No. 12-786

IN THE
Supreme Court of the United States

LIMELIGHT NETWORKS, INC.,
Petitioner,
v.
AKAMAI TECHNOLOGIES, INC., ET AL.,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS FOR THE
FEDERAL CIRCUIT

BRIEF OF THE CLEARING HOUSE AND THE FINANCIAL SERVICES ROUNDTABLE AS AMICI CURIAE IN SUPPORT OF PETITIONER LIMELIGHT NETWORKS, INC. AND REVERSAL

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March 2014

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INTEREST OF AMICI CURIAE

Established in 1853, The Clearing House is the oldest banking association and payments company in the United States.[1] It is owned by the world's largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing, through regulatory comment letters, *amicus* briefs, and white papers, the interests of its member banks on a variety of critically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated clearing-house, funds-transfer, and check-image payments made in the United States.

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance investment products, and services to the American consumer. Member companies participate through the Chief Executive Officer ("CEO") and other senior

[1] Pursuant to Supreme Court Rule 37.6, the *amici* affirm that no counsel for a party authored this brief in whole or in part, no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief, and no person other than the *amici* or their counsel made such a monetary contribution. All parties have consented to the filing of this brief in letters filed with the Clerk of this Court.

executives nominated by the CEO. Roundtable member companies account directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

The associations joining this brief, and their members, have a strong interest in the question presented in this case. The Federal Circuit's decision is having an adverse impact on financial institutions. For example, one of the decisions that the Federal Circuit overruled involved patents that claimed a method for processing debit transactions without a personal identification number. *See BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007). In that case, the defendant was able to prevail at the summary judgment stage on the ground that it neither performed every step of the method nor controlled or directed the actions of third parties who performed other steps of the method. Consequently, the court held, there was no direct infringer and thus no liability for induced infringement. *Id.* at 1378-81. Under the Federal Circuit's decision in this case, however, lack of a direct infringer is no longer a defense to a claim of induced infringement. As a result, financial institutions face increased exposure to lengthy and costly patent litigation.

Financial institutions are already facing an increased number of claims for patent infringement. These cases seek to hold the financial institution liable even though neither the institution nor its customers practices all the elements of the patent claims. The uncertainty created by the Federal Circuit's decision, coupled with the expense of patent litigation and the increased risk of liability, make it more difficult for financial institutions to interact with their customers through new technologies, even for basic banking activities such as paying a bill online.

INTRODUCTION AND SUMMARY OF ARGUMENT

The Federal Circuit's decision in this case significantly broadens the doctrine of induced patent infringement. Prior to the Federal Circuit's decision, the law was clear that "[l]iability for either active inducement of infringement or for contributory infringement is dependent upon the existence of direct infringement." *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993). By holding that a defendant may be subjected to liability for induced infringement even when there is no underlying act of direct infringement, the Federal Circuit has fundamentally altered well-settled patent law in a way that departs from the relevant statutory language and judicial precedents. As the dissenting judges recognized, the Federal Circuit "assume[d] the mantle of policy maker" that properly belongs to Congress, not the courts. Pet. App. 69a (Linn, J., dissenting).

The decision below will cause harm to financial institutions, as well as other businesses, who are now subject to claims of alleged infringement involving interactions among devices and software applications manufactured by others and deployed by businesses' customers. As petitioner noted in seeking this Court's review, if the Federal

Circuit's decision stands, "no company is safe." Pet. 30.

1. The Federal Circuit's decision contravenes the relevant statutory language. Subsection 271(a) of Title 35 of the U.S. Code defines infringement. *Aro Mfg. Co. v. Convertible Top Replacement Co., Inc.*, 365 U.S. 336, 342 (1961). Subsection 271(b) then provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b). Read together, these provisions make clear that liability for induced infringement attaches only if the act induced amounts to "infringement" as defined in § 271(a).

The Federal Circuit denied that § 271(a) defines infringement and then defined infringement differently for § 271(a) and (b). Although § 271(a) requires that one entity must practice the entire invention, the Federal Circuit held that under § 271(b) infringement is not "limited to 'infringement' by a single entity." Pet. App. 10a. The Federal Circuit's reading thus violates the rule that identical words used in different parts of the same act generally are intended to have the same meaning.

The Federal Circuit's attempt to draw support for its interpretation of § 271(b) from 35 U.S.C. § 271(e), (f), and (g) is ill-founded. The Federal Circuit noted that those sections use "infringement" in ways not "tied to the use of the term 'infringes' in section 271(a)." Pet. App. 20a. But these sections (enacted decades after § 271(a) and § 271(b)) actually reveal that when Congress seeks to expand infringement beyond § 271(a) it does so expressly.

The Federal Circuit also errs in claiming that criminal law and tort law support its imposition of liability for induced infringement in the absence of direct infringement. The Federal Circuit analogized § 271(b) to accessory liability under 18 U.S.C. § 2(b), Pet. App. 16a, but the relevant analogy is 18 U.S.C. § 2(a), which addresses inducement and requires that the act induced be an "offense against the United States." *See United States v. Concepcion*, 983 F.2d 369, 383 (2d Cir. 1992). Tort law is no more helpful to the Federal Circuit. The authorities that it cites do not support the Federal Circuit's departure from the basic principle that inducing an act that is not infringement (and thus not a tort) is not prohibited.

The Federal Circuit's holding is also inconsistent with judicial precedent. This Court has held, in the analogous context of contributory infringement, that "if there is no direct infringement of a patent there can be no contributory infringement." *Aro Mfg. Co.*, 365 U.S. at 341; *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972). The logic of the Court's holdings with respect to contributory infringement applies equally to induced infringement. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2067 (2011).

The Federal Circuit's decision also creates uncertainty about other patent doctrines that depend on linking "infringement" in § 271(b) to the definition in § 271(a). In particular, the Federal Circuit has previously held that because § 271(a) limits infringement to acts within the United States, there is no liability for inducement under § 271(b) where at least one step of a method claim is performed outside the United States. The continued validity of this doctrine is now unclear.

2. The Federal Circuit's decision appears to have been motivated by policy concerns about the enforceability of so-called "interactive" method patents. Addressing such concerns is the role of Congress, not the federal courts. Moreover, patent holders could largely avoid enforceability issues by drafting patent claims to capture infringement by a single party. In addition, expanding the scope of liability for interactive method patents raises its own set of policy concerns, including reduced innovation and, ultimately, harm to consumers.

3. The Federal Circuit's decision will harm financial institutions and their customers by impeding technological innovation. Consumers increasingly interact with financial institutions using smartphones and other technologies selected by consumers themselves. Financial institutions lack knowledge of their customers' choices, let alone control over them. They thus have very limited ability to avoid claims of induced infringement based on the interaction between bank products and customer devices and software. To reduce the risk posed by claims of induced infringement, financial institutions may cut back on services to customers. They will also be less inclined to pursue new technologies that may increase their exposure to patent infringement claims.

The Federal Circuit's decision has already had an adverse impact on financial institutions. Financial institutions are facing increased claims for induced infringement in the wake of the Federal Circuit's decision. The Federal Circuit's decision subjects financial institutions to higher litigation costs even for ultimately meritless claims. Although the decision below notes that induced infringement requires knowledge that the induced act constitutes infringement, Pet. App. 7a, a patentee can seek to overcome this *mens rea* limitation by filing a complaint or sending a letter to a financial institution alleging induced infringement. This may allow the patentee to push even meritless claims into an expensive discovery process, which in turn, may allow patentees to extract substantial settlements from defendants, to the detriment of consumers.

ARGUMENT

I. The Federal Circuit's Expanded Definition Of Induced Infringement Contravenes Relevant Statutory Language And Judicial Precedent.

A. The Federal Circuit's Reinterpretation Of Induced Infringement Is Inconsistent With The Statutory Text.

1. Section 271(a) of Title 35 of the U.S. Code defines "infringement." *See Aro Mfg. Co.*, 365 U.S. at 342 (Section 271(a) "defines 'infringement'"); *see also* H.R. Rep. No. 82-1923, at 9 (1952) (Section 271(a) "is a declaration of what constitutes infringement"); S. Rep. No. 82-1979, at 8 (1952) (same). Section 271(a) states:

> Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

35 U.S.C. § 271(a). Subection 271(b), in turn, provides: "Whoever actively induces infringement of a patent shall be liable as an infringer." *Id.* § 271(b). The language of subsections 271(a) and (b), read together, makes clear that in order for a person to be liable for induced infringement under § 271(b), the action induced must constitute "infringement" as defined in § 271(a).

Despite this clear statutory language, the Federal Circuit not only denied that § 271(a) defines infringement, Pet. App. 20a, but defined "infringement" differently for purposes of § 271(a) and (b), *id.* at 10a. The Federal Circuit asserted that "[n]othing in the text indicates that the term 'infringement' in section 271(b) is limited to 'infringement' by a single entity. Rather, 'infringement' in this context appears to refer most naturally to the acts necessary to infringe a patent, not to whether those acts are performed by one entity or several." *Id.* But as Judge Linn noted in dissent, "[a] person who does not practice the entire invention is not liable under subsection (a)," and therefore "a person who actively induces such partial practice is not liable under subsection (b)." *Id.* at 73a-74a (Linn, J., dissenting).

The Federal Circuit's new interpretation violates the "normal rule of statutory construction that identical words used in different parts of the same act are intended to have the same meaning." *Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 2004-05 (2012) (internal quotation marks omitted). "Congress is presumed to have intended the word 'infringement' in § 271(b) . . . to target the same conduct as 'infringes' in § 271(a); it is the same word, simply used as a verb in paragraph (a) to define the act." Pet. App. 75a (Linn, J., dissenting).[2]

2. The other sections of § 271 that the Federal Circuit cites do not support its new interpretation of § 271(b).

The Federal Circuit seeks support for its interpretation of § 271(b) from 35 U.S.C. § 271(e), (f), and (g). Pet. App. 20a-21a. Subsection 271(e)(2) provides that it is an "act of infringement" to submit an application to the Food and Drug Administration

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[2] Section 281 confirms this interpretation. *See* 35 U.S.C. § 281. Section 281 states, "A patentee shall have remedy by civil action for infringement of his patent." *Id.* Stated differently, for any "infringement," there must be a remedy. The Federal Circuit majority, however, reads "infringement" in § 271(b) in such a way that it includes actions for which there is no remedy under the law. As the brief for the United States in support of certiorari explained, the Federal Circuit "construed the term 'infringement' in Section 271(b) to encompass primary conduct (the collective performance by different actors of all steps of a patented process) that does not violate the law and does not give rise to any civil remedy." Brief for the United States as *Amicus Curiae* at 12. Thus, the Federal Circuit's understanding of "infringement" in § 271(b) does not comport with § 281.

for a drug, or the use of a drug, claimed in a patent. Subsection 271(f) provides that a party shall be "liable as an infringer" if it supplies in the United States a substantial portion of the components of a patented invention in such manner as to induce the combination of those components outside the United States. Subsection 271(g) provides that a person who imports a product made by a process patented in the United States "shall be liable as an infringer." The Federal Circuit noted that the use of "infringement" in those sections "is not in any way tied to the use of the term 'infringes' in section 271(a)." Pet. App. 20a.

Far from supporting the Federal Circuit's interpretation, these subsections demonstrate that when Congress wants to expand the scope of infringement beyond the definition in § 271(a), it does so expressly. For example, § 271(g) states, in relevant part:

> Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable *as an infringer*, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent.

35 U.S.C. § 271(g) (emphasis added). The explicit language of the section—stating that whoever engages in the specified acts will be treated "as an infringer"—makes clear that, but for the addition of the section, the referenced actions would not

constitute infringement, *i.e.*, would not meet the definition in § 271(a).

3. The Federal Circuit erred in concluding that criminal law and tort law support its reading of § 271(b).

The Federal Circuit attempted to analogize induced infringement under § 271(b) to accessory liability under 18 U.S.C. § 2, but that analogy is flawed. The Federal Circuit asserts that, for purposes of criminal law, "the inducer's liability does not turn on whether the intermediary is factually guilty or even capable of committing the charged offense." Pet. App. 15a. But, as the dissent below noted, "[e]ach of the cases upon which the majority relies" for this proposition "was decided under 18 U.S.C. § 2(b), which imposes liability on a defendant who causes an 'act' which '*would be an offense*,' to be done through an intermediary (who may be innocent)." *Id.* at 84a (Linn, J., dissenting).

The relevant analogy for induced infringement under § 271(b) is not 18 U.S.C. § 2(b), but rather § 2(a). Section 2(a) provides: "Whoever commits an offense against the United States or aids, abets, counsels, commands, *induces* or procures its commission, is punishable as a principal." 18 U.S.C. § 2(a) (emphasis added). Subsection 2(a), by its terms, *does* require the commission of an underlying criminal offense as a predicate to liability of another for inducement of that offense: In the phrase "[w]hoever commits an offense against the United States or . . . induces . . . *its* commission . . . ," the word "its" clearly refers to the noun "offense." *See* 18

U.S.C. § 2(a). Thus, for inducement liability under § 2(a) the thing that is induced must be an "offense against the United States," that is, an underlying crime. *See United States v. Concepcion*, 983 F.2d 369, 383 (2d Cir. 1992).

The Federal Circuit also misapplied principles of tort law. The court's opinion cites the *Restatement (First) of Torts*, which states that a defendant may be liable for assisting or encouraging the tortious conduct of another "whether or not the other knows his act to be tortious." § 876 cmt. b (1938). This comment does not suggest that the encouraged party's act need not be tortious at all, only that the encouraged party need not *know* it is tortious. The comment thus provides no support for the majority's position that no single party need commit infringement. The Federal Circuit majority also cited several tort cases in which the defendant breached a *direct* duty owed to the plaintiff. *Compare* Pet. App. 19a, *with id.* at 87a-89a (Linn, J., dissenting). These cases do not support the Federal Circuit's imposition of *indirect* liability, where *no one* is liable for direct infringement. In short, inducing an act that is not infringement (and therefore not a tort) is not prohibited. Tort law provides no basis for reaching a different conclusion.

B. The Federal Circuit's Holding Is Inconsistent With Decisions Of This Court.

In addition to conflicting with the relevant statutory language, the Federal Circuit's opinion is contrary to decisions of this Court dealing with the closely related offense of contributory infringement. *Compare* 35 U.S.C. § 271(b), *with id.* § 271(c).[3]

More than fifty years ago, in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, this Court stated that "it is settled that if there is no direct infringement of a patent there can be no contributory infringement." 365 U.S. at 341. The Court described this principle as a "fundamental precept." *Id.* As applied to the facts of *Aro*, which involved a patent infringement suit against the maker of a replacement fabric convertible top, the Court explained,

> that petitioners know that the purchasers intend to use the fabric for replacement purposes on automobile convertible tops which are covered by the claims of respondent's combination

[3] Section 271(c) provides:

> Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c).

> patent, and such manufacture and sale with that knowledge might well constitute contributory infringement under § 271(c), *if, but only if, such a replacement by the purchaser himself would in itself constitute a direct infringement under § 271(a).*

Id. (emphasis added).

In *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, this Court reiterated that "it is established that there can be no contributory infringement without the fact or intention of a direct infringement," *id.* at 526, and stated: "'In a word, if there is no (direct) infringement of a patent there can be no contributory infringer,'" *id.* (quoting *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S. 661, 677 (Frankfurter, J., dissenting on other grounds)).

These precedents deal specifically with contributory infringement rather than induced infringement, but both offenses are types of indirect or secondary infringement, and the logic that supports the Court's holdings with respect to contributory infringement applies equally to induced infringement. Indeed, as this Court has explained, "induced infringement was not considered a separate theory of indirect liability in the pre-1952 case law. Rather, it was treated as evidence of 'contributory infringement,' that is, the aiding and abetting of direct infringement by another party." *See Global-Tech*, 131 S. Ct. at 2067. "When Congress enacted § 271, it separated what had previously been regarded as contributory infringement into two categories, one covered by § 271(b) and the other covered by § 271(c)." *Id.*

The Federal Circuit's decision also creates significant uncertainty on other issues of patent law. By decoupling the meaning of "infringement" in § 271(b) from the definition in § 271(a), the Federal Circuit has called into question other ways in which it has held § 271(b) to be linked to § 271(a). For example, prior to *Akamai*, the Federal Circuit had held that where one step of a method claim is performed outside the United States, there can be no inducement under § 271(b) because § 271(a) limits infringement liability to acts within the United States. *See NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1318 (Fed. Cir. 2005); 35 U.S.C. § 271(a) ("[W]hoever without authority makes, uses offers to sell, or sells any patented invention, *within the United States or imports into the United States* any patented invention during the term of the patent therefor, infringes the patent." (emphasis added)). Now that the Federal Circuit has decoupled the meaning of "infringement" in § 271(b) from § 271(a), however, the continued validity of its precedents limiting inducement liability to actions within the United States is open to question.

II. The Federal Circuit's Decision Is Based On Inappropriate Policy Considerations.

The Federal Circuit appears to have concluded that it was appropriate to depart from settled principles of liability for patent infringement in order to address concerns about the enforceability of so-called "interactive" method patents. For several reasons, these concerns do not justify the Federal Circuit's decision.

Ten of the 11 judges who participated in the Federal Circuit en banc proceeding agreed that no single party—neither Limelight nor its customers—performed each element of the claimed invention. Moreover, Limelight did not control the actions of its customers, so no party directly infringed the patent. The Federal Circuit majority, however, imposed liability on Limelight for induced infringement on the ground that the combined actions of Limelight and its customers had "precisely the same impact on the patentee as a party who induces the same infringement by a single direct infringer." Pet. App. 9a. In taking this step, the Federal Circuit unjustifiably expanded the scope of liability for patent infringement.

Direct infringement is regarded as a strict-liability offense. *See Global-Tech*, 131 S. Ct. at 2065 n.2 ("Direct infringement has long been understood to require no more than the unauthorized use of a patented invention. . . . [A] direct infringer's knowledge or intent is irrelevant."). Because of the strict liability standard, direct infringement has been limited "to those who practice each and every element of the claimed invention," *BMC Res., Inc.*, 498 F.3d at 1381,[4] and, via established principles of

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[4] This rule has been established for more than a century. *See Wallace v. Holmes*, 29 F. Cas. 74, 80 (C.C.D. Conn. 1871) ("[W]here a patent is for a combination merely, it is not infringed by one who uses one or more of the parts, but not all, to produce the same results. . . . This rule is well settled . . . .").

vicarious liability, to those who "control or direct each step of the patented process" even if some acts are done by third parties, *id.* at 1380; *see also* Restatement (Second) of Torts § 315 (1965) ("There is no duty so to control the conduct of a third person . . . unless . . . a special relation exists between the actor and the third person which imposes a duty upon the actor to control the third person's conduct . . . ."); Restatement (Third) of Agency § 1.01 (2006) ("Agency is the fiduciary relationship that arises when one person (a 'principal') manifests assent to another person (an 'agent') that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act.").

The Federal Circuit went beyond these established limits, and effectively extended liability to defendants accused of inducing infringement by advising, encouraging, or aiding patent infringement even where no party meets the requirements for direct infringement. *See* Pet. App. 17a.

The Federal Circuit's concern about the enforceability of "interactive" method patents does not justify its expansion of liability.

First, altering the scope of enforceability of federal patents is a task for Congress, not the courts. As this Court has explained, "The direction of Art. I [§ 8 of the Constitution] is that Congress shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress." *Deepsouth*

Packing Co., 406 U.S. at 530. In other words, "[b]roadening the doctrine of inducement, such that no predicate act of direct infringement is required, is a sweeping change to the nation's patent policy that is not for [the Federal Circuit] to make," and that the Federal Circuit "dislikes the policy that results from the statute as Congress wrote it is not a valid foundation for the action taken." Pet. App. 80a-81a (Linn, J., dissenting).

In other patent contexts, such as interpretation of 35 U.S.C. § 101, this Court has repeatedly cautioned that courts should not encroach on Congress's role in determining patent policy. *See Diamond v. Chakrabarty*, 447 U.S. 303, 318 (1980) ("Our task . . . is the narrow one of determining what Congress meant by the words it used in the statute; once that is done our powers are exhausted. Congress is free to amend § 101 . . . . But, until Congress takes such action, this Court must construe the language of § 101 as it is."); *Parker v. Flook*, 437 U.S. 584, 596 (1978) ("It is our duty to construe the patent statutes as they now read, in light of our prior precedents, and we must proceed cautiously when we are asked to extend patent rights into areas wholly unforeseen by Congress."). The Federal Circuit disregarded the Court's caution in this case.

Second, federal courts need not step in to address enforcement concerns that the patent holder itself could have prevented through proper claim drafting. The Federal Circuit had previously recognized that "concerns over a party avoiding infringement by arms-length cooperation can usually be offset by proper claim drafting. A patentee can usually structure a claim to capture infringement by a single party." *BMC Res., Inc.*, 498 F.3d at 1381. Thus, the claim drafter, not the Federal Circuit, is in the best position to avoid the problem of unenforceable patents resulting from so-called "joint infringement."

Third, distorting the liability scheme to expand liability for interactive method patents, particularly those that are implemented by computer, is unjustified because of the potential negative consequences of enforcement of such patents against innocent actors who were previously shielded from suit under the pre-*Akamai* rule. As discussed in more detail below, *see infra* Part III.A, improper enforcement of interactive method patents has a chilling effect that may block innovation and stifle competition.

III. The Federal Circuit's Decision Will Seriously Harm Financial Institutions And Their Customers.

A. The Decision Will Impede Technological Innovation For Consumers.

Financial institutions depend on a strong patent system that promotes innovation and economic growth. Customers demand the ability to interact with their financial institutions using smartphones, computers, and other complex and rapidly evolving technologies. It has been estimated that approximately "53 million consumers will bank by mobile phone" in 2013, and that of the 87% of the U.S. population that has a mobile phone, 21% have used mobile banking in the last year. Erin F. Fonté, *Overview of Mobile Payments in the United States*, 32 No. 8 Banking & Fin. Servs. Pol'y Rep. 1, 2, 9 (Aug. 2013). Other reports indicate that "[o]nline banking now accounts for 53% of banking transactions, as compared with 14% for in-branch visits." Robin Sidel, *After Years of Growth, Banks Are Pruning Their Branches*, Wall St. J., Apr. 1, 2013, at A1.

Consumers select their own laptops, smartphones and other devices and seek to use them for broad and easy access to banking networks and services. Financial institutions generally lack detailed knowledge of how their customers' hardware devices and software programs work, let alone what patents they implicate. Financial institutions do not know or control whether the operation of their products in conjunction with an individual consumer's device and third-party software may infringe any of the thousands of patents issued by the U.S. Patent and Trademark Office.

The Federal Circuit's decision, if allowed to stand, will discourage innovation in technology-based services to customers and inhibit consumer access to financial services.

First, by opening the door to holding financial institutions (and other businesses) liable for alleged infringement that involves interactions among devices and software applications manufactured by other companies and sold to consumers, the Federal Circuit has significantly increased uncertainty and risk for financial institutions. As noted above, financial institutions lack knowledge of the products and applications their customers may use to access banking services, much less control over which devices their customers use. Consequently, financial institutions have no way to avoid the risk of liability for induced infringement short of cutting back on services that customers seek, which is an unattractive option in a highly competitive market.

Second, the Federal Circuit's decision could substantially impede technological development. Financial institutions and other businesses will be reluctant to pursue new technologies or provide new services for fear of increasing their exposure to patent litigation. *See* Executive Office of the President, *Patent Assertion and U.S. Innovation* 10 (June 2013) (noting that suits by non-practicing entities can "significantly reduce incremental innovation while litigation is ongoing" because any such innovation "could be viewed by courts as an evidence of 'willful infringement' if the plaintiff's patent is upheld, making the firm liable for treble damages"). This in turn may hinder economic growth due to failure to keep pace with needed services and failure to invest in technology development and deployment. *Cf.* S. Rep. No. 110-259, at 3 (2008) ("[I]n recent years the cost and uncertainty of patent litigation has escalated, leading many to believe that it is an unbearable drag on the innovation that the patent system is supposed to foster.").

B. The Federal Circuit's Decision Has Already Negatively Impacted Financial Institutions.

The Federal Circuit's decision has had a direct and immediate impact on financial institutions.

One of the decisions that the Federal Circuit overruled in this case involved patents that claimed a method for processing debit transactions without a personal identification number and provided "an interface between a standard touch-tone telephone and a debit card network," allowing customers to pay bills using only a telephone. *BMC Res., Inc.*, 498 F.3d at 1375; *see* Pet. App. 3a. The defendant in *BMC*, a company that processed financial transactions for clients, prevailed at the summary judgment stage of the case on the ground that it was not a direct infringer because it did not perform every step of the method and did not control or direct the actions of third parties, who carried out other steps of the method. *BMC Res., Inc.*, 498 F.3d at 1378-81; *id.* at 1380 ("Courts faced with a divided infringement theory have also generally refused to find liability where one party did not control or direct each step of the patented process."). Because lack of a direct infringer is no longer a valid defense to induced infringement under the Federal Circuit's new standard, financial institutions and other defendants now find themselves more exposed to lengthy and costly patent litigation.

Financial institutions currently face dozens of cases alleging infringement of patents directed to systems and methods for data security in consumer smartphone communications. These cases seek to hold the financial institution liable for infringement even though neither the financial institution nor its customers practice all of the elements of the patent claims.

The problems created by the Federal Circuit's *Akamai* decision are exemplified by *In re Maxim Integrated Products, Inc. Patent Litigation*, a multi-district litigation. No. 2:12-mc-00244-JFC (W.D. Pa.). Maxim has asserted claims against dozens of defendants relating to four patents that it alleges are infringed when the banks' mobile software applications are downloaded, accessed, or used on mobile devices that use the Apple iOS, Google Android, or Blackberry operating systems. Certain Opposing Parties' Brief in Support of Their Motion To Preclude Indirect Infringement, Representativeness, and Doctrine of Equivalents Contentions Under Maxim's Local Patent Rule Disclosures at 1, *id.* (Mar. 28, 2013), ECF No. 526. According to Maxim, the combination of the banking defendants' software and the hardware or software provided by third-party mobile manufacturers and used by the banks' customers infringes Maxim's patents. *See In re Maxim Integrated Prods., Inc.*, No. 12-244, 2013 U.S. Dist. LEXIS 65684, at *22 (W.D. Pa. May 8, 2013). Notably, however, the banking defendants do not design or manufacture any of the accused devices or operating systems at issue in the infringement claims. Certain Opposing Parties' Brief at 2, *In re Maxim Integrated Prods., Inc. Patent Litig.*, No. 2:12-mc-00244-JFC (Mar. 28, 2013), ECF No. 526. Rather, Maxim has made infringement allegations against roughly 1400 mobile devices made by approximately 51 different third-party manufacturers completely independently of any of the banking defendants. *Id.*

Early in the litigation, certain defendants moved to preclude Maxim's theory of induced infringement on the ground that Maxim failed to provide specific allegations as to how the hardware and software combined allegedly to infringe. The district court denied relief, holding that the motion was "premature," and ordering the parties to "continue to engage in discovery that may provide Maxim with further information, which, if appropriate, it may use to refine its infringement contentions." *In re Maxim Integrated Prods., Inc.*, 2013 U.S. Dist. LEXIS 65684, at *25.

The risk of patent liability arising from such lawsuits generates uncertainty and costs associated with customers utilizing new technologies to interface with their financial institutions for even simple activities, such as paying a bill.

C. The Decision Below Subjects Financial Institutions To Higher Litigation Costs, Even For Ultimately Meritless Claims.

The Federal Circuit majority purported to address concerns that its re-interpretation of § 271(b) would lead to undesirable consequences by emphasizing that induced infringement "requires that the accused inducer act with the knowledge that the induced acts constitute patent infringement." Pet. App. 7a; *see also Global-Tech.*, 131 S. Ct. at 2068 ("[I]nduced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement.").

In practice, however, this *mens rea* requirement does not eliminate the problems created by the Federal Circuit's decision. Patentees (including non-practicing patentees) could argue that potential defendants have knowledge due to complaints filed or letters sent by the patentee, alleging that financial institutions or other companies are inducing infringement of an "interactive" patent, even though no one is directly infringing the patent and the financial institutions exercise no control over their customers or other third parties. If a financial institution receives such a complaint or letter, even if the allegation would ultimately be found meritless, the patentee could argue that the requisite knowledge standard is met. If that argument were accepted, the Federal Circuit's purported limitation would be no limitation at all.

Moreover, the *mens rea* requirement may not be susceptible to resolution in advance of discovery. Indeed, the Federal Circuit has previously reached this conclusion in the context of an induced infringement claim. *See, e.g.*, *In re Bill of Lading Transmission & Processing Sys. Patent Litig.*, 681 F.3d 1323, 1341 (Fed. Cir. 2012) (holding that plaintiff patentee had alleged sufficient facts regarding defendant's intent in an induced infringement case to satisfy the *Twombly* standard); *see also* Brief for the United States as *Amicus Curiae* at 19 n.7. Thus, despite the *mens rea* requirement, the Federal Circuit's alteration of the scope of conduct that may constitute induced infringement may subject defendants to costly discovery and other litigation costs, even if the defendants ultimately prevail on the merits.

Pursuant to the Federal Circuit's decision, financial institutions that receive letters from patentees face a dilemma. On the one hand, financial institutions must provide a means for customers to access their financial information through modern technologies, including laptops and smartphones. On the other hand, permitting such access makes the financial institutions subject to at least the threat of liability for induced infringement. The risk of costly litigation and ultimately liability exists even though financial institutions generally do not create either the hardware or the software that customers use to access their accounts. In this situation, where the bank neither knows nor controls how customers interact with the bank's services, financial institutions may not be able to or may find it extremely difficult to evaluate the risk of liability for induced infringement in light of the Federal Circuit's revision of the scope for such liability.

The extent of the uncertainty that the Federal Circuit's decision creates may make it impossible for financial institutions to reallocate the risk of ultimate liability. The number of patent actions filed in 2012 reached an all-time high, *see* PwC, *2013 Patent Litigation Study* 6 (2013), *available at* http://www.pwc.com/en_us/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf, and the cost of litigating patent claims is extremely high.[5] According to a recent study, the average cost of patent litigation is $916,000 where the defendant's exposure is less than $1 million; $2,769,000 where the defendant's exposure is between $1 million and $25 million; and $6,018,000 where the exposure exceeds $25 million. *See* U.S. Patent & Trademark Office, *Changes to Implement Inter Partes Review Proceedings*, 77 Fed. Reg. 7041, 7055 (Feb. 10, 2012) (citing AIPLA Report of the Economic Survey 2011). Indeed, "in the majority of [non-practicing entity] cases, the legal cost of the defense exceeds [the] settlement or judgment amount." *Patent Assertion and U.S. Innovation*, at 9.

In light of the well-documented cost associated with litigating patent claims, patentees may be able to extract substantial settlements because financial institutions' alternatives—either subjecting themselves to expensive litigation with an uncertain result or forgoing various new technologies to serve customers' needs—are highly unattractive. *See* S. Rep. No. 110-259, at 4 ("[L]itigation concerns can encourage . . . premature settlements simply to avoid the high cost and uncertainty of patent litigation."); John Allison, *et al.*, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 709 (2011) (concluding that "roughly 90%" of patent cases brought by non-practicing entities settle, and the vast majority of such cases "involve[] some sort of

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[5] *See* S. Rep. No. 110-259, at 3-4 (patent litigation "typically take[s] several years to complete" and "can cost several million dollars"); *see also* PwC, *2013 Patent Litigation Study*, at 21 (the median amount of time between filing of a patent complaint and trial is 2.5 years).

payment to the patent plaintiffs" that "might represent not the acquisition of real legal rights but a nuisance settlement over a likely invalid patent"); *see also Patent Assertion and U.S. Innovation* at 6 (explaining that in the face of suits by non-practicing entities, "many patent owners and users prefer to settle out of court for amounts that have not so much to do with the economic value of their patents or the probability they have infringed," but rather with "the parties' relative opportunity costs of going to trial and attitudes toward risk").

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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March 2014

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