

Intellectual Property ADVISORY

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Federal Circuit Changes the Standard for Induced Infringement of Method Patents

Last Friday, in a highly fractured *en banc* decision, the Federal Circuit ruled 6-5 that inducement of patent infringement no longer requires proof that a single entity directly infringes the patent. Limiting its analysis to method patents, and overruling a 2007 decision, the court held “that all the steps of a claimed method must be performed in order to find induced infringement, but that it is not necessary to prove that all the steps were committed by a single entity.” This new rule eases a patentee’s burden for proving induced infringement and is already having an immediate and dramatic impact on patent litigation. The new standard will affect claim drafting as well, as earlier concerns about structuring method claims to capture infringement by a single party are now less worrisome.

Background

The Federal Circuit’s decision arose in two cases that were consolidated for purposes of *en banc* rehearing, *Akamai Technologies, Inc. v. Limelight Networks, Inc.* (“*Akamai Technologies*”) and *McKesson Technologies, Inc. v. Epic Systems Corp.* (“*McKesson Technologies*”), Case Nos. 2009-1372, -1380, -1416, -1417 (collectively “*Akamai*”). The opinion includes two dissents, one by Judge Newman and one by Judge Linn, with whom Judges Dyk, Prost, and O’Malley joined. The majority opinion was *per curiam*, suggesting that it was the result of compromise among the six judges in the majority. The court’s full opinion can be found at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/09-1372-1380-1416-141710-1291.pdf>.

The Federal Circuit had first addressed the issue of “divided infringement” in *BMC Resources Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007). In *BMC*, the court held that a party who does not itself perform all the steps of a patented method cannot be held liable for direct infringement unless that party also “controls or directs” the actions of another with respect to the unperformed steps of the method. *Id.* at 1380. The court also stated that “[i]ndirect infringement requires, as a predicate, a finding that some party amongst the accused actors has committed the entire act of direct infringement.” *Id.* at 1379. Thus, under *BMC*, unless a single entity performed all of the steps of a claimed method, or directed or controlled the actions of another in performing the steps, the patentee had no remedy for infringement. A year later, in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1330 (Fed. Cir. 2008), the Federal Circuit clarified that the “control or direction” standard of *BMC* “is satisfied where the law would traditionally hold the accused infringer vicariously liable for the acts committed by another party that are required to complete performance of a claimed method.”

In both *Akamai Technologies* and *McKesson Technologies*, the respective district courts faced facts similar to those presented in *BMC* and *Muniauction*. In the *Akamai Technologies* case, the patent at issue claimed

methods for efficiently delivering web content. The method included placing some of a content provider's content elements on replicated servers and modifying the content provider's web page to instruct web browsers to access the content from those servers. The accused infringer, Limelight Networks, maintains servers and places content on its servers, but does not modify the content provider's web pages; instead, it instructs users how to do so. Thus, the issue was one of liability for induced infringement where the defendant has performed some of the steps of a claimed method and has induced other parties to commit the remaining steps. Relying on *BMC* and *Muniauction*, the district court ruled that Limelight Networks did not infringe and granted judgment as a matter of law accordingly.

In the *McKesson Technologies* case, the patent claims were directed to a method of electronic communication between healthcare providers and their patients. Defendant Epic Systems owns and licenses software that includes an application called "MyChart," which permits healthcare providers to communicate electronically with patients. Epic Systems does not perform any of the steps of the claimed method. Instead, performance was divided between the patients, who initiate communications, and the healthcare providers, who perform the remainder of the steps. Thus, the issue was one of liability for induced infringement where the defendant has induced other parties collectively to perform all the steps of the claimed method, but no single party has performed all of the steps itself. The district court relied on *BMC* and *Muniauction* in granting summary judgment of noninfringement to Epic Systems.

After issuing separate panel decisions affirming the district court rulings, the Federal Circuit agreed to rehear the cases together *en banc*. In *Akamai Technologies*, the issue to be addressed *en banc* was couched as follows:

If separate entities each perform separate steps of a method claim, under what circumstances would that claim be directly infringed and to what extent would each of the parties be liable?

In *McKesson Technologies*, two issues were presented for *en banc* review:

If separate entities each perform separate steps of a method claim, under what circumstances, if any, would either entity or any third party be liable for inducing infringement or for contributory infringement?

Does the nature of the relationship between the relevant actors—e.g., service provider/user; doctor/patient—affect the question of direct or indirect infringement liability?

As described below, the Federal Circuit ultimately did not decide the issue raised in *Akamai Technologies*, and addressed only an altered version of the "inducement" issue raised in *McKesson Technologies*. Specifically, the issue resolved in *Akamai* is "whether liability should extend to a party who induces the commission of infringing conduct when no single 'induced' entity commits all of the infringing acts or steps but where the infringing conduct is split among more than one entity." Maj. Op. at 14. The divided court held that liability does indeed reach that far, significantly broadening the doctrine of induced patent infringement.

The *Akamai* Decision and Its Rationale

At the outset of its opinion, the *Akamai* majority noted that "doctrinal problems" arise in factual situations like those of *Akamai Technologies* and *McKesson Technologies*, where the acts necessary to give rise

to liability for direct infringement are shared between two or more actors. The majority perceived that the court's existing precedent, particularly its *BMC* decision, had created a problem in these circumstances, because "the patentee has no remedy, even though the patentee's rights are plainly being violated by the actors' joint conduct." Maj. Op. at 10.

Acknowledging that the briefing on the *en banc* issues largely focused on direct infringement under § 271(a), the court determined that it was not necessary to resolve that issue, as "these cases and cases like them can be resolved through an application of the doctrine of induced infringement" under § 271(b). Maj. Op. at 10. The court held that, for induced infringement of a method claim, all the steps of the method must be performed, but "it is not necessary to prove that all the steps were committed by a single entity." *Id.* In this respect, the court expressly overruled *BMC*'s "single-entity" rule, thus loosening the standard for induced infringement under § 271(b). The court explained its ruling as follows:

Requiring proof that there *has been* direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be *liable* as a direct infringer. If a party has knowingly induced others to commit the acts necessary to infringe the plaintiff's patent and those others commit those acts, there is no reason to immunize the inducer from liability for indirect infringement simply because the parties have structured their conduct so that no single defendant has committed all the acts necessary to give rise to liability for direct infringement.

Maj. Op. at 16 (emphasis in original).

Applying the revised standard, the court explained that a defendant in the *Akamai Technologies*-type situation can be held liable for inducing infringement if it can be shown that (1) it knew of the patent, (2) it performed certain of the steps of the method claimed in the patent, (3) it induced others to perform the remaining steps, and (4) those others in fact performed the remaining steps. *Id.* at 36. Likewise, a defendant in the *McKesson Technologies*-type situation can be held liable for inducing infringement if it can be shown that (1) it knew of the patent, (2) it induced the performance of the steps of the method claimed in the patent, and (3) those steps were performed. *Id.* at 35.

The Federal Circuit also announced a broad view as to the sorts of conduct that qualify as "inducing." As explained by the majority:

[I]nducement does not require that the induced party be an agent of the inducer or be acting under the inducer's direction or control to such an extent that the act of the induced party can be attributed to the inducer as a direct infringer. It is enough that the inducer 'cause[s], urge[s], encourage[s], or aid[s]' the infringing conduct and that the induced conduct is carried out.

Id. at 14-15; see also *Id.* at 14 (noting that § 271(b) extends liability to a party who "advises, encourages, or otherwise induces" others to engage in infringing conduct).

In supporting its new rule, the court relied on the legislative history behind the 1952 Patent Act. The court noted that § 271(b) was intended to be a "broad statement and enactment of the principle that one who actively induces infringement of a patent is likewise liable for infringement." Maj. Op. at 18. The court also strongly credited Mr. (later Judge) Giles Rich's statements at an early House hearing on the 1952 Act

regarding the problem of “combination patents” in the nascent radio and television arts. Judge Rich had argued that new methods in these arts required specifying claims involving “both transmitting and receiving” and that then-recent Supreme Court cases—which were targeted by the proposed statutory changes—“make it impossible to enforce such patents” because while there is “obvious infringement,” “there is no direct infringer of the patent but only two contributory infringers.” *Id.* at 23.

The *Akamai* majority also supported its new rule by analogizing to criminal law and tort law. The court explained that under the Federal Criminal Code’s “aiding and abetting” provisions, an accessory that induces or causes a criminal offense can be convicted even when the principal is found not liable for the underlying unlawful conduct. Likewise, under common law principles of joint tortfeasance, “the rule imposing liability for inducement of a tort applies even if the person being induced is unaware that his act is injurious and is not liable for that reason.” *Id.* at 24. From these sources, the court determined that the “implication of that principle, as applied in the divided infringement context, is that a party may be liable for inducing infringement even if none of the individuals whose conduct constituted infringement would be liable, as direct infringers, for the act of infringement that was induced.” *Id.* at 25.

Applying its new standard, the Federal Circuit reversed the district court’s noninfringement rulings in both *Akamai Technologies* and *McKesson Technologies* and remanded the cases to the district courts.

The majority opinion sparked two spirited dissents. Judge Newman explained that the majority’s “inducement-only rule” distorts the inducement statute and marks “dramatic changes in the law of infringement.” Newman Op. at 2, 3. She remarked, “Such an inducement-only rule has never been held, in any case. It has no foundation in statute, or in two centuries of precedent.” *Id.* at 4. Judge Newman also took issue with the court’s “unannounced *en banc* ruling,” which was “made without briefing by the parties or notice to the *amici curiae*,” given that the briefing focused primarily on direct infringement as in *BMC* and *Muniauction*.

In Judge Newman’s view, the text of § 271(a) shows that it encompasses the actions of multiple entities: “The word ‘whoever’ in § 271(a) does not support the single-entity rule. By statutory canon the word ‘whoever’ embraces the singular and plural.” Newman Op. at 9. Judge Newman then proceeded to criticize the majority for seemingly eliminating the predicate requirement of direct infringement for purposes of an indirect infringement claim, stating:

My colleagues hedge, and while acknowledging that “there can be no indirect infringement without direct infringement,” maj. op. 15, the court holds that there need not be direct infringers. I need not belabor the quandary of how there can be direct infringement but no direct infringers.

Id. at 20. In Judge Newman’s view, the court should have overturned the single-entity rule of *BMC* and *Muniauction* and adhered to long-existing precedent: “The court should simply acknowledge that a broad, all-purpose single-entity requirement is flawed, and restore infringement to its status as occurring when all of the claimed steps are performed, whether by a single entity or more than one entity, whether by direction or control, or jointly, or in collaboration or interaction.” *Id.* at 16.

Judge Linn also dissented, joined by Judges Dyk, Prost, and O’Malley. According to Judge Linn, the majority skirted the *en banc* question presented, subverted the statutory scheme of the Patent Act, and ignored longstanding Supreme Court precedent that “if there is no direct infringement of a patent there can be no

contributory infringement.” Linn Op. at 2, 4 (quoting *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961)). Judge Linn characterized the majority’s broadening of the doctrine of inducement “such that no predicate act of direct infringement is required” as “a sweeping change to the nation’s patent policy that is not for this court to make.” *Id.* at 12.

Judge Linn explained that, contrary to the majority’s view, § 271(a) “defines infringement,” and §§ 271(b) and (c) are to be read in light of § 271(a). *Id.* at 5, 6. Judge Linn would retain the single-entity rule of *BMC* and *Muniauction*: “I would hold that direct infringement is required to support infringement under § 271(b) or § 271(c) and properly exists only where one party performs each and every claim limitation or is vicariously liable for the acts of others in completing any steps of a method claim, such as when one party directs or controls another in a principal-agent relationship or like contractual relationship, or participates in a joint enterprise to practice each and every limitation of the claim.” *Id.* at 27.

The *Akamai* Decision Will Have a Meaningful Impact on the Patent Community

The Federal Circuit appears to have written the *Akamai* decision expecting it to be addressed by the Supreme Court, and such an outcome seems a distinct possibility given the wide disparity in the judges’ views and importance of the issue. The Supreme Court has previously admonished the Federal Circuit when it changed fundamental principles of patent law, noting that “courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 724 (2002). The Federal Circuit again has made a sweeping change, and this time over a matter of statutory construction, which the Supreme Court is often keen to address. Also, given that Congress just enacted the Leahy-Smith America Invents Act last fall, and left unchanged the single-entity rule of *BMC* and *Muniauction*, one could certainly posit that settled expectations have been disrupted by the Federal Circuit, while Congress saw fit to leave well enough alone.

The impact could be vast. Companies involved in e-commerce, Internet technologies, telecommunications, debit and credit card transactions, data management technologies, and business methods—which encompasses most every company—could be affected. As Judge Rich had appreciated over 60 years ago in the context of radio and television arts, problems arise when patents covering such technologies are sought to be enforced, as “there is no direct infringer of the patent but only two contributory infringers.” *Id.* at 23. Often the party (or one of the parties) being induced is merely a consumer receiving content from the inducer, but *Akamai* makes clear that only the inducer is at risk for liability.

Thus, the greatest risk lies with those who may induce others to infringe a method patent. For inducement, a patentee no longer must prove that there is a single direct infringer; it is enough that the induced conduct is carried out, even if by a cadre of unassociated actors. The saving aspect, acknowledged by the *Akamai* majority, is that inducement cannot happen accidentally, because inducement requires that the inducer act with knowledge (or willful blindness) that the induced acts constitute patent infringement. Notably, though, the Federal Circuit’s list of actions that may be considered “inducing” behavior is extensive and broad, for it includes advising, causing, urging, encouraging, and aiding others to engage in infringing conduct. Maj. Op. at 14, 15.

Even biotechnology and pharmaceutical companies may be affected. Because *Akamai* allows method steps to be performed by different entities without relinquishing the possibility of proving indirect infringement,

such companies may now draft claims that can survive a challenge to their patent-eligibility—an issue addressed earlier this year by the Supreme Court in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012). Taking a diagnostic method claim as an example, such a claim may now be written to require a physician to perform certain treatment steps (such as administration of drugs) and a laboratory technician to perform other testing steps (such as determining levels of certain substances in a patient’s body). The rule announced in *Akamai* allows claim drafters to incorporate such steps performed by unassociated actors, which will aid in surviving a challenge to patent-eligibility while not eviscerating all possibility of proving infringement.

Indeed, *Akamai* will affect drafting of method claims in any industry. The Federal Circuit in *BMC* had observed that the single-entity rule could be offset by proper claim drafting, as “[a] patentee can usually structure a claim to capture infringement by a single party.” *BMC*, 498 F.3d at 1381. Because the *Akamai* decision has eliminated *BMC*’s single-entity requirement, patentees are no longer so restricted in drafting their method claims. To be sure, it is still much preferred to structure a claim such that a single actor performs all of the steps, because the patentee will therefore preserve the possibility of proving direct infringement, a strict liability offense. But claim drafters now have a choice, and perhaps will choose to craft previously unwise claims that require multiple actors.

Akamai directly affects patent litigation as well, and is already being relied upon by patentees endeavoring to prove inducement of infringement. The Federal Circuit recently settled an issue about which district courts had differed regarding the appropriate standard for pleading indirect infringement in a complaint. In June, the Federal Circuit resolved the issue in favor of patentees, holding that, “[t]o state a claim for indirect infringement, . . . a plaintiff need not identify a *specific* direct infringer if it pleads facts sufficient to allow an inference that at least one direct infringer exists.” *In re Bill of Lading Transmission & Processing System Patent Litigation*, 681 F.3d 1323, 1336 (Fed. Cir. 2012) (emphasis in original). Now, even this pleading standard may be relaxed, at least for method claims, as a proper allegation of inducement is no longer dependent upon showing that a direct infringer exists. Instead, a patentee likely need only allege facts sufficient to allow an inference that the induced acts have been performed.

Given the divisive views in *Akamai*, it is not surprising that important issues are left unanswered. For example, although the *en banc* issues presented for resolution included addressing contributory infringement under § 271(c), the court is largely silent on the issue. In support of its holding addressing induced infringement under § 271(b), the majority relied upon Judge Rich’s testimony as to the scope of the 1952 Patent Act, but that testimony applied equally to contributory infringement. Thus, it is conceivable that litigants, analogizing to *Akamai*, will argue that the well-established predicate requirement of a direct infringer for purposes of contributory infringement is no longer necessary.

Another area left for wonder by the majority, but discussed at length in Judge Newman’s dissent, is the proper measure of damages under the new rule. See Newman Op. at 25-30. Judge Newman aptly summarized the complication as follows:

We are not told how compensation is measured. The only thing that is clear, is that remedy is subject to new uncertainties. Since the direct infringers cannot be liable for infringement, they do not appear to be subject to the court’s jurisdiction. Perhaps the inducer can be enjoined—but will that affect the direct infringers? Since the inducer is liable when he breaches the “duty” not to induce, is the inducer subject to multiplication of damages?

Id. at 25. The resolution proposed by Judge Newman is premised on traditional tort principles, under which “remedy for infringement is appropriately allocated based on established criteria of culpability, benefit, and the like.” *Id.* at 29. District courts will soon face widely varying assessments of the proper measure of damages, prompted by Judge Newman’s views and by the creative minds of litigation counsel and damages experts.

Perhaps most importantly, the Federal Circuit unabashedly avoided the issue of the standard for direct infringement when no single entity performs all of the claimed steps of the patent, even though that issue is what prompted the *en banc* rehearing and is what the parties and *amicus curiae* had briefed. That standard had been set in *BMC*, which *Akamai* overruled without announcing a replacement rule. *Maj. Op.* at 10. Also, curiously, the court did not also overrule *Muniauction*, and it is debatable whether aspects of *Muniauction*, and indeed *BMC*, survive the new decision. Just two pages after stating that *BMC* is overruled, the *Akamai* decision cites *BMC* favorably for two propositions in the context of direct infringement, *Id.* at 12, leaving the possibility that *BMC* remains good law for purposes of direct infringement.

If *BMC* is no longer good law for any purpose, then once again the patent community is left to wonder whether, and under what circumstances, direct infringement can lie when no single entity performs all of the steps of a method claim. The *Akamai* majority observed that “these cases and cases like them can be resolved through an application of the doctrine of induced infringement” under § 271(b), *Maj. Op.* at 10, but just because they can be does not mean that they ought to be. Indeed, litigants will always prefer to rely upon the strict liability tort of direct infringement, when available, rather than resort to the more onerous challenge of demonstrating induced infringement. How this issue develops, and whether the Supreme Court chooses to have its say, remain to be seen.

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