



Intellectual Property ADVISORY ■

JUNE 6, 2014

Supreme Court Restores Direct Infringement as Predicate to Liability for Induced Infringement of a Patent

On Monday, the Supreme Court issued its decision in the much-anticipated *Limelight Networks, Inc. v. Akamai Technologies, Inc.* case. The Court unanimously held that a defendant cannot be liable for inducing infringement of a patent under 35 U.S.C. § 271(b) without an underlying act of direct infringement under 35 U.S.C. § 271(a). The decision reversed a fractured *en banc* ruling by the Federal Circuit in which the court had attempted to close a loophole in the law governing “divided” infringement of a method patent, meaning that the performance of the claimed steps is divided among multiple actors. The Federal Circuit had determined that § 271(b) liability arises when a defendant carries out some steps and encourages others to carry out the remaining steps, even if no single person would be liable as a direct infringer under § 271(a). By reversing, the Supreme Court restored induced infringement law to its traditional state, which requires a predicate act of direct infringement. But the ruling also revived the perceived loophole. Although not without its own doctrinal problems, we expect the Federal Circuit to consider crafting a broader, more flexible standard for proving direct infringement under § 271(a) in the context of divided infringement of method patents.

Background

The Court’s decision is yet another chapter in the long-running patent dispute between Akamai and Limelight.¹ Akamai is the exclusive licensee of a patent relating to efficiently delivering web content through the use of a “content delivery network.” The method includes placing some of a content provider’s website content elements on replicated servers and tagging specific content elements on the website to instruct web browsers to access the content from one of the replicated servers. The accused infringer, Limelight Networks, maintains servers and places content on its servers, but does not tag content providers’ web pages. Instead, it instructs users how to do so.

¹ For more on the factual and procedural background of the case, please see our Client Advisory on the 2012 *en banc* Federal Circuit decision, which can be found at: www.alston.com/advisories/ip-induced-infringement-method-patents.

Under the Federal Circuit's ruling in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), there can be no § 271(a) direct infringement under these circumstances because Limelight does not perform all of the method steps itself—specifically, it does not perform the “tagging” step—and does not “direct or control” the performance of the “tagging” step by Limelight's customers. Under *Muniauction*, performance of the claimed steps must all be attributed to the same defendant, either because the defendant performed the steps itself or directed or controlled others who performed them.

Limelight initially escaped liability because *Muniauction* precluded a finding of direct infringement under § 271(a). In 2012, however, the Federal Circuit revisited the dispute *en banc* and reversed, attempting to close what was seen as a loophole in the law for divided infringement of a method patent. In a 6–5 ruling, the Federal Circuit did not dispute that “there can be no indirect infringement without direct infringement,” but raised a distinction that “[r]equiring proof that there has been direct infringement . . . is not the same as requiring proof that a single party would be liable as a direct infringer.” 692 F.3d 1301, 1308-09 (Fed. Cir. 2012) (*en banc*). In a dissent by Judge Newman, she explained that the majority's decision distorts the inducement statute and marks “dramatic changes in the law of inducement.” *Id.* at 1319 (Newman, J., dissenting). “I need not belabor the quandary of how there can be direct infringement but no direct infringers,” she wrote. *Id.* at 1328. Judge Linn also dissented, joined by Judges Dyk, Prost, and O'Malley. According to Judge Linn, the majority opinion disregarded longstanding Supreme Court precedent requiring a predicate act of direct infringement, thus generating “a sweeping change to the nation's patent policy that is not for this court to make.” *Id.* at 1342 (Linn, J., dissenting).

The Supreme Court's Decision

Writing for a unanimous Court, Justice Alito explained that the Supreme Court's “case law leaves no doubt that inducement liability may arise ‘if, but only if, [there is] . . . direct infringement.’” Slip Op. at 5 (alterations in original) (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961)). This fundamental precept, however, did not resolve the dispute because the Federal Circuit had reasoned that “a defendant can be liable for inducing infringement under § 271(b) even if no one has committed direct infringement within the terms of § 271(a) (or any other provision of the patent laws), because direct infringement can exist independently of a violation of these statutory provisions.” *Id.* On this point, the Court chastised the Federal Circuit, stating that “[t]he Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent.” *Id.*

Infringement, the Court explained, requires that all of the steps are performed. Under the Federal Circuit's decision in *Muniauction*, “a method's steps have not all been performed as claimed by the patent unless they are all attributable to the same defendant, either because the defendant actually performed those steps or because he directed or controlled others who performed them.” *Id.* at 5–6. The Supreme Court “assum[ed] without deciding” that the holding in *Muniauction* is correct and, based on that assumption, determined that Limelight does not infringe “because the performance of all the patent's steps is not attributable to any one person.” *Id.* at 6. And where there was no direct infringement, there can be no inducement of infringement.

In support of its decision, the Court revisited its contributory infringement ruling in *DeepSouth Packing Co. v. Laitram Corp.* The Court there “rejected the notion that conduct which would be infringing in altered circumstances can form the basis for contributory infringement,” and the Court saw no reason to apply a

different rule in the present case involving inducement of infringement. *Id.* at 7. Congress responded to the *Deepsouth* ruling by enacting § 271(f)(1),² illustrating that “when Congress wishes to impose liability for inducing activity that does not constitute direct infringement, it knows precisely how to do so.” *Id.* Thus, the courts should not broaden the scope of inducement of infringement beyond the reach prescribed by Congress. *Id.*

The Court also addressed various arguments raised by Akamai grounded in tort law and in the federal aiding and abetting statute in which two parties who divide all the necessary elements of a crime between them are both guilty. These arguments were not apt because, at least under *Muniauction*, no direct infringement was committed. Even tort law would not impose liability where “a defendant caused an innocent third party to undertake action that did not violate the plaintiff’s legal rights.” Slip Op. at 8. Also, the criminal law doctrine was determined to be “inconsisten[t] with the [Patent] Act’s cornerstone principle that patentees have a right only to the set of elements claimed in their patents and nothing further.” *Id.* at 9.

Akamai also argued that the *Muniauction* rule for direct infringement under § 271(a) is incorrect, as it “has the indirect effect of preventing inducement liability where Congress would have wanted it.” *Id.* The Supreme Court replied by saying essentially that this may be true, but two wrongs do not make a right: “[T]he possibility that the Federal Circuit erred [in *Muniauction*] by too narrowly circumscribing the scope of § 271(a) is no reason for this Court to err a second time by misconstruing § 271(b) to impose liability for inducing infringement where no infringement has occurred.” *Id.* at 9–10. Stated another way, “[a] desire to avoid *Muniauction*’s natural consequences does not justify fundamentally altering the rules of inducement liability that the text and structure of the Patent Act clearly require.” *Id.* at 10.

What Next?

The Supreme Court’s ruling under § 271(b) reestablishes a perceived loophole in the law, as the Court’s interpretation “permit[s] a would-be infringer to evade liability by dividing performance of a method patent’s steps with another whom the defendant neither directs nor controls.” Slip Op. at 10. The Court expressly “acknowledge[d] this concern,” but noted that the anomaly “result[s] from the Federal Circuit’s interpretation of § 271(a) in *Muniauction*.” The Court declined to address the merits of the *Muniauction* rule, as the question before it clearly focused on § 271(b). But the Court invited the Federal Circuit to revisit the § 271(a) question on remand “if it so chooses,” *id.*, and we expect the circuit court to accept that invitation, if not on remand in this case then soon afterward.

Thus, this saga may not be over. After pointing to *Muniauction* as the root of Akamai’s troubles, and the root of the perceived loophole for divided infringement of method patents, Akamai and future litigants surely will seek to tussle further, but this time will keep the focus on § 271(a). Patent holders seeking to broaden the reach of liability will likely seek a more flexible approach than is currently provided under *Muniauction*. Several Federal Circuit judges already have expressed views for an appropriate standard. For instance, in her dissent from the Federal Circuit’s *en banc* decision, Judge Newman stated as follows:

² Section 271(f)(1) creates liability for exporting components from the United States and “actively induc[ing]” their assembly outside the United States “in a manner that would infringe the patent if such combination occurred within the United States.”

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.

692 F.3d 1301, 1326 (Fed. Cir. 2012) (Newman, J., dissenting).

Similarly, in Judge Linn's dissent, joined by three other judges, he indicated that he would retain the essence of the single-entity rule of *Muniauction*, but with added flexibility, stating:

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 1350 (Linn, J., dissenting).

For now, the Supreme Court's decision makes it harder to prove inducement in divided infringement scenarios, at least while the *Muniauction* rule remains in place for direct infringement. This could persist for years, particularly if the Federal Circuit avoids the issue on remand from the Supreme Court. And when the court does address the issue, it is unclear how it will be resolved given the clear division among the judges. Until further clarity is provided, those who are working or collaborating with others in the performance of tasks that might implicate a patented method would be well-advised to avoid "controlling or directing" the actions of the others, lest it give rise to direct infringement under *Muniauction*. Likewise, indemnity provisions in supply and other business contracts should carve out scenarios relating to divided activities.

Additionally, the Court's decision affects patent prosecution. Method patents are critical in many industries, such as life sciences and pharmaceuticals where method-of-treatment patents and diagnostic method patents are widespread. Also, technology companies with software or network patents will be affected, as such technologies often involve distributed tasks spread among multiple actors. The Federal Circuit has observed that the infringement loophole created by the single-entity rule can be offset by proper claim drafting, as "[a] patentee can usually structure a claim to capture infringement by a single party." *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007). That recommendation remains true today. Patent drafters should continue to focus method claims on the conduct of a single actor; claims that may require actions by multiple actors at most should be supplemental.

Moving forward, the focus now shifts from inducement of infringement under § 271(b) to the scope of liability for direct infringement under § 271(a). The Supreme Court's decision earlier this week puts a lid on the former but invites attention to the latter. And there remains the possibility that Congress could take action. Either way, this chronicle is likely to continue for some time.

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