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IINTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Federal Circuit Develops Law From Supreme Court Patent Rulings

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We report on two important patent decisions from the U.S. Court of Appeals for the Federal Circuit clarifying how that court will implement recent U.S. Supreme Court patent decisions regarding divided infringement and indefiniteness. We also report on two appellate Lanham Act cases, one addressing a district court's discretion to cancel a trademark and the other recognizing a cause of action for contributory false advertising.

Patents: Direct Infringement

In the nine years that the litigation between Limelight Networks, Inc. and Akamai Technologies, Inc. has been pending, it has produced a Supreme Court decision and three Federal Circuit decisions, two of them en banc.

Factually, the dispute is about a method of delivering electronic data using a content delivery network, or CDN. Website operators store files, including large files like videos and music recordings, on a CDN's servers rather than on their own. Akamai and Limelight each operate CDNs. Akamai's patent claims a method of designating the content to be stored on a CDN's servers involving a process called "tagging." It is undisputed that while Limelight carries out several of the steps of the method claim, Limelight does not "tag" the components of its customers' websites to be stored on its servers. Instead, Limelight requires its customers to do the tagging themselves.

Legally, the dispute is about "divided infringement." If Limelight does not itself practice all of the claimed method steps, can it be liable as a direct infringer? In 2010, a panel of the Federal Circuit in *Akamai I*, 629 F.3d 1311 (Fed. Cir. 2010), held that Limelight could not be liable for direct infringement because it did not perform all of the method steps and there was no basis to attribute to Limelight its customers' tagging actions. Rehearing that decision en banc, the Federal Circuit held in 2012 (*Akamai II*, 692 F.3d 1301 (Fed. Cir. 2012)) that it did not need to reach whether Limelight was a direct infringer because Limelight could be liable for inducing infringement even if no one—Limelight or its customers—directly infringed the patent. In 2014, the Supreme Court reversed, (*Akamai III*, —— U.S. ——, 134 S.Ct. 2111, 2115, 189 L.Ed.2d 52 (2014)), holding that there can be no induced infringement if there is no direct infringement.

> The decision in 'Akamai IV' provides needed clarity for practitioners on when conduct by more than one actor may be combined to constitute direct infringement of a method claim.

On Aug. 13, 2015, the Federal Circuit, again sitting en banc, issued a unanimous, per curiam opinion in *Akamai IV*, – F.3d –, 2015 WL 2216261 (Fed. Cir. May 13, 2015), setting forth "the law of divided infringement under 35 U.S.C. §271(a)." The court explained that direct infringement occurs only "where all steps of a claimed method are performed by or attributable to a single entity." In the simplest case, that occurs when one person or entity actually performs all of the steps. Where, however, "more than one actor is involved in practicing the steps, a court must determine whether the acts of one are attributable to the other such that a single entity is responsible for the infringement." The court explained that a single entity is responsible for others' performance of method steps if (1) "that entity directs or controls others' performance," or (2) "the actors form a joint enterprise."

The first possibility—direction or control—is governed by principles of vicarious liability. Vicarious liability includes acting through an agent, or contracting with another to perform one or more of the method steps. It also includes an infringer conditioning another party's participation in an activity, or another party's receipt of a benefit, on that other party's performance of one or more of the method steps, and establishing the manner or timing of that performance. The second possibility—formation of a joint enterprise—requires an express or implied agreement among the group members, a common purpose, a community of pecuniary interest among the members in that purpose, and "an equal right to a voice in the direction of the enterprise, which gives an equal right of control." These are all questions of fact, reviewable on appeal for substantial evidence if tried to a jury.

Turning to the facts of the case, the Federal Circuit found that there was substantial evidence to support the jury's finding of direct infringement against Limelight. Akamai presented evidence that Limelight conditioned its customers' use of Limelight's CDN on the customers' performing the "tagging" step and other method steps, and that Limelight established the manner and timing of its customers' performance of those steps. That satisfied the "direction or control" form of direct infringement.

The decision may or may not end the dispute between Limelight and Akamai. It does, however, provide needed clarity for practitioners on when conduct by more than one actor may be combined to constitute direct infringement of a method claim.

Patent: Indefiniteness Law

In our May 12, 2015, column we reported on the Federal Circuit's decision on remand after

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the Supreme Court's decision in *Nautilus v. Biosig Instruments*, – U.S. –, 134 S.Ct. 2120, 189 L.Ed.2d 37 (2014). The Supreme Court had changed the standard by which patent claims are evaluated for indefiniteness, replacing the Federal Circuit's longstanding test that a claim is indefinite only where it is not "amenable to construction" or "insolubly ambiguous" with the test that a patent claim is indefinite "if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." On remand, however, in the decision we addressed, the Federal Circuit concluded that Biosig's claims were still not indefinite even under the new standard. We predicted that subsequent cases would shed light on whether the change in the test would actually result in different outcomes in indefiniteness cases.

The Federal Circuit's Aug. 28, 2015, decision in *Dow Chemical Company v. Nova Chemicals Corp.* No. 15-1257 (Fed. Cir. 2015), shows that the tests can indeed produce different results. Under the pre-Nautilus law, a jury found that Dow's patent claims were not indefinite, and the Federal Circuit affirmed. Post-trial proceedings brought the case before the Federal Circuit again after *Nautilus* had been decided, and NOVA sought to revisit the indefiniteness issue. Dow opposed, asserting law of the case and/or issue preclusion.

The Federal Circuit held that "there can be no serious question that *Nautilus* changed the law of indefiniteness," thus providing "an exception to the doctrine of law of the case or issue preclusion." Reevaluating Dow's patent under *Nautilus*, the Federal Circuit reached the opposite conclusion, holding that the claims are indefinite. The claim involved measuring something called the "slope of strain hardening coefficient." NOVA argued that the claim was indefinite because the patent did not teach a person of ordinary skill in the art how to conduct that measurement. The evidence at trial showed that there were at least four ways a skilled artisan could conduct the measurement, each of which could produce different results.

The Federal Circuit explained that under the pre-Nautilus cases the claim was not indefinite, because a skilled artisan could arrive at a method by which to practice it. But "[u]nder *Nautilus* this is no longer sufficient," the court held. Because the claims, the specification, and the prosecution history do not inform a skilled person how to measure the coefficient, the claim is indefinite even though a skilled artisan could readily figure out how to do so.

Dow will be important to lawyers and patent agents drafting patent claims that involve method steps. It confirms the importance, post-*Nautilus*, of including specific guidance within the specification regarding how to practice each claim element, even where the omission of such guidance would not prevent one of skill from practicing the claim.

Canceling Trademark

The Lanham Act allows a district court to rule on the validity of a trademark and to cancel a mark's registration if the party seeking cancellation is likely to be damaged by the mark and there are valid grounds for discontinuing registration. While the statute confers broad discretion on the district court, the U.S. Court of Appeals for the Sixth Circuit recently found an abuse of that discretion where a district court declined to cancel a mark or to enjoin the defendant from using its logo. See *CFE Racing Products v. BMF Wheels* (Nos. 14-1357; -1608; -1939 (6th Cir. July 13, 2015)).

CFE and BMF Wheels each make automotive parts. CFE was the first, by several years, to record a trademark of the letters "BMF," which it derived from "a wallet bearing a certain indelicate phrase of those initials" in the movie "Pulp Fiction." CFE used those initials on cylinder heads, in a bold, sans-serif font, "italicized to evoke speed" and, when printed in color, using black letters with red and white outlines. It registered a trademark for the letters "BMF," without regard to font, style, size, or color.

Defendant BMF Wheels was founded some four years after CFE began using the "BMF" logo. Its founder testified that he had never seen CFE's "BMF" logo, that he came up with the initials because his own wallet also "bore the same indelicate phrase as the wallet from Pulp Fiction," and that he separately came up with a logo for the letters BMF that is set in a capitalized, sans-serif typeface with a forward slant and "sharply contrasting outlines in the color scheme of black, white and red." He applied for and received a trademark on his "BMF Wheels" mark.

A jury found for CFE in its infringement suit against BMF Wheels. The district court then declined to cancel BMF Wheels' trademark, and instead limited the use of that mark to only wheels rather than other automotive parts, required the company to redesign the logo, and required it to use certain disclaimers of affiliation. Those remedies were sufficient, the district court held, because the "principal point of confusion" the jury found was the style, font, and color of the defendant's logo.

The Sixth Circuit reversed. It held that because plaintiff's registered mark encompassed "BMF" without restrictions as to style, the jury's verdict of likelihood of confusion cannot be limited to "the similar style, font, and colors of the two marks." Instead, the letters "BMF" themselves must be the basis for the jury's finding of likelihood of confusion. Accordingly, the district court abused its discretion in not canceling defendant's mark and in not enjoining defendants from using the letters "BMF" in connection with their products. The court remanded for cancellation of the mark and entry of an injunction.

False Advertising

Can a defendant be held contributorily liable for a third party's false advertising? In what it described as a question of first impression, the U.S. Court of Appeals for the Eleventh Circuit affirmed the viability of such a claim and identified its elements, but then dismissed the complaint for failure to plead sufficient facts. See *Duty Free Americas v. Estee Lauder Companies,* No. 14–11853 (11th Cir. Aug. 7, 2015). A handful of prior cases had allowed claims for contributory false advertising, but all did so by tacitly assuming the cause of action exists.

Duty Free Americas operates the duty-free stores in most American airports with international terminals. Estée Lauder has the largest share of the market for cosmetics sold in such stores. DFA sold Estée Lauder products in its stores until June 2008, but ceased doing so after Estée Lauder changed its pricing policies. When DFA later sought to resume the relationship, Estée Lauder refused.

DFA's complaint alleged that Estée Lauder engaged in various forms of anticompetitive conduct, and that Estée Lauder was contributorily liable for false statements made about DFA by its competitors. The district court dismissed the complaint, and DFA appealed.

After affirming the dismissal of DFA's antitrust claims, the Eleventh Circuit turned to the false advertising claims. The court began by noting that the Supreme Court has long recognized contributory liability for trademark infringement. False advertising and trademark infringement are covered by parallel subsections of Section 43(a) of the Lanham Act. Thus, the court reasoned that because the trademark provision supports claims of contributory liability, so too should the broader false advertising provision.

Establishing a test for future cases, the court held that a plaintiff alleging contributory false advertising "must show that a third party in fact directly engaged in false advertising" and that "the defendant contributed to that conduct either by knowingly inducing or causing the conduct, or by materially participating in it." The latter requirement entails proving "that the defendant had the necessary state of mind—in other words that it 'intended to participate in' or 'actually knew about' the false advertising."

Applying this test, the Eleventh Circuit found that none of the statements alleged in DFA's complaint could support a claim for contributory false advertising, and affirmed dismissal of the complaint.