Patent Act liability needs more than one U.S.-made component, justices say (U.S.)

(February 23, 2017) - One American-made component — no matter its qualitative importance — cannot qualify as a "substantial portion" of a multifaceted product produced overseas for the purpose of triggering potential liability under U.S. patent law, the nation's highest court has ruled.

Life Technologies Corp. et al. v. Promega Corp., No. 14-1538, 2017 WL 685531 (U.S. Feb. 22, 2017).

The decision settles a licensing dispute between biotech companies Life Technologies Corp. and Promega Corp. involving DNA testing kits Life Tech had manufactured and sold in the U.K.

In a unanimous opinion written by Justice Sonia Sotomayor, the court rejected Promega's argument that the one component it licensed to Life Tech — a U.S. patent — was qualitatively important enough to be a substantial portion of the DNA testing kit.

Liability under Section 271(f)(1) of the Patent Act, 35 U.S.C.A. § 271(f)(1), can rest only on the quantity of U.S.-made components that contribute to a product made abroad, not their qualitative importance, the opinion said.

International implications, attorneys say

Several attorneys who have been following the case commented on the opinion.

John Morrow, chair of Womble Carlyle's intellectual property litigation group in Winston-Salem, North Carolina, said the decision could have significant implications both in the U.S. and abroad and underscores the importance of having international patent portfolios.

"The court appears to have opened the door for companies to avoid infringement of a U.S. patent even if they supply the most important or novel component of an invention overseas knowing that it will be used as part of a combination to practice or form the patented invention," he said.

Nancy Del Pizzo, from Rivkin Radler's office in Hackensack, New Jersey, explained how the decision decreases the potential for U.S. patent liability for sales occurring abroad.

"Section 271(f)(1) essentially prevents parties from evading U.S. patent law when doing business outside the U.S.," she said. "But with today's opinion, more than a 'single component' of a multicomponent invention has to be made and shipped from the U.S. to result in Section 271(f)(1) liability.

"U.S. companies doing business outside the U.S. can now breathe more easily," she added.

Pat Carson, an IP partner at Kirkland & Ellis' New York office, said that in rejecting a "case specific" approach to the dilemma with a quantitative rule, the court reduced the risk of infringement liability.

"The quantitative approach adopted by the Supreme Court is consistent with the purpose of Section 271(f), which was to close a loophole where all components of an invention were exported from the U.S. to be assembled abroad," Carson said.

The license and the dispute

The dispute stems from a license agreement between Madison, Wisconsin-based Promega and Life Tech, which is headquartered in Carlsbad, California, and manufactures biotechnologies outside the U.S.

Promega is the owner of U.S Patent Reissue No. RE37,984, a technology for determining a person's identity through DNA.

Promega granted Life Tech a limited license to use the '984 patent for the manufacture and sale of DNA testing kits, but only within clinical and research markets, according to the high court's opinion.

Life Tech manufactured its kit in the United Kingdom, combining Promega's patented technology with several other components. It sold the final kits to law enforcement agencies, the opinion said.

In 2010 Promega sued Life Tech for breaching the license agreement, claiming the sale of patented products outside the specified markets constituted induced patent infringement under Section 271(f)(1).

A jury awarded Promega $52 million, but the trial court rejected the award, saying the one component could never qualify as a substantial portion of the multicomponent kits. *Promega Corp. v. Life Tech Corp.*, No. 10-cv-281, 2012 WL 12862829 (W.D. Wis. Sept. 13, 2012).

The U.S. Court of Appeals for the Federal Circuit reinstated the jury verdict. *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338 (Fed. Cir. 2014).

The three-judge panel said this was a circumstance "in which a party may be liable under Section 271(f)(1) for supplying or causing to be supplied a single component for combination outside the United States."

Life Tech, which was acquired by Thermo Fisher Scientific in a high-profile merger in 2014, filed a certiorari petition in June 2015, and the high court agreed to hear the dispute.

In early January Chief Justice John Roberts decided not to participate in the case after disclosing that he owned stock in Thermo Fisher.

Interpreting the Patent Act

In the 7-0 opinion, the justices found the ordinary meaning of the term "substantial" provided little guidance for interpreting the Patent Act, so they looked to "neighboring words" in Section 271(f)(1) and the language of its "companion provision," 35 U.S.C.A. § 271(f)(2).

The words "all" and "portion" in Section 271(f)(1) give a quantitative meaning to the term "substantial," the opinion said.

If Section 271(f)(1) were given a qualitative meaning, the court said, it would conflict with Section 271(f)(2), which says special circumstances must exist for a single component to violate the Patent Act.

The high court rejected Promega's argument that considering a component's qualitative importance would sometimes simplify matters, saying such a finding would just make disputes more complicated.

"Surely a great many components of an invention (if not every component) are important," Justice Sotomayor wrote, dismissing the "'importance' litmus test" that Promega proposed.

Concurring opinion

Justice Samuel Alito wrote a concurring opinion, which Justice Clarence Thomas joined.

The concurrence said the opinion did not provide enough guidance as to whether any number of components greater than one might not qualify as "substantial" under Section 271(f)(1).

"[T]oday's opinion establishes that more than one component is necessary, but does not address how much more," Justice Alito said.

John DiMatteo, a partner at Holwell Shuster & Goldberg in New York, who was not involved in the case, echoed Justice Alito's comments.

The opinion followed "classic principles of statutory construction to reach a conclusion that many expected," he said.

"The only interesting aside is that the court left open the question of how many components are required to be a 'substantial portion,'" DiMatteo said.

Michael A. Oakes, a partner in the Washington office of Hunton & Williams, who was also not involved with the case, noted the court's narrow ruling reflected a belief that more instruction on "a specific number or percentage of components … was not necessary to resolve the question presented."

(Additional reporting by Melissa J. Sachs)

By Patrick H.J. Hughes

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