

Client Alert

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Federal Circuit Expands Grounds of Infringement Liability, Holding That a Party May Be Liable for Induced Infringement Even Absent a Direct Infringement By a Single Entity

On August 31, 2012, the U.S. Court of Appeals for the Federal Circuit sitting en banc fundamentally altered the law of infringement liability in cases of “divided infringement,” i.e., where two or more parties combine to perform all the steps of a patented method. *Akamai Technologies, Inc. v. Limelight Networks, Inc.* (Case Nos. 2009-1372, -1380, -1416, -1417) and *McKesson Technologies, Inc. v. Epic Systems Corp.* (Case No. 2010-1291).

In a sharply divided opinion, a bare majority of the court broke new ground by holding that a multistep process claim without a single direct infringer can nonetheless be infringed by one or more parties under a theory of induced infringement under 35 U.S.C. § 271(b). (Op. at 10.) In so holding, the court overruled its 2007 decision in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), which had held that liability for inducement required a predicate finding of direct infringement by a single entity. (*Id.*) This case dramatically expands the grounds of infringement liability and raises new issues regarding enforcement, remedies and defense.

The essential facts of the *Akamai* and *McKesson* cases, which were consolidated before the en banc court, are as follows:

Akamai owns a patent to a method for efficient delivery of web content by placing content on a number of “replication servers” and having web browsers access the content by being directed to those server pages. *Limelight* places some content on its servers, but does not provide access to the content itself, instead instructing its customers on the steps needed to retrieve that content. *Akamai* sued *Limelight* for patent infringement, alleging both direct and induced infringement.

McKesson owns a patent to a method of electronic communication between healthcare providers and their patients. *Epic* licenses to healthcare providers a software application called “MyChart,” which permits healthcare providers to communicate electronically with patients. *Epic*, however, does not perform any steps of the patent. Instead, those steps are divided between patients, who initiate communications, and healthcare providers, who perform the remainder of the steps. *McKesson* sued *Epic*, alleging induced infringement.

In the respective district court cases, *Limelight* and *Epic* were held not to infringe. In *Akamai*, because *Limelight*’s customers (and not *Limelight* itself) performed one of the steps of the claimed method, the district court granted *Limelight*’s motion for judgment as a matter of law based on the *BMC* case and its progeny. In *McKesson*, the district court relied on the same line of cases to grant summary judgment of noninfringement on the ground that the patients (and not *Epic*’s direct customers) performed the step of initiating the communication. Different panels of the Federal Circuit affirmed the district courts. Citing *BMC*, the panels held that, where multiple parties combine to perform all the elements of a claimed method, neither can be liable for infringement unless there exists an agency or contractual relationship between the parties whereby one party is obligated to the other to perform the steps.

Granting petitioners' request for en banc review, the Federal Circuit posed the following questions:

Question 1. 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? (*Akamai*)

Question 2. 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? (*McKesson*)

Question 3. 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? (*McKesson*)

The patent community was well aware that the court was considering a fundamental change to the law. As a result amicus briefs poured in from all over, including from such high-profile companies and organizations as Apple, eBay, Google, Hewlett-Packard, Cisco Systems, SAP, Facebook, Myriad Genetics, American Intellectual Property Law Association, Biotechnology Industry Organization, Electronic Frontier Foundation, and Pharmaceutical Research and Manufacturers of America.

Most of the amicus briefs focused on Question 1—whether direct infringement can be found when no single entity performs all the claimed steps of the patent. The *per curiam* majority, however, chose to sidestep that issue, wary of ensnaring innocent actors who had no way of knowing that others were acting in a way that rendered their collective conduct infringing. (*Id.* at 12-13.) Instead, it found that the issue could be resolved through an application of induced infringement. Specifically, the majority found that both the text of the statute and the policy underlying it supported holding a party liable as an active inducer where it encourages others, or combines with another, to perform all the elements of a patented process. (*Id.* at 17-21, 30.)

In so holding, the majority had to engage in a bit of judicial legerdemain, parsing the difference between “proof that a single party would be *liable* as a direct infringer” (which is no longer a predicate for induced infringement) and “proof that there *has been* direct infringement” (which still is a predicate for inducement). (*Id.* at 16.) Pointing to parallels in tort and criminal law, the majority noted that vicarious liability may be imposed on joint tortfeasors and accessories to crimes who induce another to commit the underlying offense even where that other party is ultimately found not liable. (*Id.* at 21-26.) It saw no reason these same principles should not apply in the context of divided patent infringement. (*Id.*)

In conclusion, the majority stressed legislative intent—or the lack thereof—as the decisive factor in its holding: “At the end of the day, we are persuaded that Congress did not intend to create a regime in which parties could knowingly sidestep infringement liability simply by arranging to divide the steps of a method claim between them. And we have found no evidence to suggest that Congress intended to create different rules for method claims than for other types of claims.” (*Id.* at 34-35.)

Applying these newly-minted principles of inducement to the cases at hand, the majority reversed and remanded the two panel decisions. In the *McKesson* case, it held that Epic could be held liable for inducing infringement if *McKesson* could show that (1) Epic knew of *McKesson*'s patent; (2) it induced the performance of the steps of the method claimed in the patent; and (3) those steps were performed. In the *Akamai* case, it held that Limelight would be liable for inducing infringement if *Akamai* could show that Limelight (1) knew of *Akamai*'s patent; (2) it performed all but one of the steps of the method claimed in the patent; (3) it induced the content providers to perform the final step of the claimed method; and (4) the content providers in fact performed that final step.

The decision drew two sharp dissents from the other members of the court. Judge Linn, joined by Judges Dyk, Prost and O’Malley, would adhere to the single-entity rule in all cases, including induced infringement. They criticized the majority for judicial policymaking in creating an “inducement only” exception to the single-entity rule of infringement. “The majority opinion is rooted in its conception of what Congress ought to have done rather than what it did.”(J. Linn, Dissenting Op., 3.) Citing the plain text of the statute as well as longstanding Supreme Court precedent, the dissenters argued that there must first be a finding of *direct* infringement before liability can arise for *indirect* infringement. (*Id.* at 4-13.) In the eyes of the dissenters, “[b]roadening the doctrine of inducement, such that no predicate act of direct infringement is required, is a sweeping change to the nation’s patent policy that is not for this court to make.”(*Id.* at 12.)

Judge Newman filed a separate dissent. She chided both the majority and the dissent as “departure[s] from established precedent, each poorly suited to the issues and technologies that dominate today’s commerce.”(J. Newman, Dissenting Op., 38.) Unlike the rest of her colleagues, she would discard the “single-entity” rule altogether and “restore direct infringement to its status as occurring when all of the claimed steps are conducted, whether by a single entity or in interaction or collaboration.” Further, she would allocate remedies, “whether for direct or induced or contributory infringement, in accordance with statute and the experience of precedent.” (*Id.*) She predicted that the inducement-only rule announced by the majority would lead to unintended consequences, including “new problems of enforcement and compensation and defense,” as well as “new opportunities for gamesmanship and abuse and inequity.”(*Id.* at 4.)

Given how badly fractured the decision was, it seems inevitable that the case will be appealed to the Supreme Court, which has shown a penchant in recent years for granting *certiorari* of Federal Circuit cases involving complicated issues of statutory construction. In the meantime, the decision is the law of the land. The implications of this case, particularly for biotech and personalized medicine claims, are hard to underestimate. Just a few months ago, the Supreme Court in *Mayo v. Prometheus* dealt the field of personalized medicine a decisive blow when it struck down medical treatment claims that relied on natural correlations. Such claims have traditionally been drafted without an affirmative treatment step so as to avoid just the sort of thorny issues of divided infringement that Akamai and McKesson faced. But now, in the wake of the Federal Circuit’s *en banc* decision, it may be possible for personalized medicine companies to avoid the result reached in *Prometheus* by including additional, active steps in their claims, while also sidestepping the single-entity infringement trap of *BMC*.

Contact

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