

# Client Alert

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Litigation Department

## Federal Circuit Holds that Liability for Induced Infringement Requires Infringement of a Patent, But No Single Entity Needs to be Liable for Direct Infringement

***Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Nos. 2009-1372 et al., and *McKesson Technologies, Inc. v. Epic Systems Corp.*, No. 2010-1291 (Fed. Cir. Aug. 31, 2012).**

On August 31, 2012, the Federal Circuit issued a split en banc decision holding that a party may be liable for induced infringement under 35 U.S.C. § 271(b) when all the steps in a patented method are performed even if no single entity is liable for direct infringement.<sup>1</sup> In doing so, the court expanded potential liability for infringement of method claims and expressly overruled its prior decision in *BMC Resources*.<sup>2</sup> Although the court clarified the issue of divided, or joint, infringement in the context of indirect infringement, it explicitly declined to determine whether separate actors performing each step of a claimed method can be liable for direct infringement under 35 U.S.C. § 271(a).<sup>3</sup>

### Procedural Background

The Federal Circuit's decision resolved appeals in two separate cases.

In one case, Akamai sued Limelight for infringement of method claims relating to the delivery of web content and allowing a content provider to outsource the storage and delivery of that content. Limelight Networks performed most of the claimed method steps by placing content on its servers but did not perform a step that required "tagging" embedded objects. Instead, Limelight provided instructions to its customers on how to tag content on Limelight's servers.<sup>4</sup>

In the other case, McKesson sued Epic for induced infringement of method claims relating to electronic communication between healthcare providers and their patients involving personalized web pages. Epic did not perform any steps of the claimed method. Instead, Epic licensed software to healthcare providers that allegedly allowed patients to perform one of the claimed method steps and healthcare providers to perform the remaining steps.<sup>5</sup>

"Although the court clarified the issue of divided, or joint, infringement in the context of indirect infringement, it explicitly declined to determine whether separate actors performing each step of a claimed method can be liable for direct infringement under 35 U.S.C. § 271(a)."

In each case the district court held that the defendant, Limelight in the *Akamai* case and Epic in *McKesson*, was not liable for indirect infringement because no single entity directly infringed the asserted method claims. In *Akamai*, the district court granted Limelight's motion for judgment as a matter of law because Limelight's customers performed one of the claimed steps.<sup>6</sup> In *McKesson*, the district court granted summary judgment of noninfringement on the ground that the steps of the claimed methods were divided between healthcare providers and their patients.<sup>7</sup> Both district courts relied on *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007) for the proposition that direct infringement by a single entity is a predicate for indirect infringement liability. The Federal Circuit panels affirmed both judgments before the full court granted petitions for rehearing en banc on the issue of divided infringement.<sup>8</sup>

## En Banc Decision

The Federal Circuit, in a per curiam opinion joined by six of its eleven active judges (Judges Rader, Lourie, Bryson, Moore, Reyna and Wallach), held that induced infringement can occur when all the steps of a claimed method are performed, even if no single entity performs every step.<sup>9</sup> The court declined to decide whether direct infringement can arise in cases of divided infringement, reasoning that because each defendant is liable for inducing infringement the court has "no occasion at this time to revisit any of those principles regarding the law of divided infringement as it applies to liability for direct infringement under 35 U.S.C. § 271(a)."<sup>10</sup>

The majority based its opinion primarily on the relevant statutory language. Section 271(a) and (b) provide:

- (a) Except as otherwise provided in this title, 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 during the term of the patent therefor, infringes the patent.
- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.

The majority acknowledged as well settled the requirement that inducement requires a knowing intent to cause infringement but reconsidered whether subsection (a) defines infringement as the term is used for purposes of inducement in subsection (b).<sup>11</sup> The majority viewed the language of § 271(a) as stating one way that an entity "infringes the patent" but concluded that subsection (a) does not define or limit infringement as that term is used in the remaining subsections of § 271. The majority found further support in the remaining subsections of § 271, namely subsection (e)(2) — submitting a new drug application is an "act of infringement" — and subsection (f) — liability as an "infringer" by supplying substantial portions of an invention for assembly outside the United States. According to the majority, because subsection (a) does not define infringement under subsections (e)(2) and (f), this subsection also does not define infringement for inducement under subsection (b).<sup>12</sup>

The majority also determined that nothing in the text of § 271(b) indicates that the term "infringement" is limited to "'infringement' by a single entity."<sup>13</sup> Instead, the majority read "infringement" as referring to "the acts necessary to infringe a patent, not whether those acts are performed by one entity or several."<sup>14</sup> The majority also found that this interpretation is consistent with the legislative history in the House Report on the 1952 Act and statements made by Judge Rich.<sup>15</sup> Furthermore, the

majority analogized induced infringement to criminal and tort law, where liability is commonly imposed for knowingly causing an innocent actor to commit criminal or tortious conduct.<sup>16</sup>

Accordingly, by a narrow majority, the Federal Circuit overruled *BMC Resources* and set forth a new test for inducement. Liability for inducing infringement under § 271(b) now requires: (i) knowledge of the patent, (ii) performance of and/or inducement of other parties to perform each step of a claimed method and (iii) actual performance of each step in the claimed method.<sup>17</sup> Subsection (b) no longer requires underlying direct infringement by a single entity.

Judge Linn authored a dissent joined by Judges Dyk, Prost and O'Malley also based on the allegedly clear language of § 271(a) and (b).<sup>18</sup> According to the Linn dissent, however, "[s]ection 271(a) defines infringement, and, in turn, § 271(b) and (c) establish indirect infringement liability for one who 'actively induces infringement.'" <sup>19</sup> Under this interpretation, liability for inducing infringement requires underlying direct infringement, as defined in subsection (a), by a single entity. The Linn dissent similarly based its conclusion on the legislative history for § 271(b), other subsections of § 271, and the House Report on the 1952 Patent Act.<sup>20</sup>

The Linn dissent also relied on the Supreme Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961), to support its position that some entity must be liable as a direct infringer to find inducement to infringe.<sup>21</sup> The Supreme Court in *Aro* stated that "'if there is no infringement of a patent there can be no contributory infringer,'" and "'if the purchaser and user could not be amerced as an infringer certainly one who sold to him . . . cannot be amerced for contributing to a non-existent infringement.'" <sup>22</sup> Even the majority conceded that this language "could suggest that the Court considered liability for direct infringement as a predicate for indirect infringement." <sup>23</sup> The majority, nevertheless, distinguished *Aro* on the basis that *Aro* dealt only with product claims and performance of underlying conduct by a single entity and, therefore, did not address whether underlying infringement of a method claim by a single entity is necessary rather than sufficient.<sup>24</sup>

Judge Newman authored a separate dissent explaining that the issue of direct infringement must be determined prior to liability for inducement to infringe.<sup>25</sup> Specifically, Judge Newman would have concluded that direct infringement occurs when a single entity or multiple entities acting in "interaction or collaboration" perform all the steps of a claimed method.<sup>26</sup> Like the majority, therefore, Judge Newman agrees that performance of all steps by a single entity is not a predicate to liability for induced infringement. The Newman dissent, however, is not limited to the induced infringement context or statute and instead extends to direct, induced and contributory infringement.<sup>27</sup>

## Impact

*Akamai* provides significant clarity to the issue of inducing divided infringement and greatly increases the potential value of method claims for which multiple entities perform the claimed steps. Potential defendants can no longer avoid liability by dividing the steps of a patented method among multiple actors unconnected by any agency or contractual relationship. This result, however, does not change claim drafting best practices. In order to minimize the burden for proving infringement, system claims and method claims drafted to encompass actions of a single party are still preferable. The strict liability standard applies to direct infringement of these claims, and, even for indirect infringement, it can be easier from an evidentiary

standpoint to establish conduct by one rather than multiple entities. Where these claims are difficult to draft or create other issues, *Akamai* provides support for also including method claims for which multiple entities collectively perform the claimed steps. However, no matter how many entities may be performing different steps of a method claim, the law still requires that a defendant have knowledge and perform acts of inducement in order for there to be liability for induced infringement.<sup>28</sup>

Additionally, Supreme Court review is still possible and perhaps likely given the 6-5 outcome of this decision, which included two separate dissents. Three judges joined the Linn dissent, all of whom would have continued to apply the holding of *BMC* and its progeny. The Linn dissent also highlighted a potential conflict with Supreme Court precedent in *Aro*.<sup>29</sup> Judge Newman would require a finding of direct infringement, but still permit liability for induced infringement as set forth by the majority.<sup>30</sup>

Finally, in a decision issued the first business day after *Akamai*, the Federal Circuit stated that “[i]nducement of infringement requires that there be a showing of an underlying act of direct infringement.”<sup>31</sup> The case, *Mirror Worlds, LLC v. Apple, Inc.*, did not implicate the issue of divided infringement.<sup>32</sup> The court concluded that *Mirror Worlds* failed to provide adequate evidence that all of the claimed method steps were performed — that is, by a single or multiple entities.<sup>33</sup> Nevertheless, the court’s reference to “an underlying act of direct infringement” illustrates the potential for continued conflict or uncertainty regarding liability for inducement to infringe.

#### Endnotes

<sup>1</sup> *Akamai Techs., Inc. v. Limelight Networks, Inc.*, Nos. 2009-1372 et al., and *McKesson Techs. Inc. v. Epic Sys. Corp.*, No. 2010-1291, slip op. at 10 (Fed. Cir. Aug. 30, 2012) (en banc) (per curiam).

<sup>2</sup> *Id.* at 10 (overruling *BMC Res., Inc. v. Paymentech L.P.*, 498 F.3d 1373 (Fed. Cir. 2007)).

<sup>3</sup> *Id.* at 13.

<sup>4</sup> *Id.* at 11.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 12.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 13.

<sup>9</sup> *Id.* at 10.

<sup>10</sup> *Id.* at 13.

<sup>11</sup> *Id.* at 14.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 17.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 19.

<sup>16</sup> *Id.* at 21-23.

<sup>17</sup> *See id.* at 35-36.

<sup>18</sup> *Id.* at 6 (Linn, J., dissenting).

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* at 9-10.

<sup>22</sup> *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (quoting *Mercoird Corp. v. Mid-Continent Co.*, 320 U.S. 661, 674, 677 (1944)).

<sup>23</sup> *Akamai* and *McKesson*, slip op. at 31 (per curiam).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at 9 (Newman, J., dissenting).

<sup>26</sup> *Id.* at 38.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 14; see also *R&L Carriers, Inc. v. Drivertech LLC*, Nos. 2010-1493 et al., slip op. at 25 (Fed. Cir. Jun. 7, 2012).

<sup>29</sup> *Id.* at 9-10 (Linn, J., dissenting).

<sup>30</sup> *Id.* at 38 (per curiam); *Id.* at 3-4 (Linn, J., dissenting).

<sup>31</sup> *Mirror Worlds, LLC v. Apple, Inc.*, No. 2011-1392, slip op. at 15 (Fed. Cir. Sept. 4, 2012) (citing *Linear Tech. Corp. v. Impala Linear Corp.*, 379 F.3d 1311, 1326 (Fed. Cir. 2004)).

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 17-18.

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