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## Legal Updates & News

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#### **Knocking Infringement Out of Joint: Infringement Liability in the Wake of *BMC Resources, Inc. v. Paymentech, L.P. and Cross Medical Products, Inc. v. Medtronic Sofamor Danek, Inc.***

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The Patent Act was not explicitly designed to address infringement claims that are based on the actions of multiple actors. For example, if a patent claims a method of performing steps A, B, and C, and each of these steps is performed by a separate actor, then the patent statutes provide no clear guidance as to whether any or all of the actors can be found liable under a theory of joint liability. Through the years, district courts struggled to develop their own jurisprudence on the subject<sup>[1]</sup> while the Federal Circuit largely remained silent. But two fairly recent Federal Circuit rulings indicate that a patentee whose claims depend on the actions of multiple actors will often be unable to prove any infringement of method claims and may be limited to attempting to prove indirect infringement for apparatus claims.

Last fall, the opinion in *BMC Resources, Inc. v. Paymentech, L.P.*<sup>[2]</sup> made a big splash in the area of joint infringement. In that case, the Federal Circuit was faced with the question of whether an accused infringer could be held liable for directly infringing method claims that were written so as to require the participation of several different actors, all of whom were acting independently.<sup>[3]</sup> Specifically, *BMC* involved two patents that were directed to methods of paying bills telephonically using a credit or debit card.<sup>[4]</sup> The methods required, among other things, prompting a caller to enter certain payment information (including a debit or credit card number), having a remote payment network (such as an ATM network) verify the availability of credit or funds, and, if sufficient funds existed, charging the credit or debit card account, and reflecting the payment in the relevant billing account.<sup>[5]</sup> Accordingly, the claims relied on the participation of a payee's agent, a remote payment network, the card-issuing financial institution, and a caller.<sup>[6]</sup> *BMC Resources*, the owner of the patents, accused *Paymentech*, a payee's agent, of infringing its claims.<sup>[7]</sup>

In deciding *BMC*, the Federal Circuit articulated a new standard for direct infringement in the case of divided action: a finding of direct liability requires showing that the accused infringer had "direction or control" over the other actors.<sup>[8]</sup> Applying that new rule, the Federal Circuit held that *Paymentech* was not liable for direct infringement because *Paymentech* did not perform all the steps of the claims itself, and the other actors whose actions were required to complete the steps were not acting under *Paymentech's* direction or control.<sup>[9]</sup>

The *BMC* ruling was actually foreshadowed by a similar case involving apparatus claims that the Federal Circuit had decided two years earlier. In *Cross Medical Products, Inc. v. Medtronic Sofamor Danek, Inc.*,<sup>[10]</sup> the Federal Circuit held that a medical device company was not liable as a direct infringer because, among other reasons, the apparatus claim at issue required "operatively join[ing]" the medical devices to bone.<sup>[11]</sup> The medical device company did not implant the accused devices itself, and the surgeons who did implant the accused devices were not agents of the medical device company.<sup>[12]</sup> So despite the fact that personnel from the medical device company were present in the operating room at the time of surgery and identified the instruments the surgeon should use, the Federal Circuit reversed the district court's grant of summary judgment in favor of the patent holder.<sup>[13]</sup>

While *BMC* is important because its explicit language clarifies some of the circumstances under which a party can be held liable for direct infringement, *Cross* should not be forgotten. Its complementary holding establishes a corollary to *BMC* in the context of apparatus claims: an accused infringer cannot generally be found to directly infringe if it is not in possession of the entire patented apparatus unless the patentee can show that the accused infringer had “direction or control” over the actor possessing the rest of the invention.

In today’s digital world, it is increasingly common to see patents claiming both methods and systems that depend on remote but interlinked technologies, the pieces of which are owned and operated by multiple actors. For example, a patent might claim both a system and a method involving a server owned by one party, a communications network owned by another, and an electronic device (such as a mobile phone) owned by an end user. The method claim would focus on the steps that each of the actors perform, whereas the parallel apparatus claim would focus on the tangible structures used to perform the acts.<sup>[14]</sup> But whether the claim at issue is method- or system-based, “liability for [direct] infringement requires a party to make, use, sell, or offer to sell the patented invention, meaning the entire patented invention.”<sup>[15]</sup> Applying that principle from *BMC* as well as the holding of *Cross* to these hypothetical facts leads to the conclusion that neither the party who owns the server nor the party who owns the communication network makes, uses, sells, or offers to sell the entire patented invention. That leaves the infringement issue dependent on whether one party would be found to direct or control the actions of the other or of the end user.

Parallel method and apparatus claims differ in that an end user who does not infringe the method claim may still infringe the apparatus claim because he uses the entire system, even though he himself does not perform every step of the method. Thus, the server and communications network owners who cannot be held liable for indirect infringement of the method claims (due to the fact that indirect infringement requires a predicate finding of direct infringement)<sup>[16]</sup> can still be liable for indirectly infringing the apparatus claim. But indirect infringement is often harder to prove than direct infringement, so a patentee is generally worse off than it would be if all the accused actors could be deemed direct infringers.

There are two types of indirect infringement: (1) inducing another to infringe or (2) contributing to another’s infringement by supplying a material component that has no substantial non-infringing uses and that the indirect infringer knows is especially made or especially adapted for use in the patented invention.<sup>[17]</sup> Both types of indirect infringement require proving the existence of direct infringement.<sup>[18]</sup> Furthermore, both require showing that the accused indirect infringer had knowledge of the patent.<sup>[19]</sup> In contrast, direct infringement is a strict-liability offense; an accused infringer need not know of the patent in order to be held responsible.<sup>[20]</sup>

In the case of contributory infringement, a patentee must also show that (1) the accused indirect infringer sold or supplied a component of the claimed invention, (2) the component was material to the patented invention, (3) the alleged infringer knew that the component was especially made for use in a manner that infringes the patent claims, (4) the component is not a staple or commodity article, and (5) the component was actually used in a manner that infringes the patent at issue.<sup>[21]</sup> For inducement of infringement, the patentee must prove not merely that the accused indirect infringer was aware of the infringement, but rather, that the accused indirect infringer specifically intended to cause the infringement and acted accordingly.<sup>[22]</sup>

In addition, a patentee generally cannot collect damages from an indirect infringer before the date on which the indirect infringer had knowledge of the patent.<sup>[23]</sup> Therefore, even in instances where liability for indirect infringement is found, damages may be limited. Often, accused infringers are unaware of the existence of the patent at issue until immediately before suit is filed, even though infringement may have been occurring for years.

In sum, after *BMC* and *Cross*, patentees whose claims were not artfully drafted to account for multiple actors may find themselves unable to show any infringement for method claims and facing an uphill battle with regard to apparatus claims. Accordingly, parties on either side of a patent dispute involving joint infringement issues are wise to remember both cases.<sup>[24]</sup>

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## Footnotes

[1] See, e.g., *Marley Mouldings Ltd. v. Mikron Indus., Inc.*, 2003 U.S. Dist. LEXIS 7211, No. 02 C 2855, 2003 WL 1989640, at \*2 (N.D. Ill. Apr. 30, 2003) (collecting and analyzing cases on joint

<http://www.jdsupra.com/post/documentViewer.aspx?fid=75928195-b8c8-4879-8492-d64c03437bd2>  
infringement); *Applied Interact, LLC v. Vt. Teddy Bear Co.*, No. 04 Civ. 8713 (HB), 2005 U.S. Dist. LEXIS 19070, at\*12-13 (S.D.N.Y. Sept. 6, 2005) (same).

[2] 498 F.3d 1373 (Fed. Cir. 2007).

[3] See *id.* at 1375.

[4] *Id.* at 1377.

[5] *Id.*

[6] See *id.* at 1375, 1377.

[7] *Id.* at 1375.

[8] See *id.* at 1381.

[9] See *id.* at 1380-81.

[10] 424 F.3d 1293 (Fed. Cir. 2005).

[11] See *id.* at 1311.

[12] See *id.* at 1311-12.

[13] See *id.*

[14] See *In re Kollar*, 286 F.3d 1326, 1332 (Fed. Cir. 2002).

[15] *BMC*, 498 F.3d at 1380.

[16] See *Epcon Gas Sys., Inc. v. Bauer Compressors, Inc.*, 279 F.3d 1022, 1033 (Fed. Cir. 2002).

[17] See 35 U.S.C. § 271(b-c).

[18] See *supra* n.16.

[19] See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (holding that contributory infringement requires knowledge that the combination for which a component was especially designed was both patented and infringing); *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc in relevant part) (holding that inducement of infringement requires knowledge of the patent).

[20] See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007).

[21] See *Aro*, 377 U.S. at 488; *Serrano v. Telular Corp.*, 111 F.3d 1578, 1583-84 (Fed. Cir. 1997); *Sage Prods. Inc. v. Devon Indus., Inc.*, 45 F.3d 1575, 1577 (Fed. Cir. 1995); *Conroy v. Reebok Int'l, Inc.*, 14 F.3d 1570, 1573 (Fed. Cir. 1994).

[22] *DSU*, 471 F.3d at 1305.

[23] See *Trell v. Marlee Electronics Corp.*, 912 F.2d 1443, 1448 (Fed. Cir. 1990).

[24] As a postscript, the Federal Circuit very recently remembered *BMC* in applying its holding to reverse a judgment of infringement in *Muniauction, Inc. v. Thomson Corp.*, — F.3d —, 2008 U.S. App. LEXIS 14858 (Fed. Cir. July 14, 2008). In *Muniauction*, the Federal Circuit concluded that the alleged infringer “neither performed every step of the claimed methods nor had another party perform steps on its behalf,” and that the patentee had “identified no legal theory under which [the

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alleged infringer] might be vicariously liable for the actions of others now that the theory of “joint infringement” has been removed as a legal possibility in the wake of BMC. Id. at \*28.