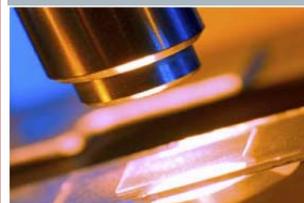


Key Developments in U.S. Patent Law



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In this newsletter, we provide an overview of the significant developments in patent litigation in the United States during the first six months of 2014.

Fee Shifting

Supreme Court Lowers Standard for Awarding Fees to a Prevailing Party

Since 1952, courts in the United States have had the authority to award attorney's fees to the prevailing party in "exceptional" patent infringement cases. This authority, which is codified at 35 U.S.C. § 285, is a departure from the typical rule in U.S. courts that each party must pay its own fees.

In 2005, the Federal Circuit held in *Brooks Furniture* that a case is only "exceptional" under § 285 if it involves "material misconduct" or was both objectively and subjectively baseless. As a result of this high standard, it became nearly impossible for a prevailing party to obtain fees under § 285. On April 28, 2014, the Supreme Court decided two cases which changed the rules for fee shifting in patent cases.

In a 9-0 decision in *Octane Fitness v. Icon Health*, the Supreme Court held that the *Brooks Furniture* test was "unduly rigid." Instead, the Court held that a case is "exceptional" under § 285 when it is "uncommon," "rare," or "not ordinary." The Court further explained that an "exceptional" case "is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."

In a companion case, *Highmark Inc. v. Allcare*, the Supreme Court held that determinations of "exceptional cases" by the district courts should be reviewed on appeal under an abuse of discretion standard. The Court thus rejected the practice of reviewing such awards *de novo*.

The Supreme Court has now sent a clear message to District Courts that: (i), fees should be shifted in more cases and, (ii), that District Court decisions will not be subject to *de novo* second-guessing by the Federal Circuit. It remains to be seen, however, whether the district courts will respond to the Supreme Court's guidance by awarding fees in a larger number of cases given the historical reluctance to award fees.

Divided Infringement

Supreme Court Holds that a Defendant Cannot Be Liable for Inducing Another Party to Infringe in the Absence of Direct Infringement

The provisions of 35 U.S.C. § 271 provide for three types of infringement. Direct infringement occurs under § 271(a) when a person makes, uses, offers to sell, sells, or imports a patented invention. Induced infringement occurs under § 271(b) when a person “actively induces” another person to infringe a patent. Contributory infringement occurs under § 271(c) when a person offers to sell, sells, or imports a component that is a material part of, and especially made for use in, a product that infringes a patent.

The issue presented to the Supreme Court in the *Limelight* case was whether a defendant may be liable for inducing infringement of a method claim when no one has directly infringed the claim.

The patent at issue in *Limelight Networks* (U.S. Patent No. 6,108,703) claimed a method for delivering electronic data to Internet users by way of a “content delivery network” or “CDN.” The patented method required performance of several steps, including the designation (“tagging”) of portions of a Web site (e.g., video or music files) to be hosted on servers accessible to Internet users. Defendant Limelight operated a CDN and performed several steps of the patented method. Limelight, however, did not “tag” the content to be hosted on its servers. Rather, Limelight’s customers (proprietors of Web sites) designated the content that they wished to have stored on Limelight’s servers.

Although, Limelight provided instructions and technical assistance to its customers regarding how to tag content, Limelight did not direct or control the tagging under the Federal Circuit’s decision in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), where the court decided that a person can only be liable for direct infringement of a method claim if the person performs each and every step of the method or exercises direction or control over a third party that performs the steps. Thus, where the steps of a patented method are independently performed by two or more parties, there is no direct infringement under § 271(a). As a result, the Federal Circuit held that there was no direct infringement under § 271(a). Despite finding that neither Limelight nor its customers directly infringed the ’703 patent, an *en banc* panel of the Federal Circuit held that Limelight could nonetheless be liable for induced infringement under § 271(b). The Federal Circuit reasoned that even if a single party cannot be held *liable* for direct infringement, courts may still hold that a predicate act of direct infringement occurred (i.e., though the combined actions of multiple parties) for the purposes of induced infringement under § 271(b).

In a unanimous decision delivered by Justice Alito, the Supreme Court reversed the Federal Circuit’s *en banc* decision. The Supreme Court made clear that a party cannot be liable for induced infringement in the absence of direct infringement. “[I]n this

case, performance of all the claimed steps cannot be attributed to a single person, so direct infringement never occurred. Limelight cannot be liable for inducing infringement that never came to pass.” The Supreme Court also refused to accept the Federal Circuit’s attempt to create “two parallel bodies of infringement law” that would have separated the analysis of *liability* for direct infringement under § 271(a) from the analysis of the *existence* of a predicate act of direct infringement for the purposes of § 271(b). The Supreme Court explained that the test is the same in both circumstances: “the reason Limelight could not have induced infringement under § 271(b) is not that no third party is *liable* for direct infringement; the problem, instead, is that no direct infringement was *committed*.”

Perhaps the most interesting portions of the Supreme Court’s decision in *Limelight Networks* were the repeated references to the “direction and control” standard for direct infringement under *Muniauction*. The Supreme Court noted that it was “[a]ssuming without deciding that the Federal Circuit’s holding in *Muniauction* is correct.” The Court, however, also noted that the *Muniauction* decision gives rise to an “anomaly” that could “permit[] a would-be infringer to evade liability by dividing performance of a method patent’s steps with another whom the defendant neither directs nor controls.” The Court “acknowledge[d]” the concern and noted that “on remand, the Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses.”

It is unclear whether the Federal Circuit will take the Supreme Court’s comments concerning *Muniauction* as an invitation to weaken the “direction and control” standard, thereby making it easier to find direct infringement based on the combined actions of multiple parties. If so, Limelight’s victory may be short-lived.

Patent Eligibility

Supreme Court Hears Argument on Test for Patent Eligibility

Under 35 U.S.C. § 101, a person may obtain a patent on “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” Despite the broad wording of § 101, courts have long recognized that certain subject matter is not eligible for patenting, including laws of nature, natural phenomena, and abstract ideas.

For many years, the Federal Circuit applied the “machine or transformation” test to determine whether a patent was directed to eligible subject matter under § 101. Under that test, a claimed invention was deemed patent-eligible if, (i), it was tied to a particular machine or apparatus, or, (ii), it transformed a particular article into a different state or thing. In 2010, however, the Supreme Court held in *Bilski v. Kappos* that the “machine or transformation” test is not the exclusive test for patent eligibility. In that case, the Court held that a process does not become patent-eligible merely because it is performed by a computer. In particular, the Court held that the concept of

using a computer to hedge risks in the energy market was a patent-ineligible abstract idea.

In 2013, the Federal Circuit issued an *en banc* decision in *CLS Bank v. Alice Corp.* addressing whether patent claims directed to the computer automation of escrow services were eligible for patenting under § 101. As in *Bilski*, the Federal Circuit held that a *method* that merely sets forth “generic computer automation” of an abstract concept (using a computer to implement an escrow arrangement) was not sufficient under § 101. The Judges of the Federal Circuit, however, were split on whether a *system* claim incorporating certain computer components (e.g., a “data storage unit” and a “communications controller”) would satisfy § 101. The Federal Circuit’s decision has led many commentators to fear that computer software – which, at some level, typically involves automation of an abstract concept – will no longer be eligible for patenting.

In December 2013, the Supreme Court granted *certiorari* in the *CLS Bank* case to consider “whether claims to computer-implemented inventions – including claims to systems and machines, processes, and items of manufacture – are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101.” Oral argument was held on March 31, 2014. Based on questions asked during the argument, the Supreme Court appeared likely to affirm the finding that the claims at issue in *CLS Bank* were not eligible for patenting. The Supreme Court, however, also appeared to struggle with where to draw the line between a patent eligible software and ineligible abstract ideas.

Definiteness Standard

Supreme Court Sets “Reasonable Certainty” as the Standard for Definiteness

The recent trend of the U.S. Supreme Court overturning the nation’s patent appeal court continued with the *Nautilus* decision. In *Nautilus*, the Supreme Court threw out the Federal Circuit’s “insolubly ambiguous” standard for determining whether claims are invalid for indefiniteness.

Under 35 U.S.C. § 112 ¶ 2, patent claims must “particularly point[] out and distinctly claim[] the subject matter which the inventor or a joint inventor regards as the invention.” This is referred to as the “definiteness” standard. A claim that fails to satisfy the definiteness standard is invalid and may not be enforced.

The Federal Circuit has held that claims are indefinite under § 112 ¶ 2 when they are “not amenable to construction” or are “insolubly ambiguous.” In 2013, the Federal Circuit applied this standard in the case of *Biosig Instruments, Inc. v. Nautilus, Inc.* The claim at issue in *Nautilus* concerned a heart rate monitor for exercise equipment that used two electrodes in a “spaced relationship” with each other. In prior *ex parte* reexamination proceedings, the patent owner argued that the “spaced relationship” was

a key limitation that distinguished the claimed invention from dual-electrode monitors found in the prior art. In the District Court proceedings, however, the patent owner argued that a “spaced relationship” could be any “defined relationship” between the electrodes. Based on that construction, the U.S. District Court for the Southern District of New York found that the “spaced relationship” limitation was indefinite under § 112 ¶ 2 because it would not disclose the bounds of the claimed invention to someone of skill in the art. The Federal Circuit reversed, holding that it was possible to assign a meaning to “spaced relationship” and therefore the limitation was not indefinite. In particular, the Federal Circuit held that the “spaced relationship” would necessarily be close enough so that the electrodes could fit within a person’s hand. The Federal Circuit also noted that a person of skill in the art could perform testing to determine the ideal spaced relationship.

In a unanimous decision delivered by Justice Ginsburg, the Supreme Court rejected the “insolubly ambiguous” and “amenable to construction” tests that the Federal Circuit applied in *Biosig*. The Court noted that those standards “lack the precision that § 112 ¶ 2 demands” and therefore “can breed lower court confusion.” The Court also explained that “[i]t cannot be sufficient [under § 112 ¶ 2] that a court can ascribe *some* meaning to a patent’s claims.” Instead, the Court held that § 112 ¶ 2 “require[s] that a patent’s claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty.” The Court noted that this standard “mandates clarity, while recognizing that absolute precision is unattainable.”

The Supreme Court declined to determine whether the underlying “spaced relationship” limitation at issue in *Nautilus* satisfied the newly articulated standard. Instead, the Court remanded the case so that the Federal Circuit could determine whether a person of skill in the art would have understood the scope of the invention with “reasonable certainty.” Given the new standard, it is likely that patent defendants will more frequently seek to invalidate patents using the lower indefiniteness standard.

This newsletter is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

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