



Reconsidering Akamai's rehearing

THE CASE:

Akamai Technologies, Inc and The Massachusetts Institute of Technology v Limelight Networks, Inc
United States Court of Appeals for the Federal Circuit
December 2010

After the Federal Circuit ordered a rehearing of the Akamai case in April 2011, Miguel Ruiz and Ashlee Lin of Milbank, Tweed, Hadley & McCloy LLP discuss why the court was correct the first time around

What does it mean for two parties to infringe a method patent? Over the past few years, the US Court of Appeals for the Federal Circuit has provided more clarity in a series of decisions, culminating in last December's *Akamai Technologies, Inc v Limelight Networks, Inc (Akamai I)*¹.

However, less than four months later, some members of the Federal Circuit expressed concern as to how far *Akamai I* had gone, particularly Circuit Judge Pauline Newman in her dissent in *McKesson Technologies Inc v Epic Systems Corp (McKesson I)*². As a result, the Federal Circuit has ordered an *en banc* rehearing of both *Akamai I* and *McKesson I* to settle this issue once and for all.

Background

To appreciate the stakes at these rehearings, it's important to distinguish joint infringement, a type of direct infringement, from indirect infringement.

Joint infringement

Black letter patent law requires that to be liable for direct infringement of a patent, an accused infringer must perform each and every element of a claimed method³. Given that direct infringement is strict liability, the public policy behind direct infringement does not support holding one person liable where multiple persons separately perform the steps⁴.

Nevertheless, an infringer cannot escape liability simply by contracting out one of the steps to another party⁵. Until recently, courts treated this theory of joint infringement rather amorphously: recognising that the general rule of a single actor could not be absolute, but

understanding the risk of expanding strict liability and discouraging innovation.

Indirect infringement

Indirect infringement, on the other hand, has a well developed history in patent law. As early as 1871, courts have found liability for indirect infringement⁶. Indirect infringement encompasses two different types of infringement: (1) contributory infringement, which arises from the sale of a component used to infringe a patent; and (2) induced

infringement. Back in 1961, the Supreme Court of the United States asserted this knowledge requirement for contributory infringement in *Aro Manufacturing Co v Convertible Top Replacement Co*⁹, and just this May, in *Global-Tech Appliances, Inc v SEB SA*¹⁰, the Supreme Court explicitly extended this same knowledge requirement to induced infringement.

With these concepts in mind, we can appreciate the Federal Circuit's recent treatment of joint infringement.

The evolution of joint infringement

The Federal Circuit first approached this issue in *BMC Resources, Inc v Paymentech, LP*¹¹. In *BMC Resources*, BMC alleged that Paymentech, a company that processed financial transactions, directly infringed its method patent for pin-less debit transactions.

While Paymentech did not perform all the steps of the claimed method itself, Paymentech's actions, combined with the actions of two separate third parties, covered all of the steps of the patented method. In ruling that the combined conduct of these three actors did not amount to direct infringement, the Federal Circuit confirmed that "[i]nfringement requires, as it always has, a showing that a defendant has practiced each and every element of the claimed invention." The court did acknowledge a limited exception where the defendant has a third party perform one or more of the elements *on its behalf*: "A party cannot avoid infringement, however, simply by contracting out steps of a patented process to another entity. In those cases,

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infringement, which arises from a thirdparty's purposeful actions that cause another to infringe a patent⁷.

Indirect infringement has two additional requirements from direct infringement. First, indirect infringement necessarily requires a finding of direct infringement before analysing indirect liability⁸. Second, indirect infringement requires the accused indirect infringer to have knowledge of the

the party in control would be liable for direct infringement". However, the Federal Circuit found no evidence that Paymentech controlled or directed the activity of the other actors, and therefore it could not be liable for infringement.

One year later in *Muniauction, Inc v Thomson Corp*¹², the Federal Circuit clarified that the control or direction standard for joint infringement set out in *BMC Resources* could be satisfied only where "the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by another party that are required to complete performance of a claimed method". Thus, in *Muniauction*, where the defendant controlled bidders' access to its online auction system and even instructed the bidders on the system's use, the defendant did not directly infringe because the bidders were not performing steps of the patented method on behalf of the defendant.

BMC Resources and *Muniauction* set the stage for *Akamai I*, which involved two companies that host website content for their customers. Akamai owned method patents related to the storage and delivery of a customer's website content. While Limelight's content delivery network performed some of the steps, such as the actual storage and delivery of content, Limelight's customers performed the other steps of the method – with instruction from Limelight – such as deciding what content to outsource to local servers.

Relying on the "control or direction" test from *BMC Resources*, and traditional notions of vicarious liability as articulated in *Muniauction*, the Federal Circuit set forth a refined test for joint infringement: an accused infringer is liable for joint infringement only when an agency relationship exists between the parties who perform the steps or when one party is contractually obligated to the other party to perform the steps.

Under this test, Limelight could not be held liable for direct infringement because of the lack of agency between its customers and itself. Any unfair result, the court explained, could have been addressed with better patent drafting – a patentee should simply draft its patent in such a way that all the steps can be performed by a single actor.

Soon after *Akamai I*, some judges on the Federal Circuit started to limit its approach. In *Centillion Data Systems, LLC v Qwest Communications Int'l, Inc*¹³, the

Federal Circuit declined to extend *Akamai I* to systems claims. *Centillion* involved a system for exchanging information over the internet, which required both a service provider's computer system and a customer's personal computer. Although these elements were owned and operated separately, the Federal Circuit stated the customer could be potentially liable for direct infringement because the customer "used" every element and controlled and benefited from the whole system. On the other hand, the service provider, Qwest, could not be liable for direct

argued that limiting joint infringement claims to agency relationships and contractual obligations removes "interactive" methods from patent protection. She based her decision on older precedents that applied common-law concepts of joint liability in the area of patent infringement. In addition, Judge Newman cited to the restatement of torts, a treatise on general tort liability, for the appropriate application of joint liability generally in other torts.

One week after *McKesson*, the Federal Circuit ordered an *en banc* rehearing of *Akamai I* and a month after that, also ordered a rehearing of *McKesson* to finally settle these conflicts. What should the courts do?

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infringement because it did not control or benefit from the system, but could be liable for indirect infringement.

In April 2011, less than five months after *Akamai I*, the Federal Circuit again considered the joint infringement issue in *McKesson I*.

In *McKesson I*, the plaintiff owned a patent for a method of electronic communication between health care providers and their patients to provide personalised healthcare information. Epic Systems also developed similar software, which *McKesson* alleged infringed its patent. Guided by *BMC Resources*, *Muniauction* and *Akamai*, the Federal Circuit – in a split decision – affirmed the district court's finding of non infringement because *McKesson* was unable to attribute the performance of all the steps to a single actor.

In her dissent, Judge Newman vehemently disagreed with what she pejoratively coined "the single-entity rule" of *BMC Resources*, *Muniauction* and *Akamai I*. Judge Newman

Why the courts got it right the first time

At first blush, Judge Newman's opposition to *Akamai I* seems to be the impetus behind the rehearings, so it appears as if the bench is inclined to backpedal from *Akamai I*. But a closer look at her dissent reveals that her analysis conflates joint infringement with indirect infringement.

While Judge Newman does cite to cases applying common law principles of joint liability, those cases only apply to *indirect* infringement and not joint infringement. In fact, the cases Judge Newman cites as counter to the majority found that the defendants could be liable for

indirect infringement, and that they could not be liable for *direct* infringement where they did not perform all the steps of a patented method. As an example, Judge Newman cites to *Centillion* to support her argument, a case that, as discussed above, explicitly found that the service provider could only be liable for indirect infringement. Additionally, the provisions of the restatement of torts on joint liability that Judge Newman cites are inapplicable to direct infringement, because, like indirect infringement, the restatement requires knowledge for liability. For example, the comment to Section 877(c) explicitly requires knowledge or constructive knowledge. In addition, the comment to Section 876 explicitly states that it is not intended to apply in strict liability situations¹⁴.

Importantly, the US Patent Act already accounts for joint liability in its statutory provisions for contributory and induced infringement. The US Patent Act only imposes liability for direct infringement

on “whoever without authority makes, uses, offers to sell or sells any patented invention...”, but makes no provision for multiple actors. It makes sense, then, that direct infringement liability exists when a single actor performs all the steps of a claimed method, and the only exception is where the principal and the agent are the functional equivalent of a single actor. Limiting joint infringement to agency principles not only furthers an intuitive understanding of the US Patent Act, but to do otherwise would render the indirect infringement provisions superfluous.

Thus, the court in *Akamai I* was right when it applied agency principles to joint infringement as it has in other areas of the law. For example, the Supreme Court has applied agency rules in a US Fair Housing Act of 1968 context where the statute was silent as to the applicability and scope of vicarious liability; it has also applied agency rules to determine an employer’s vicarious liability under a Title VII claim¹⁵.

Analysis

Changes in the contours of patent infringement liability can have unintended consequences on innovation and modifying the joint infringement rule in *Akamai I* will create uncertainty as to the extent of liability. Clear rules protect innocent parties, but uncertainty deters investment in new technology, which ultimately impedes innovation.

To disturb the legal precedent set forth in *BMC Resources* through *McKesson* would threaten to enlarge the scope of direct infringement to reach innocent parties. Technology companies would risk strict liability for their customers’ actions – actions beyond the companies’ control. The law reserves strict liability for extreme cases – the transportation of ultra hazardous materials; the failure to warn about a dangerous product – not a situation where one party could be held responsible for the actions of others.

What should practitioners do in response to the *Akamai I* rehearing?

1) Draft single entity method claims. Due to the general rule that a single user must perform every step of a method, inventors should take care to draft method claims in a way that requires only one actor. Drafting patents in this manner avoids

the uncertainty of what Judge Newman described as “interactive methods”, eg, method claims that involve a user entering or receiving data over the internet.

- 2) Where practical, include system claims. Given the Federal Circuit’s decision in *Centillion*, including a mixture of system claims with method claims in patent applications can ensure that a patentee receives the broadest scope of protection.
- 3) Examine your client’s current portfolio. Companies should re-examine their

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portfolio, looking particularly at patents with method claims involving the internet, to determine if a method claim might come under scrutiny under *Akamai I*. If so, practitioners should seek to reissue the patents to rewrite those claims that require performance by multiple actors.

- 4) Use *Akamai I* as a defence. If the Federal Circuit affirms *Akamai I*, practitioners should take advantage of the ruling and use it as a general defence. *Akamai I* can potentially provide a potent defence for companies accused of infringement of a method claim. Under *Akamai I*, plaintiffs have to show an agency relationship between the parties and the Federal Circuit has already held that a customer relationship is insufficient. As *Akamai* provides a bright line rule, defendants could have success using it as dispositive of non-infringement at the summary judgment phase.

Footnotes

1. 629 F3d 1311 (Fed Cir 2010), *vacated*, Nos 2009-1372, -1380, -1416, -1417 (Fed Cir Apr 20, 2011)
2. 98 USP Q2d 1281 (Fed Cir 2011), *vacated*, No 2010-1291 (Fed Cir May 26, 2011)
3. See *Warner-Jenkinson Co v Hilton Davis Chemical Co*, 520 US 17, 40 (1997)
4. M Lemley, et al, *Divided Infringement Claims*, 33 *AIPLA QJ* 255, 261 (2005)
5. See *Shields v Halliburton Co*, 493 F Supp 1376, 1389 (WD La 1980)
6. See *Wallace v Holmes*, 29 F Cas 74 (CCD Conn 1871)
7. 35 USC § 271(b), (c)
8. *Dynacore Holdings Corp v US Philips Corp*, 363 F3d 1263, 1272 (Fed Cir 2004)
9. 365 US 336 (1961)
10. 563 US ___ (2011)
11. 498 F3d 1373 (Fed Cir 2007)
12. 532 F3d 1318 (Fed Cir 2008)
13. 631 F3d 1279 (Fed Cir 2011)
14. Restatement (2nd) Torts Section 876 has a caveat that states that the Institute expresses no opinion where “the conduct of either the actor or the other is free from intent to do harm or negligence but involves strict liability for the resulting harm.”
15. *Meyer v Holly*, 537 US 280, 282 (2003); *Burlington Indus, Inc v Ellerth*, 524 US 742, 756 (1998)

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