

Client Alert

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Unanimous Supreme Court Reverses Federal Circuit Twice in One Day, Making Waves in Patent Law

The U.S. Supreme Court on Monday unanimously reversed two Federal Circuit decisions, thus making patents harder to enforce and easier to invalidate. In *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, the Supreme Court ruled that induced infringement of a process patent claim may only be found when a *single* party performs all of the recited steps of the claim. In *Nautlius, Inc. v. Biosig Infr., Inc.*, the Court relaxed the legal standard for invalidating claims on indefiniteness grounds. The client alerts below provide more detailed insight into these two cases.

U.S. Supreme Court Makes it Harder to Establish Infringement of Process Patents: Court Overrules Federal Circuit's "Divided Inducement" Theory of Infringement

On June 2, 2014, the U.S. Supreme Court unanimously overruled the Federal Circuit's newly minted doctrine of "divided inducement," which expanded infringement liability to cover parties that divide performance of a process patent's steps. This decision has important implications for all fields in which process claims are prevalent, such as the technology, life science and chemical industries.

Under U.S. patent law, infringement may be direct or indirect. For process claims, a party may only be liable for direct infringement if it performs all the steps of the recited process, or if it controls or directs others that perform them. *See, e.g., Muniauction, Inc. v. Thompson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008). Where the party does not perform all (or any) of the steps of the process claim, it may still be liable for indirect infringement if it "actively induces" another entity to infringe the claim. 35 U.S.C. §271(b). Inducement requires a showing that the party knew of the patent and intended to induce the other party to infringe it. *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (U.S. 2011). The statute does not specify, however, whether inducement liability extends to situations in which the inducing party divides the performance of the claimed process steps with one or more additional parties such that no single party performs all the claimed steps. In such a scenario there is no predicate act of direct infringement since no single party has directly infringed the process claim. In *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, the Supreme Court ruled that liability for induced infringement must be predicated on direct infringement, and thus there can be no finding of inducement where the parties divide the infringement.

Akamai is the exclusive licensee of U.S. Patent No. 6,108,703, which claims a process for delivering web-based content more efficiently. According to the claimed process, embedded objects (e.g., large video or music files) are identified on a website and stored on a content server close to the requesting user's location. The process involves the step of "tagging" the embedded objects on a customer's web page with an alternate resource locator (ARL) to allow for the content to be retrieved from the content server. Limelight, the accused infringer, allegedly carries out several of the steps of the claimed process but not the step of "tagging." Instead, this step is performed by Limelight's customers. Akamai contended that Limelight induced its customers to infringe by providing instructions and offering technical assistance regarding how to perform the step of tagging.

Akamai sued Limelight in the United States District Court for the District of Massachusetts in 2006. The court held as a matter of law that Limelight did not directly infringe the patent as it did not perform all the

recited steps. A panel of the Federal Circuit affirmed, explaining that a defendant that does not itself perform all the patent's steps can be liable for direct infringement only where it has an agency or contractual relationship with the other party. The Federal Circuit subsequently granted *en banc* review and a fractured court sidestepped the issues of direct infringement liability, concluding instead that the evidence supported a finding of induced infringement. *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1319 (Fed. Cir. 2012). Although the court did not dispute the longstanding principle that there can be no indirect infringement without direct infringement (*see, e.g., Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526, (1972)), it held that direct infringement occurred once all the steps of a claimed process were performed, regardless as to how many parties were required to perform all the steps. *Akamai*, 692 F.3d at 1308-9. "Requiring proof that there *has been* direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be *liable* as a direct infringer." *Id.*

The Supreme Court reversed, holding that liability for inducement infringement of a process claim requires that a single party perform all the steps of the claim. According to the Court, "[t]he Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent." In so holding, the Court did not explicitly address the definition of "direct infringement," or the issue of whether direct infringement requires that all recited steps of a process be performed by a single party (or those directed or controlled by that party). Rather, it referred to 35 U.S.C. §271(f)(1) as an illustration that "when Congress wishes to impose liability for inducing activity that does not itself constitute direct infringement, it knows precisely how to do so." *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, No. 12-786, slip op. at 6-7. The Court suggested that a finding of infringement when only some of the steps are performed by a single party is akin to reading out elements of the claim, thus effectively granting a broader scope for the claim.

Notably, the Supreme Court only addressed whether induced infringement requires that all steps be performed by a single party. As noted above, a party may still be liable as a direct infringer when it "controls or directs" another party to infringe a process claim. *See, e.g., Muniauction*, 532 F.3d 1318. While it is not entirely clear what amount of cooperation besides agency or a contractual relationship suffices to meet this standard, the Federal Circuit has held that mere "arms-length cooperation" is not sufficient. *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1380-81 (Fed. Cir. 2007). Inasmuch as the difference between control or direction may be seen as one of degree, it may be that patentees in future divided infringement cases will focus instead on direct infringement grounds and argue that the arrangement between the accused infringer and the cooperating party amounts to one of control or direction.

One unanswered question is what happens if a party that knows about a competitor's process patent induces an unknowing second party to infringe that patent, and the second party in turn performs some of the steps of the claimed process and hires a third party to perform the remaining steps. Under *Muniauction*, the second party may be liable as a direct infringer even though it had no knowledge of the patent. But what liability, if any, would the inducing party have? Under the holding in *Limelight*, perhaps none, as liability for inducement infringement of a process claim requires that a single party perform all the steps of the claim. This is notwithstanding that the inducing party was the only party that knew that its actions would result in infringement of the patent. This seems to be a bizarre, albeit necessary, consequence of the *Limelight* decision.

The outcome of *Limelight* has important implications for fields in which process claims are prevalent, such as the technology, life sciences and chemical industries. By requiring that a single party perform all the steps of a claimed process, or induce another to perform all those steps, process claims such as those related to methods of treatment, diagnosis and chemical synthesis, as well as various business methods, become harder to enforce. This reduces the threat posed by so-called patent enforcement entities (or "patent trolls"), who amass a collection of process patents in order to extract royalties out of practicing entities who have neither the energy nor the money to engage in protracted patent litigation. On the other hand, does it undermine, rather than promote, "the progress of science and useful arts?" United States Constitution, Art. I, Sec. 8, Cl. 8. The medical and biotechnological research underpinning the process patents most impacted by the *Limelight* decision are that which should be encouraged, not hindered. For

commercial and academic institutions engaged in this type of research, will the diminished protection for such discoveries resulting from this research influence their future efforts?

In view of *Limelight*, patent applicants should ensure that their inventions are covered by additional claim forms other than process claims, if possible (e.g., product or system claims). To avoid the issue of divided infringement, patent applicants should draft claims in a way such that all the recited steps can be performed by a single party. Further, claims drafted without steps which require user input will likely fare better on the issue of divided infringement. For example, in business method, communications or computer applications, process claims should be drafted from the perspective of the system carrying out the process. Akamai could have avoided a divided infringement situation by drafting its claims to recite the passive step of “receiving a tagging designation” instead of an active step of “tagging.” Such a “receiving” step would have covered Limelight’s system regardless of whether Limelight or its customers performed the tagging.

Patent Claims Face Greater Scrutiny Under Supreme Court’s New Standard For Definiteness

In yet another blow to patent rights, the Supreme Court has relaxed the legal standard for invalidating claims on indefiniteness grounds. In *Nautilus, Inc. v. Biosig Instr., Inc.* No.13-369, slip op., 572 U.S. ___ (2014), a unanimous Supreme Court reversed the Federal Circuit’s determination that claims to an improvement in processing electrocardiograph signals used in heart rate monitors on exercise equipment complied with the definiteness requirement under 35 U.S.C. §112(1). The Court remanded the case to the lower courts to apply the newly announced standard to determine whether Biosig’s patent claims are sufficiently definite.

The Patent Act requires that patent applicants “particularly point[] out and distinctly claim[] the subject matter which the applicant regards as [the] invention.” 35 U.S.C. §112(a). The definiteness requirement exists to allow the public to determine what is and what is not covered by the patent so they can avoid infringement or improve on what has already been invented. *Merrill v. Yeomans*, 94 U.S. 568, 569 (1876). The Federal Circuit has long applied a test whereby claims are indefinite only if they are “insolubly ambiguous” or “not amenable to construction.” See *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1347 (Fed. Cir. 2005).

The patent claim at issue in *Nautilus* required that a live electrode and a common electrode be “mounted ... in spaced relationship with each other.” *Nautilus* at 1. Although the district court broadly construed this limitation to mean that there must be a “defined relationship” between the two electrodes, the court ultimately entered summary judgment of indefiniteness, concluding that the patent specification failed to provide any guidance for determining what the spatial relationship must be between the two electrodes. *Id.* at 6. Applying the “insolubly ambiguous” standard, the Federal Circuit reversed, concluding that the spaced relationship limitation was susceptible to a concrete definition in light of the intrinsic record and extrinsic evidence and that a person of ordinary skill in the art would understand the minimum and maximum distances required between the two electrodes. *Id.* at 2.

In analyzing the issue, the Supreme Court first noted the parties’ agreement that definiteness must be evaluated from the perspective of someone skilled in the relevant art at the time of the invention after considering the patent specification and prosecution history. *Nautilus* at 11. The Court next turned to how much imprecision the definiteness requirement will tolerate. Its analysis focused on determining whether the Federal Circuit’s “amenable to construction” and “insolubly ambiguous” standards were correct in the abstract, without analyzing the spaced relationship limitation at issue in Biosig’s patent. *Id.* at 6.

While recognizing the inherent imprecision involved in using language to define an invention, the Court stressed the importance of requiring enough precision “to afford clear notice of what is claimed, thereby ‘apprais[ing] the public of what is still open to them.’” *Nautilus* at 10. (quoting *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, at 373 (1996)). The Court held that the Federal Circuit’s “insolubly ambiguous” and “amenable to construction” standards allowed for too much imprecision and were contrary to the statutory mandate for claim clarity and precision. Ultimately, the Court concluded that

patent claims must “inform those skilled in the art about the scope of the invention with reasonable certainty.” *Id.* at 11.

Instead of focusing on whether Biosig’s claims are or are not indefinite, the Court looked to the practical and policy considerations underlying the statutory definiteness requirement, which it felt justified a more precise requirement. In addition to the important public notice function of the definiteness requirement, the Court noted that “patent applicants face powerful incentives to inject ambiguity into their claims” and observed that the patent drafter is in the best position to resolve ambiguities in the claims. *Id.* at 10-11. In describing the new standard, the Court stressed that compliance with the requirement is viewed from the perspective of a person familiar with the technology and who, therefore, may better understand how vague terms are used in a particular patent. *Id.* at 9. fn. 5.

Aside from announcing the new “reasonable certainty” standard, the Court’s decision provides little guidance as to how the standard should be applied. The *Nautilus* case is similar to the Court’s decision in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. ___, 132 S.Ct. 1289 (2012), where the Court announced a new standard for patent-eligible subject matter but provided little guidance as to how it might be implemented, instead leaving it to the Federal Circuit to apply the new standard to particular facts. While it remains to be seen how the Federal Circuit will apply the “reasonable certainty” standard, there is no doubt that the decision will provide accused infringers with additional ammunition to invalidate imprecise or vague claims and will place a higher burden on patent owners to more precisely and clearly define their inventions.

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