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PATENTS

A recent Federal Circuit ruling on the standard for infringing use of a system is likely to affect issues in the software and communications field.

A Look Behind the Federal Circuit's Recent Clarification of the Legal Standard For Infringing Use of System Claims in *Centillion*



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On Jan. 20, the U.S. Court of Appeals for the Federal Circuit provided clarification concerning the legal standard for infringing use of system or apparatus claims. *Centillion Data Systems, LLC v. Qwest Communications International Inc.*, No. 2010-1110

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(Fed. Cir. Jan. 20, 2011) (81 PTCJ 371, 1/28/11) is the first case where the Federal Circuit squarely addressed the meaning of “use” of a system or apparatus in the context of Section 271(a) of the Patent Act, which provides that one who “makes, uses, offers to sell, or sells” a patented invention is liable for infringement.

Use of a patented system has been recognized as an infringing act since well before the 1952 Patent Act, so why did it take nearly 30 years for the court to weigh in on this issue, and what are the ramifications of this decision?

The answers lie in the court's recent case law on the issue of so-called "divided infringement." As this author wrote in an article published last year, "Courts Grapple With the Standard for Infringing Use of System Claims" (80 PTCJ 547, 8/20/10), the Federal Circuit's recent decisions on this issue have made it more difficult to assert method patent claims, particularly in cases involving business method, internet, and communications-related patents.

This is because many patents in these areas—particularly patents filed prior to the court's 2007 decision in *BMC Resources Inc. v. Paymentech L.P.*, 498 F.3d 1379, 84 USPQ2d 1545 (Fed. Cir. 2007) (74 PTCJ 644, 9/28/07)—claim methods that in practice can be read only on the "divided" actions of multiple actors. Thus, no single actor is performing each step, foreclosing infringing use of the method under the Patent Act absent "joint infringement."

In December, the court reiterated the general rule for joint infringement of method claims in *Akamai Technologies Inc. v. Limelight Networks Inc.*, No. 2009-1372 (Fed. Cir. Dec. 20, 2010), 97 USPQ2d 1321 (81 PTCJ 255, 12/24/10), clarifying that joint infringement can be found under principles of vicarious liability only where "there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps." *Id.* (slip op. at 14).

Patent claim drafters will usually include both method and corresponding system claims in patent applications directed to internet and communications technologies. The method claims are often broader than the system or apparatus claims and thus favored because they typically are drafted without structural limitations that potentially limit the claim scope.

But the recent Federal Circuit case law on divided infringement demonstrates that method claims can be difficult to enforce if not drafted from the perspective of a single actor. Patent owners enforcing such patents have thus turned their attention back to system claims in recent years, which has resulted in renewed scrutiny of the rarely litigated standard for infringing use in this context.

In *Centillion*, the Federal Circuit made clear that a very different, broader standard for infringing use applies to system or apparatus claims as compared to method claims. In particular, the court confirmed that its discussion of the standard in *NTP Inc. v. Research in Motion Ltd.*, 418 F.3d 1282, 75 USPQ2d 1763 (Fed. Cir. 2005) (70 PTCJ 433, 8/12/05), which focused on the *situs* of use, also applies to the broader question of the *nature* of infringing use: "We hold that to 'use' a system for purposes of infringement, a party must put the invention into service, *i.e.*, control the system as a whole and obtain benefit from it." *Centillion*, slip op. at 8 (citing *NTP*). Significantly, unlike the "control" necessary to find infringement of a method claim by a single actor that does not itself perform each step, "control" in the context of infringing use of a system claim does not require "physical or direct control over each element of the system." *Id.* Infringing use requires only that the accused infringer be responsible for the triggering event that puts each element of the claimed system into operation or service. *Id.*

The court further held that the triggering event could be removed in time from the operation of the system, provided that all the elements of the system were put into service in response to the user's action. *Centillion* involved a system for collecting, processing, and delivering electronic billing information, and the court found that infringing use can occur when a Qwest customer subscribes to Qwest's monthly service, causing the system as a whole to periodically be put into service: "This is [infringing] 'use' because, but for the customer's actions, the entire system would never have been put into service." *Id.* at 10-11.

The court reached a different conclusion as to whether Qwest itself could be an infringing user. One of the elements of the claimed system is the customer's personal computer, which operates in conjunction with Qwest's back-end processing elements to form the claimed system. Although Qwest operated the back-end elements, and provided the client software for use on the customer's computers, it did not put those computers into service, and the court held that "[s]upplying the software for the customer to use is not the same as using the system." *Id.* at 12-13. Similarly, the court held that Qwest did not "make" the accused system as a matter of law, because completion of the system required providing the customer's computer, and installing the client software, acts performed only by the customers. *Id.* at 15-16.

Finally, to complete its analysis of whether Qwest "used" or "made" the system, the court looked to its *BMC* line of cases in considering whether vicarious liability could apply based on the customers' acts. Not surprisingly, the court found that Qwest did not direct its customers to make or use the customer-based elements of the system, as well as the absence of any agency relationship; it was entirely up to the customers whether to install and operate the client software provided by Qwest. *Id.* at 13.

The upshot of the court's decision in *Centillion* is that patent owners enforcing patents relating to business methods, communications, software, and internet-related inventions, especially those facing challenging divided infringement issues with assertion of method claims, will likely refocus on assertion of system claims, alleging direct infringement by the end user or customer. As the court noted, "[t]he customer is a single 'user' of the system and because there is a single user, there is no need for the vicarious liability analysis from *BMC* or *Cross Medical*." *Id.* at 10.

The trade-off with this strategy is that it relies on proof of indirect infringement—*i.e.*, inducement of infringement under Section 271(b) and/or contributory infringement under Section 271(c)—by the accused infringer, who is presumably providing one or more components of the system.

Claims of indirect infringement may arm defendants with additional defenses, specifically, lack of the requisite knowledge/intent element required by both, and in the case of contributory infringement, the possibility of "substantial non-infringing uses" for the supplied component.

Nevertheless, *Centillion* may well provide some relief to patent owners whose patents may have been devalued by the *BMC* line of cases.