

Daily Journal

www.dailyjournal.com

FRIDAY, MAY 16, 2014

PERSPECTIVE

Must direct infringement be masterminded?

By Julie M. Holloway

The central question in *Limelight Networks Inc. v. Akamai Technologies Inc.* is whether and when parties can be liable for divided infringement. Divided infringement means that different entities perform different steps of a method claim. Claims that can be infringed by two or more entities have long been a concern for technology companies, because they greatly expand the risk of liability. Technology components and services are designed to be interactive and flexible. Interactive claims — for example, method claims that cover transactions over the Internet — could sweep in parties that have no reason to expect to be accused of infringement. For example, a company that provides a service, such as an Internet service provider, could find itself accused of infringement due to the actions of a content provider, even though the ISP has no control over, and even no knowledge of, the steps being performed by the content provider.

Until recently, U.S. Court of Appeals for the Federal Circuit authority provided safeguards against claims of divided infringement. One such safeguard is the “single-entity rule.” Under the single-entity rule, direct infringement occurs only if every step is performed by a single entity, or by others who are under the entity’s direction and control — in other words, there must be a “mastermind.” Another is that, for indirect infringement, the Federal Circuit has always required proof of a direct infringement. That is, a party could not be found liable for inducing infringement unless the requirements for direct infringement were met. Someone, somewhere, had to be directly infringing. And, again, the single-entity rule applied. Furthermore, indirect infringement, unlike direct infringement, requires intent: in order to infringe, the inducer needs to know about the patent, and that the acts it is inducing will infringe.

The Federal Circuit’s en banc decision in *Akamai* was a radical change

in the law of induced infringement. Akamai had accused Limelight of directly infringing, saying Limelight performed most of the steps of a patented method for content delivery over the Internet. As to the remaining steps, Akamai asserted that Limelight’s customers, under a contract with Limelight, performed them. The jury found that Limelight infringed. Shortly afterward, the Federal Circuit held that the single-entity rule requirement of direction and control was limited to agency relationships, and situations where a party performing any steps of the claim was contractually obliged to do so. The district court concluded that under this rule, Limelight did not have direction and control over its customers, and as a result granted judgment as a matter of law of no infringement. Akamai appealed.

Initially, the Federal Circuit, applying the single-entity rule, held that Limelight did not infringe. Akamai sought en banc review on the issue of direct infringement, which was granted. A bare majority, over two separate dissents, held that the case could be resolved under the law of inducement, and therefore did not address direct infringement. The majority held that infringement is induced if the accused infringer performed most of the steps of the patented method, and induced others to perform the remaining steps. In other words, a party could be held to have induced infringement, even if there is no entity that directly infringed. The court in effect found that the single-entity rule does not apply to inducement. While inducement still requires a finding of direct infringement, that direct infringement can be divided infringement. Thus, on remand, Limelight could be found to have induced infringement, even though no entity had directly infringed.

Limelight appealed, and the Supreme Court granted certiorari on the question of whether inducement can be found even though no one has committed direct infringement. However, the Supreme Court did not grant

Akamai’s cross-petition on the question of whether direct infringement requires a “mastermind.” Several companies submitted amicus briefs, as did the U.S. Patent Office and the Electronic Frontier Foundation. The amici included both technology companies and companies in the pharmaceutical and medical fields. The technology companies and EFF generally sided with Limelight, while the pharmaceutical/medical companies generally sided with Akamai.

Limelight and the technology companies argued that allowing a finding of inducement, with no underlying direct infringement by a single entity, was contrary to the statute and put innocent parties, including consumers, at risk. They asserted that under the Federal Circuit’s new rule, innocent parties could be found liable for inducement for merely performing a prior art step, without any knowledge of, much less control over, the steps being performed by others. They further argued that this new rule greatly expanded the scope of method claims, increased the likelihood, risk and cost of litigation, and undermined the requirement that the claims give adequate notice to the public. Method claims, they said, could easily be drafted from the point of view of a single entity, and patentees have long been on notice that they should be. The new rule is thus a solution to a problem created by careless drafting, or by patentees seeking to expand their claims beyond what was actually invented.

Akamai, in response, argued that Limelight was simply seeking to take advantage of a loophole in the patent statute, resulting from the Federal Circuit’s strict application of the single-entity rule. Akamai asserted that the single-entity “mastermind” requirement was overly rigid, and allowed, indeed encouraged, parties to simply divide up the steps of a patented method. Both parties could thereby avoid liability for infringement, so long as there was no agency relationship or contractual obligation. Akamai argued that direct infringement

should require only that the parties work in concert. As to the concern about innocent infringers, Akamai argued that the intent requirement for inducement was adequate protection. Finally, Akamai asserted that many valuable inventions are interactive in nature and necessarily require performance of steps by multiple entities. Requiring that claims are always drafted from a single-entity point of view would deny these inventions patent protection. Amici in the pharmaceutical and medical fields agreed, pointing to methods for medical treatment, which are often the only claims available, and which are often performed by multiple actors.

The Patent Office agreed with Limelight and the technology amici that the statutory scheme clearly required a finding of direct infringement, by a single entity, to support a finding of inducement. While the Patent Office agreed that this was a loophole, and that there was no policy reason in support of the loophole, the Patent Office argued that the problem must be addressed by Congress, not the courts.

The Supreme Court heard oral argument April 30. The court did not grant certiorari on Akamai’s cross petition, and at the hearing indicated a reluctance to address the question of direct infringement without full briefing. It is therefore unlikely that the court will address Akamai’s question: Does a finding of direct infringement require a “mastermind”? This is therefore likely to remain a hotly contested issue.



JULIE HOLLOWAY
Latham & Watkins

Julie Holloway is co-chair of the Latham & Watkins LLP San Francisco office’s Litigation Department and a member of the firm’s Intellectual Property Practice Group.

She can be reached at julie.holloway@lw.com.