

Lynda Calderone Sheds Limelight On Multiparty Induced Infringement in Law360's Expert Analysis Column

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For many years, the law related to contributory patent infringement and inducement of patent infringement (i.e., indirect infringement) was well settled. Indirect infringement statutes attach liability when someone has in a meaningful manner facilitated direct infringement by another party. In the case of contributory infringement, the indirect infringer takes steps to offer products that are a material part or component of a directly infringing device, in that such parts are especially made or adapted for use in an infringing product.

In the case of inducement of infringement, which is an intentional tort, there is less focus on the specialty adaptive design of a product, and more emphasis on the subjective intent of the indirect infringer in encouraging a third party to commit an act of direct infringement. The inducement statute language seems reasonably simple and clear, “[w]hoever actively induces infringement of a patent shall be liable as an infringer,” yet various words in this statute have been largely debated as to their legal interpretation, from “whoever” to “actively” to “induces” to, more recently the word, “infringement.” The “infringement” in question in the §271(b) language has been interpreted to mean the same as the “infringement” defined in §271(a), the direct infringement paragraph.

The U.S. Supreme Court’s 1964 *Aro*[1] decision is cited for the long-held principle that an act of indirect infringement must include an underlying act of direct infringement by a single actor. Since 271(a) direct infringement is a strict liability tort, and not an intent-dependent one, courts have given a narrow interpretation and applied the statute to a single actor who carries out one of the enumerated infringing acts by having each and every element of a apparatus patent claim or carrying out all elements and steps of a method claim.

Nonetheless to avoid certain bad behavior, the courts have found exceptions that capture multiple party acts of direct infringement as in *BMC* [2]. The *BMC* court felt that a “mastermind” controlling and directing infringing method steps should not escape liability. The court was reluctant to move beyond this reasoning to avoid going against what it perceived as the statutory framework of §271(a), which is restricted to single actor direct infringing acts, because Congress carved out exceptions from strict liability when it added the indirect infringement paragraphs (b) and (c) as specific exceptions to the single-actor rule of a single actor. As noted in *BMC*:

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This court acknowledges that the standard requiring control or direction for a finding of joint infringement may in some circumstances allow parties to enter into arms-length agreements to avoid infringement. Nonetheless, this concern does not outweigh concerns over expanding the rules governing direct infringement.[3]

This issue arose again in the context of the Muniauction case.[4] A business method claim involved one step of inputting data for bidding carried out by a bidder and remaining steps carried out on defendant Thomson's system by the auctioneer. The BMC reasoning was used to evaluate whether Thomson had enough control to be responsible. The Muniauction court in a judgment as a matter of law context drew on the vicarious liability and control principles of BMC and evaluated whether Thomson acted so as to be considered vicariously liable for the bidders' actions. As no such legal theory was provided, the Muniauction court denied liability as a matter of law.

Once the Federal Circuit gave scope and an underlying rationale to multiparty direct infringement, the reasoning had a similar impact in cases of inducement of patented method claims. Questions naturally arose as to whether an inducer (i.e., the "whoever" of §271(b)) must be also be a single entity and whether the underlying induced action must be by a single entity. Issues arise as to whether the rationale of control arises in this instance only to analyze the underlying act of direct infringement or applies also to analyze a multiple party inducer. Inducement of infringement requires knowledge of the patent and an intention and act by the inducer to bring about an underlying act of direct infringement committed by another party. In the statutory sense, the "whoever" of §271(b) acts with intention to get another party, the "whoever" of §271(a) to infringe the patent. It should seem clear, at least, that after BMC, the underlying action can be carried out either by a single entity or by multiple parties if a "mastermind" directs and controls others to carry out the steps. However, all was called into question again when a Limelight was cast on this established body of law.

In *Akamai Technologies I*, [5] in 2012, in two pending appeals, the Federal Circuit, while leaving alone its BMC decision concerning direct infringement, revisited the identity of the induced party under §271(b). To the extent it saw its BMC analysis to require that the induced party must be a single entity (or a multiple party if there is a mastermind), the Court had a change in heart and reversed itself. In *Akamai's* method for content delivery of web content to customers, some method steps were performed by Limelight, and remaining steps were performed by Limelight customers using instructions from Limelight. *Akamai* sued for direct and inducement infringement, the latter of which was at issue on appeal.

In the other pending appeal, *McKesson*, [6] *Epic* was accused of inducing infringing steps performed using *Epic's* electronic health care system by patients inputting information and by doctors based on that information. *Epic* did not perform any steps. The court reasoned that inducement is an intent action, and drew on criminal intent and joint tortfeasor law related to other induced tortious acts to draw differentiate inducement from a vicarious liability theory. The court reasoned that it pulled the "single entity" portion of its BMC holding from *Aro* (an apparatus case) and found that now incorrect, since the bad action is someone inducing another to infringe, which shows culpability even if that induced person does not carry out all steps alone so long as all steps of a method are performed.

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Judge Pauline Newman dissented from this decision on the basis that the court was creating new law and raising new issues with the “vast potential for abuse.” She also objected to the court’s failure to address issues raised on direct infringement employing the BMC control standard for multiparty infringement, by focusing solely on inducement. The new standard was also criticized in the dissent for not explaining how remedies would apply.

This case holding was appealed to the U.S. Supreme Court,[7] which reversed the decision, citing to the Federal Circuit’s *Muniauction* decision, to the extent still correct, and reaffirming the *Aro* principle that for inducement of infringement, there must be an underlying act of direct infringement, and for a method it must be attributable to one person performing all steps. Absent this holding, it was of the view that §271(b) would not have “ascertainable boundaries” and would force the courts to “develop two parallel bodies of infringement law.” It further reasoned that when Congress has seen a situation where infringement should have been found, it has acted to amend the statute, citing to §271(f) which captures indirect infringement involving actions outside the U.S. The court was not persuaded by the Federal Circuit’s reasoning, held it to its prior decisions and would not comment on whether *Muniauction* was still correct.

While the Federal Circuit *Akamai I* decision does seem strained in attempts to break from prior precedent by employing various legal constructs and analogies to try to come to what it believes is the right end result (enlarging the scope of inducement to take account of multi-actor induced parties through reliance on the intent element of inducement of infringement), the Supreme Court decision was a long-awaited nondecision. It merely adopts prior law, chides the Federal Circuit for trying to overturn BMC’s inducement analysis while leaving *Muniauction* intact, while taking into account the reasoning of Judge Newman’s dissent that the parameters are not sufficiently defined for such expansion. The Supreme Court remanded to the Federal Circuit for further handling.

The Federal Circuit in *Akamai II*,[8] based on the Supreme Court analysis, opens its opinion noting that §271 “does not admit to the sweeping notions of common-law tort liability argued in this case.” Inducement was not found because no one performed all the steps of the method as an underlying infringement. In applying vicarious liability law, *Limelight*’s actions were not viewed as infringing because customers directed their own use of *Limelight*’s network in a manner deemed analogous to *Muniauction*.

A single entity is still viewed in *Akamai II* as potentially a multiple party if there are vicarious liability principles employed as with, e.g., a “principal-agent relationship, in a contractual arrangement, or in a joint enterprise.” However, as none of these situations applied to *Limelight*’s actions, there was no underlying direct infringement. The court did not embrace principles used for joint tortfeasors as in *Akamai I*, and reverted to its earlier BMC and *Muniauction* reliance on vicarious liability. The court acknowledges that the dissent in the opinion may be right and a “gaping hole” for avoiding liability may be left, but it did not view its role as changing the statute by importing alternative theories of joint liability into §271(a). There was also an express concern that if it did so, the court would be acting inconsistently with joint liability theories as direct infringement does not involve intent, but employs strict liability. In other respects, *Akamai II* adopts the Supreme Court’s view of the established law.

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The introduction of new technologies, including Internet-based business applications involving banking, financial transactions, insurance tools and the like as well as overseas business collaboration, new cross-over biotechnology applications and advanced polymer processing have changed the face of how we operate as a business community and in our personal lives. The statutes that define indirect infringement have not really changed in some time, at least not since an amendment in 1994. The law, with some attempts to change, stands still in this context, while technology continues to change.

The courts appear to be struggling with the statute and existing case law, inviting Congress to act. Congress is focused on add-ons to the American Invents Act, for overly aggressive and inappropriate actions of certain nonpracticing entities. It is not focused on modernizing the statute or adapting the law to be compatible with modern technologies under §271 or §101, thereby weakening our country's underlying strong innovation and inviting more infringement, less patent protection, and easy paths to invalidate patents through unworkable and flawed America Invents Act proceedings.

For practitioners, it is important to consider drafting claims capturing single-actor or directed actor liability for underlying acts of infringement in some manner or finding a way to incorporate apparatus or system claims instead of only pure method claims to take advantage of the "assembly" approach to the final action of an underlying actor in "making" the invention (instead of carrying out a final step), which from an objective standpoint is a distinction without merit. There is nothing magically different between the person who assembles a last piece to "make" the apparatus and the person who carries out the last step to complete the method by "using" the step. As many apparatus or composition claims can be presented as methods or methods of achieving a result, the entire analysis for "all steps" must be performed by a single actor is form over substance. However, once a body of case law develops to this extent, it takes an act of Congress to set it straight, since the Federal Circuit and Supreme Court together could not overcome the past to embrace the future.

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[1] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964).

[2] *BMC Resources v. Paymentech LP*, 498 F.3d 1373, 1381 (Fed. Cir. 2007).

[3] *Id.*

[4] *Muniauction Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008)

[5] *Akamai Technologies Inc. v. Limelight Networks Inc.*, 692 F.3d 1301 (Fed. Cir. 2012)

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[6] McKesson Information Solutions LLC v. Epic Systems

[7] Limelight Networks Inc. v. Akamai Technologies Inc., 134 S. Ct. 2111, ___U.S. ___ (2014)

[8] Akamai Technologies Inc. v. Limelight Networks Inc., 786 F.3d 899 (Fed. Cir. 2015)

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