Intellectual Property Law

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Jointly Waiting on a Divided Federal Circuit

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What happens when two or more actors perform steps in a "method" patent claim? The Federal Circuit may soon clarify, and this clarification may change the law.

Method claims are directed to a method or process. They typically have the following form: "A method for doing X, comprising the steps of: doing step 1, doing step 2, and doing step 3."

Traditionally, infringement of a method claim has been found when a single actor performs all steps of a claimed method. Such infringement may be straightforward. For example, a hospital may administer a drug, observe the results, and take additional action. Or a movie studio may integrate live action with animation in a particular, patented fashion.

Things get more complicated when the steps involved in a method claim are performed by more than one entity. For example, a method claim may include steps performed by a manufacturer, and also include a step that requires water to be delivered by a utility to the manufacturer so that the other steps can be carried out. Although each of the steps is performed by the cumulative actions of the two parties, neither of them alone performs the entire claimed method. Is their joint action "infringement" of the entire method claim by either of them? If so, which? And how is any liability allocated?

The general rule has always been that a party cannot avoid infringement "simply by contracting out steps of a patented process to another entity. In those cases, the party in control would be liable for direct infringement. It would be unfair indeed for the mastermind in such situations to escape liability." *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007). In the "utility-corporation" scenario above, for example, the corporation could not avoid infringement merely by contracting out water delivery to the utility. This is so because the corporation is directing and controlling the water delivery.

In other cases, however, the standard requiring control or direction for a finding of joint infringement may be difficult to meet. When there is insufficient "control or direction" between the parties, the actions are said to be divided. Divided infringement is a defense to patent infringement. *See id.; see also Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329-30 (Fed. Cir. 2008).

Recently, the federal courts have struggled to define just how much "control or direction" is required for infringement. The Federal Circuit recently decided to revisit the control or direction standard in two *en banc* cases for this reason, and heard oral argument on November 18,

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2011, in, *McKesson Technologies Inc. v. Epic Systems Corp.*, No. 2010-1291 (Fed. Cir. 2011) and *Akamai Technologies, Inc. v. Limelight Networks, Inc*., No. 2009-1372 (Fed. Cir. 2011).

The Federal Circuit agreed to hear *McKesson* en banc after a split panel affirmed that there could be no liability for infringement if there were both no direct infringer and no inducement of infringement. Although a healthcare provider had allegedly encouraged users to complete the final steps of a method claim, this encouragement was held insufficient to establish the "control" needed for liability as discussed above. A dissenting opinion in *McKesson* argued that the "control" rule was too strict, and a concurring opinion in that case suggested en banc review of the issue.

In *Akamai*, the district court rejected a jury's infringement verdict and determined that because Limelight's customers completed some steps of the claimed methods, there was no infringement. The Federal Circuit panel affirmed, reiterated the control or direction standard, and concluded that an agency relationship or contractual obligation was necessary for the performance of one party to be attributed to that of another.

The original opinions in both cases have been vacated, pending the en banc decision. Given that it has now been almost six months since the en banc arguments, a decision is expected any day.

These cases could affect the risk/reward calculations of obtaining patents and of asserting and defending patents in litigation. They emphasize the need for solid claim drafting and for having lawyers familiar with patent litigation review the terms and conditions of significant business partnerships, even if patents or other intellectual property is not specifically called out, because the relationships created by those terms and conditions may implicate theories of joint infringement.