW OF ADVERTISING § 11.02[5][b] (Matthew Bender ed., 2012) (stating that a cause of action for false advertising under section 32 of the Lanham Act requires, among other things, a showing of a likelihood of confusion).

57. This hypothetical is borrowed from ROGER E. SCHECHTER & JOHN R. THOMAS, INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS § 29.2.1, at 650–51 (2003).

In this situation, the advertiser may be liable under a theory of initial-interest confusion, so named because even though the consumer is not confused at the time of purchase, she arguably only became interested because of the misleading advertisement.<sup>58</sup> Courts widely recognize initial-interest confusion as a means by which a trademark owner can enforce its rights against others.<sup>59</sup> Commentators likewise generally approve of the doctrine in theory, though they often argue that courts should apply it with more discretion.<sup>60</sup>

Trademark law's consumer protection and economic efficiency policies suggest that an infringing offer or advertisement should be prohibited, even if it is not followed by an infringing sale. If trademark law did not prohibit advertisements that use another's trademark, competitors might bombard buyers with misleading advertisements or offers. The advertisement or offer harms the consumer by misleading him<sup>61</sup> and diverting his attention and efforts<sup>62</sup>

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58. *Id.*; see also 3 MCCARTHY ON TRADEMARKS, *supra* note 47, § 23.6 (“[Trademark infringement] can be based upon confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion.”). The advertiser might also be liable under other false advertising and deceptive practices laws. See *supra* note 31.

59. See, e.g., *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir. 1987) (recognizing initial interest confusion); *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 204 (5th Cir. 1998) (same); *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996) (same); *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1405–06 (9th Cir. 1997) (same).

60. See, e.g., Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 813–28 (2004) (arguing, primarily in the internet/metatag context, that initial interest confusion should apply where advertisers use deception to misdirect customers to their products, but not where advertisers use another's trademark to give consumers additional accurate information); Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 559–95 (2005) (criticizing initial interest confusion in the internet context and proposing solutions to its shortcomings); Ariel Katz, *Beyond Search Costs: The Linguistic and Trust Functions of Trademarks*, 2010 BYU L. REV. 1555, 1593–97 (2010) (arguing for discernment before applying the doctrine of initial interest confusion too broadly); Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105 (2005) (advocating limits on the initial interest confusion doctrine). But see Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 469–75 (1999) (presenting arguments that the Lanham Act was not intended to encompass confusion other than as to source).

61. Professor Eisenberg, discussing contract law, anticipates the consumer harm from false advertisements similar to trademark's initial interest confusion. See Eisenberg, *supra* note 25, at 1167–68 (“Suppose a store

based on the misrepresentation. The infringing offer or advertisement likewise dampens the trademark owner's incentive to invest in its brand, since it has lost control over how the mark is used.<sup>63</sup> Finally, the infringing offer or advertisement interrupts the search-cost efficiency that trademark law seeks to promote because consumers lose the ability to rely on the trademark as a meaningful identifier.<sup>64</sup>

Although the Lanham Act specifically includes advertising within its offer concept, it does not define the term. Advertising is a potentially broad term that may include any "action of drawing the public's attention to something to promote its sale."<sup>65</sup> Case law interpreting the Lanham Act has not coalesced around a single definition, and while widely-distributed commercial promotion clearly constitutes advertising, courts have struggled with promotional activities that are distributed less widely or distributed to an audience other than the final consumers.<sup>66</sup>

The Lanham Act complicates matters in that while § 32 prohibits advertising, § 43(a)(1)(B) subjects certain misrepresentations made in commercial advertising *or promotion* to liability.<sup>67</sup> The majority of courts interpreting whether an act constitutes advertising under the Lanham Act

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advertises 17" Sony TVs at \$350, a customer comes in and says he will buy the TV at that price, and the salesman responds, 'We're not selling the set at \$350, but we'll sell it at \$400.' The reaction of the customer would . . . [be] 'You people are liars, cheats, or both.'")

62. Of course, each individual diversion might be rather small, such as the customer who takes a minute to stop into the store advertising Coca-Cola. But the cumulative effect on many consumers could be very great: as some point, consumers would not trust any billboard, store/restaurant name, advertisement, etc.

63. See *Park 'n Fly, Inc. v. Dollar Park & Fly*, 469 U.S. 189, 198 (1985).

64. See *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 305 n.2 (9th Cir. 1992).

65. BLACK'S LAW DICTIONARY 55 (7th ed. 1999).

66. See *ASTRACHAN & THOMAS*, *supra* note 56, at § 11.02[5][f], at 11-200 n.356 (collecting cases).

67. Lanham Act § 43(a)(1)(B), 15 U.S.C. §1125(a)(1)(B) (2006) ("Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.").



do so under § 43(a)(1)(B), and while they energetically suggest a distinction exists between advertising and promotion, they seldom identify it, except to note that promotion indicates something broader than traditional advertising.<sup>68</sup> The Second Circuit provided some assistance when it observed:

[T]he distinction between advertising and promotion lies in the form of the representation. Although advertising is generally understood to consist of widespread communication through print or broadcast media, ‘promotion’ may take other forms of publicity used in the relevant industry, such as displays at trade shows and sales presentations to buyers.<sup>69</sup>

Regardless of the precise line between advertising and promotion, because § 32 of the Lanham Act prohibits infringing use in advertisements as well as offers to sell,<sup>70</sup> its offer concept is broader than the contract law definition, which generally excludes advertisements.<sup>71</sup> The Lanham Act’s broadening of the offer concept to include advertising is unsurprising in light of the trademark law’s policies: as shown by the Coca-Cola example above, consumer confusion and economic inefficiency may result whether the infringing

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68. See, e.g., *Gmurzynska v. Hutton*, 355 F.3d 206, 210 (2d Cir. 2004) (“[A]lthough representations less formal than those made as part of a classic advertising campaign may suffice, they must be disseminated sufficiently to the relevant purchasing public.”); *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1384 (5th Cir. 1996) (“The courts are also in agreement, however, that ‘the Act’s reach is broader than merely the ‘classic advertising campaign.’” (quoting *Gordon & Breach Sci. Publishers S.A., STBS, Ltd. v. Am. Inst. of Physics*, 859 F. Supp. 1521, 1534 (S.D.N.Y. 1994))).

69. *Fashion Boutique of Short Hills, Inc. v. Fendi USA, Inc.*, 314 F.3d 48, 57 (2d Cir. 2002). When it comes to deciding what communications can constitute advertising or promotion, courts vary widely, with some allowing very few communications to suffice. See *ASTRACHAN & THOMAS*, *supra* note 56, at § 11.02, at 11-200 n.356 (collecting cases). Compare *First Health Grp. Corp. v. BCE Emergis Corp.*, 269 F.3d 800, 803–04 (7th Cir. 2001) (“Advertising is a form of promotion to anonymous recipients, as distinguished from face-to-face communication. In normal usage, an advertisement read by millions (or even thousands in a trade magazine) is advertising, while a person-to-person pitch by an account executive is not.”), with *Seven-Up Co.*, 86 F.3d at 1382–87 (finding that the presentation made to eleven bottlers is advertising or promotion), and *Mobius Mgmt. Sys., Inc. v. Fourth Dimension Software, Inc.*, 880 F. Supp. 1005, 1021 (S.D.N.Y. 1994) (finding a single letter actionable under § 43).

70. Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a) (2006) (providing for infringement “in connection with the sale, offering for sale, distribution, or advertising of any goods or services” (emphasis added)).

71. See *supra* notes 27–29 and accompanying text.

action is a formal contract law offer or merely an advertisement.<sup>72</sup>

*B. Securities Act of 1933*

One of the primary laws regulating the sale of securities invokes the offer concept to help regulate certain unwanted behaviors. Developed in the aftermath of the 1929 stock market crash, the 1933 Securities Act<sup>73</sup> regulates a majority of public offerings of securities, such as initial public offerings. The Securities Act's preamble states that the act seeks "[t]o provide full and fair disclosure of the character of securities sold in interstate and foreign commerce and through the mails, and to prevent frauds in the sale thereof . . . ."<sup>74</sup> To provide full and fair disclosure and thus help protect investors, the act generally requires offering companies to file registration statements with the Securities & Exchange Commission (SEC) that include ample information about the securities (e.g., via a prospectus), which in turn helps to "assure that the investor has adequate information upon which to base his or her investment decision."<sup>75</sup>

The registration statement is one of the most significant steps a company intending to offer securities must complete, and the Securities Act uses the offer concept in conjunction with the registration statement to regulate securities offerings. For example, the act prohibits the *sale* of securities unless a registration statement is in effect for those securities.<sup>76</sup> In addition, the act uses the offer concept to protect consumers by imposing liability on persons who *offer*

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72. It can be argued that many, if not all, of these concerns could be addressed by existing laws against false advertising and unfair and deceptive trade practices. *See supra* notes 31 and 60.

73. Securities Act of 1933 §§ 1–28, 15 U.S.C. §§ 77a–bbbb (2006). This Article focuses on selected provisions of the Securities Act of 1933, but other statutes provide various forms of protection to investors, such as the Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Trust Indenture Act of 1939, Investment Company Act of 1940, Investment Advisers Act of 1940, and the Securities Investor Protection Act of 1970.

74. Securities Act of 1933, ch. 38, 48 Stat. 74 (preamble) (1934).

75. 1 THOMAS LEE HAZEN, TREATISE ON THE LAW OF SECURITIES REGULATION, § 2.2[1][A], at 214 (West 6th ed. 2009).

76. Securities Act of 1933 § 5(a)(1), 15 U.S.C. § 77e(a)(1) ("Unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly . . . to sell such security . . .").

to sell securities before a registration statement is filed.<sup>77</sup> In particular, section 5(c)<sup>78</sup> prohibits gun-jumping, which is offering a security before the issuer, underwriter, or dealer has filed a registration statement.<sup>79</sup>

The prohibition of premature offers to sell demonstrates that Congress felt that regulating only actual sales, to the exclusion of offers to sell, would not fulfill its goal of providing adequate protection to investors. Moreover, Congress defined offer (and offer to sell and offer for sale) more broadly than the contract law definition and included within the definition “every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security, for value.”<sup>80</sup> The definition thus would include advertisements, solicitations, and other commercializing activities that would fall short of a contract law offer.

A justification for the offer concept’s broad definition in the act can be found in the SEC’s decision *In re Carl M. Loeb, Rhoades & Co.*:<sup>81</sup>

The broad sweep of these definitions is necessary to accomplish the statutory purposes in the light of the process of securities distribution as it exists in the United States. Securities are distributed in this country by a complex and sensitive machinery geared to accomplish nationwide distribution of large quantities of securities with great speed. Multi-million dollar issues are often oversubscribed on the day the securities are made available for sale. This result is accomplished by a network of prior informal indications of interest or offers to buy between underwriters and dealers and between dealers and investors based upon mutual expectations that, at the moment when sales may legally be made, many prior indications will immediately materialize as

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77. *Id.* § 5(3), § 77e(c) (2006) (making it unlawful for “any person . . . to offer to sell or offer to buy through the use or medium of any prospectus . . . unless a registration statement has been filed as to such security” (emphasis added)); see also *id.* § 77l(a) (imposing liability on “[a]ny person who . . . offers or sells a security” in violation of provisions of the Act (emphasis added)); *id.* § 77q (regulating those involved in “the offer or sale of any securities or any security-based swap agreement” against fraudulent interstate transactions (emphasis added)).

78. *Id.* § 77e(c).

79. 1 HAZEN, *supra* note 75, § 2.3[1].

80. Securities Act of 1933 § 2(1)(C), 15 U.S.C. § 77b(a)(3). The complete definition is lengthy and will not be reproduced here.

81. *In re Carl M. Loeb, Rhoades & Co.*, 38 S.E.C. 843 (1959).

purchases. It is wholly unrealistic to assume in this context that ‘offers’ must take any particular legal form.

. . . Under the practices existing prior to the enactment of the statute in 1933, dealers made blind commitments to purchase securities without adequate information, and in turn, resold the securities to an equally uninformed investing public. The entire distribution process was often stimulated by sales literature designed solely to arouse interest in the securities and not to disclose material facts about the issuer and its securities.<sup>82</sup>

The Commission went on to state that an offer is everything that, “even though not couched in terms of an express offer, condition[s] the public mind or arouse[s] public interest in the particular securities.”<sup>83</sup>

While there are exceptions to the broad definition of offer,<sup>84</sup> the statute demonstrates that Congress determined a need to broaden the offer concept definition beyond contract law’s definition to adequately protect investors.<sup>85</sup> Indeed, by including in its offer concept not only advertisements, but also solicitations<sup>86</sup> and other attempts to dispose, the Security Act uses the offer concept more broadly even than § 32 of the Lanham Act, which does not cover solicitations. The Securities Act’s investor protection rationale is analogous to trademark law’s consumer protection rationale, thus it is unsurprising that both areas of law define the offer concept more broadly than does contract law. Although the Securities Act’s offer

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82. *Id.* at 848–49 (footnote omitted).

83. *Id.* at 850; *see also* Publication of Information Prior to or After Effective Date of Registration Statement, Securities Act Release No. 3844, 1 Fed. Sec. L. Rep. (CCH) ¶ 3250–56 (1993) (offering examples of pre-filing publicity that violated section 5(c)).

84. Most notably, is 17 C.F.R. § 230.135 (2012); *see, e.g.*, 1 HAZEN, *supra* note 75, § 2.3[2]; Eric A. Chiappinelli, *Gun Jumping: The Problem of Extraneous Offers of Securities*, 50 U. PITT. L. REV. 457, 462–63 (1989) (discussing exceptions, including SEC Rule 135 (17 C.F.R. § 230.135 (1988)), which “allow[] issuers to announce that they intend to offer securities to be registered under the Act if the notice is restricted to certain basic information about the issuer and the issue, and states that the offer will be made only by means of a prospectus”).

85. *See, e.g.*, 1 HAZEN, *supra* note 75, § 2.3[2]; Jeffrey A. Brill, Note, “Testing the Waters”—The SEC’S Feet Go from Wet to Cold, 83 CORNELL L. REV. 464, 477–79 (1998) (discussing the broad definition of offer in the 1933 act).

86. Solicitations include attempts to commercialize that are distributed less widely than advertisements, and can include one-on-one attempts to gain business.

concept is broader in some respects than the Lanham Act's, the general logic behind the Securities Act's expansive definition of offer parallels that of the Lanham Act: a narrow, contract law definition would not adequately protect investors.

### C. *Endangered Species Act*

In 1973, the United States enacted the Endangered Species Act (ESA),<sup>87</sup> in large part to fulfill its obligations under the newly signed Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).<sup>88</sup> The ESA seeks to “provide a means whereby the ecosystems upon which endangered species and threatened species depend may be conserved, [and] to provide a program for the conservation of such endangered species and threatened species . . . .”<sup>89</sup> As part of its provisions to protect endangered species, the ESA prohibits, with certain exceptions, a person from “sell[ing] or offer[ing] for sale in interstate or foreign commerce” certain endangered species,<sup>90</sup> whether the animal<sup>91</sup> is alive or dead.<sup>92</sup> Violators may face civil and

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87. 16 U.S.C. §§ 1531–44 (2006).

88. Convention on International Trade in Endangered Species of Wild Fauna and Flora, Mar. 3, 1973, 27 U.S.T. 1087, 993 U.N.T.S. 243; see also Elizabeth R. Beardsley, *Poachers with PCs: The United States' Potential Obligations and Ability to Enforce Endangered Wildlife Trading Prohibitions against Foreign Traders Who Advertise on eBay*, 25 UCLA J. ENVTL. L. & POL'Y 1, 3–7 (2006).

89. 16 U.S.C. § 1531(b). The Supreme Court has interpreted the ESA broadly. See *Tennessee Valley Auth. v. Hill*, 437 U.S. 153, 176–84 (1978) (discussing the temporal and legislative history behind enactment of the ESA and concluding that “[t]he plain intent of Congress in enacting this statute was to halt and reverse the trend toward species extinction, whatever the cost. This is reflected not only in the stated policies of the Act, but in literally every section of the statute.”).

90. 16 U.S.C. § 1538(a)(1)(F). Numerous other statutes invoke the offer concept in an effort to protect animals and rare items. See, e.g., 16 U.S.C. § 668(a) (2006) (making it unlawful to “take, possess, sell, purchase, barter, offer to sell, purchase or barter, transport, export or import” bald eagles or golden eagles); 16 U.S.C. § 707(b) (2006) (prohibiting, inter alia, “offer[ing] for sale” migratory birds); CONN. GEN. STAT. § 10-390(b) (2012) (forbidding the “[sale], exchange, transport, recei[pt] or offer to sell, [of] any archaeological artifact or human remains . . . removed from state lands or a state archaeological preserve”).

91. The statute applies the same prohibitions to plants as well. 16 U.S.C. § 1538(a)(2).

92. *Id.* § 1532(8) (“The term ‘fish or wildlife’ means any member of the animal kingdom . . . and includes any part, product, egg, or offspring thereof, or

criminal penalties.<sup>93</sup>

Hence, as with the Lanham Act and the 1933 Securities Act, the ESA prohibits not only sales of endangered species, but also offers for sale.<sup>94</sup> Similarly, in using the offer concept as a tool to protect endangered animals, the ESA broadens the definition of offer from its contract law definition. Specifically, while the statute does not define offer, a regulation promulgated by the Fish and Wildlife Service pursuant to the statute provides, “[a]n *advertisement* for the sale of endangered wildlife which carries a warning to the effect that no sale may be consummated until a permit has been obtained from the U.S. Fish and Wildlife Service shall not be considered an *offer for sale* within the meaning of this section.”<sup>95</sup>

Because the regulation exempts a specific type of advertisement from the definition of offer, by implication all other advertisements would be offers.<sup>96</sup> A prohibition on most advertisements meshes with common sense: if sales of endangered animals are not permitted, what business does a person have advertising such a transaction?<sup>97</sup>

In addition to the regulation, one judicial decision has touched on the meaning of offer under the ESA, though without much elaboration. In *United States v. Clark*,<sup>98</sup> the Fourth Circuit upheld a conviction of David Clark for, among other things, offering for sale a Siberian tiger skin rug.<sup>99</sup>

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the dead body or parts thereof.”)

93. *See id.* § 1540.

94. *Id.* § 1538(a)(1)(F).

95. 50 C.F.R. § 17.21(f)(2) (2012) (emphasis added).

96. If the statute used offer for sale in the contract law sense, almost no advertisements would qualify as offers for sale, thus making this regulation largely superfluous. *See supra* notes 26–28 and accompanying text. There is an alternate interpretation of the regulation: the regulation might be read to mean that any advertisement *that would qualify as an offer to sell under traditional contract law principles* is not an offer to sell if it includes the required warning. But this reading is less plausible in view of the normal meaning of advertisement and the very small number of advertisements that qualify as a contract law offer.

97. Certain sales, e.g., for scientific research, are permissible, provided the proper permit is obtained. 16 U.S.C. § 1539(a). Thus it makes sense to allow advertisement of those potential transactions, which is precisely why the regulation allows advertisements containing a caveat that “no sale may be consummated until a permit has been obtained from the U.S. Fish and Wildlife Service.” 50 C.F.R. § 17.21(f)(2).

98. 986 F.2d 65 (4th Cir. 1993).

99. *Id.* at 67. Although the rug was not a live animal, the ESA defines

Unfortunately, it is unclear from the court's opinion whether the advertisement was specific enough to constitute an offer under traditional contract law. The opinion does not provide the specifics of the advertisements, noting only that Clark "advertised a Siberian tiger skin rug for sale in the *Washington Post*" and that "[o]ther advertisements in several national newspapers did not specify the kind of tiger."<sup>100</sup> It is possible that the advertisement could have included specific language that included price, who could purchase (e.g., first come, first served), and other essential terms so that it would qualify as an offer even under traditional contract law.<sup>101</sup> Thus, while one cannot be sure whether the advertisement was specific enough to constitute a contract law offer, one can at least infer from the lack of discussion about the details of the advertisement that the court was untroubled by this question.

It is likely, therefore, that general advertisements would come within the ESA's definition of an offer, which would further the ESA's goal to protect endangered animals. Prohibiting only contract law offers but allowing advertisements would increase the demand for endangered species,<sup>102</sup> thus increasing illegal purchases and threatening

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endangered wildlife to include the dead bodies or parts of animals. 16 U.S.C. § 1532(8).

100. *Clark*, 986 F.2d at 67.

101. *See supra* note 29.

102. Whether and to what extent advertising increases demand is a matter of debate. *See generally* K. Bagwell, *The Economic Analysis of Advertising*, in 3 THE HANDBOOK OF INDUSTRIAL ORGANIZATION 1701–44 (M. Armstrong & R. Porter eds., 2007) (noting the competing views of the roles and effects of advertisements). While this debate is beyond the scope of this Article, it should be noted that where perfect information is not available to consumers, as might be expected in markets where advertisements are illegal, advertising may be expected to increase demand. Books and articles discussing advertising and demand are legion. *See, e.g.*, Eliana Garces, *The Impact of Behavioral Economics on Consumer and Competition Policies*, 6 COMPETITION POL'Y INT'L 145, 148 (2010) ("Neoclassical economics already recognizes the possibility that a firm invests in advertisement to increase the demand of its product."); Sherwin Rosen, *Advertising, Information, and Product Differentiation*, in ISSUES IN ADVERTISING: THE ECONOMICS OF PERSUASION 161 (David G. Tuerck ed., 1978). Interestingly, the Supreme Court has seemed to shift its view on whether advertising can be presumed to increase demand. *Compare* *Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n of N.Y.*, 447 U.S. 557, 569 (1980) ("There is an immediate connection between advertising and demand for electricity. Central Hudson would not contest the advertising ban unless it believed that promotion would increase its sales."), *and* *Posadas de P.R. Assocs. v. Tourism Co. of P.R.*, 478 U.S. 328, 341–42 (1986) ("The Puerto Rico

to harm endangered animals. In addition, widespread advertisement of otherwise prohibited sales would tend to confuse the public about whether buying the animal is legal or not. Since it is unlikely that the average rug or garment purchaser is aware of all the animals covered by the ESA, allowing such advertisements might lead innocent consumers to violate the law<sup>103</sup> and in turn assist sellers in violating the law. The confusion would not only harm the endangered animals by increasing trafficking, but also harm purchasers ignorant of the law by subjecting them to penalties under the ESA.

#### D. Criminal Law

Numerous criminal laws invoke the offer concept by prohibiting persons from offering to sell various types of contraband.<sup>104</sup> Like the other areas of law discussed in this Article, many criminal laws expand the offer concept beyond its contract law definition. For example, to stop the issuance of false identification cards, Florida and South Carolina laws make it “unlawful for any person . . . to offer to sell . . . any identification card or document purporting to contain the age or date of birth of the person in whose name it was issued” unless certain restrictions are met.<sup>105</sup> Each statute defines

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Legislature obviously believed . . . that advertising of casino gambling . . . would serve to increase the demand for the product advertised. We think the legislature’s belief is a reasonable one . . . .”), *with* Greater New Orleans Broad. Ass’n v. United States, 527 U.S. 173, 189 (1999) (“While it is no doubt fair to assume that more advertising would have some impact on overall demand for gambling, it is also reasonable to assume that much of that advertising would merely channel gamblers to one casino rather than another.”).

103. Purchasers might violate the ESA’s prohibitions against importing, taking, or receiving endangered animals. 16 U.S.C. § 1538(a)(1) (2006). Further, they may resell the animals unaware of the ESA’s restrictions.

104. *See, e.g.*, 720 ILL. COMP. STAT. 5/24-2.2 (2012) (prohibiting any offer to sell certain types of bullets); MASS. GEN. LAWS ch. 140, § 131N (2012) (prohibiting any offer to sell certain dangerous weapons that do not resemble traditional guns); MICH. COMP. LAWS § 750.224b (2012) (prohibiting any offer to sell a short-barreled shotgun or rifle); WIS. STAT. § 941.28(2) (2011) (same); *see also* Barton Deiters, ‘Joke Ad’ on eBay Offering Tot for Sale Could Land Prankster in Prison for More Than Two Years, MLIVE.COM (July 21, 2011), [http://www.mlive.com/news/grandrapids/index.ssf/2011/07/joke\\_ad\\_on\\_ebay\\_offering\\_tot\\_f.html](http://www.mlive.com/news/grandrapids/index.ssf/2011/07/joke_ad_on_ebay_offering_tot_f.html) (detailing criminal charges brought against a woman for placing an advertisement on eBay to sell her two-year old cousin). Recall also that the Endangered Species Act carries the possibility of criminal sanctions. *See supra* notes 90–93 and accompanying text.

105. FLA. STAT. § 877.18(1) (2012); S.C. CODE ANN. § 16-13-450(1) (2011).



offer to sell to “include[] every inducement, solicitation, attempt,” or advertisement by “print[] or media” “to encourage a person to purchase an identification card.”<sup>106</sup> Thus, even though advertisements and other promotions would not meet the contract law definition of an offer, they would run afoul of these laws.

Not all statutes define “offer,” however, and few, if any, cases litigate the issue. While research revealed no United States cases on the subject, in an English case from 1961, *Fisher v. Bell*,<sup>107</sup> the government prosecuted Bell for violating a statute prohibiting the offer for sale of a switchblade knife.<sup>108</sup> Bell had displayed in his store window a switchblade knife with a tag behind it reading “Ejector knife — 4s.”<sup>109</sup> With much reservation, the court held that exhibiting the knife with the tag did not violate the statute because it was not an offer for sale under traditional contract law; it was “merely an invitation to treat.”<sup>110</sup> Yet the court noted,

...I think most lay people, and indeed, I myself when I first read the papers, would be inclined to the view that to say that if a knife was displayed in a window like that with a price attached to it was not offering it for sale was just nonsense.<sup>111</sup>

Noting that other statutes prohibited not only offering for sale, but also exposing for sale or similar broad language to cover invitations to treat, the court assumed that Parliament knew how to draft statutes to cover activities broader than contract law offers.<sup>112</sup> Finally, the court also stated that “even if this—and I am by no means saying it is—is a *casus omissus* it is not for this court to supply the omission.”<sup>113</sup> Indeed, Parliament soon supplied the omission by amending the statute to also subject to prosecution anybody who “expose[d] or has in his possession for the purposes of sale” a switchblade.<sup>114</sup>

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106. FLA. STAT. § 877.18(2); S.C. CODE ANN. § 16-13-450(3).

107. [1961] 1 Q.B. 394. (Eng.)

108. *Id.* at 395.

109. *Id.*

110. *Id.* at 399.

111. *Id.*

112. *Id.* See *infra* notes 213–22 and accompanying text for further discussion of this statutory interpretation technique.

113. *Fisher*, [1961] 1 Q.B. at 400.

114. Restriction of Offensive Weapons Act 1961; 1961 c. 22 (10 Eliz 2).

*Fisher v. Bell* thus raises a question: how should U.S. courts interpret criminal laws that prohibit offers to sell dangerous weapons (or other contraband) when the statute does not define offer and does not explicitly prohibit other activities such as advertisements?

While it is beyond the scope of this Article to analyze the potential constructions of the offer concept as it appears in each criminal statute, a few observations are offered.<sup>115</sup> To construe a statute, courts first look to whether the statute itself defines the term at issue. In some instances, courts may consult the legislative history.<sup>116</sup> Further, since the word “offer” has a generally accepted common law meaning in the law of contracts, one canon of statutory construction inserts a presumption that the common law meaning should prevail<sup>117</sup> (this was the *Fisher v. Bell* rationale). In criminal statutes, the rule of lenity dictates that courts should interpret “ambiguities in criminal statutes in favor of the defendant” so that people are not unfairly subject to criminal penalties.<sup>118</sup>

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Parliament’s reversal of *Fisher* demonstrates the weakness of the interpretative cannon that courts should presume common law terms have their common law meaning even when used in ways dramatically different from their common law origin.

115. See *infra* Section III.B for additional discussion of the strengths and weaknesses of the canons of statutory interpretation.

116. Reviewing each criminal statute’s history is beyond this Article’s scope. It should be noted that a textualist-oriented judge would be relatively more reluctant to consult legislative history, but might do so if the statute is ambiguous (and whether a statute is ambiguous likewise may depend on the particular judge reviewing it).

117. *E.g.*, *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2245–46 (2011); *Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 108 (1991) (“[W]here a common-law principle is well established, . . . the courts may take it as given that Congress has legislated with an expectation that the principle will apply except ‘when a statutory purpose to the contrary is evident.’” (citations omitted) (quoting *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952))); *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739–40 (1989) (construing the term employee in the Copyright Act in view of traditional common law agency principles).

118. *Hughey v. United States*, 495 U.S. 411, 422 (1990), *superseded by statute*, Crime Control Act of 1990, Pub. L. No. 101–647, § 2509, 104 Stat. 4789, 4863 (1990); *see also* *Cleveland v. United States*, 531 U.S. 12, 25 (2000); *Ratzlaf v. United States*, 510 U.S. 135, 148–49 (1994), *superseded by statute*, Riegle Community Development and Regulatory Improvement Act of 1994 § 411, Pub. L. No. 103–325, 108 Stat. 2160, 2253 (1994). Closely related is the principle of legality, which requires that conduct must be criminalized in order to be punishable. Michael L. Travers, Comment, *Mistake of Law in Mala Prohibita Crimes*, 62 U. CHI. L. REV. 1301, 1320 (1995).

Applying the rule of lenity in the offer to sell context suggests a narrow, contract law definition of “offer,” which would exclude advertisements and other promotions.

Whatever the merits of the various canons of statutory construction,<sup>119</sup> when considering the policies behind these criminal statutes (e.g., to prevent the spread of contraband), it strains reason to believe that one who merely advertises or otherwise commercially promotes a prohibited dangerous weapon would escape prosecution simply because the advertisement did not amount to a contract law offer. As with the advertisement of endangered species by traffickers discussed in the immediately preceding subsection, advertisement of contraband serves no legitimate purpose since the underlying sale is illegal. Hence, a broader definition of “offer” under criminal laws comports with the rationale of deterring certain undesirable behaviors and more fully protecting society against the harms associated therewith.

#### *E. Summary*

The four very different areas of the law discussed above demonstrate the extent to which the law is suffused with the offer concept. Unlike contract law, where the offer concept helps modulate contract formation, many other areas of the law use the offer concept to help control certain undesirable behaviors. In accordance with its new policy role in each area of the law, the offer concept often takes on a new definition consonant with its purpose. In some cases, legislatures provide a specific definition, in others agencies or courts provide definitional details.

Having surveyed several examples of the offer concept’s use in the law, this Article now turns to consider patent law’s relatively recent use of the offer concept to help regulate infringement. The Article uses patent law as a case study for an in-depth analysis of the offer concept’s policy role and its optimal definition in light of that role.

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119. See *infra* note 170 for criticisms of the canons.

### III. A CASE STUDY: THE OFFER CONCEPT AS A POLICY TOOL IN PATENT LAW

Under authority from the U.S. Constitution, Congress designed patent laws to promote advances in technology through the grant of exclusive rights to inventions.<sup>120</sup> Patent law encourages innovation in several ways. First, the grant of exclusive rights<sup>121</sup> to inventions incentivizes invention and disclosure of inventions by allowing inventors to recoup their up-front research and development costs, whereas without exclusivity competitors might easily duplicate the invention without having to incur the same costs.<sup>122</sup> Additionally, the grant of exclusive rights is believed to induce firms to invest in commercial exploitation of innovation, which is necessary to bring inventions to the marketplace.<sup>123</sup> Patents have also been said to encourage competitors to design around existing patents, thereby generating improvements upon existing technology and new ways to accomplish the same result.<sup>124</sup>

While the above-mentioned instrumentalist/utilitarian justifications of the patent system have recently dominated American patent law,<sup>125</sup> others assert natural rights-based (or

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120. U.S. CONST. art. I, § 8, cl. 8 (granting Congress the right “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries.”).

121. Among other rights, a United States patent confers the exclusive right to make, use, offer to sell, and sell the invention set forth in the patent claims. See 35 U.S.C. § 271(a) (2006).

122. E.g., Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1024–30 (1989); Lucas Osborn, *Tax Strategy Patents: Why the Tax Community Should Not Exclude the Patent System*, 18 ALB. L.J. SCI. & TECH. 325, 331 (2008).

123. E.g., F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 707–12 (2001); Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 276–77 (1977).

124. F. SCOTT KIEFF, PAULINE NEWMAN, HERBERT F. SCHWARTZ & HENRY E. SMITH, *PRINCIPLES OF PATENT LAW* 71 (5th ed. 2011).

125. See *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980) (“The patent laws promote this progress by offering inventors exclusive rights for a limited period as an incentive for their inventiveness and research efforts.”); Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 50 (2001) (describing the patent system’s central task as utilitarian in nature); Kieff, *supra* note 123, at 697–98 (“Although rights-based theories do influence debates about intellectual property theory in general, the consensus among those studying the American patent system is to focus on utilitarian approaches.”); see Kitch, *supra* note 123, at 265–71 (describing a utilitarian prospect theory of patents).

deontological) justifications. The primary natural rights argument in patent law is usually based on an extrapolation of the Lockean labor-desert theory under which inventors *should* be awarded patents based on the labor expended or the value added to society.<sup>126</sup> A second major strand of natural rights theory is based on a personhood theory, typically derived from a Hegelian actualization theory, in which intellectual property serves as an extension of the author's personality.<sup>127</sup> As applied to patent law, the labor-desert theory is typically accepted as a superior justification than the personhood theory since it is more intuitive to think of a copyrighted poem being an extension of one's personality than a patented microchip.<sup>128</sup>

With these background justifications for patent law in mind, this Article will consider the offer concept's use as a tool to help regulate patent infringement. It should be noted that American patent law has not always used the offer concept to regulate infringement.<sup>129</sup> Although from its beginnings American law has given the patent holder the exclusive right to make, use, and sell the invention in the United States,<sup>130</sup> American patent law did not make an

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126. *E.g.*, Wendy J. Gordon, *A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property*, 102 YALE L.J. 1533, 1540–83 (1993); *see* Justin Hughes, *The Philosophy of Intellectual Property*, 77 GEO. L.J. 287, 296–330 (1988).

127. *E.g.*, Hughes, *supra* note 126, at 330–65; *see* Margaret Jane Radin, *Property and Personhood*, 34 STAN. L. REV. 957 (1982).

128. Hughes, *supra* note 126, at 341–42; *see* Roberta Rosenthal Kwall, *Originality in Context*, 44 HOUS. L. REV. 871, 874–75 (2007). *But see* Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 880 (1997) (reviewing JAMES BOYLE, *SHAMANS, SOFTWARE, AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY* (1996), noting the American romantic view of inventors); Henry Sauermann & Wesley M. Cohen, *What Makes Them Tick? Employee Motives and Firm Innovation*, 56 MGMT. SCI. 2134 (2010).

129. Acts of direct infringement include the unauthorized making, using, selling, or offering for sale the invention within the United States or importing of a patented invention into the United States during the term of the patent. 35 U.S.C. § 271(a) (2006). For a court to find infringement, the plaintiff must show that every element (or its substantial equivalent) listed in a patent's claim is present in the accused device. *See, e.g.*, Warner-Jenkinson Co. v. Hilton Davis Chem. Co., 520 U.S. 17 (1997); Lemelson v. United States, 752 F.2d 1538 (Fed. Cir. 1985).

130. *See* Patent Act of 1790, Ch. 7, 1 Stat. 109–112 §1 (repealed 1793) (granting the “sole and exclusive right and liberty of making, constructing, using and vending to others” the invention); 35 U.S.C. § 271(a) (1952) (amended 1996) (providing that any unauthorized making, using, or selling of a patented

unauthorized offer to sell an act of infringement until the mid-1990s.<sup>131</sup> As part of the international harmonization of intellectual property laws under the Trade-Related Aspects of Intellectual Property (TRIPS) agreement,<sup>132</sup> in 1994 Congress added a provision to 35 U.S.C. § 271(a) making an offer to sell infringing technology an independent act of patent infringement.<sup>133</sup> Before this amendment, a mere offer to sell would not infringe a patent's claims, whereas an actual sale would.<sup>134</sup> Despite the radical change in the law adding infringement for an offer to sell, Congress gave almost no instruction about the intent or meaning of the new invocation of the offer concept.<sup>135</sup>

Given that the offer concept is available as a tool to regulate patent infringement in the United States, the remainder of this section analyzes that tool. The first subsection analyzes the offer concept in patent law strictly from a policy perspective and provides a normative assertion for its proper scope. An analysis of the statutory text and context is reserved for the second subsection.<sup>136</sup>

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invention is an act of infringement).

131. See 35 U.S.C. § 271(a) (2006).

132. See Marrakesh Agreement Establishing the World Trade Organization Annex 1C Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), art. 28, § 1(a), Apr. 15, 1994, 1869 U.N.T.S. 299; 33 I.L.M. 1197 ("Article 28 . . . A patent shall confer on its owner the following exclusive rights: . . . to prevent third parties not having the owner's consent from the acts of: . . . offering for sale").

133. 35 U.S.C. § 271(a) (2006) ("[W]hoever . . . offers to sell . . . within the United States . . . any patented invention . . . infringes the patent."). The statute became effective January 1, 1996. See also Uruguay Round Agreements Act, H.R. 5110, 103d Cong. § 101(d)(15) (1994) (approving TRIPS).

134. See 35 U.S.C. § 271(a) (1994); *Lang v. Pac. Marine & Supply Co.*, 895 F.2d 761, 765 (Fed. Cir. 1990) (stating that § 271 "by itself, cannot be interpreted to cover acts other than an actual making, using or selling of the patented invention").

135. See *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1252 (Fed. Cir. 2000) ("Unfortunately, other than stating that an 'offer to sell' includes only those offers 'in which the sale will occur before the expiration of the term of the patent,' Congress offered no other guidance as to the meaning of the phrase. . . . [T]he legislative history of the statute offers little additional insight." (citation omitted) (citing 35 U.S.C. § 271(i) (Supp. 1997))).

136. While this order of analysis (policy first, statute second) may be the reverse of what a person engaged in statutory construction might follow, this Article is concerned with what the offer concept's role *should* be as well as what its role is.

*A. The Optimal Scope of Patent Law's Offer Concept in View of its Underlying Policies*

The scope of patent law's offer concept could fall anywhere on a spectrum from a narrow, contract law definition to a far broader definition that includes almost any communication of an intent to commercialize. One can identify several points of interest along the spectrum, such as the following, listed in order from narrowest to broadest:

Contract Law Definition: While various permutations exist, the definition in the RESTATEMENT (SECOND) OF CONTRACTS suffices: an offer is a "manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it."<sup>137</sup>

Advertisements: Moving toward a broader definition, the offer concept could include not only contract law offers, but also advertisements, which can be loosely defined as widespread communication through the Internet or print or broadcast media designed to attract commercial interest.<sup>138</sup>

Promotions: This category includes commercializing activities that are not as widely or formally distributed as traditional advertising, such as displays at trade shows, face-to-face solicitations (such as sales presentations to buyers), price lists, and circular letters.<sup>139</sup>

Determining where on this spectrum patent law's offer concept should fall requires a consideration of the purposes that the offer concept serves in section 271(a) of the Patent Act.

*1. The Policy of Preventing Third Parties from Harming Patentees by Generating Interest in an Infringing Product*

The Federal Circuit has primarily discussed a single objective behind the offer concept in section 271(a). In its

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137. RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981).

138. See, e.g., THE AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE 25 (4th ed. 2000) (defining advertisement as "[a] notice, such as a poster or a paid announcement in the print, broadcast, or electronic media, designed to attract public attention or patronage").

139. See *supra* notes 65–68 and accompanying text (discussing distinctions between advertising and promotion).

first case interpreting the language the court stated that “[o]ne of the purposes of adding ‘offer[] to sell’ to § 271(a) was to prevent . . . [a competitor from] generating interest in a potential infringing product to the commercial detriment of the rightful patentee.”<sup>140</sup> This policy has been affirmed by subsequent decisions, and recently the court referred to it as *the* policy, not just *a* policy (though this may have been an instance of unintentionally loose language).<sup>141</sup> Similarly, the leading patent treatise emphasizes this policy.<sup>142</sup>

*i. Comparison to Contract Law*

Assuming patent law’s offer concept primarily serves to prevent improper commercialization that harms the patentee, one can gain insight into its optimal scope by comparing this policy rationale to the policies behind other uses of the offer concept. As a first area of comparison, recall that the offer concept in contract law is governed in large part by a policy to strengthen freedom from contract and preserve individual autonomy.<sup>143</sup> To accomplish this policy, contract law creates friction between the offeror and offeree by setting the bar for an offer relatively high—it must put the power of acceptance into the offeree, and thus excludes most advertisements and other promotions.<sup>144</sup>

But contract law’s focus on freedom from contract and the offeror’s and offeree’s autonomy bears little relationship to

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140. 3D Sys. v. Aarotech Labs. Inc., 160 F.3d 1373, 1379 (Fed. Cir. 1998).

141. Compare MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1376 (Fed. Cir. 2005) (quoting the statement in 3D Sys. that “[o]ne of the purposes of adding ‘offer[] to sell’ to section 271(a) was to prevent . . . generating interest in a potential infringing product to the commercial detriment of the rightful patentee” (emphasis added)), with Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1309 (Fed. Cir. 2010) (“*The* underlying purpose of holding someone who offers to sell liable for infringement is to prevent ‘generating interest in a potential infringing product to the commercial detriment of the rightful patentee.’” (emphasis added) (quoting 3D Sys., 160 F.3d at 1379)). Nothing in the *Transocean* decision indicates this shift from *a* to *the* was intentional.

142. 5 DONALD S. CHISUM, CHISUM ON PATENTS § 16.02[5][g], at 16–104 (Matthew Bender 2010) (“[T]he policy underlying a patentee’s statutory right to exclude unauthorized sales and offers to sell [is] to prevent others from deriving commercial advantage from the invention without compensating the patent owner.”).

143. See *supra* Part I.

144. See *supra* notes 26–29 and accompanying text.



the patent infringement context. While in traditional contract law an offer must be met with an acceptance to invoke state oversight of (and potential imposition on) private ordering,<sup>145</sup> in patent law the government has already granted the patentee the power of exclusivity against competitors, and the infringer does not escape liability based on ignorance of the patent.<sup>146</sup> Thus, in the patent context, unlike in the contract context, the offer does not lead to the law creating completely new rights and obligations between two parties, but rather is compensating a patentee based on its pre-existing right of exclusivity.

Further, unlike contract law where the focus is largely on the effect of an offer on the *offeree*, in patent law the focus shifts in large part to the effect of the offer on the *patentee*. While patent law retains a modicum of focus on the offeree in that the offer must generate an offeree's commercial interest in the infringing product,<sup>147</sup> piquing an audience's commercial interest is a lower standard than contract law's insistence that the offeree understand she can conclude the bargain with a simple acceptance. Indeed, activities such as advertisements and other promotions can generate interest in an infringing product and harm the patentee even though they are not contract law offers.

Initially, it may seem that an offer to sell an infringing product, if not eventually consummated by a sale, would not harm the patentee. Yet a competitor's advertisement or promotion of an infringing product at a lower price<sup>148</sup> than the patentee charges will potentially cause price erosion, as the patentee must adjust its price to compete with the infringer and/or forgo future price increases.<sup>149</sup> This harm is most

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145. See *supra* notes 21–23 and accompanying text.

146. See 35 U.S.C. § 154(a)(1) (2006) (“Every patent shall contain . . . a grant to the patentee, his heirs or assigns, of the *right to exclude* others from making, using, offering for sale, or selling the invention throughout the United States . . . .” (emphasis added)).

147. See *supra* notes 140–42 and accompanying text.

148. Indeed, even if a price is not mentioned, the mere appearance of competition could cause downward price pressure.

149. See, e.g., *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1308 (Fed. Cir. 2010) (citing 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, 791–92 (2003)); David Bohrer et al., *The Shifting Sands of Price Erosion: Price Erosion*

apparent and direct where the patentee (1) is practicing the invention<sup>150</sup> and (2) has market power to charge a premium for the patented product (i.e., there are no adequate non-infringing alternatives).<sup>151</sup> Where the patentee is not practicing the invention, she is still entitled to a reasonable royalty,<sup>152</sup> which must have some value, however small, since the infringer obviously valued the right to offer the product for sale as evidenced by its actual offer.

Because price erosion, which harms the patentee, can result from commercializing activities that fall short of a contract law offer, patent law's offer concept should be defined to include commercializing activities to the extent they have the ability to affect price erosion.<sup>153</sup> The definition should include advertising since it is the activity most likely to cause price erosion. Indeed, advertising, which is by definition widespread, is more likely to cause price erosion than isolated contract law offers. Further, the definition should include promotions that do not qualify as formal advertising, since promotional activities such as circular letters and person-to-person solicitations are capable of causing price erosion.

Of course, not all advertisements or promotional activities will cause price erosion, as where they do not reach a significant portion of the market. Thus, one might be tempted to exclude them from patent law's offer concept. But

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*Damages Shift by Tens of Millions of Dollars Depending Upon the Admissibility of Pre-Notice Eroded Prices*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 723 (2009); Robert S. Frank, Jr. & Denise W. DeFranco, *Patent Infringement Damages: A Brief Summary*, 10 FED. CIR. B.J. 281, 287–88 (2000).

150. Practicing the invention refers to a patentee that either sells the product himself or has others (e.g., licensees) sell on his behalf. If the patentee is not practicing the invention, price fluctuations will not harm him.

151. See Holbrook, *supra* note 149, at 792. In the case of a market with noninfringing alternatives (e.g., a nail as a substitute for a patented screw), a patentee will tend to have market power and the ability to charge a premium until an infringing offer lessens this power. Where the noninfringing alternative is a perfect substitute (i.e., it performs as well as or better than the patented product at a similar or lower price), the patentee will have no market power regardless of infringing offers (assuming a well-functioning market) and price erosion will not be a cognizable harm.

152. 35 U.S.C. § 284 (2006) mandates a minimum damage award of a reasonable royalty, calculated based on a hypothetical contractual negotiation that might have taken place between the patentee and the infringer at a time just before infringement occurred. See *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995).

153. See Holbrook, *supra* note 149, at 788–800.

excluding these commercializing activities would be under-inclusive: the commercializing activities will affect the market price at least *some* of the time, but a *per se* exclusion would render the patent holder unable to recover even where it can prove damages. Instead, the better option is to include these commercializing activities within the offer concept.<sup>154</sup> While the harm from price erosion may at times be small or difficult to prove (and in fact may not exist at all), this concern is more properly addressed by requiring the patent holder to prove its damages with reasonable certainty.<sup>155</sup>

In sum, a comparison of contract law's policies underlying its offer concept to patent law's policy of preventing detrimental commercial interest in infringing products suggests that the patent law offer concept should be broader than the contract law concept.

*ii. Comparison to Other Areas of the Law*

To further inform the proper scope of patent law's offer concept, one can compare the policies behind other uses of the offer concept to patent law's policy of preventing third parties from generating commercial interest in infringing products to the patentee's detriment.

The Lanham Act's policy of protecting a trademark owner's investment in high quality goods provides particularly interesting parallels to infringement for an offer

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154. Courts should not, however, make offers to buy or mere inquiries by buyers acts of infringement because they would not commercially harm the patentee—they would, if anything, be likely to drive *up* the price of the patented goods by indicating an increase in demand, not supply. Thus, inquiries by buyers are excluded from the terms solicitations and other promotional activities as used herein.

155. Even formal contract law offers will not always result in provable price erosion. Patent damages are governed primarily by 35 U.S.C. § 284 (2006). One option would be to craft a detailed definition of the offer concept that would only include those promotions likely to cause price erosion (e.g., by correlating it to how widely the promotional activities are distributed compared to the purchasing audience). On the other hand, finely tuning the definition will be difficult *ex ante*. If the definition of an offer encompasses most promotional activities, the cost of fine tuning (i.e., determining whether there is actual damage) shifts to each patentee. Allowing cases of price erosion to reach a fact finder will increase litigation costs, but presumably a patent holder would only pursue damages if it had some reasonable likelihood of success; otherwise it would be wasting its money on its own litigation expenses. In addition, a patent holder could pursue injunctive relief. 35 U.S.C. § 283 (2006). Courts can exercise their equitable discretion in deciding whether to grant injunctive relief. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

to sell in patent law. In both cases, the right holder (trademark or patent) is harmed by a competitor's activity (an advertisement) that is directed toward buyers. In both cases, a mere advertisement, even if not followed by a formal offer or sale, may be enough to harm the right holder. Thus, the parallels between the goals of § 32 of the Lanham Act and § 271(a) of the Patent Act suggest that patent law's offer concept should mirror the Lanham Act's by including at least advertisements in its definition.

Further, patent law's policy against improper generation of commercial interest markedly resembles the Securities Act's recognition that any activity that "arouses public interest"<sup>156</sup> in securities can harm investors. While patent law's focus rests primarily on the patentee as opposed to the Securities Act's focus on investors, both laws concern the same essential problem, i.e., an entity improperly arousing or generating interest in a thing being commercialized. The Securities Act's recognition that offers to sell, advertisements, and even smaller-scale solicitations can generate public interest<sup>157</sup> suggests a broad scope for patent law's offer concept.

Similarly, the Endangered Species Act provides an interesting comparison to the Patent Act. Both statutes include a prohibition against offers to sell without defining the term and both statutes were enacted to comply with international agreements.<sup>158</sup> The ESA's offer concept does not focus on whether the offeree can conclude the bargain (the contract law focus). Rather, it focuses on the potential harm a third party (an endangered species) may incur from the commercialization of the endangered species.<sup>159</sup> Because advertisements would tend to increase illegal animal trafficking, the ESA defines offers to include most advertisements.<sup>160</sup> The ESA's shift of focus from the offeree to the effect on external entity loosely mirrors the Patent Act's focus on preventing harm to the patent holder. Similarly, the

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156. See *supra* note 83 and accompanying text.

157. See *supra* notes 81–86 and accompanying text.

158. See *supra* Part II.C (discussing the ESA). Interpretations of offer to sell in the ESA have not discussed the ESA's international heritage. As to the potential impact of the Patent Act's international character on interpretation of offer to sell, see *infra* Part III.B.2.

159. See *supra* notes 87–91 and accompanying text.

160. See *supra* notes 95–97 and accompanying text.

ESA's recognition that advertising will affect animal trafficking markets and harm endangered species suggests that patent law's offer concept should be defined to include advertising since advertising can affect the market for the patented technology and harm the patentee.

## 2. *Additional Policies Behind Making an Offer to Sell an Act of Patent Infringement*

Courts have posited additional rationales for including offer to sell as an act of infringement. Most broadly, the Federal Circuit noted that Congress added the language to strengthen patent holders' protections under § 271.<sup>161</sup> At least one court described the purpose of adding offer to sell was to allow a patentee to sue at an earlier time.<sup>162</sup> The court stated that § 271(i)'s definition of an offer to sell as "that in which the sale will occur before the expiration of the patent . . . makes it clear that Congress intended the 'offer to sell' language to push back the point in time at which the competitor's activity is an act of infringement."<sup>163</sup> Each of these purposes is accurate, but each is unhelpful in pinpointing which activities should count as an offer to sell, since any definition would strengthen patent holders' rights and allow an earlier suit<sup>164</sup> compared to infringement for a

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161. *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1252 (Fed. Cir. 2000) (citing *General Agreement On Tariffs And Trade (GATT): Intellectual Property Provisions: Hearings on H.R. 4894 and S. 2368 Before the Subcomm. on Intellectual Property and Judicial Administration of the House Judiciary Comm. and the Subcomm. on Patents, Copyrights and Trademarks of the Senate Judiciary Comm.*, 103rd Cong. 124 (1994) [hereinafter *Hearings*] (statement of Bruce A. Lehman, Assistant Secretary of Commerce and Comm'r of Patents and Trademarks) (stating that the amendments "add to the rights of the patent owner").

162. *Quality Tubing, Inc. v. Precision Tube Holdings Corp.*, 75 F. Supp. 2d 613, 623 (S.D. Tex. 1999) ("The language of the statute and the cases make it clear that expanding the list of infringing activities in sections 271(a) . . . protects a patent holder at an earlier stage of infringing activity. The patent holder no longer has to wait for an actual infringing sale before filing suit.").

163. *Id.* at 624 (quoting 35 U.S.C. § 271(i) (2000)).

164. Regarding the *Quality Tubing* court's emphasis on 271(i)'s timing provision, note that advertisements and individual solicitations may contemplate sales that will occur before the patent's expiration. One could interpret § 271(i)'s requirement to mean that the offer *must* specify a projected completion date or else it does not infringe. Even this stringent interpretation would be both under- and over-inclusive: some contract law offers would not infringe (if the offers did not specify a completion date) and some advertising and solicitations would infringe (e.g., an advertisement good for one week only).

completed sale.

Further, applying a labor-desert theory<sup>165</sup> to the offer concept, one could argue that a third party should not be permitted to trespass upon the inventor's justly-secured patent right. On this theory, the inventor's provision of value to society via her invention results in her natural right to a patent, and that right should not be invaded by another's offering to sell the invention. This argument would lead to a broadly defined offer concept because the inventor's natural right to the patent should be protected against unjustified trespass, regardless of whether the invasion causes economic harm to the patentee.

Moreover, the offer concept may play a role in buyer<sup>166</sup> protection. Though this policy was not likely at the forefront of the change to § 271(a), the prohibition on offers to sell infringing technology adds a layer of protection to purchasers of patented technology. A purchaser of infringing technology, even if ignorant of the infringement, will become an infringer if it uses, sells, offers to sell, or imports the purchased technology within the United States.<sup>167</sup> Hence, to the extent a broad offer concept will lead to less commercialization of infringing technology, it can in turn protect innocent purchasers from future liability for infringement.

Finally, the Federal Circuit has stated that Congress added infringement for an offer to sell to harmonize U.S. patent law with that of the international community.<sup>168</sup> While TRIPS certainly intended to harmonize the broad contours of intellectual property law (including patent law), the extent to which TRIPS intended detailed harmonization is debated.<sup>169</sup> In any event, this Article reserves a discussion

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165. See *supra* note 126 and accompanying text.

166. The word buyer is used instead of consumer to reflect the fact that many purchasers of patented technology are businesses rather than individual consumers.

167. See 35 U.S.C. § 271(a) (2006).

168. *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1253 (Fed. Cir. 2000) (“[W]e must recognize one of the agreements’ declared purposes: harmonizing worldwide patent law.” (citing Lisa B. Martin & Susan L. Amster, *International Intellectual Property Protections in the New GATT Accord*, 2 J. PROPRIETARY RTS. 9, 9 (1993))); see also *Hearings, supra* note 161 (“With its signing in Marrakech, we established international standards for the protection and enforcement of intellectual property that were unthinkable only a decade ago.”).

169. See *infra* notes 207–10 and accompanying text.

of the consequences of TRIPS' international character for Section III.B.2 below.

*B. The Scope of Patent Law's Offer Concept in View of the Canons of Statutory Construction*

While the preceding subsection focused solely on policy analysis, this subsection will analyze the meaning of patent law's offer concept in light of the canons of statutory construction. This analysis will not be exhaustive, but will discuss the more salient interpretive issues. Courts and scholars perpetually debate the rules (and whether rules exist) for statutory construction,<sup>170</sup> with strict textualists refusing to go beyond the statutory language<sup>171</sup> and the liberal purposivist looking at legislative history, context, and policy.<sup>172</sup> Others (most famously Karl Llewellyn) criticize the idea that statutory canons can assist in an objective statutory construction.<sup>173</sup> This Article does not enter that debate, and instead analyzes the language, history, context, and policy<sup>174</sup>

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170. See, e.g., T. Alexander Aleinikoff, *Updating Statutory Interpretation*, 87 MICH. L. REV. 20 (1988); Frank H. Easterbrook, *Statutes' Domains*, 50 U. CHI. L. REV. 533 (1983); Frank H. Easterbrook, *Text, History, and Structure in Statutory Interpretation*, 17 HARV. J.L. & PUB. POL'Y 61, 63–64 (1994); William N. Eskridge, Jr., *Dynamic Statutory Interpretation*, 135 U. PA. L. REV. 1479 (1987); William N. Eskridge, Jr., *The New Textualism*, 37 UCLA L. REV. 621 (1990); Daniel A. Farber, *Statutory Interpretation and Legislative Supremacy*, 78 GEO. L.J. 281 (1989); Richard A. Posner, *Statutory Interpretation—In the Classroom and in the Courtroom*, 50 U. CHI. L. REV. 800 (1983); Nicholas Quinn Rosenkranz, *Federal Rules of Statutory Interpretation*, 115 HARV. L. REV. 2085 (2002).

171. See *INS v. Cardoza-Fonseca*, 480 U.S. 421, 452 (1987) (Scalia, J., concurring) (“Although it is true that the Court in recent times has [allowed legislative history to sometimes trump plain meaning], that is to my mind an ill-advised deviation from the venerable principle that if the language of a statute is clear, that language must be given effect—at least in the absence of a patent absurdity.”).

172. See *Chapman v. Houston Welfare Rights Org.*, 441 U.S. 600, 608 (1979) (“As in all cases of statutory construction, our task is to interpret the words of these statutes in light of the purposes Congress sought to serve.”).

173. See, e.g., Karl N. Llewellyn, *Remarks on the Theory of Appellate Decisions and the Rules or Canons About How Statutes Are to Be Construed*, 3 VAND. L. REV. 395, 401–03 (1950); Max Radin, *Statutory Interpretation*, 43 HARV. L. REV. 863, 885 (1930).

174. This Article analyzed the policies undergirding the offer concept in the preceding Part III.A. The Supreme Court has looked at policy to guide its decisions in patent cases. See *Brenner v. Manson*, 383 U.S. 519, 532 (1966) (“Since we find no specific assistance in the legislative materials underlying § 101, we are remitted to an analysis of the problem in light of the general intent of Congress, the purposes of the patent system, and the implications of a

without commenting on the appropriateness or inherent weight that each source carries.

1. *The Meaning of “Offer to Sell” in View of the Statute’s Text*

An oft-cited rule of statutory construction instructs courts to start with the words of the statute.<sup>175</sup> Of course, starting with the words does not necessarily mean ending with the words. Judges leaning toward stricter textualism would say that if the text’s meaning is clear, courts “must give effect to the unambiguously expressed intent of Congress.”<sup>176</sup> Other judges might say only that the text’s meaning should be given priority in construction.<sup>177</sup> If judges agree to start with the words, an additional rule of statutory construction directs that Congress should be presumed to have intended words to carry their ordinary meaning.<sup>178</sup> Perhaps inevitably, judges differ widely regarding whether, and how to determine whether, a set of words has an ordinary meaning and is unambiguous. If the text’s meaning is not clear, most judges would resort to other sources for interpretation, including other words of the statute and the legislative history.<sup>179</sup>

i. *The Meaning of “Offer to Sell” in the Law in 1994*

The words offer to sell in 38 U.S.C. § 271(a) arguably do not have a plain and ordinary meaning, as demonstrated by the various ways Congress has defined the phrase<sup>180</sup> and the disparity between the traditional contract law meaning

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decision one way or the other.”).

175. See, e.g., *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989) (“The starting point for our interpretation of a statute is always its language.”).

176. See, e.g., *Chevron, U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837, 843 (1984). Note that the *Chevron* court discusses whether the intent is clear, not necessarily the text.

177. See, e.g., *W. Union Tel. Co. v. FCC*, 665 F.2d 1126, 1137 (D.C. Cir. 1981) (“[A] statute’s plain meaning should be given priority in its construction.”).

178. *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2245 (2011).

179. See *Toibb v. Radloff*, 501 U.S. 157, 162 (1991) (“[W]e look first to the statutory language and then to the legislative history if the statutory language is unclear.” (quoting *Blum v. Stenson*, 465 U.S. 886, 896 (1984))).

180. See *supra* Part II (analyzing the offer concept as used in various areas of the law).



compared to the lay-person's understanding.<sup>181</sup> Where the meaning of a text is not plain, other rules of construction may be used.

One such rule directs that since the phrase "offer to sell" is a common law term, courts "assume the 'term . . . comes with a common law meaning, absent anything pointing another way.'"<sup>182</sup> In *Microsoft Corp. v. i4i*, the Supreme Court recently applied this rule of construction in the patent context to support the rationale that the directive that a patent shall be presumed valid means it can only be invalidated by clear and convincing evidence.<sup>183</sup> The court noted that over 100 years of patent decisions had settled on a meaning of presumed valid, and thus Congress should be presumed to have intended the settled meaning of that phrase when it used it in the 1952 Patent Act.<sup>184</sup>

If one assumes that the common law meaning of "offer to sell" refers to its meaning in the common law of contracts, then applying this rule to § 271(a) suggests that the definition of "offer to sell" would exclude most advertisements and promotions, unless there is anything pointing another way.<sup>185</sup> Starting with the remaining text in § 271, nothing appears to alter the common law definition, other than § 271(i)'s requirement that the offer be one for which the sale would not occur after the expiration of the patent at issue.<sup>186</sup> There is,

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181. See *supra* note 24. The Federal Circuit considers the phrase offer to sell in § 271(a) to be ambiguous. See *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1252 (Fed. Cir. 2000) (consulting the legislative history behind § 271(a) after stating that "[w]hen the language of a statute fails to provide clear and unambiguous direction, we may turn to the statute's legislative history").

182. *Microsoft Corp.*, 131 S. Ct. at 2245–46 (quoting *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 58 (2007)); accord *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 ("It is, however, well established that '[w]here Congress uses terms that have accumulated settled meaning under . . . the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms.'"); see also *supra* note 117.

183. *Microsoft Corp.*, 131 S. Ct. at 2245–48.

184. See *id.* at 2245–47.

185. There is disagreement whether the "anything pointing the other way" must come from the statute itself or may also include the legislative history or extrinsic considerations. See *id.* at 2249 n.8 ("For those of us for whom it is relevant, the legislative history of § 282 provides additional evidence that Congress meant to codify the judge-made presumption of validity, not to set forth a new presumption of its own making." (emphasis added)).

186. 35 U.S.C. § 271(i) (2006). While the phrase offer to sell appears in other sections of the patent statutes, e.g., 35 U.S.C. § 154(a)(1), Congress inserted the phrase in those sections at the same time as adding it to § 271, and these

however, a notable difference between the use of “offer to sell” in § 271(a) and the term presumed valid discussed in *Microsoft Corp. v. i4i*. Specifically, the term “presumed valid” had accumulated a settled meaning in *patent* cases before its use in the patent statute, whereas the term offer to sell *as applied to infringement*<sup>187</sup> had not been used in *patent* cases before it was added to § 271. Thus, any presumption would seem to apply with stronger force in the *Microsoft Corp. v. i4i* case.

Moreover, the canon that the common law meaning should be presumed is based on an assumption that a term has a single meaning in the law. But when a term has evolved new and different meanings over time or in certain areas of the law, the presumption must take account of those meanings. The Supreme Court demonstrated this flexible approach in *Perrin v. United States*,<sup>188</sup> a case interpreting whether the term “bribery” in the Travel Act was limited to inducement of public officials, or whether it also included inducement of private employees.<sup>189</sup> The *Perrin* Court noted that, at early common law, the term “bribery” only applied to the corruption of judges or other public officials.<sup>190</sup> But the Court stated that the meaning that mattered for statutory construction purposes was its meaning in 1961, when Congress enacted the Travel Act.<sup>191</sup> The *Perrin* Court decided that the term bribery was broader than its traditional common law meaning because “by the time the Travel Act was enacted in 1961, federal and state statutes had extended the term bribery well beyond its common law meaning.”<sup>192</sup>

Applying the *Perrin* Court’s logic to the phrase “offer to sell” in § 271(a) suggests a broader meaning than the contract law definition. Part II of this Article examined numerous statutes (all enacted before offer to sell was added § 271(a))<sup>193</sup> that used the term “offer to sell” in a broader way than its

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appearances do not further inform the meaning.

187. As discussed below in Part III.B.1.ii, the phrase offer to sell had been used in cases concerning § 102(b) of the Patent Act.

188. 444 U.S. 37 (1979).

189. *Id.* at 38–41.

190. *Id.* at 43.

191. *Id.* at 42.

192. *Id.* at 43.

193. Recall that § 271(a) was amended in 1994 to include liability for an offer to sell.

contract law meaning. Thus, just as federal and state statutes had broadened the term bribery by the time of the Travel Act's enhancement in 1961, so had federal and state statutes broadened the term offer to sell by the time of § 271(a)'s amendment in 1994.<sup>194</sup> Hence, courts should presume that Congress intended the broader meaning of "offer to sell" to apply to § 271(a).

*ii. The Meaning of "On Sale" in Patent Law in 1994*

In addition to the statutes discussed in Part II, judicial treatment in 1994 of the term on sale in § 102(b)<sup>195</sup> of the Patent Act recommends a meaning of "offer to sell" that is broader than the contract law definition. Section 102(b) provides that an inventor cannot obtain a patent if "the invention was . . . *on sale* in this country, more than one year prior to the date of the application for patent in the United States."<sup>196</sup> Thus, if the inventor puts her invention on sale, she must apply for a patent within one year or else she will be barred from obtaining a patent. Courts have recognized several policies underlying the § 102(b) on-sale bar, including (1) preventing inventors from commercializing their inventions while delaying applying for a patent, (2) reluctance to allow an inventor to remove existing knowledge from public use, (3) encouraging prompt and widespread disclosure of inventions to the public, and (4) giving investors a reasonable period to discern the potential value of an invention.<sup>197</sup>

The phrase "on sale" is arguably similar enough to "offer to sell" to inform its meaning.<sup>198</sup> While one might argue that

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194. *See supra* Part II.

195. 35 U.S.C. § 102(b) (2006). *See infra* note 196 (discussing 2011 amendments to § 102(b)).

196. § 102(b) (emphasis added). Note that the America Invents Act will retain the on sale verbiage in what will be the new §102(a)(1). Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, § 3(b) (enacted Sept. 16, 2011). The new § 102 will become effective eighteen months after enactment, i.e., March 16, 2013. *Id.* at § 3(n).

197. *E.g.*, 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1379 n.4 (Fed. Cir. 1998) (listing policies underlying the on-sale bar); *see also* Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 63–64 (1998).

198. Further, the on-sale bar's policy against allowing inventors to commercialize their inventions while delaying a patent application recalls § 271(a)'s policy of preventing a competitor from commercializing infringing technology to the commercial harm of the patentee.

different phrases should be presumed to have different (but perhaps overlapping) meanings, it is also argued that a similar term within a statute can inform construction of a related term.<sup>199</sup> Assuming without deciding that § 102(b) can help construe § 271(a),<sup>200</sup> this Article briefly considers the meaning of on sale under § 102(b).

When Congress amended § 271(a) in 1994, courts interpreted the phrase “on sale” in § 102(b) of the Patent Act as referring to an “offer to sell,” but used the phrase offer to sell to mean something broader than the contract law meaning.<sup>201</sup> Specifically, during and before 1994, the Federal Circuit understood that an item would be considered on sale under § 102(b) when it was subject to a definite offer to sell, but that a definite offer to sell could be shown “by a patentee’s commercial activity which does not rise to the level of a formal ‘offer’ under contract law principles.”<sup>202</sup> Thus, at the time Congress used the phrase “offer to sell” in § 271(a), Federal Circuit decisions used that phrase as synonymous with “on sale” and interpreted both phrases as including advertisements and price quotes.<sup>203</sup> This supports the notion

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199. See generally Akhil Reed Amar, *Intratextualism*, 112 HARV. L. REV. 747 (1999).

200. The Federal Circuit has equivocated somewhat on the extent to which 102(b)’s on-sale bar should influence § 271(a). Compare *3D Sys.*, 160 F.3d at 1379 n.4 (stating that because the policies governing the two sections have “no resonance” with each other, the court “decline[s] to import the authority construing the ‘on sale’ bar of § 102(b) into the ‘offer to sell’ provision of § 271(a) . . . . Thus, ‘offer to sell’ under § 271 cannot be treated as equivalent to ‘on sale’ under § 102(b).”), with *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1254 (Fed. Cir. 2000) (noting that the policies behind the two sections differ, while stating that “the analysis of an ‘offer to sell’ under § 271(a) is consistent with the [Supreme] Court’s analysis in *Pfaff* of § 102(b)”).

201. *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1062 (Fed. Cir. 1989) (“[A] definite offer to sell is an essential requirement of the on-sale bar . . . [but the] requirement of a *definite* offer excludes merely indefinite or nebulous discussion about a possible sale. While this requirement may be met by a patentee’s commercial activity which does not rise to the level of a formal ‘offer’ under contract law principles, a definite offer in the contract sense clearly meets this requirement.” (citations omitted)).

202. *Id.*; accord *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 71 F.3d 1573, 1577 (Fed. Cir. 1995) (“[W]hether a device has been placed on sale is not subject to a mechanical rule. . . . Our court has stressed that commercialization is the central focus for determining whether the patented invention has been placed on sale.” (citations omitted)); *Sonoscan, Inc. v. Sonotek, Inc.*, 936 F.2d 1261, 1263–64 (Fed. Cir. 1991) (discussing the price quote as sufficient to trigger the on-sale bar).

203. Beginning in 2001, the Federal Circuit adopted a different

that Congress intended the phrase “offer to sell” to encompass advertisements and related promotional activities.

2. *The Meaning of “Offer” in View of its Legislative History and Adoption Pursuant to an International Treaty*

The legislative history provides almost no instruction about the intent or meaning of the term “offer” in § 271(a).<sup>204</sup> As discussed, Congress added offer to sell as an act of infringement pursuant to the TRIPS agreement.<sup>205</sup> Further, the context surrounding the statutory amendment suggests that Congress added the language to strengthen patent holders’ protections under § 271 and to align U.S. patent law more closely with that of the international community.<sup>206</sup>

Although TRIPS more closely aligned international patent (and other intellectual property) laws, it did not mandate *standardization* of international patent law. TRIPS requires countries to enact certain minimum standards for patent protection (e.g., to make offers to sell an act of infringement), but it does not dictate specific definitions.<sup>207</sup> Instead, TRIPS envisions a flexible implementation.<sup>208</sup> Further, TRIPS does not require one country to consult another participant country’s laws relating to a TRIPS

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understanding of the on-sale bar. *See infra* notes 267–69 and accompanying text.

204. *See Rotec Indus.*, 215 F.3d at 1252 (“Unfortunately, other than stating that an ‘offer to sell’ includes only those offers ‘in which the sale will occur before the expiration of the term of the patent,’ Congress offered no other guidance as to the meaning of the phrase. . . . [T]he legislative history of the statute offers little additional insight.” (citing 35 U.S.C. § 271(i) (Supp. 1997))).

205. TRIPS, *supra* note 132.

206. *See, e.g., Rotec Indus.*, 215 F.3d at 1253 (“[W]e must recognize one of the agreements’ declared purposes: harmonizing worldwide patent law.”); *Hearings*, *supra* note 161 (“With its signing in Marrakech, we established international standards for the protection and enforcement of intellectual property that were unthinkable only a decade ago.”).

207. *See* CYNTHIA M. HO, ACCESS TO MEDICINE IN THE GLOBAL ECONOMY: INTERNATIONAL AGREEMENTS ON PATENTS AND RELATED RIGHTS 57 (2011), available at <http://ssrn.com/abstract=1909320> (“There may also be great diversity in laws because the minimums [required by TRIPS] are often undefined, leaving room for variation. Thus, TRIPS does not contemplate or result in uniform laws.”).

208. Whether a country’s implementation fails to meet TRIPS’s minimum requirements is decided by the Dispute Settlement Understanding, which provides that all terms are interpreted according to customary rules of international law. *Id.* at 60.

provision, and U.S. laws enacted to comply with TRIPS do not call for standardization.<sup>209</sup>

Although consulting other countries' interpretations of the term "offer" is not required under TRIPS, such interpretations provide persuasive authority as to its meaning.<sup>210</sup> As the Federal Circuit has recognized, the fact that "the United States agreed to [include offers to sell as an act of infringement], suggest[s] that the amendment to § 271(a) reflects the approaches of the other signatory nations."<sup>211</sup> Thus, consulting foreign nations' interpretations of their patent laws relating to infringement for offering to sell infringing technology is helpful to understanding the scope of § 271(a). In the next two subsections, this Article considers United Kingdom and German interpretations of the offer concept. This Article reviews these two countries for two primary reasons.<sup>212</sup> First, not all countries have judicial decisions addressing the issue.<sup>213</sup> Second, the U.K. and Germany are similar in many respects to the United States in

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209. See Edward Lee, *The New Canon: Using or Misusing Foreign Law to Decide Domestic Intellectual Property Claims*, 46 HARV. INT'L L.J. 1, 19–24 (2005).

210. *Id.* at 41 n.184.

211. *Rotec Indus.*, 215 F.3d at 1253. Nevertheless, the *Rotec* court went on to reject the approach of the U.K., a signatory nation. See *infra* text accompanying notes 257–59.

212. Additionally, these countries were considered because their court decisions were more easily available in English.

213. Research revealed no cases in Canada or Australia directly interpreting the meaning of the term offer or discussing whether offer includes advertisements. Interestingly, Canadian patent law does not appear to prohibit offers to sell infringing products, despite Canada's obligations under TRIPS Article 28. Canada's patent laws give the patentee "the exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others to be used," but does not mention offers to sell. Patent Act, R.S.C. 1985, c. P-4, § 42 (1985). The Federal Court of Australia has hinted that the right to exploit should be construed broadly, since "[t]he definition of 'exploit' in the present Act is not exhaustive; it 'includes' the matters specified." *Azuko Pty. Ltd. v Old Digger Pty. Ltd.* (2001) 52 IPR 75, ¶ 118 (Austl.). Further, one decision might imply that a letter soliciting offers to buy would constitute an offer. In *Air-Cell Innovations Pty. Ltd. v Tanwing Int'l Pty. Ltd.* (2006) FCA 1117 (Austl.), the court granted an injunction based on evidence that the defendant sold an infringing product and/or offered the infringing product for sale. *Id.* ¶ 23. The evidence of the offer was a "distribution of letters to a number of potential purchasers" and "a number of entities contacted by the respondent as potential purchasers of the product." *Id.* ¶ 15. Unfortunately, the court did not detail the letters' contents, and thus they may have amounted to a formal contract law offer.

that they are among the richest and most developed countries in the world and are net patent exporters.<sup>214</sup>

*i. The United Kingdom*

The United Kingdom's patent law creates liability for infringement when a person "makes, disposes of, *offers to dispose of*, uses or imports" a patented product without permission in the U.K.<sup>215</sup> The U.K. statute's "offers to dispose of" parallels the U.S. statute's "offers to sell." While the U.K.'s term "disposes" arguably connotes a broader category of transactions than the U.S.'s "sells"<sup>216</sup> (e.g., offers of gifts), both statutes use the identical word offer, and both should interpret "offer" in the same way.

Since at least 1995, U.K. patent decisions have interpreted the term "offer" broadly, as evidenced by the decision in *Gerber Garment Technology Inc. v. Lectra Systems Ltd.*<sup>217</sup> The defendant in *Gerber* began advertising an infringing machine (an expensive apparatus for automatic cutting of fabrics) about two years before completing any sale and argued that advertising was not an act of infringement.<sup>218</sup> The *Gerber* court had "no hesitation in rejecting" the argument that the term "offer" included only contract law offers.<sup>219</sup> The court interpreted "offer" to include advertisements and individual solicitations, recognizing that

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214. Developed countries that create a relatively large number of patentable inventions will tend to want strong patent rights. Developing countries that generate less patentable inventions generally prefer weaker patent rights to give them access to other countries' technology. See, e.g., Ho, *supra* note 207, at 59–60; Lee, *supra* note 209, at 20; J. H. Reichman, *The TRIPS Agreement Comes of Age: Conflict or Cooperation with the Developing Countries?*, 32 CASE W. RES. J. INT'L L. 441 (2000).

215. Patents Act of 1977, 1977 c. 37 § 60(1)(a), (Eng.) (emphasis added). Others have helpfully discussed the state of the U.K.'s patent laws regarding offers to dispose. See Holbrook, *supra* note 149, at 784–86; David Sulkis, Note, *Patent Infringement by Offer To Sell: Rotec Industries, Inc. v. Mitsubishi Corporation*, 38 HOUS. L. REV. 1099, 1112–16 (2001).

216. Indeed, other areas of the U.K. Patents Act distinguish between selling and disposing. See Patents Act of 1977, 1977 c. 37 § 55(1)(a)(ii) (allowing, in certain circumstances, the government to "sell or offer to sell [another's patented product] for foreign defence purposes or for the production or supply of specified drugs and medicines, or *dispose* or offer to *dispose* of it (*otherwise than by selling it*) for any purpose whatever" (emphasis added)).

217. [1995] 13 R.P.C. 383 (Eng.).

218. *Id.* at 411.

219. *Id.*

such acts “disturb[] the patentee’s monopoly.”<sup>220</sup> Thus, U.K. patent law recognizes that advertisements and other promotions harm patentees and should be prevented.

It is worth noting that when interpreting the term “offer,” the *Gerber* court relied in part<sup>221</sup> on a treaty to which the U.K. was at the time a signatory, the Convention for the European Patent for the Common Market (Community Patent Convention, or simply CPC).<sup>222</sup> The CPC was an early attempt to create a uniform European patent law<sup>223</sup> that never became binding because too few EU member states ratified it.<sup>224</sup> Although not ratified by all EU members,<sup>225</sup> the CPC provides insight into both English<sup>226</sup> and EU countries’ views regarding the appropriate interpretation of infringement for an offer to sell. Specifically, Article 25 provides that a “Community patent shall confer on its proprietor the right to prevent all third parties not having his consent . . . from making, *offering, putting on the market* or using a product which is the subject-matter of the patent.”<sup>227</sup>

“Putting on the market” is a broad term that would seem to include at least formal advertising if not less formal

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220. *Id.* at 411–12 (declining, specifically, to limit offer to a contract law definition and stating that one “who approaches potential customers *individually or by advertisement* saying he is willing to supply a machine, terms to be agreed, is offering it” (emphasis added)).

221. The court noted that under § 130(7) of the U.K. Patents Act, the language at issue should be “so framed as to have, as nearly as practicable, the same effects in the United Kingdom as the corresponding provisions of the . . . CPC.” *Id.*

222. Convention for the European Patent for the Common Market (Community Patent Convention), 1976 O.J. (L 17) 1, *available at* [http://legis.obi.gr/espacedvd/legal\\_texts/LAWS\\_E/eu\\_cvn01.htm](http://legis.obi.gr/espacedvd/legal_texts/LAWS_E/eu_cvn01.htm) [hereinafter CPC]. The CPC, which was signed December 15, 1975, but never became effective, should not be confused with the European Patent Convention (EPC), also known as the Munich Convention, which was signed in Munich, Germany, on October 5, 1973 and became effective on October 7, 1977. European Patent Convention, Oct. 5, 1973, 1065 U.N.T.S. 199.

223. Seth Cannon, Note, *Achieving the Benefits of a Centralized Community Patent System at Minimal Cost*, 35 CASE W. RES. J. INT’L L. 415, 420–21 (2003).

224. *See id.* at 421.

225. The failure of the CPC did not have anything to do with the scope of the offer provisions, but centered on issues such as sovereignty and in what languages the patents would be published. *See* Vincenzo Di Cataldo, *From the European Patent to Community Patent*, 8 COLUM. J. EUR. L. 19, 28–29 (2002).

226. Though it has since repealed its implementation of the CPC, the U.K. had at one time adopted the CPC. *See* Patents Act of 1977 c.37 § 86 (1977) (Eng.) (repealed 2004).

227. CPC, *supra* note 222, art. 25(a) (emphasis added).



promotions. By including the phrase “putting on the market” in the CPC, the drafters demonstrated that they considered it necessary to prohibit more than contract law offers in order to protect patentees. The CPC’s prohibition of advertisements and other promotions influenced the *Gerber* court and can provide persuasive authority to American courts in interpreting patent law’s offer concept.

*ii. Germany*

Consistent with U.K. courts, German courts hold that the term offer “must be understood in the economic sense and does not coincide with the legal term of a contract offer,”<sup>228</sup> but rather includes advertising and related commercial marketing.<sup>229</sup> Thus, German patent law dating back at least to the 1960’s<sup>230</sup> supports an interpretation of an offer that is broader than a contract law offer.

Because Germany was a party to the TRIPS negotiations, its pre-TRIPS understanding of an offer to sell in the patent infringement context suggests a meaning for the term offer to sell in TRIPS. Congress provided no guidance or legislative history with its adoption of this TRIPS provision; thus, a logical assumption is that Congress adopted the meaning used by the major countries favoring the inclusion of offering to sell as a mode of infringement. In addition, as with the U.K.’s interpretation of offer, Germany’s interpretation better aligns with the policy of preventing an infringer from generating interest in another’s patented technology to the harm of the patentee.

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228. MARKET TRIMBLE, GLOBAL PATENTS: LIMITS OF TRANSNATIONAL ENFORCEMENT § 3.3, at 100 n.106 (2012) (quoting *Thermocycler*, Oberlandesgericht Düsseldorf, 2 U 58/05, Dec. 21, 2006, 2007 GRUR-RR 261).

229. See TRIMBLE, *supra* note 228, § 3.3 (citing, *inter alia*, *Kreuzbodenventilsäcke*, Bundesgerichtshof, I ZR 109/58, Mar. 29, 1960, 1960 GRUR 423; *Kupplung für optische Geräte*, Bundesgerichtshof, X ZR 179/02, Sept. 16, 2003; *Reichsgericht*, I 137/33, Jan. 13, 1934, RGZ 29, 173; *Zeitlagenmultiplexverfahren*, Landgericht Düsseldorf, 4a O 124/05, Feb. 13, 2007; and Schricker, *supra* note 209, at 787).

230. See *Kreuzbodenventilsäcke*, *supra* note 229 (decided in 1960). Interestingly, German law prohibited infringing offers to sell as far back as 1877. See TRIMBLE, *supra* note 228, § 3.3.

### 3. *Construing “Offer” in View of Other Statutes*

Debate exists regarding the extent to which a statute’s words may be interpreted in light of other portions of the same statute or of related statutes.<sup>231</sup> Where one party urges a specific construction, courts sometimes compare the language at issue to similar language in the same or related statutes to demonstrate that Congress knows how to legislate for a specific result when it wants to.<sup>232</sup>

For example, in *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*,<sup>233</sup> the Supreme Court held that the Bayh-Dole Act, which allows contractors (e.g., a university) to elect to retain title in patentable inventions generated during work that the government funded, did not divest individual inventors of their rights to inventions<sup>234</sup> made during federally-funded work.<sup>235</sup> The Court noted that “Congress has in the past divested inventors of their rights in inventions by providing unambiguously” for such divestiture in other statutes, but “[s]uch language is notably absent from the Bayh-Dole Act.”<sup>236</sup> Thus, the Court concluded that Congress knows how to divest inventors of their rights, but did not do so in the Bayh-Dole Act.

The concept that Congress knows how to craft precise legislation may have strong appeal at times, especially when Congress fails to use a term of art that it consistently uses in other statutes to capture a desired meaning.<sup>237</sup> This logic

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231. See YULE KIM, STATUTORY INTERPRETATION: GENERAL PRINCIPLES AND RECENT TRENDS 13–17 (2009).

232. See *id.*

233. 131 S. Ct. 2188 (2011).

234. Under U.S. patent law, the rights to an invention initially vest in the individual inventor(s), not the inventor’s employer. *Id.* at 2195. The inventor may assign in advance her rights to any subsequent invention to her employer, but the rights nevertheless initially vested with the employee. *Id.*

235. *Id.* at 2197–99.

236. *Id.* at 2195–96.

237. See, e.g., *Whitfield v. United States*, 543 U.S. 209, 216 (2005) (“Congress has included an express overt-act requirement in at least 22 other current conspiracy statutes, clearly demonstrating that it knows how to impose such a requirement when it wishes to do so.”); *Dole Food Co. v. Patrickson* 538 U.S. 468, 476 (2003) (construing the word owner to mean direct owner as opposed to indirect owner, and noting that “[w]here Congress intends to refer to ownership in other than the formal sense, it knows how to do so.”); *Meghrig v. KFC W., Inc.*, 516 U.S. 479, 485 (1996) (“Congress . . . demonstrated in CERCLA that it knew how to provide for the recovery of cleanup costs, and . . . the language

could be applied to the offer concept. For example, recall that § 32(a) of the Lanham Act mentions both offers to sell and advertisements.<sup>238</sup> Since courts should “construe statutes, where possible, so as to avoid rendering superfluous any parts thereof,”<sup>239</sup> the Lanham Act appears to treat offers to sell and advertisements as non-coterminous. Can one conclude, therefore, that Congress knows how to distinguish between advertisements and offers to sell and yet did not do so in § 271(a)? Since Congress did not do so in § 271(a), the logic suggests Congress did not intend to include anything other than contract law offers.

Yet the concept that Congress knows how to legislate for a specific result has weaknesses in the context of the offer concept. Specifically, Congress has not used the term offer to sell in a unified way throughout the law. Although Congress has at times explicitly mentioned both advertisements and offers in a statute, in other statutes (e.g., the ESA) it mentions only offers to sell and yet subsequent interpretations have defined the phrase to include advertisements.<sup>240</sup> Further, where a term like offer to sell has evolved in meaning over time, an assumption that Congress used it in a specific way opposes the canon of statutory construction (discussed above)<sup>241</sup> that Congress uses a term in light of its meaning at the time of enactment.

As Karl Llewellyn argued years ago,<sup>242</sup> the arguments and counter-arguments can carry on.<sup>243</sup> Perhaps the inclusion

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used to define the remedies under RCRA does not provide that remedy.”); *Cent. Bank of Denver v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 176–77 (1994), *superseded in part by statute*, 15 U.S.C. § 78. (“Congress knew how to impose aiding and abetting liability when it chose to do so. If, as respondents seem to say, Congress intended to impose aiding and abetting liability, we presume it would have used the words ‘aid’ and ‘abet’ in the statutory text. But it did not.” (citations omitted)).

238. 15 U.S.C. § 1114(1)(a) (2006); *see supra* text accompanying note 54.

239. *Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 112 (1991); *see also* *Sprietsma v. Mercury Marine*, 537 U.S. 51, 63 (2002) (stating that interpreting word law broadly could render word regulation superfluous in preemption clause of the Federal Boat Safety Act of 1971); *Bailey v. United States*, 516 U.S. 137, 146 (1995) (“We assume that Congress used two terms because it intended each term to have a particular, nonsuperfluous meaning.”).

240. *See supra* Part II.C.

241. *See supra* notes 170–97 and accompanying text.

242. Llewellyn, *supra* note 173.

243. Further, one can characterize Congress’s failure to discuss advertising in § 271(a) as evidence that Congress invited courts to decide the contours of the

of advertising in the Lanham Act may be explained in part on trademark law's historic connection to advertising, since trademarks are used heavily in advertising.<sup>244</sup> In addition, the Lanham Act had the benefit of years of common law development (both regarding trademarks and unfair competition) preceding it,<sup>245</sup> whereas patent law's offer to sell provision was brought about quickly to comply with the United States' obligations under the TRIPS agreement.<sup>246</sup>

In the end, given the diversity of definitions for the offer concept in the law, the best route would have been for Congress explicitly to define it. Nevertheless, one can argue (though how persuasively is open for debate) that Congress knows how to define the offer concept as something other than the contract law definition when it wants to, and that its failure to do so in § 271(a) supports a contract law meaning for offer to sell therein.

### C. Summary

Constructing an optimal definition for the offer concept in patent law requires a careful policy-based analysis. The leading policy behind making an offer to sell an act of patent infringement is to prevent a patent holder from being harmed by another's unauthorized commercialization of the patented technology.<sup>247</sup> Because an entity can generate commercial interest in technology by engaging in advertising and promotions that harm the patentee via price erosion, patent law's offer concept should include not only contract law offers, but also advertising and promotions.

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offer concept or that they had not thought of the issue at all. See YULE KIM, CRS REPORT FOR CONGRESS, STATUTORY INTERPRETATION: GENERAL PRINCIPLES AND RECENT TRENDS 16 (2008) ("In some cases, Congress intends silence to rule out a particular statutory application, while in others Congress' silence signifies merely an expectation that nothing more need be said in order to effectuate the relevant legislative objective. In still other instances, silence may reflect the fact that Congress has not considered an issue at all.")

244. See, e.g., Ralph S. Brown Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165 (1948).

245. See, e.g., Edward S. Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 LAW & CONTEMP. PROBS. 173, 178 (1949); Keith Stolte, *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 505, 506-09 (1998).

246. See TRIPS, *supra* note 132, and accompanying text.

247. See *supra* text accompanying notes 140-42.

In addition to a policy-based analysis of what the offer concept should encompass, an analysis of the statutory language and surrounding context provides conflicting direction regarding the proper construction. Some would argue that statutory construction is almost always doomed to such confusion.<sup>248</sup> Certainly the preferred result would have been for Congress to provide a detailed definition in the statute. That did not happen, however, and thus this Article turns to consider the best way forward for using the offer concept in patent law as well as other areas of the law.

#### IV. CURRENT AND FUTURE USES OF THE OFFER CONCEPT: THOUGHTS ON A WAY FORWARD

The offer concept began as an eighteenth-century innovation in the law of contracts and has since infiltrated areas of the law as diverse as intellectual property and criminal law. As the offer concept migrated into new areas of the law, it acquired a diversity of meanings. Sometimes lawmakers carefully crafted the definition of the offer concept for its new legal environment, whereas at other times they inserted the offer concept with no discussion or guidance as to its meaning. Given the myriad potential definitions for the offer concept, its meaning is far from clear if it appears in a statute without definition. In the subsections that follow, this Article suggests guidelines for how legislatures and courts should handle the offer concept when it is used in the law.

##### A. *The Offer Concept in Patent Law*

This Article first considers a way forward for the offer concept in patent law. But discussing the way forward requires an understanding of the current state of the law, which is provided in the following subsection.

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248. See Llewellyn, *supra* note 173, at 401–03; Geoffrey P. Miller, *Pragmatics and the Maxims of Interpretation*, 1990 WIS. L. REV. 1179, 1180 (1990) (“Maxims, after Llewellyn’s work, were considered by most legal academics to be mere conclusory explanations appended after the fact to justify results reached on other grounds.”).

1. *The Current Scope of the Offer Concept Under § 271(a)*

The Federal Circuit has slowly (and somewhat fitfully) fleshed out what amounts to an offer to sell that infringes under § 271(a).<sup>249</sup> The first clarification came in *3D Systems, Inc. v. Aarotech Labs., Inc.*,<sup>250</sup> a case dealing not with a substantive patent question, but with whether specific personal jurisdiction<sup>251</sup> existed based on an alleged offer to sell an infringing device.<sup>252</sup> Albeit in dicta,<sup>253</sup> the court took a broad view of what constitutes an offer to sell. Applying federal common law to the question,<sup>254</sup> the court indicated

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249. Other aspects of the scope of an offer to sell under § 271(a) have been analyzed and further defined, but these aspects are not directly relevant to this Article's focus on the scope of the offer concept. See, e.g., *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1308–10 (Fed. Cir. 2010) (examining the extraterritorial reach of infringement for an offer to sell and separately holding that an infringing offer to sell may occur even if the device offered for sale was not built when the offer was made); *Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (holding that “a mere offer to sell a machine [that can perform a patented method] cannot serve as the sole basis for finding infringement of the claimed method”); Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2151 (2008) (examining the extraterritorial reach of infringement for an offer to sell); Timothy R. Holbrook, *Territoriality and Tangibility After Transocean*, 61 EMORY L.J. 1087, 1094–99 (2012) (same); 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 (2009).

250. 160 F.3d 1373 (Fed. Cir. 1998).

251. Under Federal Circuit law, personal jurisdiction over an out-of-state defendant exists when the relevant state's long-arm statute permits the assertion of jurisdiction without violating federal due process. See, e.g., *Akro Corp. v. Luker*, 45 F.3d 1541, 1543–44 (Fed. Cir. 1995).

252. A second personal jurisdiction case, *HollyAnne Corp. v. TFT, Inc.*, 199 F.3d 1304 (Fed. Cir. 1999), dealt not with the definition of offer, but rather of sell under § 271(a). The court held that the offered donation was not an offer to sell under the statute where the offered donation was small and insignificant, the donation was never consummated, and the would-be donor appeared not to be motivated by any current or future commercial gain. *Id.* at 1309–10. The *HollyAnne* court's focus on sell rather than offer renders it less relevant to this Article's analysis.

253. Because *3D Systems* concerned personal jurisdiction and not substantive patent law, its pronouncements about the scope of an infringing offer to sell are dicta as related to substantive patent law. See 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, 1289–99 (2006) (criticizing the Federal Circuit's conflation of offer to sell and specific personal jurisdiction jurisprudence).

254. *3D Sys.*, at 1379.

that a price quotation could infringe because “[o]ne of the purposes of adding ‘offer[] to sell’ to § 271(a) was to prevent exactly the type of activity [the accused infringer] has engaged in, i.e., generating interest in a potential infringing product to the commercial detriment of the rightful patentee.”<sup>255</sup>

Thus, in its first exploration of the offer concept, the Federal Circuit suggested that something less than a formal, contract law offer (a price quotation) could count as an offer under § 271(a). This interpretation was short lived. Two years later the Federal Circuit for the first time squarely addressed the standard for offer to sell infringement on the merits in *Rotec Industries, Inc. v. Mitsubishi Corp.*<sup>256</sup> and concluded that it should “define § 271(a)’s ‘offer to sell’ liability according to the norms of traditional contractual analysis.”<sup>257</sup> The court refused (without significant discussion) to adopt the *3D Systems* panel’s potentially broader definition of “offer.”<sup>258</sup>

While the *Rotec* court did not explicitly address its reasons for adopting the contract law standard for an offer, the court appears to have been heavily influenced by its own understanding of the Supreme Court’s decision in *Pfaff v. Wells Electronics, Inc.*<sup>259</sup> The *Pfaff* Court considered the meaning of the on-sale bar in § 102(b), discussed above.<sup>260</sup> The *Pfaff* decision devoted the bulk of its attention to how complete the invention must be before it can be on sale,<sup>261</sup> an

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255. *Id.* at 1379. “The price quotation letters . . . state on their face that they are purportedly not offers, but to treat them as anything other than offers to sell would be to exalt form over substance. . . . As a matter of federal statutory construction, the price quotation letters can be regarded as ‘offer[s] to sell’ under § 271 based on the substance conveyed in the letters, i.e., a description of the allegedly infringing merchandise and the price at which it can be purchased.” *Id.*

256. 215 F.3d 1246 (Fed. Cir. 2000).

257. *Id.* at 1254–55; see also *id.* at 1257 (citing RESTATEMENT (SECOND) OF CONTRACTS § 24 (1979)).

258. See *supra* notes 253–55 and accompanying text.

259. 525 U.S. 55 (1998).

260. See *supra* notes 195–203 and accompanying text.

261. See *Pfaff*, 525 U.S. at 60 (stating that the reason the court granted certiorari was that “other courts have held or assumed that an invention cannot be ‘on sale’ within the meaning of § 102(b) unless and until it has been *reduced to practice* and because the text of § 102(b) makes no reference to ‘*substantial completion*’ of an invention, we granted certiorari” (emphasis added) (citations omitted)). The court rejected both the reduced to practice test and the

inquiry not relevant to whether a contract law offer is required under §102(b). Nevertheless, one paragraph of the opinion stated that to trigger the on-sale bar, “the product must be the subject of a *commercial offer for sale*.”<sup>262</sup>

The Court did not expound much on what it meant by “commercial offer for sale,” but the remaining sentences of the single paragraph discussing the issue provide a strong clue. The Court stated,

An inventor can both understand and control the timing of the first *commercial marketing* of his invention. The experimental use doctrine, for example, has not generated concerns about indefiniteness, and we perceive no reason why unmanageable uncertainty should attend a rule that measures the application of the on-sale bar of § 102(b) against the date when an invention that is ready for patenting is first *marketed commercially*.<sup>263</sup>

As the emphasized text highlights, the Court understood the phrase “commercial offer for sale” to refer to commercial marketing.<sup>264</sup> The term “marketing,” which is defined as “the act or process of promoting and selling products or services,”<sup>265</sup> is much broader than the contract law “offer to sell,” and its ordinary meaning at least encompasses advertising, if not less formal promotions. Thus, one could read *Pfaff* to concur with earlier Federal Circuit cases that understood the term “on sale” to include advertising and other commercializing activity.<sup>266</sup>

Despite the *Pfaff* court’s reference to a broad marketing standard for the on-sale bar, the Federal Circuit in *Group One, Ltd. v. Hallmark Cards, Inc.*<sup>267</sup> interpreted the language used in *Pfaff* to “strongly suggest[] that the offer must meet the level of an offer for sale in the contract sense, one that would be understood as such in the commercial

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substantial completion test and held that for an invention to be on sale, it must be “ready for patenting.” *Id.* at 67.

262. *Id.* (emphasis added). The Court most likely provided this additional clarification of the on-sale bar since it was overruling the Federal Circuit’s totality of the circumstances test, which considered, among other things, the invention’s completeness and the level of commercialization. *See id.* at 66 n.11.

263. *Id.* at 67 (emphasis added) (footnote omitted).

264. *See id.*

265. BLACK’S LAW DICTIONARY 984 (7th ed. 1999).

266. *See supra* notes 201–03 and accompanying text.

267. 254 F.3d 1041 (Fed. Cir. 2001).



community.”<sup>268</sup> The *Group One* court justified this conclusion with reference to the *Pfaff* court’s desire for greater certainty.<sup>269</sup> While it is true that *Pfaff* called for great certainty in the on-sale bar analysis, determining what constitutes a contract law offer to sell is arguably no more certain than determining what constitutes an advertisement, solicitation, or promotion.<sup>270</sup> Further, the *Group One* court’s interpretation of *Pfaff* makes no reference to the *Pfaff* court’s use of the term “marketing,” which strongly suggests a broader meaning for commercial “offer to sell.”

The Federal Circuit’s conclusion to treat the on-sale bar as requiring a contract law offer was ill-advised and has invited criticism.<sup>271</sup> Aside from its shortcomings in the on-sale bar context, the Federal Circuit’s narrow reading of *Pfaff* has influenced its decisions under § 271(a). The Federal Circuit in *Rotec* stated that “the analysis of an ‘offer to sell’ under § 271(a) is consistent with the [Supreme] Court’s analysis in *Pfaff* of § 102(b).”<sup>272</sup> Since the Federal Circuit understood *Pfaff* as teaching that “the norms of traditional contract law should be the basis for the on-sale determinations under § 102(b),” the court allowed its

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268. *Id.* at 1046.

269. *Id.* at 1047 (“Applying established concepts of contract law, rather than some more amorphous test, implements the broad goal of *Pfaff*, which, in replacing this court’s ‘totality of the circumstances’ test with more precise requirements, was to bring greater certainty to the analysis of the on-sale bar.”).

270. See Holbrook, *supra* note 149, at 781–83 (arguing that the contract law offer to sell standard lacks clarity).

271. See, e.g., Frank Albert, Note, *Reformulating the On Sale Bar*, 28 HASTINGS COMM. & ENT. L.J. 81, 88 (2005) (noting that the current on-sale bar test “allows inventors to . . . begin building demand for their invention . . . [because they] may advertise, give price quotes, [and] send product samples to potential customers” (footnotes omitted)); Holbrook, *supra* note 149, at 780–84, 799 (noting problems with the commercial offer for sale portion of the on-sale bar and arguing that “the focus [of the § 102(b) on-sale bar] should be on what was in the public domain, as opposed to the exact nature of the transaction”); Mark Levy, *An Analysis of the On Sale Bar and Its Impact on the Structure and Negotiation of Development Agreements*, 30 U. DAYTON L. REV. 181, 206 (2004) (outlining strategies for an inventor wishing to commercialize its invention without triggering the offer prong of the on-sale bar); Stephen Bruce Lindholm, Comment, *Revisiting Pfaff and the On-Sale Bar*, 15 ALB. L.J. SCI. & TECH. 213, 217 (2004) (noting that “parties are sometimes able to avoid meeting the [on-sale bar] through careful contracting”).

272. *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1254 (Fed. Cir. 2000).

understanding to control the meaning of § 271(a).<sup>273</sup> The result is that the offer concept in § 271(a) fails to align optimally with its policy rationales.<sup>274</sup>

In cases after *Rotec*, the Federal Circuit has interpreted an “offer to sell” under § 271(a) according to the norms of traditional contract law.<sup>275</sup> Interestingly, the same cases recognize that the primary policy underlying offer to sell infringement is to prevent a competitor from generating interest in an infringing product to the commercial detriment of the patentee.<sup>276</sup> Yet the Federal Circuit never discusses the fact that the policy against allowing competitors to generate commercial interest (1) suggests patent law’s offer concept should include advertisements and other promotions, and (2) differs dramatically from the primary policy undergirding the contract law offer concept, which is to balance freedom-from and freedom-to contract.

## 2. *How to Correct the Scope of the Offer Concept Under § 271(a)*

To correct these shortcomings, the Federal Circuit has at least two options. First, as an *en banc* court, it could overrule its *Rotec* decision regarding § 271(a) and broaden the offer concept to include advertisements and other promotional activities.<sup>277</sup> In the alternative, sitting *en banc*, it could overrule the *Group One* panel’s interpretation of the on-sale

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273. *Id.* “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.” *Id.* at 1254–55.

274. *See supra* Part III.A.

275. *See, e.g.*, *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1308 (Fed. Cir. 2010) (citing *Rotec Indus.*, 215 F.3d at 1246); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1376 (Fed. Cir. 2005) (citing *Rotec Indus.*, 215 F.3d at 1255 and RESTATEMENT (SECOND) OF CONTRACTS § 24 (1979)).

276. *Transocean*, 617 F.3d at 1309; *MEMC*, 420 F.3d at 1376 (noting that “[o]ne of the purposes of adding ‘offer[] to sell’ to section 271(a) was to prevent . . . generating interest in a potential infringing product to the commercial detriment of the rightful patentee”).

277. While it can be argued that § 102(b) and § 271(a) should have the same scope, case law does not require this result. Recall that the *3D Systems* panel “decline[d] to import the authority construing the ‘on sale’ bar of § 102(b) into the ‘offer to sell’ provision of § 271(a).” *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1379 n.4 (Fed. Cir. 1998). Although the *Rotec* court noted that its interpretation of § 271(a) was consistent with that of § 102(b), it did not require such consistency. *See Rotec Indus.*, 215 F.3d at 1254.

bar and instead interpret the Supreme Court's *Pfaff* decision to include advertisements and promotions. Such a decision would not only better align § 102(b)'s on-sale bar with its underlying policies, but also would effectively overrule the Federal Circuit's *Rotec* decision under § 271(a), which was influenced by the *Group One* court's interpretation of *Pfaff*. Under this scenario, a subsequent Federal Circuit panel would be free to realign the scope of the offer concept under § 271(a).

If the Federal Circuit does not correct the scope of 271(a)'s offer concept, the Supreme Court could do so. The Court has increasingly taken an interest in patent cases<sup>278</sup> and may be willing to take another. As discussed in the preceding paragraph, a decision altering the scope of either § 102(b)'s on-sale bar or § 271(a)'s offer concept would allow reform to § 271(a). The Court may be willing to consider an on-sale bar case if it believes the Federal Circuit's *Group One* decision misinterpreted its *Pfaff* decision, but this becomes less likely as more time passes since the *Group One* decision in 2001.

Finally, of course, Congress itself could bring clarity to the offer concept in § 271(a). If Congress chose to act, it should at a minimum make clear that advertisements should be included in the definition of an offer. Further, solicitations and promotional activities that might reasonably affect market prices should be included. Drawing the precise line between those promotional activities that might affect market prices and those that would not might be difficult. To protect patent holder's more fully, Congress could err on the side of a broad definition of promotional activities, knowing that patent holders will likely not find it cost-effective to bring suits in cases where proving damages will be difficult.<sup>279</sup> It is,

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278. See Lucas S. Osborn, *Instrumentalism at the Federal Circuit*, 56 ST. LOUIS U. L.J. 419 (2012).

279. An exception to this might be certain nonpracticing entities (pejoratively referred to as patent trolls), who might bring suit simply for the opportunity of settlement money, which defendants may pay even in meritless cases to avoid expensive discovery and litigation costs. See, e.g., Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571 (2009); Robin Feldman & Tom Ewing, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1 (2012); John M. Golden, "Patent Trolls" and Patent Remedies, 85 TEX. L. REV. 2111 (2007). To the extent that the defendant has only offered to sell the product but has not sold the product and does not plan to sell the product, the defendant could try to minimize

however, unlikely that Congress will be eager to take up patent legislation in the near future, having passed multifaceted patent legislation in 2011.<sup>280</sup> Therefore, courts should strive to improve the offer concept in the near term.

*B. The Offer Concept in the Law Generally*

In some areas of the law, such as the Securities Act of 1933, Congress provided relatively detailed definitions of the offer concept, which suggests careful thought as to the policy role that the offer concept would play.<sup>281</sup> In other areas of the law, like patent law and many criminal statutes, the offer concept is included with little or no discussion of its meaning in the statute or its history. Because the offer concept has so many different definitions in the law, a legislature's failure to provide a definition or guidance invites confusion. As this Article has attempted to demonstrate, it is unlikely that the offer concept's policy role in contract law will correlate to its role in another area of law.<sup>282</sup> Thus, legislatures should provide guidance as to the offer concept's role, none the less its meaning, within a statute.

The various statutes using the offer concept discussed in this Article raise many questions. For example, it is unclear why the Lanham Act prohibits advertisements in § 32, but prohibits advertisements *and promotions* in § 43.<sup>283</sup> The Endangered Species Act and its regulations indicate only that advertisements qualify as offers to sell—do less formal promotions qualify as well?<sup>284</sup> While numerous criminal laws prohibit certain offers to sell contraband, many do not define the scope of the offer concept.<sup>285</sup> The optimal scope of the offer concept in each area of the law will depend on many factors. While a broad definition of offer would perhaps minimize the undesirable activity (e.g., infringement of trafficking),

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litigation costs by asking the court to bifurcate the trial and first determine the damages. If the plaintiff could not prove damages from price erosion, then the suit would be relatively inexpensive to defend: the defendant who does not plan to sell the product could stipulate to infringement and avoid expensive discovery.

280. Congress passed the America Invents Act in 2011. *See supra* note 196.

281. *See* 15 U.S.C. § 77b(a)(3) (2006).

282. *See supra* Part II.

283. *See supra* notes 67–70 and accompanying text.

284. *See supra* notes 95–97 and accompanying text.

285. *See supra* note 104 and accompanying text.

broadening the definition too much may have undesired ancillary consequences. Legislatures are well equipped to handle these fact and policy-intensive inquiries and should endeavor to provide as much guidance as possible.

As with any legislation, there is a tension between a legislature's desire to provide specific guidance and its hesitancy to legislate with excessive rigidity. Legislatures understand their own lack of omniscience and may prefer to give some flexibility to courts.<sup>286</sup> Where legislatures want to give courts flexibility, they should be relatively clear about their intent; given the varying meanings of the offer concept in the law, a court might otherwise unnecessarily fixate on a specific meaning that the legislature never intended. Where possible, legislatures should generally strive to explain the broader contours of the offer concept as used in a particular statute. For example, making the threshold decision whether the offer concept will include advertisements would be particularly helpful. As to whether it should provide more specific guidance, the legislature must weigh its ability to craft a detailed rule against the potential need for flexibility in the law's development.<sup>287</sup> However specific the legislature decides to be, it should explain the policies behind the offer concept in the statute to guide courts in future cases.

When courts are faced with interpreting an ill-defined (and therefore ambiguous) offer concept, they should look to the policy role of the concept in the statute. Since it is unlikely that the offer concept's policy role in a specific legal area will be similar to its role in contract law,<sup>288</sup> courts should be hesitant to presume that a term like offer to sell should carry its common law meaning. Courts can rebut the presumption that offer should carry its contract law meaning by pointing to the disparate meanings of the offer concept appearing throughout the law.

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286. See, e.g., Posner, *supra* note 170, at 811–12.

287. The costs and benefits of detailed rules versus flexible standards have been exhaustively discussed. See, e.g., Louis Kaplow, *Rules Versus Standards: An Economic Analysis*, 42 DUKE L.J. 557 (1992); Duncan Kennedy, *Form and Substance in Private Law Adjudication*, 89 HARV. L. REV. 1685 (1976); Carol M. Rose, *Crystals and Mud in Property Law*, 40 STAN. L. REV. 577 (1988); Cass R. Sunstein, *Problems with Rules*, 83 CAL. L. REV. 953 (1995).

288. See *supra* Part II.

## CONCLUSION

Contract law's definition of an offer helps balance freedom-to and freedom-from contract. Other areas of law have incorporated the offer concept, but have used it in a very different way than contract law; namely, to regulate certain undesirable behaviors. As each area of the law uses the offer concept in a different policy role, it should adapt the concept's definition in a way consonant with its new role. The optimal definition for an offer concept that regulates undesirable behaviors will typically be different than the contract law definition, and thus legislatures should be particularly careful to provide guidance as to its meaning. Additionally, courts should hesitate to presume the legislature intended the contract law definition and should look to the contemporaneous meanings of the offer concept in analogous statutes. Courts should also consider the policy role of the offer concept. Where the concept is a tool to prevent commercialization of an item, the offer concept should generally be construed to include not only contract law offers, but also advertisements and promotional activity.