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The Importance of Contracts for Joint Infringement in Patent Cases

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It has been about a year since the ***Supreme Court*** rendered its decision in ***Limelight v. Akamai*** regarding induced infringement for methods performed by two or more actors. “At that time, commentators predicted that attention would shift to contract analysis for determining direct, rather than induced, infringement in these multi-actor method situations, known as joint or divided infringement.” The recent decision by the Federal Circuit in *Akamai v. Limelight* on remand, as well as a search of recent district court cases, shows that those predictions have now come true. In view of the importance of contract analysis for determining joint infringement, practitioners would do well to obtain contracts early in discovery to determine the strength of their positions, and practitioners drafting contracts should be mindful of potential joint infringement implications.

In *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111 (2014), the Supreme Court held that there can be no liability for induced infringement of a patented method when there is no direct infringer in a case where the steps of the method are carried out by separate actors. The Supreme Court, however, left untouched the existing law that liability for direct infringement can be found if the defendant exercises “direction or control” over the other actors. *See Muniauction, Inc. v. Thompson Corp.*, 532 F.3d 1318, 1328-29 (Fed. Cir. 2008); *Aristocrat Techs. Austl. PTY Ltd. v. Int’l Game Tech.*, 709 F.3d 1348, 1362 (Fed. Cir. 2013); *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007). The Federal Circuit recently issued its opinion following remand in *Akamai Techs., Inc. v. Limelight Networks, Inc.*, No. 2009-1372, 2015 U.S. App. LEXIS 7856 (Fed. Cir. May 13, 2015). The opinion explains that the prior decisions in *BMC Resources* and *Muniauction* directly applied to the facts in the case, and led to the conclusion that because Limelight did not perform all of the steps of the asserted method claims and because the record contained no basis on which to impose liability on Limelight for the actions of its customers who carried out the other steps, Limelight had not directly infringed the asserted patent.

A contract analysis was central to the Federal Circuit’s conclusion in *Akamai*. Akamai had argued that Limelight’s standard form contract obligated content providers to perform steps of the claimed methods. The Federal Circuit disagreed and reasoned that the form contract did not obligate Limelight’s customers to perform any of the method steps. The court found it important that Limelight’s customers decided what content, if any, they chose to have delivered by Limelight and only then performed the additional steps. In reviewing the contract, the court pointed out that the contract merely explained that the customers would have to perform the steps if they decided to take

advantage of Limelight's service. The Federal Circuit concluded that because the customers were acting for their own benefit, Limelight was not vicariously liable for the customers' actions.

The recent district court cases of *Mankes v. Fandango, L.L.C.*, No. 5:13-CV-716, 2015 U.S. Dist. LEXIS 24016 (E.D.N.C. Feb. 26, 2015) and *Mankes v. Vivid Seats Ltd.*, No. 5:13-CV-717, 2015 U.S. Dist. LEXIS 24327 (E.D.N.C. Feb. 26, 2015) illustrate scenarios where the lack of contracts led to findings of no direct infringement. In those cases, the court explained that the defendants' ticket reservation systems performed some of the steps claimed in the patent, while theaters performed other steps. The complaints alleged that the defendants were offering incentives to entice the theaters to use their reservation systems. The court granted motions for judgment on the pleadings in favor of the defendants and explained that even if the defendants made the use of their reservation systems irresistible through the offering of incentives, the theaters were not acting on behalf of the defendants, but in their own best interests, by using the systems. In rendering judgment, the court found it significant that there was no mention in the complaints of any contract between the defendants and the theaters. The court further concluded that there could be no induced infringement in view of the holding in *Limelight*, which requires a direct infringer for a finding of induced infringement. In contrast, the recent case of *Grecia v. VUDU, Inc.*, No. C-14-1220, 2015 U.S. Dist. LEXIS 16256 (N.D. Cal. Feb. 9, 2015) provides an example where a defendant's motion to dismiss was denied due to the existence of an alleged contractual relationship. The court explained that the presence of a contract is relevant to discerning direction or control for joint infringement, and looked to whether the contract imposed an obligation on the allegedly controlled party to perform the infringing steps. The court particularly examined the following issues: (i) the degree of instruction given to the controlled party and obligation of the controlled party to perform the steps necessary to complete infringement; and (ii) whether the terms were generally consistent with an agency relationship, such as the right to terminate the agreement upon the election of the controlling party as well as indemnity obligations that imply the controlling party is acting as a principal in an agency relationship.

Given the increased scrutiny of contract terms for determining instances of joint patent infringement, practitioners providing advice in the drafting of contracts should be aware of the potential issues and provide guidance aimed at avoiding anticipated dangers. For example, contract drafters could draft contracts with just end goals identified and without specifying or providing direction or control as to the individual steps to be performed to attain those end goals. Moreover, practitioners involved in joint infringement litigations may seek to obtain any relevant contracts early in discovery, so that the terms of the contracts can be analyzed with an eye toward bolstering applicable litigation positions.

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