

New Federal Circuit Decision Rules on Divided Patent Infringement of System Claims

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Whether a patented method claim can be directly infringed when multiple actors perform the method, known as divided infringement, has been a hot issue in recent times. Now, the Federal Circuit has weighed in on the question of divided infringement with respect to patented system claims.

While divided patent infringement for method claims has been addressed by a number of recent Federal Circuit decisions,¹ the issue of divided infringement with respect to system claims has been addressed in detail for the first time by the Court in *Centillion Data Sys., LLC v. Qwest Comm. Int'l, Inc.*, No. 2010-1110, -1131, slip op. at 7 (Fed. Cir. Jan. 20, 2011). That is, the Court specifically considered the issue of direct infringement for “using” and “making” of a patented system that includes elements in the possession of more than one actor.

In short, the Court held that, to “use” a system for purposes of direct 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. Applying this holding to a claim covering a system generally comprising a back-end system residing on a service provider’s computer and front-end software residing on the computer of the service provider’s customer, the Court found that the customer “uses” such a system. *Id.* at 10-11 However, the Court found that, in the circumstances, the service provider does not “use” such a system. *Id.* at 12-14. The Court went further to hold that the service provider, in the circumstances, also did not “make” such a system. *Id.* at 15-16.

Practical Tips

There are some practical implications from the Court’s decision in *Centillion*. For those obtaining patents, the Court’s decision reinforces the importance of reciting, as much as possible, features in a system claim that are used or made by a single actor. So, for example, in the context of a client-server computer type

¹ The Federal Circuit has held that a patented method cannot be directly infringed through use by multiple actors, unless one actor controls or directs the performance of each step of the patented method that the actor does not itself perform. See, e.g., *BMC Resources Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1328-29 (Fed. Cir. 2008), and *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 2009-1372, 2009-1380, 2009-1416, 2009-1417, 2010 WL 5151337 (Fed. Cir. Dec. 20, 2010).

model, a patent applicant should seek a system claim directed to only the server and/or a system claim directed to only the client. Additionally, if a system includes a portion that may be used by a different actor, then a patent applicant should present a system claim reciting elements that would be made by a single actor. So, for example, in the client-server computer type model, a patent applicant may want to seek, in addition to or as an alternative to a server-only or client-only claim, a system claim that recites a server computer but does not recite a client computer (or vice versa). Instead of the client computer, the system claim may recite just custom client software needed to interact with the server computer, client software made by the server computer owner. A related strategy would be to not positively recite the portions of the system used by a different actor, but rather positively recite the elements of the system used by one potential infringer in terms of how those elements interact with the portions used by the different actor or how the portions of the system used by the different actor interact with those elements. Patent applicants should review their existing and future patent application portfolios to ensure that there is adequate protection. The Court's decision (and many other recent decisions on fundamental patent law issues) highlights the benefit of keeping a continuing application pending for important inventions to provide significant flexibility to change claim scope (compared to, e.g., reissue applications discussed below) in the current evolving patent landscape.

For those defending against or avoiding infringement of system claims, the Court's decision in *Centillion* raises new defenses and design-around avenues for potential infringers. The Court's analysis demonstrates that, for some system claims, direct infringement under Section 271(a) of the Patent Act may be precluded by the division of elements of a system claim across multiple actors. Even if direct infringement is not precluded, a patentee may be forced to rely solely on a more difficult case of indirect infringement (such as induced and contributory infringement under Sections 271(b) and 271(c) of the Patent Act). Thus, the Court's decision presents new opportunities to defend against charges of direct infringement through careful evaluation of who uses or makes each system claim element. Similarly for design-around, direct infringement may be eliminated or minimized by strategically re-arranging system elements and/or relationships with other actors. Indeed, those being accused of infringement of a system claim may want to reexamine, in light of the Court's decision, whether only they use or make the asserted system claim and if not, assert a new non-infringement defense or consider designing around.

For patentees, the Court's decision in *Centillion* has heightened the importance of evaluating how each element of a claim is performed and by whom. If a patented system claim may not be directly infringed by a single actor, a patentee should consider, if possible (e.g., the time for a broadening issue has not lapsed and the rule against recapture permits the relevant amendment), filing a reissue application to amend the claim to provide for direct infringement. A patentee may even want to consider, if possible, filing a reissue application if a patented system claim is directly infringed, e.g., by a vendor's customer but the patentee, from an economic standpoint, would need to rely on indirect infringement against the vendor. Patentees need to be vigilant in seeking relief for indirect infringement. Furthermore, considering the Court's analysis, a patentee considering litigation should be sure to pursue the right party or parties for infringement.

Details of the Case

The Patented and Accused Systems

The patent in *Centillion*, U.S. Patent No. 5,287,270 (hereinafter "the '270 patent"), is directed to a system for collecting, processing, and delivering information from a service provider, such as a telephone company, to a customer. The system claim at issue in the '270 patent included both a "back-end" system ("storage means for storing transaction records", "data processing means for generating summary reports as specified by a user from the transaction records" and "transferring means for transferring the transaction records and summary reports to a user maintained by the service provider") and a "front-end" system ("personal computer data processing means adapted to perform additional processing on the transaction records") maintained by the customer. *Id.* at 3.

Qwest's allegedly infringing billing products included a back-end system and a front-end client application that a customer may install on a personal computer. *Id.* More specifically, the back office system passively processed electronic billing information on a monthly basis, while the front-end client allowed the customer to request "on-demand" reports when the customer at the personal computer requests different date ranges. *Id.* The "on-demand" requests would prompt the back office system to process the electronic billing information, and transmit it to the customer through the front-end client. *Id.*

Infringement by "Use"

In considering whether there was "use" of the patented system of the '270 patent, the Court pointed to their decision in *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), and held that to use a system for purposes of infringement under Section 271(a) of the Patent Act, "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*, 418 F.3d at 1317). The Court in *Centillion* found that the district court was in error, however, in holding that a party needs to exercise physical or direct control over each individual element of the system. *Id.* Instead, a party only needs to *use* each and every element of the claimed system in order to infringe the claim. *Id.*

From this, the Court analyzed "use" of the claimed system both by Qwest's customers, and by Qwest itself, to identify which party was actually putting the invention into service.

The Court first determined that Qwest's customers were using the system, rejecting Qwest's argument that the customers do not control the back-end processing. *Id.* at 9. The Court distinguished between two different operations of the claimed system: the on-demand operation (where the customers create a query that is processed by Qwest's back-end system) and the standard operation (where, after the customer subscribes, the back-end system creates periodic summary reports). *Id.* at 9-10. The Court recognized both the on-demand operation and the standard operation as "use" by Qwest's customers. For the on-demand operation, when the customer makes the query request, the system as whole is put into service, regardless of the back-end processing being physically possessed by Qwest. *Id.* at 10. Likewise, for the standard operation, the customer subscribes to the service, which causes the automatic monthly back-end processing. As with the on-demand query, the act of subscribing initiates demand for the system, which puts the system into service. *Id.* at 11.

The Court continued their analysis to determine that Qwest does *not* use the patented system, because "it never puts into service the personal computer data processing means," distinguishing using the system from merely supplying software for the customer's use. *Id.* at 12-13. The Court stated that Qwest would only be "using" the system if it were vicariously liable for the customer's actions. The Court rejected such a theory of liability, however, noting that from its prior case law,² either Qwest would have to direct its customers to perform the act, or the customer would have to act as Qwest's agent. *Centillion*, slip op. at 13-14. Because it is entirely the customer's decision whether to install and operate the software on the personal computer data processing means, and this action is not on Qwest's behalf, Qwest could not be vicariously liable for the customer's actions. *Id.* at 14.

Infringement by "Making"

The Court further determined that Qwest does not "make" the patented system, and thus could not be liable for doing so under Section 271(a) of the Patent Act. *Id.* at 15-16. Instead, Qwest only manufactures part of the system. It is the customer, and not Qwest, who completes the system by providing the "personal computer data processing means" and installing the front-end software on it. *Id.* at 16. Again, because

² See *supra* note 1.

there is no obligation for the customers to act on Qwest's behalf, Qwest could not be vicariously liable for their actions in making the patented system. *Id.*

Unresolved Issues

Although the Court determined that Qwest's customers were "using" the system, they did not determine infringement by Qwest's customers. Having erroneously determined that no single party could be liable for "use" of the patented system, the district court did not compare Qwest's system to the claim limitations. To find infringement, such analysis would require determination of a customer installing Qwest's front-end software, downloading records, and analyzing them. *Id.* at 11.

The Court additionally refused to analyze whether Qwest induced infringement by its customers, as the issue was not raised on appeal. *Id.* at 11-12.

Furthermore, the Court reversed the district court's finding of summary judgment of no anticipation, noting a factual dispute as to whether a prior art system that would anticipate the system of the '270 patent generated records that would classify as the claimed "summary reports" as construed by the district court. *Id.* at 16-19.

The Court remanded the case back to the district court for further proceedings on these issues. *Id.* at 19.

Conclusion

The *Centillion* decision reaffirms the importance of claims drafted from the perspective of a single actor. For patentees and patent applicants, it is imperative to ensure that all patents and patent applications have claims that will be directly infringed by a single actor. For alleged infringers, the *Centillion* decision raises new defenses and design-around avenues.

If you have any questions about the content of this publication, please contact the Pillsbury attorney with whom you regularly work or the authors below.

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