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Navigating The Post-Akamai Landscape

Law360, New York (October 09, 2012, 1:54 PM ET) -- The Federal Circuit recently issued an important en banc decision in two related cases, Akamai Technologies Inc. v. Limelight Networks Inc. and McKesson Technologies Inc. v. Epic Systems Corp., that significantly alters the landscape of patent infringement.[1] The combined cases both broaden the scope and make it easier to prove induced infringement in patent cases involving multiple actors.

This decision has important implications as well as subtle nuances for patent professionals, including in-house professionals managing intellectual property portfolios and those responsible for patent litigation strategy. It will likely impact certain industries more than others, including computer software, Internet-based transactions/operations, and cloud computing businesses. Those industries, in particular, will need to pay close attention to this decision, which the Federal Circuit's dissenting faction aptly describes as a "sweeping change to the nation's patent policy."

The Akamai-McKesson decision was issued by a sharply divided en banc court with a well-reasoned dissent written by Judge Richard Linn speaking for a faction of the court and a thoughtful separate dissent authored by Judge Pauline Newman. The majority opinion overrules the leading case, BMC Resources Inc., from 2007, that clearly stated the rules for establishing divided infringement. BMC, along with Muniauction, issued in 2008, held that inducement liability under § 271(b) requires the existence of an act of direct infringement under § 271(a), meaning that all steps of a claimed method be practiced, alone or vicariously, by a single entity or joint enterprise.[2]

The majority opinion in Akamai, however, establishes what is being called an "inducement-only rule." This newly minted principle makes the inducing entity liable on greatly enlarged grounds, such as potentially advising or encouraging acts that may constitute direct infringement, as Judge Newman observed, even though under the court's reading of § 271 (a), there is no party, alone or vicariously, that is a direct infringer of the patented method. These are indeed "dramatic changes in the law of infringement," as observed by a dissenting judge in Akamai.[3]

Background

When a single actor commits all the elements of infringement, that actor is liable for direct infringement under § 271(a). Direct infringement is a strict liability tort; there is no requirement that the infringer intend to infringe. The induced infringement provision of § 271(b) provides: "[w]hoever actively induces infringement of a patent shall be liable as an infringer."[4] When an actor intentionally induces another to commit all the elements of infringement, alone or vicariously, the first actor is liable for induced infringement under § 271(b). As a predicate to establishing induced infringement under § 271(b), there must also be an act of direct infringement under § 271(a).

Induced infringement is in some ways narrower and in others broader than direct infringement. Unlike direct infringement, induced infringement is not a strict liability tort. Inducement can be committed by one who does not perform any or all of the steps of a method claim and thus is not a direct infringer. The accused inducer must act with knowledge that the induced acts constitute patent infringement. Specifically, the inducer must knowingly induce infringement and possess specific intent to encourage direct infringement. In that respect, inducement is narrower than direct infringement. On the other hand, inducement does not require that the induced party be an agent of the inducer or be acting under the inducer's direction or control.

Under the new rule announced in Akamai, a party can be liable for inducing infringement even though there is no direct infringement by a single party. In holding that all the steps of a claimed method must be performed in order to find induced infringement, but that it is not necessary to prove that all the steps were committed by a single entity, the court eliminated the need to show that the induced party is an agent of the inducer or is acting under the inducer's direction or control. Instead, it is enough that the inducer causes, urges, encourages, or aids the infringing conduct and that the induced conduct is carried out. The Federal Circuit has thus rejected the "single entity" rule for purposes of proving inducement, and held that liability for inducement can be shown even if there is not a single party that directly infringes a claim.

Impact to Potential Infringers

In the Internet and computer software industries, liability for induced infringement may come in two forms: (1) a participating inducer who performs some, but not all, steps of a method claim (Akamai case); and (2) a nonparticipating inducer who does not perform any step of a claim. Rather, its customers and their downstream users perform all steps using the software (McKesson case).

An example of a participating inducer can be a vendor in a networked setting, such as a cloud synchronization or an ad serving company, that actively connects with other parties in the network, playing a partial role in an overall claimed operation.

An example of a nonparticipating inducer may be a software distributor, e.g., an educational software that allow teachers and students to communicate online. Here, the software provider may not actually perform any steps of the claim, but rather the customers (teachers) and their downstream clients (students) may carry out all steps of the claimed method when running the software in a networked environment.

Under the en banc decision, in both scenarios, companies may face potential liability for induced infringement. To avoid inducement liability, companies operating in this space may need to rethink their freedom to operate opinions. Before Akamai, a company seeking a freedom to operate opinion would mainly focus on what its own software/service performs and seek opinion on whether there is: (1) direct infringement, by checking whether all claimed steps are performed by its software/service or in combination with others under its "direction and control," or (2) induced infringement, where the software/service enabled another single party to perform all claimed steps.

Under the en banc decision, this may no longer be adequate. In addition to considering the function of the product or service itself, even absent an agency relationship, it is now necessary to investigate how the product or service is used in a commercial or networked setting. An effective freedom to operate opinion under the induced infringement standard of Akamai thus should address at least the following issues:

- How does the company's products or service function?

- How does its products or services interact with others, including both upstream and downstream connected parties?
- Who are the customers of the product and what are the potential use scenarios?
- Does the company know of, or can it be said to intend to cause, each of the other actors, both upstream and downstream connected parties, to perform all steps of the method and commit infringement?
- Are there existing contracts or licenses in place between partners, vendors, customers, etc. addressing induced infringement liability under the old standard? If so, do these need to be revisited?

Rethinking Patent Prosecution and Evaluation of Patent Assets

Akamai also impacts how innovators should protect IP. Prior to this decision, claim drafters avoided claims that required multiple parties to perform different steps. This was done to ensure that one could capture direct infringers under the "single entity" rule.

While this practice still applies for the purposes of direct infringement, prosecutors should rethink claim drafting strategy under the new induced infringement standard. Claims may now be drafted to cover scenarios in which claims tie different parties in an active manner.

Even though direct infringement of such claims is still not possible absent an agency relationship, the Akamai decision has paved a way for patentees to succeed under an inducement theory in enforcing claims reciting steps performed by multiple parties. The fact that a claim requiring multiple parties' active involvement now has an enhanced enforceability may also shed new light on how to balance the cost of patent prosecution on inventions involving multiple parties and the value of a subsequently granted patent.

This is especially true if the maximum value of the technology is realized in revenue generated by the use of a product/service in a value chain removed from the company's immediate point of sale. For example, a cloud service company providing its service to a large Web retailer, who then uses the service to create an online shopping portal, may want to rethink how they draft claims from an inducement perspective to capture the downstream use of its service to maximize the value of its IP.

Existing patents assets should also be reassessed. Many claims that recite steps performed by different parties were once considered to have less value since they could not read on a single entity. Now, that valuation needs to be reassessed, as their enforceability is certainly enhanced.

Planning Litigation Strategies

We may also see an increase in litigation of computer software and business method patents as patent portfolios and induced infringement scenarios are reassessed. From a plaintiff's perspective, infringement contentions, accused products and claim construction strategies should be re-evaluated.

Whereas previously a patent holder asserting method claims over distributed network systems risked summary judgment on claims where a single actor could not be identified or an agency relationship for "direction and control" could not be shown, a patent holder is now able to assert claims under an induced infringement theory against the software or service provider that performs fewer than all steps of a method claim.

As a consequence, plaintiffs should re-evaluate strategies in claim construction. Previously, the dispute in construing claims reciting steps by different parties involved constructions of opposing parties that could be understood whether or not the defendant performs specific steps. A patent holder would argue that the steps of the claim should be construed in a way where the accused infringer's software performed the step, whereas the defendant would argue that the steps are not performed by its product.

Under Akamai, the patentee no longer need worry about claim constructions that require that multiple parties perform steps in a single claim, at least for inducement. Patentee need only prove the inducer intends to cause the other actors to infringe by performing the claimed steps.

Does this mean that defendants have lost their ability to defend against induced infringement assertions of method claims in the post-Akamai landscape? Not yet. Parties accused of inducement can continue to be protected from unknowingly creating liability by relying on the knowledge and intent requirements for inducement.[5] In DSU Med. Corp. v. JMS Co., the Federal Circuit held that "inducement requires that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement."[6] The recent decision did not undo that requirement.

One common strategy is to seek an opinion of counsel letter to establish lack of intent. Under the Akamai decision, it is advisable that an opinion of counsel letter should also be sought on the use scenarios of a product/service. A question arises as to unforeseen uses and whether the lack of a counsel opinion on that unforeseen use would allow a company to show that it did not have the requisite intent. This leads to the question of whether "unforseeability" of a use case can be viewed as conferring "no intent" on behalf of the party offering the product or service.

While the Akamai decision introduces some uncertainty as to what a company can reasonably do to prevent infringement in the new inducement landscape, careful attention should be paid to how companies manage their knowledge of patents. Effective opinions need to take into account a full analysis of the intended and unforeseeable use scenarios.

Accused infringers may also want to re-evaluate licensing and risk allocation strategies to guard against induced infringement claims. For example, a party that contracts to sell its software or services to third parties should consider drafting provisions that specifically address induced infringement scenarios and contemplate indemnification clauses that distribute risk. In such situations, software or service providers can hedge against the risk of claims for induced infringement by either seeking indemnification from their customers, when all steps of the method are performed by a combination of customer and downstream parties (McKesson case), or distributing allocation of potential damages when contracting parties contribute to the performance of all method steps (Akamai case). Creative contract drafting may provide an effective way to prevent unnecessary liability in the post-Akamai world.

Conclusion

The Akamai decision leaves several unaddressed issues, such as an interesting question about calculation of damages, including a suggestion by one of the dissenting opinions to apportion damages under common law joint tortfeasor principals to accompany this new "inducement-only rule."

While the short-term impact of the ruling is the simple application of induced infringement for multiple actors, the resulting longer term changes in claim construction and end-user agreements and licenses, that will likely result, calls for a more careful and sophisticated approach to patent prosecution, licensing and litigation.

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[1] On Aug. 31, 2012, the Federal Circuit Court of Appeals en banc decided a pair of cases captioned Akamai Technologies Inc. v. Limelight Networks Inc., No. 2009-1372, 2012 and McKesson Technologies Inc. v. Epic Systems Corporation, No. 2010-1291 (collectively "Akamai") (U.S. App. LEXIS 18532 (Fed. Cir. Aug. 31, 2012) (en banc)).

[2] BMC Resources Inc. v. Paymantech LP, 498 F.3d 1373 (Fed. Cir. 2007); Muniauction Inc. v. Thomson Corp., 532 F.3d 1318 (Fed. Cir. 2008).

[3] Judge Newman dissenting opinion, Akamai, at 2.

[4] 35 U.S.C. § 271(b).

[5] See Global-Tech Appliances Inc. v. SEB SA, 131 S. Ct. 2060, 2068 (2011).

[6] DSU Med. Corp. v. JMS Co., 471 F.3d 1293, 1306 (Fed. Cir. 2006).