

Outside Counsel

Supreme Court Narrows Scope Of Induced Patent Infringement

In its June 2, 2014, decision in *Limelight Networks v. Akamai Technologies*, 134 S.Ct. 2111 (2014) the U.S. Supreme Court raised the bar for proving induced infringement of a patented method under 35 U.S.C. §271(b). Specifically, the court held there can be no liability for induced infringement of a patented method under Section 271(b) unless direct infringement has occurred under 35 U.S.C. §271(a) or another statutory provision. The decision has important implications for process patents, especially those in which the required individual steps can be divided among two or more actors to avoid direct infringement liability.

Patent Infringement

There are two principal categories of patent infringement—direct and indirect. The most common forms of direct infringement are delineated in 35 U.S.C. §271(a).¹ A party directly infringes a patent under §271(a) when it performs all the required steps of a claimed method; or it makes, uses, sells, offers to sell or imports into the United States a product that embodies all the required claim elements. If a party is not liable for direct patent infringement under §271(a), it may be liable for indirect infringement if, for example, it actively induces infringement under 35 U.S.C. §271(b). It has long been held, however, there can be no indirect infringement absent direct infringement. *Aro Mfg. v. Convertible Top Replacement*, 81 S.Ct. 599 (1961).

In the case of a patent claim to a composition or article of manufacture, it is usually a straightforward matter to identify a party who has, for example, sold a product that embodies all of the claim elements and thus has directly infringed under §271(a). But with certain claimed methods or processes, the individual steps of the method or process need not all be performed by a single party. Rather, multiple parties may divide among



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themselves the individual steps of the claimed method or process so that no one party performs all the required steps.

In such cases of “joint” or “divided” infringement, the benefits of the claimed method invention are realized just as they would have been had all the claimed steps been performed by a single entity, but under what circumstances are any of the joint actors liable for direct infringement under §271(a)? If no single party is actually liable for direct infringement, has direct infringement occurred? And, if the patentee has no viable claim for direct infringement, might he have a claim for inducement under §271(b)? These are some of the key questions raised by the facts in *Akamai*.

Akamai’s Patent

Akamai’s patent claims a multi-step process for delivering website content to an Internet user with increased speed and efficiency. In Akamai’s claimed process, certain content to be accessed through a provider’s website is stored on the provider’s servers. Other content—such as large video or music files—is designated for separate storage on Akamai’s servers. The process of designating files to be stored on Akamai’s servers is known as “tagging.”

Limelight’s accused process is similar to that claimed in Akamai’s patent, and Limelight itself performed most of the claimed process steps. But Limelight did not perform the tagging step. Instead, Limelight’s customers—the website content providers—tagged content pursuant to Limelight’s instruction and offer of technical assistance. Akamai sued Limelight for direct

infringement under §271(a), and for inducement under §271(b).

Federal Circuit Decisions

In 2008, while Akamai and Limelight were litigating their dispute before the Massachusetts District Court, the U.S. Court of Appeals for the Federal Circuit, which hears all appeals in patent cases, addressed the question of divided or joint infringement under §271(a) in *Muniauction v. Thomson*, 532 F.3d 1318 (Fed. Cir. 2008). There, Muniauction accused Thomson of directly infringing its patent on a multi-step process for the conduct of original issuer bond auctions over the Internet. The evidence showed that Thomson’s accused Bid-Comp/Parity system performed most steps of the claimed process. However, Thomson did not carry out the required step of inputting data associated with a bid. That step was indisputably performed by the bidder. The Federal Circuit ruled in *Muniauction* that there was no direct infringement under §271(a) because no single entity “controlled or directed” the entire infringement. *Id.* at 1329-30.

After the Federal Circuit’s decision in *Muniauction*, Limelight moved for judgment as a matter of law of noninfringement against Akamai. The Massachusetts District Court granted that motion, and Akamai appealed to the Federal Circuit.

The decision has important implications for process patents, especially those in which the required individual steps can be divided among two or more actors to avoid direct infringement liability.

In 2012, a three-judge Federal Circuit panel decided in Limelight’s favor. Akamai filed a petition for rehearing en banc, which was granted. Sitting en banc, a divided Federal Circuit found it unnecessary to revisit the Muniauction single-entity rule, or to decide whether

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Limelight was liable for direct infringement under §271(a). Instead, the court found that Limelight was liable for inducing infringement under §271(b). The court acknowledged there can be no induced infringement absent direct infringement, but reasoned that “[r]equiring 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.” *Akamai v. Limelight*, 692 F.3d 1301, 1308-9 (Fed. Cir. 2012) (en banc) (emphasis in original).

The court then held that a predicate “direct infringement,” sufficient to support a finding of infringement under §271(b), had occurred because all steps of the claimed method had been practiced, even if they were not all attributable to a single party. *Id.* at 1306. The court found Limelight liable for inducement under §271(b), even absent a direct infringement violation under §271(a).

In a dissent that foreshadowed in several respects the Supreme Court decision, Judge Richard Linn criticized the Federal Circuit majority decision for impermissibly redefining infringement for §271(b), and argued that the majority decision was improperly “rooted in its conception of what Congress ought to have done rather than what it did.” *Id.* at 1337-1351, 1337.

Supreme Court Decision

Limelight petitioned for review of the Federal Circuit’s decision, and the Supreme Court granted certiorari on the question of “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.” 134 S.Ct. at 2115. The case attracted a great deal of attention from the patent bar. Over two dozen amici submissions were made. The U.S. Solicitor General submitted an amicus brief acknowledging the “intuitive appeal” of Akamai’s argument because “[a]s a matter of patent policy, there is no obvious reason why a party should be liable for inducing infringement when it actively induces another party to perform all the steps of the process, but not liable when it performs some steps and induces another party to perform the rest.” 2014 WL 827992 at 13-14. The Solicitor General nevertheless sided with Limelight, concluding that the “unfortunate” statutory gap was a matter for Congress to correct. 2014 WL 827992 at 14-15.

The Supreme Court agreed and reversed the Federal Circuit’s decision in a unanimous opinion. In so doing, the court noted that “liability for inducement must be predicated on direct infringement,” and flatly rejected the Federal Circuit’s reasoning that a predicate direct infringement can exist independent of a statutory violation as “fundamentally misunderstand[ing] what it means to infringe a method patent.” 134 S.Ct. at 2117. The Supreme Court observed

that, under *Muniauction*, “a method patent is not directly infringed—and the patentee’s interest is thus not violated—unless a single actor can be held responsible for the performance of all steps of the patent.” *Id.* at 2119.

Significantly, the Supreme Court declined to consider the propriety of the Federal Circuit’s *Muniauction* single-entity test for joint infringement under §271(a) because it had not granted certiorari on that question. Instead, the Supreme Court assumed that *Muniauction* was correct and found that, under that case, “no direct infringement was committed...[b]ecause Limelight did not undertake all steps of the [] patent and cannot otherwise be held responsible for the performance of all those steps....” *Id.* (emphasis in original). Because no direct infringement was committed under *Muniauction*, the Supreme Court held that “Limelight could not have induced infringement under §271(b).” *Id.* The Supreme Court remanded the case to the Federal Circuit “to revisit the §271(a) question if it so chooses.” *Id.* at 2120.

The Supreme Court acknowledged that its decision would permit “a would-be infringer to evade liability by dividing performance of a method patent’s steps with another,” but found that this “anomaly” resulted not from its interpretation of §271(b), but rather from the Federal Circuit’s interpretation of direct infringement under §271(a) in ‘*Muniauction*.’

What Next?

The Supreme Court acknowledged that its decision would permit “a would-be infringer to evade liability by dividing performance of a method patent’s steps with another....” but found that this “anomaly” resulted not from its interpretation of §271(b), but rather from the Federal Circuit’s interpretation of direct infringement under §271(a) in *Muniauction*. *Id.* at 2114, 2120. In its opinion, the court hinted at two possible remedies.

First, the court noted that Congress, if it wishes, “knows precisely how to” address any “anomaly” through legislation, and drew an analogy to its prior decision in *DeepSouth Packing v. Laitram*, 134 S.Ct. at 2118 citing 92 S.Ct. 1700 (1972). In *DeepSouth*, the accused infringer manufactured all the constituent parts of a patented shrimp deveining machine in the United States, but avoided direct infringement by shipping the components to its customers

abroad for final assembly. Had *DeepSouth*’s customers combined the constituent parts in the United States, *DeepSouth* may have been liable for contributory infringement under §271(c).

But, since no such combination did occur in the United States, the Supreme Court in *DeepSouth* held there had been no contributory infringement because no direct infringement ever occurred. *Id.* at 1707. Twelve years later, in response to the Supreme Court’s *DeepSouth* decision, Congress enacted 35 U.S.C. §271(f), which made the exporter’s conduct in *DeepSouth* a separate act of infringement.

Congress could pass legislation to address the “anomaly” and provide express infringement liability for the performance of method patents by more than one party. But, such legislative action likely provides little comfort to Akamai and other similarly situated method patent holders. The decision in *DeepSouth* arguably perpetuated a disincentive to domestic assembly. Still, it took Congress more than a decade to pass legislation to overrule it. In the current political climate, it is difficult to pass any significant legislation.

Second, the Supreme Court invited the Federal Circuit, on remand, to revisit its *Muniauction* single-entity rule for assessing direct infringement by joint actors. A looser standard for direct infringement under §271(a) could go a long way toward minimizing, or even obviating, the “anomaly.” Many in the patent bar expected the Federal Circuit on remand to take the case en banc and accept the Supreme Court’s invitation to revisit *Muniauction*. However, the Federal Circuit instead referred the matter to a three-judge panel consisting of Chief Judge Sharon Prost, Judge Linn and Judge Kimberly Moore.

During the panel argument on Sept. 11, 2014, Moore appeared ready to overrule the single-entity rule if given the opportunity. She repeatedly questioned counsel for both parties on what the proper standard for assessing joint direct infringement liability under §271(a) should be, assuming a hypothetical “clean slate” in which *Muniauction* did not exist. This made for an interesting oral argument. But, the three-judge panel does not have the power to overrule prior Federal Circuit panel decisions. *Muniauction* can only be overruled by the Supreme Court or the full Federal Circuit sitting en banc.

Akamai could, in theory, file another petition for rehearing en banc after the panel acts. For now, however, if the Federal Circuit is to revisit the *Muniauction* single-entity rule, it seems inclined to wait for a future case to do so.

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¹ Other forms of direct infringement, which were not at issue in the *Limelight* case, are addressed in 35 U.S.C. §271(e) (2), (f) and (g).