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High Court Overseas Patent Law Ruling Will Spur More Fights

By **Ryan Davis**

Law360, New York (February 22, 2017, 10:06 PM EST) -- The U.S. Supreme Court's decision on Wednesday that shipping a single component of a patented invention to be combined with others overseas is not patent infringement eliminates liability in that situation but leaves parties to battle in lower courts over what constitutes infringement in other scenarios.

The justices reversed a 2014 Federal Circuit ruling that Life Technologies Corp. was liable for infringing a Promega Corp. patent and concluded that the statute governing the reach of U.S. patent law abroad does not apply when only one component is at issue.

The statute states that it is an act of infringement to supply from the U.S. "all or a substantial portion of the components" of an invention to be combined abroad, and the justices held that a "substantial portion" cannot refer to a single item. While the Federal Circuit ruled that a single component is enough if it is sufficiently important to the product, the justices held that the phrase "has a quantitative, not a qualitative, meaning."

That means companies can ship only one component of a product abroad without worrying about infringement liability in most cases, but anything more than that is left murky. The justices declined to rule on how much of a product needs to be shipped from the U.S. to trigger infringement, so that question will need to be hashed out by courts in future cases.

“There’s no real guidance about what beyond one component would be substantial,” said Samantha Kuhn of Baker Botts LLP.

Justice Sonia Sotomayor wrote for the majority that “we do not today define how close to ‘all’ of the components ‘a substantial portion’ must be,” saying that the only thing that was necessary to resolve the question presented was to hold that one component is not enough.

Justice Samuel Alito emphasized that point in a concurrence, writing that "today's opinion establishes that more than one component is necessary, but does not address how much more."

While the decision limited the patent infringement exposure of companies that ship a single component overseas, "the court did not say whether any multiplicity of components is enough or how lower courts should determine when two or more components amount to a 'substantial portion,'" said Donald Falk of Mayer Brown LLP.

As a result, for any number of factual scenarios going forward, judges and juries will be left to make their own determinations.

"The court left open the question of how many components are required to be a 'substantial portion of the components,'" said John DiMatteo of Holwell Shuster & Goldberg LLP. "Is two of five components substantial? What about three? That issue is left for another day."

Since the infringement analysis may now turn on the number of components, courts may also have to resolve disputes about how to separate and count the elements of a product, according to Darren Donnelly of Fenwick & West LLP.

“Because the number matters now, there are going to be fights about what a component is,” he said.

The Supreme Court rejected the Federal Circuit’s position that the relative value of a single component to the overall product should be considered and that one component could be important enough to be “substantial” and give rise to infringement.

The justices said that such a question could easily complicate cases since it would be difficult for juries to determine the relative importance of each component. However, litigants may now end up confronting that same question when multiple components are involved, said Baldassare Vinti of Proskauer Rose LLP.

He proposed a scenario in which a product assembled abroad has 20 components, and only two of them are supplied from the U.S., but those two are the key aspects that drive the invention. The only way to resolve whether those components are a substantial portion of the product may be to look at their value, Vinti said.

"Despite the Supreme Court's intention to allay the burden on the jury, that may mean they have to do a deep dive into a qualitative analysis. There is some ambiguity there," he said.

The Supreme Court has issued several decisions in recent years that have made it more difficult for litigants and courts to know how a patent case will come out, and this is another one that falls in that category, said Matthew Siegal of Stroock & Stroock & Lavan LLP.

“What the Federal Circuit has been trying to do is make outcomes more predictable, but the Supreme Court has been consistently saying, ‘that rule doesn’t have a basis in the law’ and striking it down, without giving any substitute,” he said. “What the court is doing is increasing uncertainty and decreasing predictability.”

Nevertheless, the scenario in the case is unusual. Life Technologies supplied an enzyme from the U.S. to a facility in the U.K. that manufactured DNA test kits that allegedly infringed Promega's patent. Some attorneys said they had never encountered such a shipping arrangement in a patent case before this one, so the impact of the ruling may be muted.

In situations where it does arise, "the Supreme Court has reduced the substantial risk of infringement liability that the Federal Circuit’s decision posed to domestic suppliers based on downstream customer’s uses," Patricia Carson of Kirkland & Ellis LLP said.

The high court's quantitative approach is in line with the purpose of the statute, which was to close a loophole where all components of an invention could be exported from the U.S. to be assembled abroad and avoid infringement, she said.

While another section of the Patent Act imposes infringement liability when a single component is supplied from the U.S. if it is especially made for use in the invention, that was not the case here, where the court viewed the enzyme at issue as a "commodity component."

"Life Technologies shuts the door on liability for supplying commodities that happen to be components of combination patents," Falk said.

The case is Life Technologies Corp. et al. v. Promega Corp. et al., case number 14-1538, in the Supreme Court of the United States.

--Editing by Christine Chun and Pamela Wilkinson.
