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SUPREME COURT OVERTURNS FEDERAL CIRCUIT *EN BANC* DECISION RECOGNIZING MULTIPLE ACTOR INFRINGEMENT OF METHOD CLAIMS

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On June 2, 2014, a unanimous Supreme Court issued a decision in *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, reversing a 2012 Federal Circuit *en banc* decision that held a defendant liable for inducing infringement of a method claim under 35 U.S.C. §271(b) even though multiple independent actors carried out the claimed steps.[1] The 2012 Federal Circuit decision was discussed in our September 14, 2012 Special Report.

The Supreme Court's decision confirms that liability for inducing infringement under §271(b) requires a finding of direct infringement under §271(a) or under another statutory provision. Thus, for inducing infringement of method claims, there is no liability if performance of all the claimed steps cannot be attributed to a single entity.

I. BACKGROUND

A. The Single-Entity Rule For Direct Infringement Of Method Claims

Infringement under 35 U.S.C. §271 can be found based on either direct infringement or indirect infringement, including induced infringement under §271(b).[2] Supreme Court precedent establishes that liability for indirect infringement must be predicated on direct infringement. For example, in *Aro Mfg. Co., Inc. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961), the Supreme Court confirmed that contributory infringement liability under §271(c) can arise only if there is an act of direct infringement. This reasoning has been extended by the Supreme Court and the Federal Circuit to induced infringement under §271(b), similarly requiring an underlying act of direct infringement.

In the Federal Circuit's 2008 *Muniauction* decision, which sparked the *Limelight* District Court to reconsider and reverse its original finding of infringement, the Federal Circuit held that direct infringement of a method claim under §271(a) requires a single party to either perform all of the steps of the patented method, or to exercise "control or direction" over the entire process such that every step is attributable to the single party.[3]

[1] *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 572 U.S. ___ (2014).

[2] 35 U.S.C. §271(b) reads "Whoever actively induces infringement of a patent shall be liable as an infringer."

[3] *See Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008).

B. The Federal Circuit *En Banc* Decision

Upon rehearing the *Limelight* appeal *en banc*, the Federal Circuit held that the evidence could support a judgment of induced infringement under 35 U.S.C. §271(b) because, even if no single entity would have been liable as a direct infringer, the defendant carried out some steps of a patented method and encouraged others to carry out the remaining steps.[4] The Federal Circuit held that although §271(a) states that a person who performs specified acts is an infringer, and §271(b) refers to inducing "infringement" of a patent, "nothing in the text of either subsection suggests that the act of 'infringement' required for inducement under section 271(b) must qualify as an act that would make a person liable as an infringer under section 271(a)." Accordingly, the Federal Circuit held that induced infringement under §271(b) can occur even if direct infringement under §271(a) has not been committed by a single entity, for example, in a situation where the steps of a patented method are practiced by multiple, independent entities, whose combined activities practice all of the claimed steps.

II. THE SUPREME COURT DECISION

The Supreme Court reversed the Federal Circuit *en banc* decision and held that a defendant cannot be liable for inducing infringement under 35 U.S.C. §271(b) when no one has directly infringed under §271(a) or any other statutory provision.

Citing its 1961 decision in *Aro Mfg.*, the Supreme Court stated that the law leaves "little doubt" that a finding of induced infringement requires direct infringement. The Supreme Court criticized the Federal Circuit's analysis, stating that the Federal Circuit "fundamentally misunderstands" what it means to infringe a method patent, reiterating that a method claim is not infringed unless all of the steps are carried out. The Court held that Limelight could not be liable for inducing infringement under §271(b) because the performance of all of the claimed steps could not be attributed to a single person, and thus no direct infringement was committed.

The Supreme Court stated that the Federal Circuit's holding that induced infringement can be found independent of actionable direct infringement would deprive §271(b) of ascertainable standards and would require courts to develop two parallel bodies of infringement law: one for direct infringement and one for indirect infringement. The Supreme Court also reasoned that if Congress intended §271(b) to impose liability for inducing conduct that is non-infringing, it would have explicitly stated so. For example, §271(f)(1) expressly imposes liability for inducing non-infringing conduct (conduct occurring outside of the United States), and thus Congress is capable of codifying situations where such liability exists.

The Court based its holding on the assumption that the Federal Circuit's "single-entity" rule in the *Muniauction* decision was correct. The Court expressly declined to review the merits of the *Muniauction* decision, reasoning that a review of *Muniauction* would be outside the scope of the question presented for the Court's review, and noting that the Federal Circuit will have an opportunity to revisit the standard for §271(a) direct infringement on remand. Akamai had also filed a conditional cross petition for certiorari effectively asking the Court to reconsider the *Muniauction* holding, and on June 9, 2014, the Court denied the cross petition.

III. ANALYSIS

The Supreme Court's holding effectively reaffirms the state of the law with respect to infringement of method claims involving multiple

[4] *Akamai Techs., Inc. v. Limelight Networks, Inc.* 692 F.3d 1301 (Fed. Cir. 2012).

actors prior to the Federal Circuit's 2012 *en banc* *Limelight* decision. A defendant cannot be held liable for inducing infringement of a method claim based on §271(a) direct infringement unless the performance of all of the claimed steps can be attributed to a single entity.

The Supreme Court's decision is based on the concept that an indirect theory of infringement cannot impose liability where the patent holder's rights have not been violated in the first place. In this regard, the Court noted that "[u]nsurprisingly, respondents point us to no tort case in which liability was imposed because a defendant caused an innocent third party to undertake action that did not violate the plaintiff's legal rights." To impose liability for inducement, a court must be able to assess when a patent holder's protected interest has been invaded.

The Court's holding confirms that direct infringement under §271(a) can be a basis for finding liability under §271(b), but seems to leave open the question of whether liability for inducement under §271(b) can be based on other statutory provisions ("This case presents the question whether a defendant may be liable for inducing infringement of a patent under 35 U.S.C. §271(b) when no one has directly infringed the patent under §271(a) or any other statutory provision") (emphasis added). Although the Court did not identify the other statutory provisions that might be used as an underlying basis for direct infringement, §271(g) possibly could be used as a basis for an induced infringement claim because it defines conduct that creates liabilities "as an infringer."[5]

The Supreme Court also expressly acknowledged that its holding potentially allows a would-be infringer to evade liability by dividing performance of a patented method with another entity whom the defendant neither directs nor controls. The Supreme Court indicated that this concern is a result of the Federal Circuit's interpretation of §271(a) in *Muniauction*, however, and does not itself justify altering the rules of induced infringement liability.

Because the Court's decision rests on the *Muniauction* holding and the Court declined to consider the merits of *Muniauction*, the court left unanswered whether there can be a finding of direct infringement when two unrelated entities each perform some steps of a claimed method. Thus, the ultimate holding in *Limelight* could change to the extent that the *Muniauction* decision (or the Federal Circuit's similar prior decision in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007)) is revisited or revised by the Federal Circuit.

IV. RECOMMENDATIONS

1. Method claims should be carefully drafted to ensure, whenever possible, that all of the steps are performed by a single actor. Where an inventive method might be infringed by multiple actors (e.g., a supplier and a customer), multiple independent method claims should be drafted from the perspective of each actor and should only include steps that the respective actor would normally perform. In drafting claims, consider whether a third party can avoid infringement by requiring a different party to perform one of the steps.

2. In addition to drafting method claims, applicants should consider drafting apparatus and/or system claims. Infringement of system and apparatus claims can be found under 35 U.S.C. §271(a) based on "use" of the system or apparatus, and liability for such "use" is possible even where multiple parties make or operate the device. In particular, system claims can potentially be drafted in a way that would

[5] 35 U.S.C. §271(g) reads, in part, "Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer . . ."

impose liability on an entity that exercises control over the patented system even if the system is operated by multiple actors.

3. Although the Supreme Court's *Limelight* decision requires that direct infringement exist for any induced infringement liability to be actionable, it does not change the fact that liability for direct infringement may still occur if a single party practices some steps and exercises control and direction over another party that practices other steps. Thus, in considering infringement of method claims when enforcing patents or defending against third party patents, it may be necessary to consider the level of control and direction that is exercised over a party that practices a portion of the claimed steps.

4. The Supreme Court's *Limelight* decision expands the bases for finding that a method claim is not infringed under §271(b). Any infringement analysis of method claims that was conducted after the Federal Circuit's *en banc Limelight* decision should be reevaluated if multiple actors are required to practice the claimed method.

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