

REPORT

FEDERAL CIRCUIT CHANGES THE LAW OF INFRINGEMENT INVOLVING MULTIPLE ACTORS

September 14, 2012

On August 31, 2012, a divided Court of Appeals for the Federal Circuit issued an *en banc* decision in *Akamai Techs., Inc. v. Limelight Networks, Inc.* and *McKesson Techs., Inc. v. Epic Sys. Corp.* ("Akamai"). A bare majority of the court adopted a new standard for induced infringement under 35 U.S.C. §271(b).

Under the new standard, all the steps of a patented method still must be performed by one or more entities. However, when performance of the steps is divided among different entities, the group of entities does not need to act as a "single entity" as is presently required for direct infringement liability under 35 U.S.C. §271(a). That is, there is no need to show that the induced party is an agent of the inducer or is acting under the inducer's direction or control. Rather, it is enough that the inducer "cause, urge, encourage, or aid" the conduct of the other entity (with knowledge that the induced acts will constitute patent infringement), and that the induced conduct is carried out.

Under the new standard, an entity can be liable for inducing infringement of a method claim without any entity being liable for direct infringement of the claim under §271(a).

The majority did not address the question of whether the "single-entity" rule should continue to be the standard for direct infringement liability

involving multiple actors, i.e., so-called joint or divided infringement. According to the majority, it was not necessary to do so, because its decision on induced infringement is not predicated on the doctrine of direct infringement.

Thus, for the time being, the existing "single-entity" standard remains the rule for establishing direct infringement liability for divided infringement of a method claim.

I. BACKGROUND**A. The Single-Entity Rule**

When a single actor commits all the elements (acts) of infringement, that actor is liable for direct infringement under §271(a). The question of direct infringement liability becomes problematic when no single entity performs all of the steps of a claimed method, i.e., the claim steps are instead separately performed by ("divided" among) two or more actors.¹

The law on divided infringement is sparse. In the Federal Circuit, the doctrine evolved in a series of decisions applying traditional principles of vicarious liability from tort law. The case law ultimately adopted the so-called "single-entity

¹ As discussed below, the question of divided direct infringement under §271(a) typically does not arise with respect to product or apparatus claims.

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rule" in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), and *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008). Under this rule, divided infringement by multiple actors is not actionable at all unless all of the participants are in a contract or agency relationship that is directed or controlled by a single "mastermind."

B. The District Court Decisions

The two cases on appeal involve different divided infringement scenarios. In the *Akamai* case, the defendant performed some of the steps of a claimed method and induced other parties to perform the remaining steps. In the *McKesson* case, the defendant induced other parties to collectively perform all the steps of the claimed method, but no single party performed all of the steps itself. In each case, the respective district court followed the single-entity rule to hold that the defendant was not liable for induced infringement because of the absence of a "single-entity" direct infringer.

II. THE FEDERAL CIRCUIT DECISION

The majority reversed the judgments of the district courts, and remanded for further proceedings on the theory of induced infringement. The majority stated that the *McKesson* defendant can be held liable for inducing infringement if it can be shown that (i) it knew of the plaintiff's patent, (ii) it induced the performance of the steps of the method claimed in the patent, and (iii) those steps were performed. Similarly, the majority stated that the *Akamai* defendant can be held liable for inducing infringement if it can be shown that (i) it knew of the patentee's patent, (ii) it performed all but one of the steps of the claimed method, (iii) it induced others to perform the final step of the claimed method, and (iv) those others in fact performed that final step.

The *Akamai* majority construed the patent statute as making a distinction between (a) "infringement" and (b) liability for direct infringement under §271(a). §271(a) specifies that "whoever without authority makes, uses, offers to sell, or sells any patented invention within the United States or imports into the United States any patented invention ... infringes the patent." Contrary to the traditional understanding that §271(a) defines infringement (commonly referred to as "direct" infringement), the majority held that the statute does not explicitly define infringement. The majority read §271(a) as simply identifying conduct that qualifies as infringing.

Sections 271(b) and 271(c), which were enacted at the same time as §271(a), have traditionally been understood as codifying in a limited manner the common law of "indirect" infringement. Section 271(c) deals with a specifically defined category of conduct as giving rise to contributory infringement liability, while Section 271(b) more generally identifies active inducement of "infringement" as giving rise to infringement liability. The traditional view, rooted in an oft-cited Supreme Court pronouncement in *Aro Mfg., Co. v. Convertible Top Replacement Co.*,² was that there could be no indirect infringement without direct infringement. The majority opinion nominally adhered to the requirement for direct infringement under its new inducement standard, but concluded that *Aro* did not require *liability* for direct infringement as a predicate for indirect infringement liability.³

² 365 U.S. 336, 341 (1961).

³ According to the majority, the Federal Circuit also reached "the same result" in a prior decision, *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565 (Fed. Cir. 1983).

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The majority supported its reading of the statute by reference to the legislative history, and drew parallels to (i) provisions of criminal law that make a principal liable for criminal acts committed by an innocent intermediary who was induced by the principal; and (ii) tort law principles that impose liability on parties who use innocent third parties to carry out harmful acts.

Four dissenting judges endorsed the single-entity rule. See Judge Linn's dissent.⁴ Judge Newman separately dissented, rejecting both the majority's new inducement rule and the minority's single-entity rule in favor of a rule that direct infringement encompasses "when all the claimed steps are conducted, whether by a single entity or in interaction or collaboration." All five of the dissenting judges were sharply critical of the majority for engaging in improper policy making and radically changing established law. Judge Newman also criticized the new inducement standard as creating new problems of enforcement, compensation and defense, as well as new opportunities for gamesmanship, abuse, and inequity.

In addition to the criticisms noted above, the dissents vigorously criticize the majority's reasoning on the merits.

III. ANALYSIS

It is not the purpose of this Special Report to detail the arguments in the majority and

dissenting opinions, or to evaluate their merits. However, it will be no surprise if the Supreme Court is asked to review the *Akamai* decision, or if the Supreme Court agrees to do so. Various factors weigh heavily in favor of Supreme Court review, including the substantial controversy surrounding the state of the law on divided infringement and its impact on many modern technologies, the deep divide in the *en banc* Federal Circuit opinions, and the Supreme Court's recent admonition in *Prometheus*, noted by Judge Linn, against judicial policy making.⁵

Unless and until the Supreme Court takes up the issue, or Congress decides to change the statute, though, *Akamai* will apply. The potential impact of the decision is very wide-ranging. For example, the decision has a direct bearing on modern commerce that relies on networked systems and interactions between different entities to deliver goods and services.

Many diverse technologies are implicated, including electronic technologies such as computers and software, telecommunications, electronic commerce, and Internet technologies that enable content storage and delivery and social interaction.⁶ Additionally, the applicability of *Akamai* is not limited to these fields. For example, bio-medical technologies in which different entities perform data-gathering, diagnosis and/or treatment steps are also potentially affected. Indeed, many manufacturing

⁴ According to the dissent, one Federal Circuit decision following *BMC* and *Muniauction, Golden Hour Data Sys., Inc. v. emsCharts, Inc.*, 614 F.3d 1367 (Fed. Cir. 2010), should be overruled as misapplying the "single entity" rule. In *Golden Hour*, the two defendants were held not liable even though they had formed a "strategic partnership," enabled their programs to work together to practice a patented method, and collaborated to sell the two programs as a unit.

⁵ *Mayo Collaborative Servs. v. Prometheus*, 132 S. Ct. 1289, 1305 (2012).

⁶ The patent in *Akamai* covers a method for efficient delivery of web content. The patent in *McKesson* covers a method of electronic communication between healthcare providers and their patients.

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and assembly processes are potentially implicated, for example when different assembly steps are conducted by different entities.

However, the reach of *Akamai* may be limited by several factors:

First, the doctrine may be limited to method claims. As the *Akamai* majority observed, the question of divided direct infringement under §271(a) typically only arises with respect to method patents. When claims are directed to a product or apparatus, direct infringement is always present, because the entity that installs the final part and completes the claimed invention is a direct infringer. Although this observation does not apply equally to claims directed to systems having distributed components that are linked and interact over a telecommunications or other network, single-actor direct infringement of such claims is still possible.⁷

Second, based on the majority opinion's summaries of the elements that the respective patentees need to prove to establish inducement, the new standard may require that a defendant is actively involved in performance of all of the claimed steps, whether by actually performing

individual steps, or actively inducing performance of one or more steps. Thus, inducement may not arise when multiple actors independently perform different steps of a claimed method without interaction or collaboration.

Third, the "knowledge of infringement" element of inducement may help to shield unknowing or innocent actors from inducement liability. However, the threshold for sufficient knowledge is not a bright line. See, for example, our June 6, 2011 Special Report discussing the willful blindness standard adopted by the Supreme Court in *Global-Tech Appliances, Inc. v. SEB SA*, 131 S.Ct. 2060 (2011).⁸

Unfortunately, much remains to be clarified about the new doctrine of inducement-only liability for infringement. The immediate future thus portends much uncertainty and confusion until the contours and limits of the new doctrine are fleshed out (or repudiated) in future cases and/or legislation.

IV. RECOMMENDATIONS

1. We recommend that patentees desiring method claim protection continue to focus on drafting claims that can be performed by a single actor, and include counterpart system (apparatus) claims when appropriate.

2. We also recommend that applicants (and patentees via reissue) consider including additional method claims in which different actors are likely to perform different steps of the claims. Such claims would be enforceable under the new standard, and may be stronger from the

⁷ Although not mentioned in the majority opinion, the Federal Circuit has held that "use" of a patented system within the meaning of §271(a) does not necessarily implicate the concept of divided infringement even though the system has different components, some of which are in the possession of and operated by a service provider, and some of which are in the possession of and operated by an end-user. "Use" for purposes of §271(a) direct infringement only requires an end user to put the invention as a whole into service, i.e., control the system as a whole and obtain benefit from it. The end user must be using all portions of the claimed invention. However, the end user is not required to exercise physical or direct control over each individual element of the system. *Centillion Data Sys., L.L.C. v. Qwest Communications Int'l, Inc.*, 631 F.3d 1279, 1283-84 (Fed. Cir. 2011).

⁸ "U.S. Supreme Court Holds That Inducement Under §271(B) Requires Knowledge That Induced Acts Constitute Patent Infringement, And Adopts "Willful Blindness" Standard For Establishing Such Knowledge."

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standpoint of validity. An example is a "tailored medical treatment" method including both diagnostic and treatment steps that are performed by different entities, a diagnostic laboratory and a doctor, and that might be induced, for example, by a pharmaceutical manufacturer, a diagnostic reagent or equipment manufacturer, or others.

3. Patentees should reassess their enforcement strategies to include multi-actor divided infringement scenarios that do not satisfy the single-entity rule for direct infringement liability.

4. As for defensive measures to be taken in the face of known method patents, we recommend reassessing any non-infringement position that had previously relied on the single-entity rule, and particularly the *Golden Hour* application of the rule. An opinion of counsel, establishing the absence of knowledge of infringement, may be the best defense against induced infringement liability.

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