Morgan Lewis

did you know?

retail

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Dear Retail Clients and Friends,

Retailers with an Internet presence should take note of a recent decision made by the U.S. Court of Appeals for the Federal Circuit—the special appeals court specifically created to deal with issues of patent law that come from the district courts around the country. The opinion potentially changes the landscape of how patent infringement lawsuits will be pursued. This edition of ***Morgan Lewis Retail Did You Know?*** describes how that change may significantly increase the vulnerability of retail websites (sometimes known as eCommerce portals) and leave them more exposed to accusations of patent infringement.

Overview

On August 31, the Federal Circuit released its combined en banc opinion in *Akamai Technologies, Inc. and The Massachusetts Institute of Technology v. Limelight Networks, Inc.* and *McKesson Technologies, Inc. v. Epic Systems Corp*.[1] While the opinion is mostly of interest to the patent world, retailers should be aware that the *Akamai* decision may now make it easier for patent holders to sue retailers with eCommerce websites.

The majority opinion made new law and made it easier for patent holders to prove indirect infringement. In doing so, the court overturned a portion of *BMC Resources, Inc. v. Paymentech L.P.,* 498 F.3d 1373 (Fed. Cir. 2007), which is one of the seminal cases establishing "divided infringement" as a defense to infringement accusations for method patents. A "method patent" describes a series of steps or actions that, collectively, form a method that the patent holder claims to own. Many of the patent claims being asserted today (particularly those referred to as "business methods") encompass not just the actions of an accused infringer, but also others who are acting along with the accused infringer. For example, method claims directed to the operation of websites will often recite actions taken by a website provider, along with actions taken by visitors to that website, Internet service providers, website hosting services, or other parties that act along with the website provider. Under the theory of "divided infringement," there would be no liability for the website provider in the above scenario unless the plaintiff proved that the other actors were agents of the website provider or were otherwise performing their action under contractual obligations to the website provider. This defense has risen in prominence in recent years, as retailers with eCommerce websites are increasingly being accused of infringing method patents through the combined operations of their eCommerce portals and the actions of their online customers. When using this defense, retailers with eCommerce websites often argue that online shoppers are not agents of the eCommerce website they are patronizing and that they are not shopping there under a contractual obligation to the retailer.

The divided infringement defense applies specifically to direct infringement—holding someone liable for actually committing the infringement. But even if one is not a direct infringer, one can still be liable as an *indirect infringer*—one who induces someone else's infringement—under 35 U.S.C. § 271. Prior to the change in the Federal Circuit's opinion, there could be no liability for induced infringement if there was no direct infringement. In other words, if the eCommerce retailer could show performance of a method was divided between it and its customers, then there was no liability for direct infringement (because of the divided infringement defense), and there was no liability for induced infringement because there was no direct infringer at all—no one to be induced. Through its August 31 opinion, the Federal Circuit removed this second layer of protection that the defense of

1. *Akamai Techs., Inc. v. Limelight Networks, Inc.*, Nos. 2009-1372, -1380, -1416, -1417, *available at* http://www.cafc.uscourts.gov/images/stories/opinions-orders/09-1372-1380-1416-141710-1291.pdf.

divided infringement provided. Now, even if no one is liable as a direct infringer, if the steps of the patented method are performed by *any* combination of people, an eCommerce retailer may still be liable if it *induced* the others (such as its customers) to perform those steps.

For a more detailed discussion on the specifics of the opinion, including a discussion of the reasoning presented by the majority and dissenting opinions, please read our September 10 Intellectual Property LawFlash, "Court of Appeals Expands Inducement for Patent Infringement," available at http://www.morganlewis.com/pubs/IP_LF_FedCourtAppealsExpandsInducement_10sep12.

Take Away

So, what is the bottom line for retailers? First, divided infringement remains alive and well as a viable defense to accusations of direct infringement of method claims. This new ruling leaves in place the jurisprudence on this issue. It is also important to note that neither this case, nor the analysis above, deals with *system or apparatus* claims. Both of those claim types are less susceptible to divided infringement defenses, and it is not clear how this new ruling will apply to them. However, for method claims, if showing "direction or control" is either problematic or simply very expensive for the plaintiff to prove, then plaintiffs may rely on this new ruling and chose to forgo even trying. This may result in new patent infringement complaints that do not even allege direct infringement. Operators of eCommerce portals should be particularly cognizant of this. Many of the method patents currently being asserted by plaintiffs have some action required by the customers or users of the websites. Under this expanded theory of induced infringement, plaintiffs may simply skip right past trying to prove that a defendant "controls" its customers and focus instead on whether a defendant *induced* the customers' actions. Of course, this may come at the expense of recovering pre-suit or pre-notice damages, which—in turn—may motivate patentees to send out notice letters or file suit earlier than they otherwise would have.

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These individuals are part of our international Retail Practice. Attorneys from our 24 offices regularly represent national, regional, and local retailers in a broad array of subject matters including litigation, labor and employment, real estate, tax, transactional, and regulatory.

About *Morgan Lewis Retail Did You Know?*

This message is part of our effort to educate our retail clients and friends about important legal developments. One thing we hear frequently from our retail clients is that it is hard to keep track of new and emerging laws and lawsuit trends that affect retailers. All too frequently, the first notice comes in the form of a lawsuit seeking millions of dollars. To help you be more proactive in managing legal compliance, we are providing these emails.

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