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August 28, 2013

The Honorable Donald B. Verrilli, Jr.
Solicitor General of the United States
Department of Justice
Washington, DC 20530-0001

Re: *Limelight Networks, Inc. v. Akamai Technologies Inc.*, Nos. 12-786
& 12-800

Dear Solicitor General Verrilli:

On June 24, 2013, the Supreme Court of the United States invited you to file a brief expressing the views of the United States in this case. Financial institutions of all sizes have a strong interest in the issue decided by the U.S. Court of Appeals for the Federal Circuit. Accordingly, The Clearing House, the Credit Union National Association, the Financial Services Roundtable, and the Independent Community Bankers of America respectfully request that you consider the views expressed in this letter.

Interest of the Associations

The Clearing House. Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. 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 systemically 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.

Credit Union National Association. The Credit Union National Association ("CUNA") is the largest credit union advocacy organization in the country, representing approximately 90 percent of the nation's nearly 7,000 state and federally-chartered credit unions, which serve almost 97 million members. CUNA benefits its members by partnering with its state leagues to provide proactive representation, the latest information on credit union issues, economic reports, regulatory analyses, compliance assistance, and education.

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Financial Services Roundtable. 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 and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.”

Independent Community Bankers of America. The Independent Community Bankers of America®, the nation’s voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 5,000 members, representing more than 24,000 locations nationwide and employing 300,000 Americans, ICBA members hold \$1.2 trillion in assets, \$1 trillion in deposits, and \$750 billion in loans to consumers, small businesses and the agricultural community.

The Federal Circuit’s opinion in this case decided an issue of great importance to these associations and their members. A closely-divided Federal Circuit, sitting *en banc*, significantly broadened the doctrine of induced patent infringement. Prior to the Federal Circuit’s decision, it was settled 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). A narrow majority of the Federal Circuit judges effectively overturned this limitation, holding that liability for inducing infringement of a patent may be imposed even where no party is liable for direct infringement.

Financial institutions support and depend on a strong patent system that promotes innovation and economic growth in the United States. In this case, however, the Federal Circuit’s decision will discourage innovation and inhibit consumer access to financial services through new technology. Customers increasingly interact with their financial institutions using smartphones, computers, and other complex and rapidly-evolving technologies. Consumers select their own smartphones and other devices, and seek the broadest possible access to banking networks and services. Financial institutions generally lack detailed knowledge of how their customers’ hardware devices and software programs work, let alone whether they may infringe any of the thousands of patents issued by the U.S. Patent and Trademark Office. Holding banks and other businesses liable for alleged infringement that involves interactions among devices and software applications manufactured by other companies and sold to consumers significantly increases uncertainty and risk, and could substantially impede technological development and economic growth.

The Federal Circuit majority purported to address this concern by emphasizing that induced infringement requires that the defendant know that the induced acts constitute patent infringement or be subject to liability under the doctrine of “willful blindness.” *Akamai Tech.*, 692 F.3d at 1308; *see generally Global-Tech Appliances Inc. v. SEB S.A.*, 131 S. Ct. 2060

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(2011). In practice, however, this limitation does not solve the serious problem created by the Federal Circuit's decision. Patentees (including, in particular, non-practicing patentees) can simply file complaints (or send letters to financial institutions and other companies) alleging that the 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. Under the Federal Circuit's decision, financial institutions that receive such letters face a dilemma. It is essential for customers to access their financial institutions via smartphones and other emerging technologies, but doing so subjects financial institutions to threatened liability for induced infringement. Because financial institutions generally do not create the hardware or software that enables customers to interact with their financial institutions, it may be extremely difficult or impossible for financial institutions to evaluate the legal risk of liability for inducement under the Federal Circuit's new standard. In addition, the Federal Circuit's decision creates so much uncertainty arising from technology that financial institutions generally cannot control that it may be impossible for financial institutions to re-allocate the risk of patent liability. It is well-known that the cost of litigating patent claims is extremely high.¹ In these circumstances, patentees may be able to demand substantial settlements because the companies' other options – engaging in expensive and uncertain patent litigation or falling behind in the race to keep up with new technologies– are so unattractive.

The Federal Circuit's decision has had a direct and immediate impact on financial institutions. One of the decisions that was overruled by the Federal Circuit, *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), involved patents that claimed a method for processing debit transactions without a personal identification number. The defendant, 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. *Id.* at 1378-81. 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 find themselves more exposed to lengthy and costly patent litigation.

Financial institutions are already facing an increased number of claims for induced infringement in the wake of the Federal Circuit's decision in this case. For example, financial institutions currently face dozens of cases alleging infringement of patents directed to systems

¹ See Sen. Rep. No. 259, 110th Cong., 2d Sess. 3-4 (2008) (patent litigation "typically take[s] several years to complete" and "can cost several million dollars"). A recent study concluded that 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 USPTO, *Changes to Implement Inter Partes Review Proceedings*, 77 Fed. Reg. 7055 (Feb. 10, 2012).

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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 their customers practice all of the elements of the patent claims. The risk of patent liability from such lawsuits creates enormous uncertainty and cost associated with customers utilizing new technologies to interface with their institutions for even simple banking activities, such as paying a bill, and thus results in diminished consumer access to financial services.

For these reasons, we urge the United States to recommend that the Supreme Court grant review and reverse the decision of the Federal Circuit in this case.

Discussion

The Federal Circuit's decision makes a fundamental change to patent law that departs from the relevant statutory language and well-established precedent. As the dissenting judges noted, the Federal Circuit majority has "assume[d] the mantle of policy maker" that properly belongs to Congress, not the courts. *Akamai Tech., Inc. v. Limelight Networks, Inc.*, 692 F.3d at 1337 (Fed. Cir. 2012) (Linn, J., dissenting). Even considered as a matter of policy, the Federal Circuit's decision is likely to do more harm than good.

1. *The Federal Circuit's Decision Is Contrary To The Relevant Statutory Language and Judicial Precedent.* Section 271(a) of Title 35, U.S. Code, 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.

Section 271(a) "is a declaration of what constitutes infringement." H.R. Rep. No. 82-1923, at 9 (1952); S. Rep. No. 82-1979, at 8 (1952). *See Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc.*, 365 U.S. 336, 342 (1961) (Section 271(a) "defines infringement").

Section 271(b) of Title 35 provides: "Whoever actively induces infringement of a patent shall be liable as an infringer. Section 271(c) governs liability for "contributory infringers," defined as anyone who "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."

Reading subsections (a) and (b) together, a person who makes, uses or sells a patented invention is liable for direct infringement under subsection (a), while a person who actively

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induces infringement is liable under subsection (b). The Federal Circuit majority's view that courts are free to adopt a special definition of "infringement" for purposes of Section 271(b) 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).

The Federal Circuit majority attempted to draw support for its interpretation from Sections 271(e), (f), and (g), which were added to Section 271 by amendment to address specific acts that are treated as patent infringement even though they do not fall within the terms of subsection (a).² These subsections actually demonstrate that when Congress wants to expand the scope of infringement beyond the limits of Section 271(a), it does so expressly. Subsections (e), (f), and (g) thus cut against the Federal Circuit majority's interpretation.

In addition, 35 U.S.C. § 281 provides that "a patentee shall have a remedy by civil action" for any "infringement." Under the majority's interpretation, there may be acts of infringement under Section 271(b) in circumstances where there is no remedy for direct infringement. As the dissenting judges noted, this is inconsistent with the statutory requirement that there shall be a remedy for any infringement. *See* 692 F.3d at 1341 (Linn, J., dissenting).

The Federal Circuit majority's interpretation is also contrary to established precedent. The Supreme Court has long held that "if there is no direct infringement of a patent there can be no contributory infringement." *Aro Mfg. Co.*, 365 U.S. at 341 ("[M]anufacture 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)"). *See also Deep-south Packing Co. v. Laitrim Corp.*, 406 U.S. 518, 526 (1972) (patent law "defines contributory infringement in terms of direct infringement"). Given the "'special force' of the doctrine of *stare decisis* with regard to questions of statutory interpretation," the Federal Circuit should not have departed from settled principles of liability for patent infringement. *Global-Tech Appliances*, 131 S. Ct. at 2068, *quoting John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 139 (2008).

2. *The Federal Circuit Majority Misapplied Principles of Tort Law and Criminal Law.*
The Federal Circuit majority attempted to analogize induced infringement to the liability of an

² Subsection 271(e)(2) provides that it is an "act of infringement" to submit an application to the Food and Drug Administration 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."

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accessory under 18 U.S.C. § 2, but this analogy does not support its position. Section 2 of Title 18 “has been construed to permit the conviction of an accessory who induces or causes a criminal offense even when the principal is found not liable for the unlawful conduct.” *Akamai Tech.*, 692 F.d at 1311, *citing Standefer v. United States*, 447 U.S. 10, 19 (1980). In *Standefer*, however, the Supreme Court did not excuse the government from proving an underlying statutory violation. Instead, the Court held only that when the government presents adequate proof of an underlying violation, the trial of an accessory is not barred simply because a different jury acquitted the accused principal in a separate trial. *Standefer* thus provides no support for the conclusion that a defendant may be liable for induced infringement even if there is no proof of direct infringement.³

The Federal Circuit majority also misapplied principles of tort law. The majority cited the *Restatement (First) of Torts* § 876 cmt b (1938), 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.” 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. The Federal Circuit majority also cited a string of tort cases in which the defendant breached a *direct* duty owed to plaintiff. 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 an infringement (and therefore not a tort) is not prohibited. Tort law provides no basis for reaching a different conclusion.

3. *The Federal Circuit’s Decision Will Cause Serious Harm.* Ten of the 11 judges participating in the en banc proceeding in this case agreed that neither Limelight nor its customers performed each element of the claimed invention. Because Limelight did not control the actions of its customers, no party directly infringed the patent. According to the majority, however, Limelight nevertheless is subject to liability for induced infringement on the ground that the practical impact on the patentee is the same as if there were a direct infringement. As the petitioner notes, “[i]f such reasoning is permissible, no company is safe.” Pet. 30.

Direct infringement has long been regarded as a strict-liability offense. *See Globalr-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 nature of the offense, liability for direct infringement has been limited “to those who practice each and every element of the claimed invention.” *BMC*, 498 F.3d at 1381. This rule has been established for more than a century. *See*

³ Moreover, as the dissenting judges noted, the relevant comparison is not to 18 U.S.C. § 2(b), but instead to 18 U.S.C. § 2(a), which provides that anyone who “*induces . . . commission*” of a crime is “punishable as a principal.” (Emphasis added).

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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 the parts, but not all, to produce the same results. . . . This rule is well settled . . .”).

To be sure, this limitation is subject to established principles of vicarious liability grounded in tort law and agency law. Thus, a party may be held liable for the acts of third parties if the party can be shown to “control or direct each step of the patented process.” *BMC*, 498 F.3d 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’s opinion goes further, however, holding that a defendant may be liable for inducing infringement if it merely “advises,” “encourages,” or “aids” patent infringement. *Akamai Tech.*, 692 F.3d at 1312.

The Federal Circuit majority’s decision appears to have been driven by concern about the enforceability of so-called “interactive” method patents. For several reasons, this concern does not justify the court’s decision. First, as noted above, this concern is a matter for Congress, not the courts. Second, it is not necessary to distort the statutory scheme to protect interactive method patents. As the Federal Circuit recognized in an earlier opinion, “concerns over a party avoiding infringement by arm’s-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 Resources*, 498 F.3d at 1381. *See also* Mark A. Lemley et al., *Divided Infringement Claims*, 6 Sedona Conf. J. 117, 124 (2005). As a result, the claim drafter is in the best position to avoid the problem of unenforceable patents resulting from so-called “joint infringement.” Third, interactive method patents, particularly the subset of those patents that are implemented by computer, have the potential to block innovation and stifle competition, and thus do not deserve special protection from the court. For these reasons, the Federal Circuit erred in departing from the statutory text and established judicial precedent in an attempt to shore up a particular category of patents.

The purpose of the patent system is to “promote the Progress of Science and the Useful Arts.” U.S. Const. art. I, § 8, cl. 8. The Federal Circuit’s decision in this case will undermine this constitutional purpose by stifling innovation, discouraging cooperation, and depressing commerce. The United States should urge the Court to grant review and reverse the decision of the Federal Circuit.

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Thank you for taking time to consider the views expressed in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Long, Jr.", written in a cursive style.

Robert A. Long, Jr., on behalf of:

The Clearing House
Credit Union National Association
Financial Services Roundtable
Independent Community Bankers of America