

Divide And Prosper? Trends In Divided IP Infringement

Law360, New York (December 01, 2010, 11:56 AM ET) -- Recent changes in the doctrine of divided patent infringement have important ramifications in patent valuation, claim drafting, licensing, patent litigation and preparing patent opinions. The doctrine of divided patent infringement comes into play if no single party practices each element of a claim.

Traditionally in order to directly infringe a patented process, a single party must practice each and every step of the invention. Divided infringement becomes an issue when two or more different parties are required to infringe the claims of a patent.

A party cannot avoid infringement by having someone else carry out one or more claimed steps on its behalf. If one party exercises "control or direction" over the entire process, every step is attributed to the "mastermind" controlling party. *BMC Resources Inc. v. Paymentech LP*, 498 F.3d 1373 (Fed. Cir. 2007).

Under *BMC Resources*, mere arm's-length cooperation, including arm's-length agreements, does not give rise to infringement. However, *BMC Resources* did not define or describe in detail what sorts of interactions between parties would be an arm's-length cooperation in a divided infringement analysis.

Muniauction provided additional guidance on this issue. An arm's-length cooperation that avoids infringement in a divided infringement analysis of process claims can include a close relationship between the parties. *Muniauction Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008).

In *Muniauction*, the U.S. Court of Appeals for the Federal Circuit rejected the district court's interpretation that evidence of less than "direct control" was relevant to the jury, such as whether the parties acted jointly, were aware of each other's existence, interacted with each other, or whether one party taught, instructed or facilitated the other party's interaction.

How closely can two parties interact while still having an arm's-length cooperation to

avoid liability under a divided infringement theory? Golden Hour deals with a fact pattern in which two companies formed a strategic partnership, enabled their two computer programs to work together, and collaborated to sell the two programs to work together as a unit. *Golden Hour Data Systems Inc. v. emsCharts Inc.* (Fed. Cir. 2010).

EmsCharts sold its emsCharts.com program and Softtech's Flight Vector software together such that Golden Hour argued that the two programs together satisfied all of the elements of each of the asserted claims.

However, under those facts, the Federal Circuit upheld a judgment as a matter of law by the district court of noninfringement on the basis that Golden Hour failed to satisfy its burden under *Muniauction* that "the patent holder must prove that one party exercises 'control or direction' over the entire process such that all steps of the process can be attributed to the controlling party, i.e., the 'mastermind.'"

Golden Hour also provides clear guidance that liability for system claims may be avoided, in some circumstances, on a divided infringement theory. The Federal Circuit upheld the district court's judgment as a matter of law that emsCharts was not liable, under a divided infringement theory, for system claims. By agreement, the system claims had been presented to the jury at the district court only on a divided infringement theory.

As control or direction of Softtech by emsCharts was not proven by the plaintiff, the JMOL was affirmed. However, the Federal Circuit noted that ordinarily such a sale could still create liability for the sale of the entire patented system.

Golden Hour thus indicates that liability for both method and system claims may be avoided, in some situations, by forming strategic partnerships. Additionally, Golden Hour is intriguing in determining patent valuation because of the potential for an industry to design around a patent by forming strategic partnerships to have third parties perform services that are not central to a company's core business.

What are the limits of divided infringement jurisprudence? Are there other considerations besides the control-or-direction standard? Can infringement be avoided by redesigning a system in a way in which actions are voluntarily divided between a company and its customers? This issue is now on appeal before the Federal Circuit in *Centillion Data Systems LLC v. Quest Corp.*, Appeal No. 2010-1110.

Centillion sued Quest for infringement of a patent covering a system to present a user-defined pre-processed report of billing information. However, the system claims require activity on both a system computer and on the customer's personal computer, giving rise to a divided infringement defense.

In particular, Quest's customers were provided the option to load the Logic or eBill companion client applications on their personal computers. As Quest's customers were not obligated or contractually bound to use the program, the district court found that the requisite direction and control was lacking to establish infringement on a divided infringement theory.

However, until the Federal Circuit makes a ruling in Centillion, it is risky to assume that merely redesigning a software service to provide a customer the option of performing certain steps on the customer's computer is sufficient to escape infringement of system claims on a divided infringement theory.

The doctrine of divided patent infringement is changing in important ways. For patent attorneys drafting patent applications, this makes it more important than ever before to carefully draft claims of different scope. In some circumstances, consideration should be given to filing continuation patent applications or reissue patent applications to improve claim coverage in light of Golden Hour.

For companies concerned about patent valuation for licensing negotiations, litigation or other purposes, Golden Hour may also suggest careful consideration whether the value of an individual patent is affected in light of potential options for companies to avoid infringement of method and system claims under a divided infringement theory.

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