

## Federal Circuit Strengthens the Divided Infringement Defense

January 6, 2011

In its December 20, 2010 decision in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*,<sup>1</sup> the U.S. Court of Appeals for the Federal Circuit appears to have taken the final step toward requiring patent holders to show an agency relationship between potential joint infringers.

In order to establish liability for patent infringement, direct infringement or indirect infringement, a patent holder must, as a threshold matter, prove that someone has performed all the steps of an asserted method claim.<sup>2</sup> An exception has been carved out, however, if parties acting together can be considered to be “jointly” infringing the claim.<sup>3</sup> This doctrine is pinned to the “joint tortfeasor” concepts of tort law, and the U.S. Supreme Court in *Aro Manufacturing*, addressing the issue for the first time, relied heavily on concepts of agency. Subsequent district court decisions expanded the Supreme Court’s application, and the agency requirement began to fade.<sup>4</sup> In the absence of direction from higher courts, district courts eventually settled on a “some connection” standard, a standard far more nebulous than the concept of agency.<sup>5</sup>

The concept was not addressed squarely by an appeals court again until the much-reported-on Federal Circuit decision in *BMC Res., Inc. v. Paymentech, L.P.*<sup>6</sup> In *BMC Resources* the court required, not agency per se, but a showing of some evidence of “direction or control” exerted by one joint infringer over another. This was quickly followed by the Federal Circuit’s decision in *Muniauction, Inc. v. Thomson Corp.*,<sup>7</sup> where the court went even further, holding no joint infringement because the actions of

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1. *Akamai Techs., Inc. v. Limelight Networks, Inc.*, No. 19-1372, \_\_ F.3d \_\_ (Fed. Cir. Dec. 20, 2010).

2. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Corp.*, 520 U.S. 17, 40 (1997); see also *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 483 (1964).

3. *Id.*

4. See, e.g., *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207 (D. Conn. 1973) (finding that a defendant, in effect, made each of its customers (downstream in commerce) its agent in completing the infringement step); and *Metal Film Co. v. Melton Corp.*, 316 F. Supp. 96, 97 (S.D.N.Y. 1970) (permitting direct infringement liability even in the absence of an agency relationship in the upstream direction).

5. See e.g., *Cordis Corp. v. Medtronic AVE, Inc.*, 194 F. Supp. 2d 323, 349 (D. Del. 2002) (“To constitute a predicate act of direct infringement of a process claim, either a single entity must perform every step of the method or, if two or more entities perform different steps of the method, those entities must have some connection to each other.”).

6. *BMC Res., Inc. v. Paymentech, L.P. (BMC II)*, 498 F.3d 1373 (Fed. Cir. 2007).

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

the one actor were not being done on the *other actor's behalf*. The two requirements, “direction and control” of the secondary actor and that the secondary actor’s actions be done on the primary actor’s behalf, led to speculation that the court intended to return to requiring an agency-type relationship between alleged joint infringers.

In its *Akamai* decision, the Federal Circuit appears to have taken that final step. In discussing what is required to come to a finding of joint infringement, the court stated, “Implicit in this court’s holdings in *BMC Resources* and *Muniauction* is that the performance of a method step may be attributed to an accused infringer when the relationship between the accused infringer and another party performing a method step is *that of principal and agent*, applying generally accepted principles of the law of agency as explicated by the Supreme Court and the Restatement of Agency” (emphasis added). The court concluded: “This court therefore holds as a matter of Federal Circuit law that there can only be joint infringement when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps.”

The decision also provides some clarity on a point of confusion: how to interpret previous statements from the court that a defendant cannot escape infringement by merely contracting out the steps on a method claim it doesn’t perform—an argument expressly raised by *Akamai*.<sup>8</sup> The court clarified these statements, holding that mere contractual relationships, even ones that specifically detail the steps to be taken, do not trigger direction and control. In the case of the defendant *Limelight*, the court concluded: “The form contract does not *obligate* *Limelight*’s customers to perform any of the method steps. It merely explains that the customer will have to perform the steps *if* it decides to take advantage of *Limelight*’s service. . . . [T]he agreement merely provides the customers with the tools to allow them to exercise their independent discretion and control over how and in what respect they implement the system. *Limelight*’s customers did not perform the actions . . . as *Limelight*’s agents and were not contractually obligated to perform those actions” (emphasis in original).

While it remains unclear exactly what type of contractual arrangement makes one actor “contractually obligated to the other to perform the steps,” the *Akamai* decision clarifies that a contract requiring those steps in order to take advantage of a provided service the secondary actor is free to turn down (for example, a customer who is free to purchase or not) will not trigger such an obligation.

This decision should significantly bolster claims of divided infringement. The past several years have seen a significant increase in plaintiffs attempting to assert patents vulnerable to such arguments—such as those directed to Internet-based activities (e.g., ecommerce portals), networked systems, and business methods. With many of these patents, the scope of the claims incorporate actions taken by both the accused infringers and actions taken by their customers, their contractual partners, or third-party providers. With *Akamai*, the burden on plaintiffs has increased, making it significantly harder to show the requisite connection between accused joint infringers. Defendants accused of infringing patents should look closely at precisely who is performing the steps of the claims they are accused of infringing and what connection they have to the accused infringer. Patent holders should also examine their claims, and carefully choose the claims they assert to those that embody the court’s repeated admonition “that [joint infringement] concerns ‘can usually be offset by proper claim drafting. A patentee can usually structure a claim to capture infringement by a single party.’”

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8. See, e.g., *BMC Resources*, 498 F.3d at 1381.

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