

Patent Litigation Alert

Federal Circuit Overhauls Divided Infringement Analysis

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Summary:

Last week, a deeply divided Federal Circuit issued its *en banc* opinion in two cases presenting the issue of “divided infringement.” Specifically, the court considered whether a party may be liable for infringement when a single actor does not perform all of the steps of a patented method. In its much-anticipated decision in *Akamai Techs., et al. v. Limelight Networks* and *McKesson Techs., Inc. v. Epic Systems Corp.*, the court held that a party can be liable for inducing infringement if it either (1) induces several parties to jointly carry out the steps necessary for infringement, or (2) performs some of the steps of the claimed method itself and induces a third party to perform the remaining steps claimed. In a surprise to some, a bare majority of the court decided the issue not as a matter of whether direct infringement can take place via the actions of multiple actors, but rather under the doctrine of induced infringement overruling *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007). In *BMC*, the court held that a party is liable for induced infringement when it induces a single party to directly infringe the patent by either carrying out each of the claimed steps of the patent or by directing and controlling an entity that does. In overruling *BMC*, the court in *Akamai / McKesson* concluded that the standard for induced infringement under § 271(b) is not the same standard of infringement that must be shown to prove liability under section 271(a). Five judges dissented, in two opinions, with four judges wanting to enforce the *BMC* holding and one judge suggesting that those who infringe by their collective actions should be liable for direct infringement.

Background of the Case:

In *BMC Resources*, the Federal Circuit held that a finding of inducement required proof of direct infringement and that the direct infringement must be committed by a single actor or directed and controlled by a single actor. The *BMC Resources* court reasoned that induced infringement under § 271(b) required some entity to directly infringe, and therefore applied the standard for direct infringement under § 271(a).

Applying this *BMC* standard, the District of Massachusetts (in *Akamai*) and Northern District of Georgia (in *McKesson*) entered judgment of noninfringement, which the prior panel opinions of the Federal Circuit affirmed:

In *Akamai Techs.*, Akamai’s patent claimed a method consisting of placing a content provider’s content on replicated servers and modifying the content provider’s webpage to instruct the browser to retrieve the content from those servers. The defendant, Limelight Networks, while placing content on its servers, did not itself carry out the remaining steps, but instead instructed its customers on the steps needed to modify their webpage to retrieve the content. As a result, under *BMC Resources*, the district court granted Limelight’s motion for judgment as a matter of law as to noninfringement.

In *McKesson*, the plaintiff McKesson owned a patent covering a method of electronic communication between healthcare providers and their patients. Epic Systems licensed software to healthcare providers that included an application allowing the

provider to communicate with patients. The steps of McKesson's patent were performed by the patients (who initiated the communications) and the healthcare providers (who performed the remaining steps). McKesson accused Epic Systems of inducement, but the district court granted summary judgment because the patients, and not the medical providers (the direct customers of Epic Systems), performed a required step of the claimed method. The patients were not directed or controlled by the providers. Although applying *BMC*, the district court did note that that the single entity rule "weaken[ed] the policy of providing protection to those who devote the time and resources to develop otherwise novel and patentable methods" by allowing defendants to avoid infringing by allowing customers the choice of accessing the product in a way that would infringe. *McKesson*, No. 06-cv-2965, 2009 WL 29157789, at * 7 (N.D. Ga. Sept. 8, 2009).

On April 20, 2011, the Federal Circuit granted Akamai's petition for rehearing *en banc*. 419 Fed. Appx. 989 (Fed. Cir. 2011). Shortly thereafter, on May 26, 2011, the Federal Circuit granted McKesson's petition for rehearing *en banc*, so that the cases could be decided together. 464 Fed. Appx. 906 (Fed. Cir. 2011).

The En Banc Federal Circuit Reverses BMC:

Departing from *BMC*, on August 31, 2012, the Federal Circuit concluded that liability for inducing infringement under § 271(b) does not require that the underlying infringement be carried out by a single entity or directed and controlled by a single entity:

A party who knowingly induces others to engage in acts that collectively practice the steps of the patented method—and those others perform those acts—has had precisely the same impact on the patentee as a party who induces the same infringement by a single direct infringer; there is no reason, either in the text of the statute or in the policy underlying it, to treat the two inducers differently. In particular, there is no reason to hold that the second inducer is liable for infringement but the first is not.

Similarly, the court concluded that if a party itself performs one or more of the steps and then induces a third party to carry out the remaining steps, the same logic should apply and that party should be liable under 271(b). The Federal Circuit noted that the "party who actually participates in performing the infringing method is, if anything, more culpable than one who does not perform any steps."

In making this ruling, the Federal Circuit relied on a variety of sources. In particular, the Federal Circuit looked to legislative history and concluded that Congress did not contemplate the single-entity/direct-infringer requirement. Rather, Giles Rich, one of the principle drafters of the statute and later a Federal Circuit judge, testified that liability for contributory infringement would exist where there was "no direct infringer of the patent but only two contributory infringers." The court also noted that Mr. Rich stated that there should be a remedy for "obvious infringement" irrespective of how the infringement was carried out. Based on these statements, the Federal Circuit concluded that it was the intent of the drafters of section 271 to create a remedy for secondary liability, even in the absence of a single direct infringer.

The court also found support for this interpretation in criminal and tort law, which allows for secondary liability even if the individual accused of the underlying crime or tort is found not to be liable. Under 18 U.S.C. §§ 2(a) and 2(b), which establish criminal liability for those who aid and abet or willfully causes another to act, a defendant cannot avoid liability simply because the underlying defendant is found not-guilty or because one defendant did not commit all of the elements of the crime. Similarly, in tort law, a defendant remains liable for inducing a tort even if the induced party was unaware that his or her actions were injurious, preventing the induced party from being liable.

The Federal Circuit also looked to the other sections of 271. The Court acknowledged and saw no inconsistency with having different standards

for “direct infringement” under 271(a) and 271(b). Instead, the Court looked to sections 271(e)(2) and 271(f) which contains the same term “infringement” and “infringer,” but do not limit the meaning of those terms to what would be required to satisfy 271(a) liability.

Implications:

This decision expands the circumstances where a party who does not perform a patented method may be liable for infringement. In framing the issue as one of inducement of infringement, the Federal Circuit doctrinally based liability under a rubric which historically has not been one amenable to easy resolution at the pleading or summary judgment stage. Thus, while the decision allows patentees redress for unauthorized use of their inventions by a coordinated group of actors, it may increase the likelihood that entities could find themselves party to a lawsuit as an actor who performs less than all of a patented process without an efficient way to dispose of claims they believe are unmeritorious. This concern is heightened by the fact that the pleading standard applicable for inducement claims continues to evolve. Another aspect of the law to watch as it evolves, is what acts a patentee must prove were induced to proceed under the court’s rule; that is, must one entity induce all the acts that constitute infringement or does something less suffice? In addition, while the court’s holding focuses on the case at bar, the doctrinal expansion of liability in the decision raises the question of whether, and how, the doctrinal change could be applied in other scenarios.

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